Public Law 85-866

September 2, 1958
[H. R. 8381]

AN ACT

To amend the Internal Revenue Code of 1954 to correct unintended benefits and hardships and to make technical amendments, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—TECHNICAL AMENDMENTS ACT OF 1958

SECTION 1. SHORT TITLE, ETC.

Citation of title.

(a) SHORT TITLE.—This title may be cited as the "Technical Amendments Act of 1958".

68A Stat. 26 USC.

(b) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, wherever in this title an amendment or repeal is expressed in terms of an amendment to or a repeal of a section or other provision, the reference shall be considered to be made to a provision of the Internal Revenue Code of 1954.

(c) EFFECTIVE DATE.—Except as otherwise expressly provided—

26 USC 1-1552.

(1) amendments made by this title to subtitle A of the Internal Revenue Code of 1954 (relating to income taxes) shall apply to taxable years beginning after December 31, 1953, and ending after August 16, 1954; and

26 USC 6001-7852.

(2) amendments made by this title to subtitle F of such Code (relating to procedure and administration) shall take effect as of August 17, 1954, and such subtitle, as so amended, shall apply as provided in section 7851 of the Internal Revenue Code of 1954.

SEC. 2. DEALERS IN TAX-EXEMPT SECURITIES.

26 USC 75.

(a) MUNICIPAL BONDS.—Section 75 (relating to dealers in tax-exempt securities) is amended—

(1) by striking out paragraph (1) of subsection (b) and inserting in lieu thereof the following:

"(1) The term 'municipal bond' means any obligation issued by a government or political subdivision thereof if the interest on such obligation is excludable from gross income; but such term does not include such an obligation if—

"(A) (i) it is sold or otherwise disposed of by the taxpayer within 30 days after the date of its acquisition by him, or

"(ii) its earliest maturity or call date is a date more than 5 years from the date on which it was acquired by the taxpayer; and

"(B) when it is sold or otherwise disposed of by the taxpayer—

"(i) in the case of a sale, the amount realized, or

"(ii) in the case of any other disposition, its fair market value at the time of such disposition,

21 USC 1016.

is higher than its adjusted basis (computed without regard to this section and section 1016 (a) (6)).

Determinations under subparagraph (B) shall be exclusive of interest.";

(2) by striking out "short-term" each place it appears in subsection (a); and

(3) by adding at the end of subsection (a) the following new sentence:

"Notwithstanding the provisions of paragraph (1), no reduction to the cost of securities sold during the taxable year shall be made in

respect of any obligation described in subsection (b) (1) (A) (ii) which is held by the taxpayer at the close of the taxable year; but in the taxable year in which any such obligation is sold or otherwise disposed of, if such obligation is a municipal bond (as defined in subsection (b) (1)), the cost of securities sold during such year shall be reduced by an amount equal to the adjustment described in paragraph (2), without regard to the fact that the taxpayer values his inventories on any basis other than cost."

(b) CONFORMING AMENDMENT.—Section 1016 (a) (6) (relating to adjustments to basis) is amended by striking out "short-term".

26 USC 1016.

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply with respect to taxable years ending after December 31, 1957, but only with respect to obligations acquired after such date.

SEC. 3. STATUTORY SUBSISTENCE ALLOWANCE RECEIVED BY POLICE.

(a) REPEAL.—Section 120 (relating to statutory subsistence allowance received by police) is hereby repealed.

26 USC 120.

(b) CONFORMING AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by striking out

"Sec. 120. Statutory subsistence allowance received by police."

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply with respect to taxable years ending after September 30, 1958, but only with respect to amounts received as a statutory subsistence allowance for any day after September 30, 1958.

SEC. 4. DEFINITION OF DEPENDENT.

(a) SPOUSE.—Paragraph (9) of section 152 (a) (relating to definition of dependent) is amended to read as follows:

26 USC 152.

"(9) An individual (other than an individual who at any time during the taxable year was the spouse, determined without regard to section 153, of the taxpayer) who, for the taxable year of the taxpayer, has as his principal place of abode the home of the taxpayer and is a member of the taxpayer's household, or".

(b) ADOPTED CHILD.—The last sentence of section 152 (b) (3) (relating to definition of dependent) is amended to read as follows: "The preceding sentence shall not exclude from the definition of 'dependent' any child of the taxpayer—

"(A) born to him, or legally adopted by him, in the Philippine Islands before January 1, 1956, if the child is a resident of the Republic of the Philippines, and if the taxpayer was a member of the Armed Forces of the United States at the time the child was born to him or legally adopted by him, or

"(B) legally adopted by him, if, for the taxable year of the taxpayer, the child has as his principal place of abode the home of the taxpayer and is a member of the taxpayer's household, and if the taxpayer is a citizen of the United States."

(c) MEMBER OF HOUSEHOLD.—Section 152 (b) (relating to definition of dependent) is amended by adding at the end thereof the following new paragraph:

"(5) An individual is not a member of the taxpayer's household if at any time during the taxable year of the taxpayer the relationship between such individual and the taxpayer is in violation of local law."

(d) EFFECTIVE DATE.—The amendment made by subsection (b) shall apply with respect to taxable years beginning after December 31, 1957.

SEC. 5. IMPROPER PAYMENTS TO OFFICIALS OF FOREIGN COUNTRIES.

26 USC 162.

(a) DENIAL OF DEDUCTION.—Section 162 (relating to trade or business expenses) is amended by redesignating subsection (c) as subsection (d), and by inserting after subsection (b) the following new subsection:

"(c) IMPROPER PAYMENTS TO OFFICIALS OR EMPLOYEES OF FOREIGN COUNTRIES.—No deduction shall be allowed under subsection (a) for any expenses paid or incurred if the payment thereof is made, directly or indirectly, to an official or employee of a foreign country, and if the making of the payment would be unlawful under the laws of the United States if such laws were applicable to such payment and to such official or employee."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only with respect to expenses paid or incurred after the date of the enactment of this Act. The determination as to whether any expense paid or incurred on or before the date of the enactment of this Act shall be allowed as a deduction shall be made as if this section had not been enacted and without inference drawn from the fact that this section is not made applicable with respect to expenses paid or incurred on or before the date of the enactment of this Act.

SEC. 6. PAYMENTS FOR MUNICIPAL SERVICES IN ATOMIC ENERGY COMMUNITIES.

26 USC 164.

(a) TREATMENT AS TAX PAYMENTS.—Section 164 (relating to deduction for taxes) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) PAYMENTS FOR MUNICIPAL SERVICES IN ATOMIC ENERGY COMMUNITIES.—For purposes of this section, amounts paid or accrued, to compensate the Atomic Energy Commission for municipal-type services, by any owner of real property within any community (within the meaning of section 21 b of the Atomic Energy Community Act of 1955) shall be treated as real property taxes paid or accrued. For purposes of this subsection, the term 'owner' includes a person who holds the real property under a leasehold of 40 or more years and a person who has entered into a contract to purchase under section 61 of the Atomic Energy Community Act of 1955. Subsection (d) of this section shall not apply to a sale by the United States of property with respect to which this subsection applies."

69 Stat. 473.
42 USC 2304.

42 USC 2361.

(b) The amendments made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1957.

SEC. 7. WORTHLESS SECURITIES IN AFFILIATED CORPORATIONS.

26 USC 165.

Section 165 (g) (3) (B) (relating to worthless securities in affiliated corporations) is amended by striking out "rental from" and inserting in lieu thereof "rental of".

SEC. 8. NONBUSINESS BAD DEBTS.

26 USC 166.

Section 166 (d) (2) (A) (relating to definition of nonbusiness debt) is amended by striking out "a taxpayer's trade or business" and inserting in lieu thereof "a trade or business of the taxpayer".

SEC. 9. FACILITIES FOR PRIMARY PROCESSING OF URANIUM ORE OR URANIUM CONCENTRATE.

26 USC 168.

(a) NEW FACILITIES.—Section 168 (e) (2) (relating to certifications of emergency facilities after August 22, 1957) is amended by striking out "or" at the end of subparagraph (A), by inserting "or" at the end of subparagraph (B), and by inserting after subparagraph (B) the following new subparagraph:

"(C) to provide primary processing for uranium ore or uranium concentrate under a program of the Atomic Energy Commission for the development of new sources of uranium ore or uranium concentrate,".

(b) LIMITATION.—Section 168 (e) (relating to determination of adjusted basis of emergency facilities) is amended by adding at the end thereof the following new paragraph:

26 USC 168.

"(5) LIMITATION WITH RESPECT TO URANIUM ORE OR URANIUM CONCENTRATE PROCESSING FACILITIES.—No certificate shall be made under paragraph (2) (C) with respect to any facility unless existing facilities for processing the uranium ore or uranium concentrate which will be processed by such facility are unsuitable because of their location."

(c) APPLICATIONS HERETOFORE FILED.—In the case of any certificate which is made under section 168 (e) of the Internal Revenue Code of 1954 for any facility to which the amendment made by subsection (a) applies, if application for such certificate was filed before the date of the enactment of this Act and within the time prescribed by the next to the last sentence of section 168 (e) (2) of such Code, the second sentence of section 168 (d) (1) of such Code shall not apply with respect to any taxable year of the taxpayer which ends prior to the date on which such certificate is made. In the case of any certificate which is made under such section for any facility to which the amendment made by subsection (a) applies, if application for such certificate is filed at any time within 3 months after the date of the enactment of this Act, the next to the last sentence of section 168 (e) (2) shall not apply and the second sentence of section 168 (d) (1) shall not apply with respect to any taxable year of the taxpayer which ends prior to the date on which such certificate is made.

SEC. 10. UNLIMITED DEDUCTION FOR CHARITABLE CONTRIBUTIONS BY INDIVIDUALS.

(a) UNLIMITED DEDUCTION FOR CERTAIN INDIVIDUALS.—Section 170 (b) (1) (C) (relating to unlimited charitable deduction for certain individuals) is amended by adding at the end thereof the following new sentence:

26 USC 170.

"In lieu of the amount of income tax paid during any such year, there may be substituted for that year the amount of income tax paid in respect of such year, provided that any amount so included in the year in respect of which payment was made shall not be included in any other year."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1957.

SEC. 11. CHARITABLE CONTRIBUTION CARRYOVER FOR CORPORATIONS.

Section 170 (b) (relating to limitations on charitable contribution deduction) is amended by adding at the end thereof the following new paragraph:

"(3) SPECIAL RULE FOR CORPORATIONS HAVING NET OPERATING LOSS CARRYOVERS.—In applying the second sentence of paragraph (2) of this subsection, the excess of—

"(A) the contributions made by a corporation in a taxable year to which this section applies, over

"(B) the amount deductible in such year under the limitation in the first sentence of such paragraph (2),

shall be reduced to the extent that such excess reduces taxable income (as computed for purposes of the second sentence of section 172 (b) (2)) and increases a net operating loss carryover under section 172 to a succeeding taxable year."

26 USC 172.

SEC. 12. LIMITATIONS ON CHARITABLE CONTRIBUTION DEDUCTION.

