SUMMARY OF SENATE AMENDMENTS TO H.R. 15414

PREPARED FOR THE USE OF
THE HOUSE AND SENATE CONFEREES
BY THE STAFF OF THE
JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION

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Section of Senate Bill

Description of amendment

Sec. 1

SHORT TITLE

This section changes the name of the act from the "Tax Adjustment Act of 1968" to the "Balance of Payments and Domestic Economy Act of 1968". (The long title of the bill is also changed. In addition to referring to continuing "the existing excise tax rates on communications services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations" the Senate adds "to amend the Social Security Act, to impose import quotas on certain items, to increase income taxes, to limit expenditures, and for other purposes."

The short title change was a part of the Williams-Smathers substitute. The long title change was a floor amendment offered by Senator Long of Louisiana.

Sec. 2

REDUCTION IN NUMBER OF CIVILIAN OFFICERS AND EMPLOYEES IN THE EXECUTIVE BRANCH

This section provides that no vacancy in the executive branch is to be filled, except as determined by the Director of the Bureau of the Budget, during the period the aggregate number of employees in the executive branch exceeds the aggregate number employed on September 20, 1966. However, the Director of the Bureau of the Budget may authorize the filling of not more than 50 percent of the aggregate number of vacancies. He is to determine the vacancies to be filled on the basis of continuing studies he is to make as to the needs of the departments for personnel, having in mind the importance of the national health, security and welfare of their activities.

The following executive agencies are excluded from the operation of this provision: the Defense Department, the Postal Field Service, the FBI, the CIA, and TVA employees engaged in its power program and paid from other than appropriated funds. Also excluded are casual employees, employees employed without compensation, officers appointed by the President with the advice and consent of the Senate, and employees transferred between positions within the same department or agency.
This provision also requires the Director of the Bureau of the Budget to make studies of the savings resulting from the operation of this provision, requires reports from the department heads to be submitted to the Director to enable him to carry out this provision, requires the Director to submit to the Congress on a quarterly basis a report of his activities under this section and provides that this section is not to supersede or modify employment rights of persons under the Military Selective Service Act of 1967.

This section takes effect on April 1, 1968.

This section was a part of the Williams-Smathers substitute except that it was modified by floor amendments offered by Senator Jackson (adding the exception for CIA employees) and by Senator Baker (adding the exception for TVA employees).

Sec. 3  
LIMITATION ON EXPENDITURES DURING FISCAL YEAR 1969

This section provides that budget expenditures are not to exceed $180.1 billion in the fiscal year 1969. This is $6 billion less than the expenditures called for by the budget. However, five exceptions to this $180.1 billion ceiling are provided. First, it is provided that expenditures in excess of $25 billion which the President may determine are necessary for our military efforts in Southeast Asia are not to come under the ceiling. The four remaining categories where expenditures in excess of the amounts shown in the budget are not taken into account in the computation of the ceiling of $180.1 billion are:

(1) Expenditures for interest,
(2) Expenditures for veterans benefits,
(3) Expenditures from social security trust funds, and
(4) Expenditures from power proceeds of the Tennessee Valley Authority.

In the case of categories 2 and 3, the only excess amounts over that shown in the budget to be taken into account are those provided for by law on March 1, 1968.

The President is authorized to reserve from expenditure amounts from obligational authority to effectuate the application of this section.

This section was a part of the Williams-Smathers substitute except that the exception with respect to the TVA expenditures was added by an amendment by Senator Baker.

Sec. 4  
REEXAMINATION OF THE BUDGET

This section directs the Director of the Budget to re-examine the budget for the fiscal year 1969 and to submit to Congress within 30 days a report setting forth proposed reductions aggregating at least $10 billion in obligational authority and specifying priorities for allocating these reductions among the various Government agencies in a way as to least impair the efficiency of the Government.

This section was a part of the Williams-Smathers substitute.
AMENDMENT OF EXISTING LAW

This section is identical to section 1(b) of the House bill.

CONTINUATION OF EXCISE TAXES ON COMMUNICATIONS SERVICES AND ON AUTOMOBILES

This section is identical to section 2 of the House bill.

PAYMENT OF ESTIMATED TAX BY CORPORATIONS

Under the House bill, corporations make estimated tax payments if their estimated income tax exceeded $40. Present law requires estimated tax payments only to the extent of a taxpayer's reasonably expected tax liability over $100,000. The $100,000 exemption was eliminated by the House bill over a 5-year transitional period.