26 USC 170.

(a) REDUCTION FOR CERTAIN INTEREST.—Section 170 (b) (relating to limitations on deduction for charitable, etc., contributions and gifts) is amended by adding after paragraph (3) (added by section 11 of this Act) the following new paragraph:

"(4) REDUCTION FOR CERTAIN INTEREST.—If, in connection with any charitable contribution, a liability is assumed by the recipient or by any other person, or if a charitable contribution is of property which is subject to a liability, then, to the extent necessary to avoid the duplication of amounts, the amount taken into account for purposes of this section as the amount of the charitable contribution—

"(A) shall be reduced for interest (i) which has been paid (or is to be paid) by the taxpayer, (ii) which is attributable to the liability, and (iii) which is attributable to any period after the making of the contribution, and

"(B) in the case of a bond, shall be further reduced for interest (i) which has been paid (or is to be paid) by the taxpayer on indebtedness incurred or continued to purchase or carry such bond, and (ii) which is attributable to any period before the making of the contribution.

The reduction pursuant to subparagraph (B) shall not exceed the interest (including interest equivalent) on the bond which is attributable to any period before the making of the contribution and which is not (under the taxpayer's method of accounting) includible in the gross income of the taxpayer for any taxable year. For purposes of this paragraph, the term 'bond' means any bond, debenture, note, or certificate or other evidence of indebtedness."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years ending after December 31, 1957, but only with respect to charitable contributions made after such date.

SEC. 13. AMORTIZABLE BOND PREMIUM.

26 USC 171.

(a) AMORTIZATION OF PREMIUMS WITH CALL DATES.—Section 171 (b) (relating to amortizable bond premium) is amended—

(1) by striking out subparagraph (B) of paragraph (1) and inserting in lieu thereof the following:

"(B) (i) with reference to the amount payable on maturity or on earlier call date, in the case of any bond other than a bond to which clause (ii) or (iii) applies,

"(ii) with reference to the amount payable on maturity (or if it results in a smaller amortizable bond premium attributable to the period to earlier call date, with reference to the amount payable on earlier call date), in the case of any bond described in subsection (c) (1) (B) which is acquired after December 31, 1957, or

"(iii) with reference to the amount payable on maturity, in the case of any bond described in subsection (c) (1) (B) which was acquired after January 22, 1954, and before January 1, 1958, but only if such bond was issued after January 22, 1951, and has a call date not more than 3 years after the date of such issue, and"; and

(2) by striking out, in the second sentence of paragraph (2), the phrase "In the case of a bond described in subsection (c) (1) (B) issued after January 22, 1951, and acquired after January 22, 1954, which has a call date not more than 3 years after the date of such issue," and inserting in lieu thereof the following: "In the case of a bond to which paragraph (1) (B) (ii) or (iii) applies and which has a call date,".

(b) Effective Date.—The amendments made by subsection (a) shall apply with respect to taxable years ending after December 31, 1957.

SEC. 14. NET OPERATING LOSS DEDUCTION.

(a) Taxable Years Beginning in 1953 and Ending in 1954.—Section 172 (f) (relating to net operating loss provisions for taxable years beginning in 1953 and ending in 1954) is amended by adding at the end thereof the following new paragraphs:

26 USC 172.

"(3) The net operating loss deduction for such year shall be, in lieu of the amount specified in section 122 (c) of the Internal Revenue Code of 1939, the sum of—

26 USC 172.

"(A) that portion of the net operating loss deduction for such year, computed as if subsection (a) of this section were applicable to the taxable year, which the number of days in such year after December 31, 1953, bears to the total number of days in such year, and

"(B) that portion of the net operating loss deduction for such year, computed under section 122 (c) of the Internal Revenue Code of 1939 as if this paragraph had not been enacted, which the number of days in such year before January 1, 1954, bears to the total number of days in such year.

"(4) For purposes of the second sentence of subsection (b) (2), the taxable income for such year shall be the sum of—

"(A) that portion of the net income for such year, computed without regard to this paragraph, which the number of days in such year before January 1, 1954, bears to the total number of days in such year, and

"(B) that portion of the net income for such year, computed—

"(i) without regard to paragraphs (1) and (2) of section 122 (d) of the Internal Revenue Code of 1939, and

"(ii) by allowing as a deduction an amount equal to the sum of the credits provided in subsections (b) and (h) of section 26 of such Code,

which the number of days in such year after December 31, 1953, bears to the total number of days in such year."

(b) Short Taxable Years Beginning in 1954.—Section 172 (g) (relating to special transitional rules for net operating loss provisions) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

26 USC 172.

"(3) Taxable years beginning after December 31, 1953, and ending before August 17, 1954.—In the case of a taxable year which begins after December 31, 1953, and ends before August 17, 1954—

"(A) the net operating loss deduction for such year shall be computed as if subsection (a) of this section applied to such taxable year, and

"(B) for purposes of the second sentence of subsection (b) (2), the taxable income for such taxable year shall be the net income for such taxable year, computed—

"(i) without regard to paragraphs (1) and (2) of section 122 (d) of the Internal Revenue Code of 1939, and

"(ii) by allowing as a deduction an amount equal to the sum of the credits provided in subsections (b) and (h) of section 26 of such Code."

(c) Statute of Limitations, etc.; Interest.—If refund or credit of any overpayment resulting from the application of the amendment

made by subsection (a) or (b) is prevented on the date of the enactment of this Act, or within 6 months after such date, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code of 1939 or section 7121 of the Internal Revenue Code of 1954, relating to closing agreements, and other than section 3761 of the Internal Revenue Code of 1939 or section 7122 of the Internal Revenue Code of 1954, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within 6 months after such date. No interest shall be paid or allowed on any overpayment resulting from the application of the amendment made by subsection (a) or (b).

26 USC 7121.

26 USC 7122.

SEC. 15. IMPROVEMENTS ON LEASED PROPERTY.

(a) DEDUCTION BY LESSEE FOR DEPRECIATION, ETC.—Part VI of subchapter B of chapter 1 (itemized deductions for individuals and corporations) is amended by adding at the end thereof the following new section:

26 USC 161-177.

"SEC. 178. DEPRECIATION OR AMORTIZATION OF IMPROVEMENTS MADE BY LESSEE ON LESSOR'S PROPERTY.

"(a) GENERAL RULE.—Except as provided in subsection (b), in determining the amount allowable to a lessee as a deduction for any taxable year for exhaustion, wear and tear, obsolescence, or amortization—

"(1) in respect of any building erected (or other improvement made) on the leased property, if the portion of the term of the lease (excluding any period for which the lease may subsequently be renewed, extended, or continued pursuant to an option exercisable by the lessee) remaining upon the completion of such building or other improvement is less than 60 percent of the useful life of such building or other improvement, or

"(2) in respect of any cost of acquiring the lease, if less than 75 percent of such cost is attributable to the portion of the term of the lease (excluding any period for which the lease may subsequently be renewed, extended, or continued pursuant to an option exercisable by the lessee) remaining on the date of its acquisition,

the term of the lease shall be treated as including any period for which the lease may be renewed, extended, or continued pursuant to an option exercisable by the lessee, unless the lessee establishes that (as of the close of the taxable year) it is more probable that the lease will not be renewed, extended, or continued for such period than that the lease will be so renewed, extended, or continued.

"(b) RELATED LESSEE AND LESSOR.—

"(1) GENERAL RULE.—If a lessee and lessor are related persons (as determined under paragraph (2)) at any time during the taxable year then, in determining the amount allowable to the lessee as a deduction for such taxable year for exhaustion, wear and tear, obsolescence, or amortization in respect of any building erected (or other improvement made) on the leased property, the lease shall be treated as including a period of not less duration than the remaining useful life of such improvement.

"(2) RELATED PERSONS DEFINED.—For purposes of paragraph (1), a lessor and lessee shall be considered to be related persons if—

"(A) the lessor and the lessee are members of an affiliated group (as defined in section 1504), or

26 USC 1504.

"(B) the relationship between the lessor and lessee is one described in subsection (b) of section 267, except that, for purposes of this subparagraph, the phrase '80 percent or more' shall be substituted for the phrase 'more than 50 percent' each place it appears in such subsection.

26 USC 267.

For purposes of determining the ownership of stock in applying subparagraph (B), the rules of subsection (c) of section 267 shall apply, except that the family of an individual shall include only his spouse, ancestors, and lineal descendants.

"(c) REASONABLE CERTAINTY TEST.—In any case in which neither subsection (a) nor subsection (b) applies, the determination as to the amount allowable to a lessee as a deduction for any taxable year for exhaustion, wear and tear, obsolescence, or amortization—

"(1) in respect of any building erected (or other improvement made) on the leased property, or

"(2) in respect of any cost of acquiring the lease,

shall be made with reference to the term of the lease (excluding any period for which the lease may subsequently be renewed, extended, or continued pursuant to an option exercisable by the lessee), unless the lease has been renewed, extended, or continued or the facts show with reasonable certainty that the lease will be renewed, extended, or continued."

(b) TECHNICAL AMENDMENT.—The table of sections for such part VI is amended by adding at the end thereof the following:

"Sec. 178. Depreciation or amortization of improvements made by lessee on lessor's property."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to costs of acquiring a lease incurred, and improvements begun, after July 28, 1958 (other than improvements which, on July 28, 1958, and at all times thereafter, the lessee was under a binding legal obligation to make).

SEC. 16. MEDICAL, DENTAL, ETC., EXPENSES IN CASE OF DECEDENTS.

Section 213 (d) (2) (A) (relating to medical, dental, etc., expenses in the case of decedents) is amended by striking out "claimed or". 26 USC 213.

SEC. 17. INCREASE IN LIMITATION ON MEDICAL DEDUCTION FOR A TAXPAYER OR HIS SPOUSE WHO HAS ATTAINED AGE 65 AND IS DISABLED.

(a) INCREASE OF LIMITATION TO $15,000.—Section 213 (relating to deduction for medical, dental, etc., expenses) is amended by adding at the end thereof the following new subsection:

"(g) MAXIMUM LIMITATION IF TAXPAYER OR SPOUSE HAS ATTAINED AGE 65 AND IS DISABLED.—

"(1) SPECIAL RULE.—Subject to the provisions of paragraph (2), the deduction under this section shall not exceed—

"(A) $15,000, if the taxpayer has attained the age of 65 before the close of the taxable year and is disabled, or if his spouse has attained the age of 65 before the close of the taxable year and is disabled and if his spouse does not make a separate return for the taxable year, or

"(B) $30,000, if both the taxpayer and his spouse have attained the age of 65 before the close of the taxable year and are disabled and if the taxpayer files a joint return with his spouse under section 6013. 26 USC 6013.

"(2) AMOUNTS TAKEN INTO ACCOUNT.—For purposes of paragraph (1)—

"(A) amounts paid by the taxpayer during the taxable year for medical care, other than amounts paid for—

"(i) his medical care, if he has attained the age of 65 before the close of the taxable year and is disabled, or

"(ii) the medical care of his spouse, if his spouse has attained the age of 65 before the close of the taxable year and is disabled,

shall be taken into account only to the extent that such amounts do not exceed the maximum limitation provided in subsection (c) which would (but for the provisions of this subsection) apply to the taxpayer for the taxable year;

"(B) if the taxpayer has attained the age of 65 before the close of the taxable year and is disabled, amounts paid by him during the taxable year for his medical care shall be taken into account only to the extent that such amounts do not exceed $15,000; and

"(C) if the spouse of the taxpayer has attained the age of 65 before the close of the taxable year and is disabled, amounts paid by the taxpayer during the taxable year for the medical care of his spouse shall be taken into account only to the extent that such amounts do not exceed $15,000.

"(3) MEANING OF DISABLED.—For purposes of paragraph (1), an individual shall be considered to be disabled if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration. An individual shall not be considered to be disabled unless he furnishes proof of the existence thereof in such form and manner as the Secretary or his delegate may require.

"(4) DETERMINATION OF STATUS.—For purposes of paragraph (1), the determination as to whether the taxpayer or his spouse is disabled shall be made as of the close of the taxable year of the taxpayer, except that if his spouse dies during such taxable year such determination shall be made with respect to his spouse as of the time of such death."

26 USC 213.

(b) TECHNICAL AMENDMENT.—Section 213 (c) (relating to maximum limitations on medical deduction) is amended by striking out "The" and inserting in lieu thereof "Except as provided in subsection (g), the".

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply only with respect to taxable years beginning after December 31, 1957.

SEC. 18. DEDUCTIONS BY CORPORATIONS FOR DIVIDENDS RECEIVED.

26 USC 246.

(a) EXCLUSION OF CERTAIN DIVIDENDS.—Section 246 (relating to rules applying to deductions by corporations for dividends received) is amended by adding at the end thereof the following new subsection:

"(c) EXCLUSION OF CERTAIN DIVIDENDS.—

"(1) IN GENERAL.—No deduction shall be allowed under section 243, 244, or 245, in respect of any dividend on any share of stock—

26 USC 243-245.

"(A) which is sold or otherwise disposed of in any case in which the taxpayer has held such share for 15 days or less, or

"(B) to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make corresponding payments with respect to substantially identical stock or securities.

"(2) 90-DAY RULE IN THE CASE OF CERTAIN PREFERENCE DIVIDENDS.—In the case of any stock having preference in dividends, the holding period specified in paragraph (1) (A) shall be 90 days in lieu of 15 days if the taxpayer receives dividends with respect to such stock which are attributable to a period or periods aggregating in excess of 366 days.

"(3) DETERMINATION OF HOLDING PERIODS.—For purposes of this subsection, in determining the period for which the taxpayer has held any share of stock—

"(A) the day of disposition, but not the day of acquisition, shall be taken into account,

"(B) there shall not be taken into account any day which is more than 15 days (or 90 days in the case of stock to which paragraph (2) applies) after the date on which such share becomes ex-dividend, and

"(C) paragraph (4) of section 1223 shall not apply.

26 USC 1223.

The holding periods determined under the preceding provisions of this paragraph shall be appropriately reduced (in the manner provided in regulations prescribed by the Secretary or his delegate) for any period (during such holding periods) in which the taxpayer has an option to sell, is under a contractual obligation to sell, or has made (and not closed) a short sale of, substantially identical stock or securities."

(b) Effective Date.—The amendment made by subsection (a) shall apply with respect to taxable years ending after December 31, 1957, but only with respect to shares of stock acquired or short sales made after December 31, 1957.

SEC. 19. GAIN OR LOSS ON SALES OR EXCHANGES IN CONNECTION WITH CERTAIN LIQUIDATIONS.

Section 337 (relating to gain or loss on sales or exchanges in connection with certain liquidations) is amended by adding at the end thereof the following new subsection:

26 USC 337.

"(d) Special Rule for Certain Minority Shareholders.—If a corporation adopts a plan of complete liquidation on or after January 1, 1958, and if subsection (a) does not apply to sales or exchanges of property by such corporation, solely by reason of the application of subsection (c) (2) (A), then for the first taxable year of any shareholder (other than a corporation which meets the 80 percent stock ownership requirement specified in section 332 (b) (1)) in which he receives a distribution in complete liquidation—

26 USC 332.

"(1) the amount realized by such shareholder on the distribution shall be increased by his proportionate share of the amount by which the tax imposed by this subtitle on such corporation would have been reduced if subsection (c) (2) (A) had not been applicable, and

"(2) for purposes of this title, such shareholder shall be deemed to have paid, on the last day prescribed by law for the payment of the tax imposed by this subtitle on such shareholder for such taxable year, an amount of tax equal to the amount of the increase described in paragraph (1)."

SEC. 20. COLLAPSIBLE CORPORATIONS.

(a) Exceptions to Treatment of Corporations as Collapsible Corporations.—Section 341 (relating to collapsible corporations) is amended by adding at the end thereof the following new subsection:

26 USC 341.

"(e) Exceptions to Application of Section.—

"(1) Sales or exchanges of stock.—For purposes of subsection (a) (1), a corporation shall not be considered to be a collapsible corporation with respect to any sale or exchange of stock of the corporation by a shareholder, if, at the time of such sale or exchange, the sum of—

"(A) the net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5) (A)), plus

"(B) if the shareholder owns more than 5 percent in value of the outstanding stock of the corporation, the net unrealized appreciation in assets of the corporation (other than assets described in subparagraph (A)) which would be subsection (e) assets under clauses (i) and (iii) of paragraph (5) (A) if the shareholder owned more than 20 percent in value of such stock, plus

"(C) if the shareholder owns more than 20 percent in value of the outstanding stock of the corporation and owns, or at any time during the preceding 3-year period owned, more than 20 percent in value of the outstanding stock of any other corporation more than 70 percent in value of the assets of which are, or were at any time during which such shareholder owned during such 3-year period more than 20 percent in value of the outstanding stock, assets similar or related in service or use to assets comprising more than 70 percent in value of the assets of the corporation, the net unrealized appreciation in assets of the corporation (other than assets described in subparagraph (A)) which would be subsection (e) assets under clauses (i) and (iii) of paragraph (5) (A) if the determination whether the property, in the hands of such shareholder, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 (b), were made—

26 USC 1231.

"(i) by treating any sale or exchange by such shareholder of stock in such other corporation within the preceding 3-year period (but only if at the time of such sale or exchange the shareholder owned more than 20 percent in value of the outstanding stock in such other corporation) as a sale or exchange by such shareholder of his proportionate share of the assets of such other corporation, and

"(ii) by treating any sale or exchange of property by such other corporation within such 3-year period (but only if at the time of such sale or exchange the shareholder owned more than 20 percent in value of the outstanding stock in such other corporation), gain or loss on which was not recognized to such other corporation under section 337 (a), as a sale or exchange by such shareholder of his proportionate share of the property sold or exchanged,

26 USC 337.

does not exceed an amount equal to 15 percent of the net worth of the corporation. This paragraph shall not apply to any sale or exchange of stock to the issuing corporation or, in the case of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, to any sale or exchange of stock by such shareholder to any person related to him (within the meaning of paragraph (8)).

"(2) DISTRIBUTIONS IN LIQUIDATION.—For purposes of subsection (a) (2), a corporation shall not be considered to be a collapsible corporation with respect to any distribution to a shareholder pursuant to a plan of complete liquidation if, by reason of the application of paragraph (4) of this subsection, section 337 (a) applies to sales or exchanges of property by the corporation within the 12-month period beginning on the date of the adoption of such plan, and if, at all times after the adoption of the plan of liquidation, the sum of—

"(A) the net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5) (A)), plus

"(B) if the shareholder owns more than 5 percent in value of the outstanding stock of the corporation, the net unrealized appreciation in assets of the corporation described in para-

graph (1) (B) (other than assets described in subparagraph (A) of this paragraph), plus

"(C) if the shareholder owns more than 20 percent in value of the outstanding stock of the corporation and owns, or at any time during the preceding 3-year period owned, more than 20 percent in value of the outstanding stock of any other corporation more than 70 percent in value of the assets of which are, or were at any time during which such shareholder owned during such 3-year period more than 20 percent in value of the outstanding stock, assets similar or related in service or use to assets comprising more than 70 percent in value of the assets of the corporation, the net unrealized appreciation in assets of the corporation described in paragraph (1) (C) (other than assets described in subparagraph (A) of this paragraph),

does not exceed an amount equal to 15 percent of the net worth of the corporation.

"(3) RECOGNITION OF GAIN IN CERTAIN LIQUIDATIONS.—For purposes of section 333, a corporation shall not be considered to be a collapsible corporation if at all times after the adoption of the plan of liquidation, the net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5) (B)) does not exceed an amount equal to 15 percent of the net worth of the corporation.

26 USC 333.

"(4) GAIN OR LOSS ON SALES OR EXCHANGES IN CONNECTION WITH CERTAIN LIQUIDATIONS.—For purposes of section 337, a corporation shall not be considered to be a collapsible corporation with respect to any sale or exchange by it of property within the 12-month period beginning on the date of the adoption of a plan of complete liquidation, if—

26 USC 337.

"(A) at all times after the adoption of such plan, the net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5) (A)) does not exceed an amount equal to 15 percent of the net worth of the corporation,

"(B) within the 12-month period beginning on the date of the adoption of such plan, the corporation sells substantially all of the properties held by it on such date, and

"(C) following the adoption of such plan, no distribution is made of any property which in the hands of the corporation or in the hands of the distributee is property in respect of which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable.

This paragraph shall not apply with respect to any sale or exchange of property by the corporation to any shareholder who owns more than 20 percent in value of the outstanding stock of the corporation or to any person related to such shareholder (within the meaning of paragraph (8)), if such property in the hands of the corporation or in the hands of such shareholder or related person is property in respect of which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable.

"(5) SUBSECTION (e) ASSET DEFINED.—

"(A) For purposes of paragraphs (1), (2), and (4), the term 'subsection (e) asset' means, with respect to property held by any corporation—

"(i) property (except property used in the trade or business, as defined in paragraph (9)) which in the hands of the corporation is, or, in the hands of a share-

holder who owns more than 20 percent in value of the outstanding stock of the corporation, would be, property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 (b);

26 USC 1231.

"(ii) property used in the trade or business (as defined in paragraph (9)), but only if the unrealized depreciation on all such property on which there is unrealized depreciation exceeds the unrealized appreciation on all such property on which there is unrealized appreciation;

"(iii) if there is net unrealized appreciation on all property used in the trade or business (as defined in paragraph (9)), property used in the trade or business (as defined in paragraph (9)) which, in the hands of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 (b); and

"(iv) property (unless included under clause (i), (ii), or (iii)) which consists of a copyright, a literary, musical, or artistic composition, or similar property, or any interest in any such property, if the property was created in whole or in part by the personal efforts of any individual who owns more than 5 percent in value of the stock of the corporation.

The determination as to whether property of the corporation in the hands of the corporation is, or in the hands of a shareholder would be, property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 (b) shall be made as if all property of the corporation had been sold or exchanged to one person in one transaction.

"(B) For purposes of paragraph (3), the term 'subsection (e) asset' means, with respect to property held by any corporation, property described in clauses (i), (ii), (iii), and (iv) of subparagraph (A), except that clauses (i) and (iii) shall apply in respect of any shareholder who owns more than 5 percent in value of the outstanding stock of the corporation (in lieu of any shareholder who owns more than 20 percent in value of such stock).