The Senate amendment retained the concept in present law of an exemption but reduced the present $100,000 exemption to $5,500 (that is generally the tax on the first $25,000 of taxable income). The reduction of the exemption to $5,500 is provided over a 5-year transitional period in the same manner as the elimination of the exemption under the House bill.

The Senate made no change in the House provision raising from 70 to 80 percent the percentage of estimated tax which must be reported currently.

The Senate bill retained the House bill provision relating to "quickie" refunds of overpayments of estimated tax by corporations. The House bill, however, provided that to be eligible for the refund the overpayment must exceed the corporation's expected tax by at least 5 percent and also amount to at least $200. The Senate changed this limitation to provide that to be eligible for the refund the overpayment must exceed the corporation's expected tax by at least 10 percent and also amount to at least $500.

A third modification in this section made by the Senate provides a special rule for the payment of estimated tax by a corporation due on April 15, 1968. Under this rule, the Treasury Department is to prescribe a date not more than 30 days after April 15 during which a corporation may pay the increase in the amount of its required estimated tax payments which result from the enactment of this act. (The increases provided by this act are attributable both to the two changes accelerating corporate tax payments and to the imposition of the 10 percent income tax surcharge—see sec. 17 below for description of surcharge.)

The first two of the three modifications described above were changes made by the Senate Finance Committee. The third change was a floor amendment offered by Senator Williams of Delaware.
TIMELY MAILING OF DEPOSITS

This section is identical to section 4 of the House bill.

INTEREST ON INDUSTRIAL DEVELOPMENT BONDS

This section provides that interest on so-called industrial development bonds is to be excluded from income tax under the code in accordance with the Treasury regulations as in effect on March 13, 1968, and in accordance with the principles set forth in certain prior revenue rulings. The Treasury is authorized and directed to issue ruling letters with respect to industrial development bonds in conformity with the statement set forth above.

This was a Senate Finance Committee amendment.

INDUSTRIAL DEVELOPMENT BONDS

This section provides that interest on industrial development bonds issued after December 31, 1968, is not to be considered tax exempt under the Internal Revenue Code. Industrial development bonds are defined as obligations secured in whole or in part by a lien on depreciable property (or on money) under a lease, sale, or loan arrangement for industrial or commercial purposes.

Industrial development bonds for purposes of this provision do not include:

1. Debt with respect to recreational facilities for the general public;
2. Facilities for holding a convention, trade show, etc.;
3. An airport, flight training facility, dock, wharf, grain storage facility, parking facility or similar transportation facility;
4. Facilities for furnishing or sale of electric energy, gas, water, sewage or solid waste disposal services or air or water pollution abatement facilities; or
5. Facilities used by the State or local government in an active trade or business.

This was a floor amendment offered by Senator Ribicoff.

INCOME FROM ADVERTISING IN PERIODICALS OF EXEMPT ORGANIZATIONS

This section provides that the advertising income which an exempt organization receives in publishing a periodical is to be exempt from the tax on unrelated trade or business income if the publication of the periodical is substantially related to the exempt activities of the organization. This section applies to all taxable years to which the Internal Revenue Code of 1954 applies.

This was a floor amendment offered by Senator Murphy.
Sec. 12  TAX-EXEMPT STATUS OF CERTAIN HOSPITAL SERVICE ORGANIZATIONS

This section provides tax-exempt status to certain entities which provide joint services to hospitals. It also provides deductible status to contributions to these organizations. To be exempt from tax under this provision an organization must:

1. Provide services of a type which if provided by a tax-exempt hospital would constitute part of its exempt activities;
2. Provide services solely for hospitals which are tax-exempt;
3. Be organized and operated on a cooperative basis and allocate or pay all of its net earnings to patrons on the basis of services performed; and
4. If it has capital stock, the capital stock must be held by patrons.

This is effective for taxable years ending after date of enactment.

This was a floor amendment offered by Senator Carlson and is identical to an amendment included by the Senate Finance Committee in the Social Security Amendments of 1967.

Sec. 13  ADVERTISING IN A POLITICAL CONVENTION PROGRAM

This section allows a deduction for expenses paid or incurred on or after January 1, 1968, for advertising in a program at a political convention held to nominate candidates for President and Vice President. To be deductible, the expenses for advertising must be reasonable in light of the business the taxpayer may expect to receive directly as a result of this advertising or be reasonable in light of the business expected to be brought by the convention to the area in which the taxpayer has a principal place of business. In addition, the funds must be used only for convention expenses.