"(6) NET UNREALIZED APPRECIATION DEFINED.—

"(A) For purposes of this subsection, the term 'net unrealized appreciation' means, with respect to the assets of a corporation, the amount by which—

"(i) the unrealized appreciation in such assets on which there is unrealized appreciation, exceeds

"(ii) the unrealized depreciation in such assets on which there is unrealized depreciation.

"(B) For purposes of subparagraph (A) and paragraph (5) (A), the term 'unrealized appreciation' means, with respect to any asset, the amount by which—

"(i) the fair market value of such asset, exceeds

"(ii) the adjusted basis for determining gain from the sale or other disposition of such asset.

"(C) For purposes of subparagraph (A) and paragraph (5) (A), the term 'unrealized depreciation' means, with respect to any asset, the amount by which—

"(i) the adjusted basis for determining gain from the sale or other disposition of such asset, exceeds

"(ii) the fair market value of such asset.

"(D) For purposes of this paragraph (but not paragraph (5) (A)), in the case of any asset on the sale or exchange of which only a portion of the gain would under any provision of this chapter be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 (b), there shall be taken into account only an amount of the unrealized appreciation in such asset which is equal to such portion of the gain.

26 USC 1231.

"(7) NET WORTH DEFINED.—For purposes of this subsection, the net worth of a corporation, as of any day, is the amount by which—

"(A) (i) the fair market value of all its assets at the close of such day, plus

"(ii) the amount of any distribution in complete liquidation made by it on or before such day, exceeds

"(B) all its liabilities at the close of such day.

For purposes of this paragraph, the net worth of a corporation as of any day shall not take into account any increase in net worth during the one-year period ending on such day to the extent attributable to any amount received by it for stock, or as a contribution to capital or as paid-in surplus, if it appears that there was not a bona fide business purpose for the transaction in respect of which such amount was received.

"(8) RELATED PERSON DEFINED.—For purposes of paragraphs (1) and (4), the following persons shall be considered to be related to a shareholder:

"(A) If the shareholder is an individual—

"(i) his spouse, ancestors, and lineal descendants, and

"(ii) a corporation which is controlled by such shareholder.

"(B) If the shareholder is a corporation—

"(i) a corporation which controls, or is controlled by, the shareholder, and

"(ii) if more than 50 percent in value of the outstanding stock of the shareholder is owned by any person, a corporation more than 50 percent in value of the outstanding stock of which is owned by the same person.

For purposes of determining the ownership of stock in applying subparagraphs (A) and (B), the rules of section 267 (c) shall apply, except that the family of an individual shall include only his spouse, ancestors, and lineal descendants. For purposes of this paragraph, control means the ownership of stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock of the corporation.

"(9) PROPERTY USED IN THE TRADE OR BUSINESS.—For purposes of this subsection, the term 'property used in the trade or business' means property described in section 1231 (b), without regard to any holding period therein provided.

"(10) OWNERSHIP OF STOCK.—For purposes of this subsection (other than paragraph (8)), the ownership of stock shall be determined in the manner prescribed in subsection (d).

"(11) CORPORATIONS AND SHAREHOLDERS NOT MEETING REQUIREMENTS.—In determining whether or not any corporation is a collapsible corporation within the meaning of subsection (b), the fact that such corporation, or such corporation with respect to any of its shareholders, does not meet the requirements of paragraph (1), (2), (3), or (4) of this subsection shall not be taken into account, and such determination, in the case of a corporation which does not meet such requirements, shall be made as if this subsection had not been enacted."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1957, but only with respect to sales, exchanges, and distributions after the date of the enactment of this Act.

SEC. 21. PROPERTY RECEIVED IN CERTAIN CORPORATE ORGANIZATIONS AND REORGANIZATIONS.

26 USC 358.

(a) BASIS.—Section 358 (a) (1) (A) (relating to decrease in basis to distributees of property received in certain corporate organizations and reorganizations) is amended by striking out "and" at the end of the clause (i), and by adding after clause (ii) the following new clause:

"(iii) the amount of loss to the taxpayer which was recognized on such exchange, and".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply as provided in section 393 of the Internal Revenue Code of 1954 as if the clause (iii) added by such amendment had been included in such Code at the time of its enactment.

26 USC 393.

SEC. 22. CERTAIN ACQUISITIONS OF STOCK.

26 USC 391.

(a) TRANSITIONAL RULES.—Section 391 (relating to effective date of certain provisions of the Internal Revenue Code of 1954 relating to distributions by corporations) is amended by adding at the end thereof the following new sentence:

"In the case of—

"(1) any acquisition of stock described in section 304 which occurred before June 22, 1954, and

"(2) any acquisition of stock described in such section which occurred on or after June 22, 1954, and on or before December 31, 1958, pursuant to a contract entered into before June 22, 1954,

the extent to which the property received in return for such acquisition shall be treated as a dividend shall be determined as if the Internal Revenue Code of 1939 continued to apply in respect of such acquisition and as if this Code had not been enacted."

(b) EFFECTIVE DATE.—The third sentence of section 391 of the Internal Revenue Code of 1954, as added by subsection (a) of this section, shall apply as if included in such section on the date of the enactment of such Code.

SEC. 23. TAXATION OF EMPLOYEE ANNUITIES.

26 USC 403.

(a) ANNUITY CONTRACTS PURCHASED BY CERTAIN TAX-EXEMPT ORGANIZATIONS.—Section 403 (relating to taxation of employee annuities) is amended by redesignating subsection (b) as subsection (c), and by inserting after subsection (a) the following new subsection:

"(b) TAXABILITY OF BENEFICIARY UNDER ANNUITY PURCHASED BY SECTION 501 (c) (3) ORGANIZATION.—

"(1) GENERAL RULE.—If—

26 USC 501.

"(A) an annuity contract is purchased for an employee by an employer described in section 501 (c) (3) which is exempt from tax under section 501 (a),

"(B) such annuity contract is not subject to subsection (a), and

"(C) the employee's rights under the contract are nonforfeitable, except for failure to pay future premiums,

then amounts contributed by such employer for such annuity contract on or after such rights become nonforfeitable shall be excluded from the gross income of the employee for the taxable year to the extent that the aggregate of such amounts does not exceed the exclusion allowance for such taxable year. The employee shall include in his gross income the amounts received under such contract for the year received as provided in section 72 (relating to annuities) except that section 72 (e) (3) shall not apply.

26 USC 72.

"(2) EXCLUSION ALLOWANCE.—For purposes of this subsection, the exclusion allowance for any employee for the taxable year is an amount equal to the excess, if any, of—

"(A) the amount determined by multiplying (i) 20 percent of his includible compensation, by (ii) the number of years of service, over

"(B) the aggregate of the amounts contributed by the employer for annuity contracts and excludable from the gross income of the employee for any prior taxable year.

"(3) INCLUDIBLE COMPENSATION.—For purposes of this subsection, the term 'includible compensation' means, in the case of any employee, the amount of compensation which is received from the employer described in section 501 (c) (3) and exempt from tax under section 501 (a), and which is includible in gross income (computed without regard to sections 105 (d) and 911) for the most recent period (ending not later than the close of the taxable year) which under paragraph (4) may be counted as one year of service. Such term does not include any amount contributed by the employer for any annuity contract to which this subsection applies.

26 USC 501.

26 USC 105,911.

"(4) YEARS OF SERVICE.—In determining the number of years of service for purposes of this subsection, there shall be included—

"(A) one year for each full year during which the individual was a full-time employee of the organization purchasing the annuity for him, and

"(B) a fraction of a year (determined in accordance with regulations prescribed by the Secretary or his delegate) for each full year during which such individual was a part-time employee of such organization and for each part of a year during which such individual was a full-time or part-time employee of such organization.

In no case shall the number of years of service be less than one.

"(5) APPLICATION TO MORE THAN ONE ANNUITY CONTRACT.—If for any taxable year of the employee this subsection applies to 2 or more annuity contracts purchased by the employer, such contracts shall be treated as one contract.

"(6) FORFEITABLE RIGHTS WHICH BECOME NONFORFEITABLE.—For purposes of this subsection and section 72 (f) (relating to special rules for computing employees' contributions to annuity contracts), if rights of the employee under an annuity contract described in subparagraphs (A) and (B) of paragraph (1) change from forfeitable to nonforfeitable rights, then the amount (determined without regard to this subsection) includible in gross income by reason of such change shall be treated as an amount contributed by the employer for such annuity contract as of the time such rights become nonforfeitable."

26 USC 403.

(b) QUALIFIED PLANS.—Section 403 (a) (1) (relating to taxability of beneficiary under a qualified annuity plan) is amended to read as follows:

"(1) GENERAL RULE.—Except as provided in paragraph (2), if an annuity contract is purchased by an employer for an employee under a plan which meets the requirements of section 404 (a) (2) (whether or not the employer deducts the amounts paid for the contract under such section), the employee shall include in his gross income the amounts received under such contract for the year received as provided in section 72 (relating to annuities) except that section 72 (e) (3) shall not apply."

26 USC 72.

(c) CERTAIN FORFEITABLE CONTRACTS PURCHASED BY EXEMPT ORGANIZATIONS.—Section 403 is amended by adding after subsection (c) (as redesignated by subsection (a) of this section) the following new subsection:

"(d) TAXABILITY OF BENEFICIARY UNDER CERTAIN FORFEITABLE CONTRACTS PURCHASED BY EXEMPT ORGANIZATIONS.—Notwithstanding the first sentence of subsection (c), if rights of an employee under an annuity contract purchased by an employer which is exempt from tax under section 501 (a) or 521 (a) change from forfeitable to nonforfeitable rights, the value of such contract on the date of such change (to the extent attributable to amounts contributed by the employer after December 31, 1957) shall, except as provided in subsection (b), be included in the gross income of the employee in the year of such change."

26 USC 501, 521.

26 USC 101.

(d) AMOUNTS RECEIVED AS DEATH BENEFITS.—Section 101 (b) (2) (B) (relating to nonforfeitable rights) is amended to read as follows:

"(B) NONFORFEITABLE RIGHTS.—Paragraph (1) shall not apply to amounts with respect to which the employee possessed, immediately before his death, a nonforfeitable right to receive the amounts while living. This subparagraph shall not apply to total distributions payable (as defined in section 402 (a) (3)) which are paid to a distributee within one taxable year of the distributee by reason of the employee's death—

26 USC 402.

"(i) by a stock bonus, pension, or profit-sharing trust described in section 401 (a) which is exempt from tax under section 501 (a),

26 USC 401, 501.

"(ii) under an annuity contract under a plan which meets the requirements of paragraphs (3), (4), (5), and (6) of section 401 (a), or

"(iii) under an annuity contract purchased by an employer which is an organization referred to in section 503 (b) (1), (2), or (3) and which is exempt from tax under section 501 (a), but only with respect to that portion of such total distributions payable which bears the same ratio to the amount of such total distributions payable which is (without regard to this subsection) includible in gross income, as the amounts contributed by the employer for such annuity contract which are excludable from gross income under section 403 (b) bear to the total amounts contributed by the employer for such annuity contract."

26 USC 503.

26 USC 403.

26 USC 2039.

(e) EXCLUSION FROM GROSS ESTATE.—Section 2039 (c) (relating to exemption of annuities under certain trusts and plans) is amended—

(1) by striking out "or" at the end of paragraph (1), and by striking out the period at the end of paragraph (2) and inserting in lieu thereof "; or";

(2) by inserting after paragraph (2) the following new paragraph:

"(3) a retirement annuity contract purchased for an employee by an employer which is an organization referred to in section 503 (b) (1), (2), or (3), and which is exempt from tax under section 501 (a).";

26 USC 503, 501.

(3) by inserting after "under a plan described in paragraph (1) or (2)" in the second sentence the following: "or under a contract described in paragraph (3)"; and

(4) by striking out the third sentence and inserting in lieu thereof the following: "For purposes of this subsection, contributions or payments made by the decedent's employer or former employer under a trust or plan described in paragraph (1) or (2) shall not be considered to be contributed by the decedent, and contributions or payments made by the decedent's employer or former employer toward the purchase of an annuity contract described in paragraph (3) shall, to the extent excludable from gross income under section 403 (b), not be considered to be contributed by the decedent."

26 USC 403.

(f) ELECTION OF SURVIVOR BENEFITS.—Section 2517 (relating to certain annuities under qualified plans), as added by section 68 of this Act, is amended—

(1) by striking out "or" at the end of subsection (a) (1), and by striking out the period at the end of subsection (a) (2) and inserting in lieu thereof "; or";

(2) by inserting after subsection (a) (2) the following new paragraph:

"(3) a retirement annuity contract purchased for an employee by an employer which is an organization referred to in section 503 (b) (1), (2), or (3), and which is exempt from tax under section 501 (a)."; and

26 USC 503.

(3) by adding at the end of subsection (b) the following new sentence: "For purposes of the preceding sentence, payments or contributions made by the employee's employer or former employer toward the purchase of an annuity contract described in subsection (a) (3) shall, to the extent not excludable from gross income under section 403 (b), be considered to have been made by the employee."

26 USC 403.

(g) EFFECTIVE DATES.—The amendments made by subsections (a), (b), (c), and (d) shall apply with respect to taxable years beginning after December 31, 1957. The amendments made by subsection (e) shall apply with respect to estates of decedents dying after December 31, 1957. The amendments made by subsection (f) shall apply with respect to calendar years after 1957.

SEC. 24. CONTRIBUTIONS OF EMPLOYER TO EMPLOYEES' TRUST OR ANNUITY PLAN.

26 USC 404.

So much of section 404 (a) (relating to deduction for contributions of an employer to an employees' trust or annuity plan, etc.) as precedes paragraph (1) thereof is amended by striking out "income) but if" and inserting in lieu thereof "income) ; but, if".

SEC. 25. EMPLOYEE STOCK OPTIONS GRANTED BY PARENT OR SUBSIDIARY CORPORATION.

26 USC 421.

Section 421 (a) (relating to employee stock options) is amended by adding at the end thereof the following new sentence: "In applying paragraphs (2) and (3) of subsection (d) for purposes of the preceding sentence, there shall be substituted for the term 'employer corporation' wherever it appears in such paragraphs the term 'grantor corporation', or the term 'corporation issuing or assuming a stock option in a transaction to which subsection (g) is applicable', as the case may be."

SEC. 26. VARIABLE PRICE RESTRICTED STOCK OPTIONS.

26 USC 421.

(a) DEFINITION OF RESTRICTED STOCK OPTIONS.—Section 421 (d) (relating to definitions for purposes of employee stock options) is amended—

(1) by striking out clause (ii) of paragraph (1) (A) and inserting in lieu thereof the following:

"(ii) in the case of a variable price option, the option price (computed as if the option had been exercised when granted) is at least 85 percent of the fair market value of the stock at the time such option is granted; and"; and

(2) by adding at the end thereof the following new paragraph:

"(7) VARIABLE PRICE OPTION.—The term 'variable price option' means an option under which the purchase price of the stock is fixed or determinable under a formula in which the only variable is the fair market value of the stock at any time during a period of 6 months which includes the time the option is exercised; except that in the case of options granted after September 30, 1958, such term does not include any such option in which such formula provides for determining such price by reference to the fair market value of the stock at any time before the option is exercised if such value may be greater than the average fair market value of the stock during the calendar month in which the option is exercised."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to taxable years ending after September 30, 1958.

SEC. 27. TRANSFERS OF INSTALLMENT OBLIGATIONS TO CONTROLLED INSURANCE COMPANIES.

26 USC 453.

(a) EFFECT OF TRANSFER.—Section 453 (d) (relating to gain or loss on disposition of installment obligations) is amended by adding at the end thereof the following new paragraph:

26 USC 801.

"(5) LIFE INSURANCE COMPANIES.—In the case of a disposition of an installment obligation by any person other than a life insurance company (as defined in section 801 (a)) to such an insurance company or to a partnership of which such an insurance company is a partner, no provision of this subtitle providing for the nonrecognition of gain shall apply with respect to any gain resulting under paragraph (1). If a corporation which is a life insurance company for the taxable year was (for the preceding taxable year) a corporation which was not a life insurance company, such corporation shall, for purposes of this paragraph and paragraph (1), be treated as having transferred to a life insurance company, on the last day of the preceding taxable year, all installment obligations which it held on such last day. A partnership of which a life insurance company becomes a partner shall, for purposes of this paragraph and paragraph (1), be treated as having transferred to a life insurance company, on the last day of the preceding taxable year of such partnership, all installment obligations which it holds at the time such insurance company becomes a partner."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years ending after December 31, 1957, but only as to transfers or other dispositions of installment obligations occurring after such date.

SEC. 28. PREPAID INCOME FROM NEWSPAPER AND PERIODICAL SUBSCRIPTIONS.

(a) TAXABLE YEAR IN WHICH INCLUDED IN GROSS INCOME.—Subpart B of part II of subchapter E of chapter 1 (relating to taxable year for which items of gross income are included) is amended by adding at the end thereof the following new section:

26 USC 451-454.

"SEC. 455. PREPAID SUBSCRIPTION INCOME.

"(a) YEAR IN WHICH INCLUDED.—Prepaid subscription income to which this section applies shall be included in gross income for the taxable years during which the liability described in subsection (d)(2) exists.

"(b) WHERE TAXPAYER'S LIABILITY CEASES.—In the case of any prepaid subscription income to which this section applies—

"(1) If the liability described in subsection (d)(2) ends, then so much of such income as was not includible in gross income under subsection (a) for preceding taxable years shall be included in gross income for the taxable year in which the liability ends.

"(2) If the taxpayer dies or ceases to exist, then so much of such income as was not includible in gross income under subsection (a) for preceding taxable years shall be included in gross income for the taxable year in which such death, or such cessation of existence, occurs.

"(c) PREPAID SUBSCRIPTION INCOME TO WHICH THIS SECTION APPLIES.—

"(1) ELECTION OF BENEFITS.—This section shall apply to prepaid subscription income if and only if the taxpayer makes an election under this section with respect to the trade or business in connection with which such income is received. The election shall be made in such manner as the Secretary or his delegate may by regulations prescribe. No election may be made with respect to a trade or business if in computing taxable income the cash receipts and disbursements method of accounting is used with respect to such trade or business.

"(2) SCOPE OF ELECTION.—An election made under this section shall apply to all prepaid subscription income received in connection with the trade or business with respect to which the taxpayer has made the election; except that the taxpayer may, to the extent permitted under regulations prescribed by the Secretary or his delegate, include in gross income for the taxable year of receipt the entire amount of any prepaid subscription income if the liability from which it arose is to end within 12 months after the date of receipt. An election made under this section shall not apply to any prepaid subscription income received before the first taxable year for which the election is made.

"(3) WHEN ELECTION MAY BE MADE.—

"(A) WITH CONSENT.—A taxpayer may, with the consent of the Secretary or his delegate, make an election under this section at any time.

"(B) WITHOUT CONSENT.—A taxpayer may, without the consent of the Secretary or his delegate, make an election under this section for his first taxable year (i) which begins after December 31, 1957, and (ii) in which he receives prepaid subscription income in the trade or business. Such election shall be made not later than the time prescribed by law for filing the return for the taxable year (including extensions thereof) with respect to which such election is made.

"(4) PERIOD TO WHICH ELECTION APPLIES.—An election under this section shall be effective for the taxable year with respect to

which it is first made and for all subsequent taxable years, unless the taxpayer secures the consent of the Secretary or his delegate to the revocation of such election. For purposes of this title, the computation of taxable income under an election made under this section shall be treated as a method of accounting.

"(d) DEFINITIONS.—For purposes of this section—

"(1) PREPAID SUBSCRIPTION INCOME.—The term 'prepaid subscription income' means any amount (includible in gross income) which is received in connection with, and is directly attributable to, a liability which extends beyond the close of the taxable year in which such amount is received, and which is income from a subscription to a newspaper, magazine, or other periodical.

"(2) LIABILITY.—The term 'liability' means a liability to furnish or deliver a newspaper, magazine, or other periodical.

"(3) RECEIPT OF PREPAID SUBSCRIPTION INCOME.—Prepaid subscription income shall be treated as received during the taxable year for which it is includible in gross income under section 451 (without regard to this section).

26 USC 451.

"(e) DEFERRAL OF INCOME UNDER ESTABLISHED ACCOUNTING PROCEDURES.—Notwithstanding the provisions of this section, any taxpayer who has, for taxable years prior to the first taxable year to which this section applies, reported his income under an established and consistent method or practice of accounting for prepaid subscription income (to which this section would apply if an election were made) may continue to report his income for taxable years to which this title applies in accordance with such method or practice."

(b) TECHNICAL AMENDMENT.—The table of sections for such subpart is amended by adding at the end thereof the following:

"Sec. 455. Prepaid subscription income."

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply with respect to taxable years beginning after December 31, 1957.

SEC. 29. ADJUSTMENTS REQUIRED BY CHANGES IN METHOD OF ACCOUNTING.

(a) ADJUSTMENTS FOR 1939 CODE YEARS.—

(1) ADJUSTMENTS TAKEN INTO ACCOUNT.—Paragraph (2) of section 481 (a) (relating to adjustments required by changes in method of accounting) is amended to read as follows:

26 USC 481.

"(2) there shall be taken into account those adjustments which are determined to be necessary solely by reason of the change in order to prevent amounts from being duplicated or omitted, except there shall not be taken into account any adjustment in respect of any taxable year to which this section does not apply unless the adjustment is attributable to a change in the method of accounting initiated by the taxpayer."

(2) SPECIAL RULE WHERE ADJUSTMENTS ARE SUBSTANTIAL.—Section 481 (b) (relating to limitation on tax where adjustments are substantial) is amended by adding at the end thereof the following new paragraphs:

"(4) SPECIAL RULE FOR PRE-1954 ADJUSTMENTS GENERALLY.—Except as provided in paragraphs (5) and (6)—

"(A) AMOUNT OF ADJUSTMENTS TO WHICH PARAGRAPH APPLIES.—The net amount of the adjustments required by subsection (a), to the extent that such amount does not exceed the net amount of adjustments which would have been required if the change in method of accounting had been made in the first taxable year beginning after December 31, 1953, and ending after August 16, 1954, shall be taken into ac-

count by the taxpayer in computing taxable income in the manner provided in subparagraph (B), but only if such net amount of such adjustment would increase the taxable income of such taxpayer by more than $3,000.