This was a floor amendment offered by Senator Kuchel on behalf of Senator Dirksen.

Sec. 14  AMENDMENTS TO TITLE IV OF THE SOCIAL SECURITY ACT

This section repeals the limitation on Federal participation in aid to families for dependent children. It removes the limitation set by the Social Security Amendments of 1967 on Federal financial participation in the AFDC program based upon the proportion of the child population under age 18 aided because of the absence of a parent from the home. Under the limitation, the percentage is the ratio of the average monthly number of children in a State in the first quarter of 1968 who are dependent because of the absence of a parent to the child population of the State on January 1, 1968. In the
absence of this amendment, the limitation would become effective on July 1, 1968.

The section also repeals the requirement established by the Social Security Amendments of 1967 that in order for a dependent child to qualify for assistance (in which the Federal Government participates) on the basis of the unemployment of his father, the father must meet certain tests of prior employment.

A still further amendment contained in this section removes the prohibition on payment of assistance (with Federal participation) to a family when the father receives any unemployment compensation during any part of the same month. The choice as to whether unemployment compensation payments can be supplemented is left to the States.

*The three amendments made by this section were Senate Finance Committee amendments.*

**Sec. 15 EFFECTIVE DATE OF FAMILY PLANNING SERVICES REQUIREMENT**

The Social Security Amendments of 1967 required a State to offer family planning services to all appropriate AFDC participants or lose a portion of Federal funds otherwise available for the State AFDC program. This section provides that in the case of a State which does not now provide the required family planning services, the amendment in the Social Security Amendments of 1967 is not to apply to that State until after the first day of the fourth month beginning after the adjournment of the State's first legislative session which begins after April 1, 1968.

This was a floor amendment offered by Senator Long of Louisiana.

**Sec. 16 AMENDMENT TO TITLE XIX OF THE SOCIAL SECURITY ACT**

This section extends from January 1, 1968, to January 1, 1970, the period in which the Federal Government is to continue to make matching payments under title XIX coverage, for medical services to welfare patients of a State which has not elected such coverage.

This was a Senate Finance Committee amendment.

**Sec. 17 IMPOSITION OF TAX SURCHARGE**

This section imposes a 10-percent income tax surcharge applicable both to individuals and to corporations. In the case of individuals, the surcharge is effective for the period from April 1, 1968, through June 30, 1969, a period of 15 months. In the case of corporations, the surcharge is effective from January 1, 1968, through June 30, 1969, a period of 18 months.
The surcharge in the case of individuals does not apply in the case of the first two tax brackets, or up to the level of $1,000 of taxable income in the case of a single person and $2,000 of taxable income in the case of a married couple. For those with taxable incomes slightly above these levels, a so-called "antinotch" provision is applied which has the effect of gradually removing this exemption for those with incomes of larger amounts.

The withholding in the case of individuals begins the 10th day after date of enactment.

*This was a part of the Williams-Smathers substitute.*

**Sec. 18**

**IMPORT QUOTAS FOR TEXTILE ARTICLES**

This section imposes quotas on imports of textiles effective 180 days after date of enactment. The quotas apply to natural and man-made fibers but not to unprocessed natural fibers (such as raw cotton or raw wool). The quotas are to be based on the average amount of imports of various categories of textiles during the 6-year period 1961 through 1966, inclusive. The quotas would be adjusted in proportion to the increase in domestic consumption in each category provided the annual increase or decrease in the quota is not more than 5 percent. The quotas are not to apply if the President is able to obtain agreements with the foreign countries from which the imports originate and, if established, the quotas would be superseded by any such agreement.

*This was a floor amendment offered by Senator Hollings.*

**Sec. 19**

**FOREIGN NATIONS INDEBTED TO THE UNITED STATES**

This section requires the Secretary of the Treasury to demand payment of arrears from all countries that are more than 90 days in arrears in the payment of principal or interest on debts owed the United States (including debts from World Wars I and II). The amendment further provides that dollars presented to the Treasury by a country that is in arrears are not to be redeemed in gold but instead credited against the debts owed by them to this country.

*This was a floor amendment offered by Senator Dominick.*

**Sec. 20**

**SUBMISSION OF PROPOSALS FOR TAX REFORM**

This section requires the President, not later than December 31, 1968, to submit to Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954.

*This was a floor amendment offered by Senator Javits.*