"(B) YEARS IN WHICH AMOUNTS ARE TO BE TAKEN INTO ACCOUNT.—One-tenth of the net amount of the adjustments described in subparagraph (A) shall (except as provided in subparagraph (C)) be taken into account in each of the 10 taxable years beginning with the year of the change. The amount to be taken into account for each taxable year in the 10-year period shall be taken into account whether or not for such year the assessment of tax is prevented by operation of any law or rule of law. If the year of the change was a taxable year ending before January 1, 1958, and if the taxpayer so elects (at such time and in such manner as the Secretary or his delegate shall by regulations prescribe), the 10-year period shall begin with the first taxable year which begins after December 31, 1957. If the taxpayer elects under the preceding sentence to begin the 10-year period with the first taxable year which begins after December 31, 1957, the 10-year period shall be reduced by the number of years, beginning with the year of the change, in respect of which assessment of tax is prevented by operation of any law or rule of law on the date of the enactment of the Technical Amendments Act of 1958.

"(C) LIMITATION ON YEARS IN WHICH ADJUSTMENTS CAN BE TAKEN INTO ACCOUNT.—The net amount of any adjustments described in subparagraph (A), to the extent not taken into account in prior taxable years under subparagraph (B)—

"(i) in the case of a taxpayer who is an individual, shall be taken into account in the taxable year in which he dies or ceases to engage in a trade or business,

"(ii) in the case of a taxpayer who is a partner, his distributive share of such net amount shall be taken into account in the taxable year in which the partnership terminates, or in which the entire interest of such partner is transferred or liquidated, or

"(iii) in the case of a taxpayer who is a corporation, shall be taken into account in the taxable year in which such corporation ceases to engage in a trade or business unless such net amount of such adjustment is required to be taken into account by the acquiring corporation under section 381 (c) (21).

26 USC 381.

"(D) TERMINATION OF APPLICATION OF PARAGRAPH.—The provisions of this paragraph shall not apply with respect to changes in methods of accounting made in taxable years beginning after December 31, 1963.

"(5) SPECIAL RULE FOR PRE-1954 ADJUSTMENTS IN CASE OF CERTAIN DECEDENTS.—A change from the cash receipts and disbursements method to the accrual method in any case involving the use of inventories, made on or after August 16, 1954, and before January 1, 1958, for a taxable year to which this section applies, by the executor or administrator of a decedent's estate in the first return filed by such executor or administrator on behalf of the decedent, shall be given effect in determining taxable income (other than for the purpose of computing a net operating loss carryback to any prior taxable year of the decedent), and, if the net amount of any adjustments required by subsection (a) in

respect of taxable years to which this section does not apply would increase the taxable income of the decedent by more than $3,000, then the tax attributable to such net adjustments shall not exceed an amount equal to the tax that would have been payable on the cash receipts and disbursements method for the years for which the executor or administrator filed returns on behalf of the decedent, computed for each such year as though a ratable portion of the taxable income for such year had been received in each of 10 taxable years beginning and ending on the same dates as the taxable year for which the tax is being computed.

"(6) APPLICATION OF PARAGRAPH (4).—Paragraph (4) shall not apply with respect to any taxpayer, if the taxpayer elects to take the net amount of the adjustments described in paragraph (4) (A) into account in the manner provided by paragraph (1) or (2). An election to take the net amount of such adjustments into account in the manner provided by paragraph (1) or (2) may be made only if the taxpayer consents in writing to the assessment, within such period as may be agreed on with the Secretary or his delegate, of any deficiency for the year of the change, to the extent attributable to taking the net amount of the adjustments described in paragraph (4) (A) into account in the manner provided by paragraph (1) or (2), even though at the time of filing such consent the assessment of such deficiency would otherwise be prevented by the operation of any law or rule of law. An election under this paragraph shall be made at such time and in such manner as the Secretary or his delegate shall by regulations prescribe."

26 USC 481.

(b) TECHNICAL AMENDMENTS.—Section 481 (b) (relating to limitation on tax where adjustments are substantial) is amended—

(1) By inserting after "subsection (a) (2)" each place it appears in paragraph (1) or (2) the following: ", other than the amount of such adjustments to which paragraph (4) or (5) applies,".

(2) By striking out "the aggregate of the taxes" in paragraph (1) and inserting in lieu thereof "the aggregate increase in the taxes".

(3) By striking out "which would result if one-third of such increase" in paragraph (1) and inserting in lieu thereof "which would result if one-third of such increase in taxable income".

(4) By inserting after "the net increase in the taxes under this chapter" in paragraph (2) the following: "(or under the corresponding provisions of prior revenue laws)".

(5) By striking out "paragraph (2)" each place it appears in paragraph (3) (A) and inserting in lieu thereof "paragraph (1) or (2)".

26 USC 381.

(c) AMENDMENT OF SECTION 381 (c).—Section 381 (c) (relating to items of distributor or transferor corporation in certain corporate acquisitions) is amended by adding at the end thereof the following new paragraph:

"(21) PRE-1954 ADJUSTMENTS RESULTING FROM CHANGE IN METHOD OF ACCOUNTING.—The acquiring corporation shall take into account any net amount of any adjustment described in section 481 (b) (4) of the distributor or transferor corporation—

"(A) to the extent such net amount of such adjustment has not been taken into account by the distributor or transferor corporation, and

"(B) in the same manner and at the same time as such net amount would have been taken into account by the distributor or transferor corporation."

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply with respect to any change in a method of accounting where the year of the change (within the meaning of section 481 of the Internal Revenue Code of 1954) is a taxable year beginning after December 31, 1953, and ending after August 16, 1954.

26 USC 481.

(2) EXCEPTION FOR CERTAIN AGREEMENTS.—The amendments made by subsections (a), (b) (1), and (c) shall not apply if before the date of the enactment of this Act—

(A) the taxpayer applied for a change in the method of accounting in the manner provided by regulations prescribed by the Secretary of the Treasury or his delegate, and

(B) the taxpayer and the Secretary of the Treasury or his delegate agreed to the terms and conditions for making the change.

(e) ELECTION TO RETURN TO FORMER METHOD OF ACCOUNTING.—

(1) ELECTION.—Any taxpayer who for any taxable year beginning after December 31, 1953, and ending after August 16, 1954, and before the date of enactment of this Act, computed his taxable income under a method of accounting different from the method under which his taxable income for the preceding taxable year was computed, may elect to recompute his taxable income, beginning with the taxable year for which taxable income was computed under such different method of accounting, under the method of accounting under which taxable income was computed for such preceding taxable year. An election under this paragraph shall be made within 6 months after the date of the enactment of this Act, and shall be made in such manner as the Secretary of the Treasury or his delegate may provide. This paragraph shall not apply to any taxpayer—

(A) to whom subsection (d) (2) applies, or

(B) who was required, before the date of the enactment of this Act, by the Secretary of the Treasury or his delegate to change his method of accounting.

(2) STATUTE OF LIMITATIONS.—If assessment of any deficiency for any taxable year resulting from an election under paragraph (1) is prevented on the date on which such election is made, or at any time within one year after such date, by the operation of any law or rule of law, such assessment may, nevertheless, be made if made within one year after such date. An election by a taxpayer under paragraph (1) shall be considered as a consent to the assessment pursuant to this paragraph of any such deficiency. If refund or credit of any overpayment of income tax resulting from an election under paragraph (1) is prevented on the date on which such election is made, or at any time within one year after such date, by the operation of any law or rule of law, refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within one year after such date.

SEC. 30. DENIAL OF EXEMPTION TO ORGANIZATIONS ENGAGED IN PROHIBITED TRANSACTIONS.

(a) LENDING TO CERTAIN PERSONS.—Section 503 (relating to requirements for exemption in the case of exempt organizations) is amended by adding at the end thereof the following new subsection:

26 USC 503.

"(h) SPECIAL RULES RELATING TO LENDING BY SECTION 401 (a) TRUSTS TO CERTAIN PERSONS.—For purposes of subsection (c) (1), a bond, debenture, note, or certificate or other evidence of indebtedness (hereinafter in this subsection referred to as 'obligation') acquired

26 USC 401. by a trust described in section 401 (a) shall not be treated as a loan made without the receipt of adequate security if—

"(1) such obligation is acquired—

"(A) on the market, either (i) at the price of the obligation prevailing on a national securities exchange which is registered with the Securities and Exchange Commission, or (ii) if the obligation is not traded on such a national securities exchange, at a price not less favorable to the trust than the offering price for the obligation as established by current bid and asked prices quoted by persons independent of the issuer;

"(B) from an underwriter, at a price (i) not in excess of the public offering price for the obligation as set forth in a prospectus or offering circular filed with the Securities and Exchange Commission, and (ii) at which a substantial portion of the same issue is acquired by persons independent of the issuer; or

"(C) directly from the issuer, at a price not less favorable to the trust than the price paid currently for a substantial portion of the same issue by persons independent of the issuer;

"(2) immediately following acquisition of such obligation—

"(A) not more than 25 percent of the aggregate amount of obligations issued in such issue and outstanding at the time of acquisition is held by the trust, and

"(B) at least 50 percent of the aggregate amount referred to in subparagraph (A) is held by persons independent of the issuer; and

"(3) immediately following acquisition of the obligation, not more than 25 percent of the assets of the trust is invested in obligations of persons described in subsection (c)."

(b) LOANS TO EMPLOYERS WHO ARE PROHIBITED FROM PLEDGING ASSETS.—Section 503 is further amended by adding after subsection (h) (as added by subsection (a) of this section) the following new subsection: 26 USC 503.

"(i) LOANS WITH RESPECT TO WHICH EMPLOYERS ARE PROHIBITED FROM PLEDGING CERTAIN ASSETS.—Subsection (c) (1) shall not apply to a loan made by a trust described in section 401 (a) to the employer (or to a renewal of such a loan or, if the loan is repayable upon demand, to a continuation of such a loan) if the loan bears a reasonable rate of interest, and if (in the case of a making or renewal)— 26 USC 401.

"(1) the employer is prohibited (at the time of such making or renewal) by any law of the United States or regulation thereunder from directly or indirectly pledging, as security for such a loan, a particular class or classes of his assets the value of which (at such time) represents more than one-half of the value of all his assets;

"(2) the making or renewal, as the case may be, is approved in writing as an investment which is consistent with the exempt purposes of the trust by a trustee who is independent of the employer, and no other such trustee had previously refused to give such written approval; and

"(3) immediately following the making or renewal, as the case may be, the aggregate amount loaned by the trust to the employer, without the receipt of adequate security, does not exceed 25 percent of the value of all the assets of the trust.

For purposes of paragraph (2), the term 'trustee' means, with respect to any trust for which there is more than one trustee who is independent of the employer, a majority of such independent trustees.

For purposes of paragraph (3), the determination as to whether any amount loaned by the trust to the employer is loaned without the receipt of adequate security shall be made without regard to subsection (h)."

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendment made by subsection (a) shall apply with respect to taxable years ending after March 15, 1956. The amendment made by subsection (b) shall apply with respect to taxable years ending after the date of the enactment of this Act, but only with respect to periods after such date.

(2) EXCEPTIONS.—Nothing in subsection (a) shall be construed to make any transaction a prohibited transaction which, under announcements of the Internal Revenue Service made with respect to section 503 (c) (1) of the Internal Revenue Code of 1954 before the date of the enactment of this Act, would not constitute a prohibited transaction. In the case of any bond, debenture, note, or certificate or other evidence of indebtedness acquired before the date of the enactment of this Act by a trust described in section 401 (a) of such Code which is held on such date, paragraphs (2) and (3) of section 503 (h) of such Code shall be treated as satisfied if such requirements would have been satisfied if such obligation had been acquired on such date of enactment.

26 USC 503.

26 USC 401.

(d) CORRECTION OF CROSS REFERENCES.—Sections 2055 (e), 2106 (a) (2) (E), and 2522 (c) are each amended by striking out "sections 504" and inserting in lieu thereof "sections 503".

26 USC 2055, 2106, 2522.

SEC. 31. CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS.

(a) ADJUSTMENTS TO TAXABLE INCOME FOR CHARITABLE CONTRIBUTIONS.—Section 535 (b) (2) (relating to adjustments to taxable income to determine accumulated taxable income for purposes of the tax on corporations improperly accumulating surplus) is amended by striking out "the limitation in".

26 USC 535.

(b) ADJUSTMENTS TO TAXABLE INCOME FOR LONG-TERM CAPITAL GAINS.—Section 535 (b) (6) (B) (relating to determination of accumulated taxable income) is amended to read as follows:

"(B) such taxes computed for such year without including in taxable income the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year (determined with regard to the capital loss carryover provided in section 1212)."

SEC. 32. UNDISTRIBUTED PERSONAL HOLDING COMPANY INCOME.

(a) CHARITABLE CONTRIBUTIONS.—Section 545 (b) (2) (relating to adjustments to taxable income to determine undistributed personal holding company income) is amended to read as follows:

26 USC 545.

"(2) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions provided under section 170 shall be allowed, but in computing such deduction the limitations in section 170 (b) (1) (A) and (B) shall apply, and section 170 (b) (2) shall not apply. For purposes of this paragraph, the term 'adjusted gross income' when used in section 170 (b) (1) means the taxable income computed with the adjustments (other than the 5-percent limitation) provided in the first sentence of section 170 (b) (2) and without deduction of the amount disallowed under paragraph (8) of this subsection."

26 USC 170.

(b) NET OPERATING LOSS.—Section 545 (b) (4) (relating to adjustments to taxable income to determine undistributed personal holding company income) is amended by inserting before the period at the end thereof "computed without the deductions provided in part VIII (except section 248) of subchapter B".

(c) EFFECTIVE DATE FOR SUBSECTION (b).—The amendment made by subsection (b) of this section shall apply with respect to adjustments under section 545 (b) (4) of the Internal Revenue Code of 1954 for taxable years beginning after December 31, 1957.

26 USC 545.

SEC. 33. FOREIGN PERSONAL HOLDING COMPANIES.

(a) ADJUSTMENTS TO TAXABLE INCOME FOR CHARITABLE CONTRIBUTIONS.—

26 USC 556.

(1) The first sentence of section 556 (b) (2) relating to adjustments to taxable income to determine undistributed foreign personal holding company income) is amended to read as follows: "The deduction for charitable contributions provided under section 170 shall be allowed, but in computing such deduction the limitations in section 170 (b) (1) (A) and (B) shall apply, and section 170 (b) (2) shall not apply."

26 USC 170.

(2) The second sentence of section 556 (b) (2) is amended by striking out "the taxable income computed with the adjustments provided in section 170 (b) (2)" and inserting in lieu thereof "the taxable income computed with the adjustments (other than the 5-percent limitation) provided in the first sentence of section 170 (b) (2)".

(b) SPECIAL DEDUCTIONS DISALLOWED.—

(1) Section 556 (b) (3) (relating to adjustments to taxable income to determine undistributed foreign personal holding company income) is amended by striking out "sections 242 and 248" and inserting in lieu thereof "section 248".

(2) The amendment made by paragraph (1) shall apply only with respect to taxable years ending after December 31, 1957.

(c) NET OPERATING LOSS.—

(1) Section 556 (b) (4) (relating to adjustments to taxable income to determine undistributed foreign personal holding company income) is amended by inserting before the period at the end thereof "computed without the deductions provided in part VIII (except section 248) of subchapter B".

(2) The amendment made by paragraph (1) shall apply with respect to adjustments under section 556 (b) (4) of the Internal Revenue Code of 1954 for taxable years ending after December 31, 1957.

(d) CROSS REFERENCE.—

(1) Part III of subchapter G of chapter 1 (relating to foreign personal holding companies) is amended by adding at the end thereof the following new section:

"SEC. 558. RETURNS OF OFFICERS, DIRECTORS, AND SHAREHOLDERS OF FOREIGN PERSONAL HOLDING COMPANIES.

"For provisions relating to returns of officers, directors, and shareholders of foreign personal holding companies, see section 6035."

(2) The table of sections for such part III is amended by adding at the end thereof the following:

"Sec. 558. Returns of officers, directors, and shareholders of foreign personal holding companies."

SEC. 34. BOND, ETC., LOSSES OF BANKS.

26 USC 582.

Section 582 (c) (relating to losses of banks from sales or exchanges of evidences of indebtedness) is amended by striking out "with interest coupons or in registered form,".

SEC. 35. DEPLETION ALLOWANCE IN CASE OF ESTATES.

26 USC 611.

Section 611 (b) (4) (relating to allowance of deduction for depletion in the case of estates) is amended by striking out "devises" and inserting in lieu thereof "devisees".

SEC. 36. PERCENTAGE DEPLETION RATES FOR CERTAIN TAXABLE YEARS ENDING IN 1954.

(a) APPLICABLE RATES.—Section 613 (relating to percentage depletion) is amended by adding at the end thereof the following new subsection:

26 USC 613.

"(d) APPLICATION OF PERCENTAGE DEPLETION RATES TO CERTAIN TAXABLE YEARS ENDING IN 1954.—

"(1) GENERAL RULE.—At the election of the taxpayer in respect of any property (within the meaning of the Internal Revenue Code of 1939), the percentage specified in subsection (b) in the case of any mine, well, or other natural deposit listed in such subsection shall apply to a taxable year ending after December 31, 1953, to which the Internal Revenue Code of 1939 applies.

"(2) METHOD OF COMPUTATION.—The allowance for depletion, in respect of any property for which an election is made under paragraph (1) for any taxable year, shall be an amount equal to the sum of—

"(A) that portion of a tentative allowance, computed under the Internal Revenue Code of 1939 without regard to paragraph (1) of this subsection, which the number of days in such taxable year before January 1, 1954, bears to the total number of days in such taxable year; plus

"(B) that portion of a tentative allowance, computed under the Internal Revenue Code of 1939 (as modified solely by the application of paragraph (1) of this subsection), which the number of days in such taxable year after December 31, 1953, bears to the total number of days in such taxable year."

(b) STATUTE OF LIMITATIONS, ETC.; INTEREST.—If refund or credit of any overpayment resulting from the application of the amendment made by subsection (a) of this section is prevented on the date of the enactment of this Act, or within 6 months from such date, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code of 1939 or section 7121 of the Internal Revenue Code of 1954, relating to closing agreements, and other than section 3761 of the Internal Revenue Code of 1939 or section 7122 of the Internal Revenue Code of 1954, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within 6 months from such date. No interest shall be paid on any overpayment resulting from the application of the amendment made by subsection (a) of this section.

26 USC 7121.

26 USC 7122.

SEC. 37. DEFINITION OF PROPERTY FOR PURPOSES OF THE DEPLETION ALLOWANCE.

(a) 1954 RULE FOR AGGREGATION OF SEPARATE MINERAL INTERESTS.—Section 614 (b) (relating to special rule as to operating mineral interests) is amended by adding at the end thereof the following new paragraph:

26 USC 614.

"(4) TERMINATION WITH RESPECT TO MINES.—Except in the case of oil and gas wells—

"(A) an election made under the provisions of this subsection shall not apply with respect to any taxable year beginning after December 31, 1957, and

"(B) if a taxpayer makes an election under the provisions of subsection (c) (3) (B) for any operating mineral interest which constitutes part or all of an operating unit, an election made under the provisions of this subsection shall not apply with respect to any operating mineral interest which constitutes part or all of such operating unit for any taxable year for which the election under subsection (c) (3) (B) is effective."

26 USC 614.

(b) 1958 RULES FOR MINERAL INTERESTS IN MINES.—Section 614 (relating to definition of property for purposes of computing depletion allowance) is amended by redesignating subsection (c) as (e), and by inserting after subsection (b) the following new subsection:

"(c) 1958 SPECIAL RULES AS TO OPERATING MINERAL INTERESTS IN MINES.—

"(1) ELECTION TO AGGREGATE SEPARATE INTERESTS.—Except in the case of oil and gas wells, if a taxpayer owns two or more separate operating mineral interests which constitute part or all of an operating unit, he may elect (for all purposes of this subtitle)—

"(A) to form an aggregation of, and to treat as one property, all such interests owned by him which comprise any one mine or any two or more mines; and

"(B) to treat as a separate property each such interest which is not included within an aggregation referred to in subparagraph (A).

For purposes of this paragraph, separate operating mineral interests which constitute part or all of an operating unit may be aggregated whether or not they are included in a single tract or parcel of land and whether or not they are included in contiguous tracts or parcels. For purposes of this paragraph, a taxpayer may elect to form more than one aggregation of operating mineral interests within any one operating unit; but no aggregation may include any operating mineral interest which is a part of a mine without including all of the operating mineral interests which are a part of such mine in the first taxable year for which the election to aggregate is effective, and any operating mineral interest which thereafter becomes a part of such mine shall be included in such aggregation.

"(2) ELECTION TO TREAT A SINGLE INTEREST AS MORE THAN ONE PROPERTY.—Except in the case of oil and gas wells, if a single tract or parcel of land contains a mineral deposit which is being extracted, or will be extracted, by means of two or more mines for which expenditures for development or operation have been made by the taxpayer, then the taxpayer may elect to allocate to such mines, under regulations prescribed by the Secretary or his delegate, all of the tract or parcel of land and of the mineral deposit contained therein, and to treat as a separate property that portion of the tract or parcel of land and of the mineral deposit so allocated to each mine. A separate property formed pursuant to an election under this paragraph shall be treated as a separate property for all purposes of this subtitle (including this paragraph). A separate property so formed may, under regulations prescribed by the Secretary or his delegate, be included as a part of an aggregation in accordance with paragraphs (1) and (3), but the provisions of paragraph (4) shall not apply with respect to such separate property. The election provided by this paragraph may not be made with respect to any property which is a part of an aggregation formed by the taxpayer under paragraph (1) except with the consent of the Secretary or his delegate.

"(3) MANNER AND SCOPE OF ELECTION.—

"(A) IN GENERAL.—Except as provided in subparagraph (D), the election provided by paragraph (1) shall be made for each operating mineral interest, in accordance with regulations prescribed by the Secretary or his delegate, not later than the time prescribed by law for filing the return (including extensions thereof) for whichever of the following tax-

able years is the later: The first taxable year beginning after December 31, 1957, or the first taxable year in which any expenditure for development or operation in respect of the separate operating mineral interest is made by the taxpayer after the acquisition of such interest. Except as provided in subparagraph (D), the election provided by paragraph (2) shall be made for any property, in accordance with regulations prescribed by the Secretary or his delegate, not later than the time prescribed by law for filing the return (including extensions thereof) for whichever of the following taxable years is the later: The first taxable year beginning after December 31, 1957, or the first taxable year in which expenditures for development or operation of more than one mine in respect of the property are made by the taxpayer after the acquisition of the property. No election may be made pursuant to this subparagraph for any operating mineral interest which constitutes part or all of an operating unit if the taxpayer makes an election pursuant to subparagraph (B) with respect to any operating mineral interest which constitutes part or all of such operating unit.

"(B) TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1958.—The election provided by paragraph (1) may, at the election of the taxpayer, be made for each operating mineral interest, in accordance with regulations prescribed by the Secretary or his delegate, within the time provided in subparagraph (D), for whichever of the following taxable years is the later (not including any taxable year in respect of which an assessment of deficiency is prevented on the date of the enactment of the Technical Amendments Act of 1958 by the operation of any law or rule of law): The first taxable year of the taxpayer which begins after December 31, 1953, and ends after August 16, 1954, or the first taxable year in which any expenditure for development or operation in respect of the separate operating mineral interest is made by the taxpayer after the acquisition of such interest. The election provided by paragraph (2) may, at the election of the taxpayer, be made for any property, in accordance with regulations prescribed by the Secretary or his delegate, within the time prescribed in subparagraph (D), for whichever of the following taxable years is the later (not including any taxable year in respect of which an assessment of deficiency is prevented on the date of the enactment of the Technical Amendments Act of 1958 by the operation of any law or rule of law): The first taxable year beginning after December 31, 1953, and ending after August 16, 1954, or the first taxable year in which expenditures for development or operation of more than one mine in respect of the property are made by the taxpayer after the acquisition of the property.

"(C) EFFECT.—An election made under paragraph (1) or (2) shall be binding upon the taxpayer for all subsequent taxable years, except that the Secretary or his delegate may consent to a different treatment of any interest with respect to which an election has been made.

"(D) ELECTION AFTER FINAL REGULATIONS.—Notwithstanding any other provision of this paragraph the time for making an election under paragraph (1) or (2) shall not expire prior to the first day of the first month which begins more than 90 days after the date of publication in the Federal Register of final regulations issued under the authority of this subsection.

"(E) STATUTE OF LIMITATIONS.—If the taxpayer makes an election pursuant to subparagraph (B) and if assessment of any deficiency for any taxable year resulting from such election is prevented on the first day of the first month which begins more than 90 days after the date of publication in the Federal Register of final regulations issued under authority of this subsection, or at any time within one year after such day, by the operation of any law or rule of law, such assessment may, nevertheless, be made if made within one year after such day. An election by a taxpayer pursuant to subparagraph (B) shall be considered as a consent to the assessment pursuant to this subparagraph of any such deficiency. If refund or credit of any overpayment of income tax resulting from an election made pursuant to subparagraph (B) is prevented on such day, or at any time within one year after such day, by the operation of any law or rule of law, refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within one year after such day. This subparagraph shall not apply to any taxable year in respect of which an assessment of a deficiency, or a refund or credit of an overpayment, as the case may be, is prevented by the operation of any law or rule of law on the date of the enactment of the Technical Amendments Act of 1958.

"(4) SPECIAL RULE AS TO DEDUCTIONS UNDER SECTION 615 (a) PRIOR TO AGGREGATION.—

"(A) IN GENERAL.—If an aggregation of operating mineral interests formed under paragraph (1) includes any interest or interests in respect of which exploration expenditures, paid or incurred after the acquisition of such interest or interests, were deducted by the taxpayer under section 615 (a) for any taxable year all or any portion of which precedes the date on which such aggregation becomes effective, or the date on which such interest or interests become a part of such aggregation (as the case may be), then the tax imposed by this chapter for such taxable year shall be recomputed as provided in subparagraph (B). In the case of any taxable year beginning before January 1, 1958, this subparagraph shall apply to exploration expenditures deducted in respect of any interest or interests for such taxable year, only if such interest or interests constitute part or all of any operating unit with respect to which the taxpayer makes an election pursuant to paragraph (3) (B) which is applicable with respect to such taxable year.

"(B) RECOMPUTATION OF TAX.—A recomputation of the tax imposed by this chapter shall be made for each taxable year described in subparagraph (A) for which exploration expenditures were deducted as though, for each such year, an election had been made to aggregate the separate operating mineral interest or interests with respect to which such exploration expenditures were deducted with those operating mineral interests included in the aggregation formed under paragraph (1) in respect of which any expenditure for exploration, development, or operation had been made by the taxpayer before or during the taxable year to which such election would apply. A recomputation of the tax imposed by this chapter (or by the corresponding provisions of the Internal Revenue Code of 1939) shall also be made for taxable years affected by the recomputation described in the preceding

sentence. If the tax so recomputed for any taxable year or years, by reason of the application of this paragraph, exceeds the tax liability previously determined for such year or years, such excess shall be taken into account in the first taxable year to which the election to aggregate under paragraph (1) applies and succeeding taxable years as provided in subparagraph (C).

"(C) INCREASE IN TAX.—The tax imposed by this chapter for the first taxable year to which the election to aggregate under paragraph (1) applies, and for each succeeding taxable year until the full amount of the excess described in subparagraph (B) has been taken into account, shall be increased by an amount equal to the quotient obtained by dividing such excess by the total number of taxable years described in subparagraph (A) in respect of which—

"(i) exploration expenditures were deducted by the taxpayer under section 615 (a), and

26 USC 615.

"(ii) the recomputation of tax described in the first sentence of subparagraph (B) results in an increase in tax or a reduction of a net operating loss.

If the taxpayer dies or ceases to exist, then so much of the excess described in subparagraph (B) as was not taken into account under the preceding sentence for taxable years preceding such death, or such cessation of existence, shall be taken into account for the taxable year in which such death, or such cessation of existence, occurs.

"(D) BASIS ADJUSTMENT.—If the tax liability of a taxpayer is increased by reason of the application of this paragraph, proper adjustments shall be made with respect to the basis of the aggregated property owned by such taxpayer, in accordance with regulations prescribed by the Secretary or his delegate, as though the tax liability of the taxpayer for the prior taxable year or years had been determined in accordance with the recomputation of tax described in subparagraph (B).

"(5) OPERATING MINERAL INTERESTS DEFINED.—For purposes of this subsection, the term 'operating mineral interest' has the meaning as assigned to it by subsection (b) (3)".

(c) RETENTION OF 1939 CODE RIGHTS WITH RESPECT TO TREATMENT OF MINERAL INTERESTS IN WELLS.—Section 614 is further amended by adding after subsection (c) (as added by subsection (b) of this section) the following new subsection:

26 USC 614.

"(d) 1939 CODE TREATMENT WITH RESPECT TO OPERATING MINERAL INTERESTS IN CASE OF OIL AND GAS WELLS.—In the case of oil and gas wells, any taxpayer may treat any property (determined as if the Internal Revenue Code of 1939 continued to apply) as if subsections (a) and (b) had not been enacted. If any such treatment would constitute an aggregation under subsection (b), such treatment shall be taken into account in applying subsection (b) to other property of the taxpayer."

(d) NONOPERATING MINERAL INTERESTS.—The first sentence of section 614 (e) (1) (as redesignated by subsection (b) of this section) is amended to read as follows: "If a taxpayer owns two or more separate nonoperating mineral interests in a single tract or parcel of land or in two or more adjacent tracts or parcels of land, the Secretary or his delegate shall, on showing by the taxpayer that a principal purpose is not the avoidance of tax, permit the taxpayer to treat (for all purposes of this subtitle) all such mineral interests in each separate kind of mineral deposit as one property."

(e) EFFECTIVE DATES.—The amendments made by subsections (a) and (c) shall apply with respect to taxable years beginning after December 31, 1953, and ending after August 16, 1954. The amendments made by subsection (b) shall apply with respect to taxable years beginning after December 31, 1957, except that such amendments shall, at the election of the taxpayer made in conformity with such amendments, apply with respect to taxable years beginning after December 31, 1953, and ending after August 16, 1954. The amendment made by subsection (d) shall apply with respect to taxable years beginning after December 31, 1957, except that with respect to any taxpayer such amendment shall, at the election of the taxpayer, apply with respect to taxable years beginning after December 31, 1953, and ending after August 16, 1954.

SEC. 38. INVESTMENT COMPANIES FURNISHING CAPITAL TO DEVELOPMENT CORPORATIONS.

26 USC 851.

(a) TIME FOR CERTIFICATION.—The first sentence of section 851 (e) (1) (relating to regulated investment companies furnishing capital to development corporations) is amended by striking out "not less than 60 days" and inserting in lieu thereof "not earlier than 60 days".

(b) CLERICAL AMENDMENT.—Section 851 (e) (2) (relating to limitation with respect to regulated investment companies furnishing capital to development corporations) is amended by striking out "issues" and inserting in lieu thereof "issuer".

SEC. 39. TRANSACTIONS IN REGULATED INVESTMENT COMPANY SHARES AROUND TIME OF DISTRIBUTING CAPITAL GAIN DIVIDENDS.

26 USC 852.

(a) LOSS ON STOCK HELD LESS THAN 31 DAYS.—Section 852 (b) (relating to taxation of regulated investment companies and their shareholders) is amended by adding at the end thereof the following new paragraph:

"(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD LESS THAN 31 DAYS.—If—

"(A) under subparagraph (B) or (D) of paragraph (3) a shareholder of a regulated investment company is required, with respect to any share, to treat any amount as a long-term capital gain, and

"(B) such share is held by the taxpayer for less than 31 days,

then any loss on the sale or exchange of such share shall, to the extent of the amount described in subparagraph (A) of this paragraph, be treated as loss from the sale or exchange of a capital asset held for more than 6 months. For purposes of this paragraph, the rules of section 246 (c) (3) shall apply in determining whether any share of stock has been held for less than 31 days; except that '30 days' shall be substituted for the number of days specified in subparagraph (B) of section 246 (c) (3)."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to taxable years ending after December 31, 1957, but only with respect to shares of stock acquired after December 31, 1957.

SEC. 40. TAX ON NONRESIDENT ALIENS.

26 USC 871.

(a) EMPLOYEE ANNUITIES.—Section 871 (a) (1) (relating to 30 percent tax in case of nonresident aliens) is amended by inserting "section 403 (a) (2)," after "section 402 (a) (2),".

26 USC 1441.

(b) CONFORMING AMENDMENT.—Subsections (b) and (c) (5) of section 1441 (relating to withholding of tax on nonresident aliens) are each amended by inserting "section 403 (a) (2)," after "section 402 (a) (2),".

(c) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only with respect to taxable years ending after the date of the enactment of this Act. The amendments made by subsection (b) shall take effect on the day following the date of the enactment of this Act.

SEC. 41. CREDITS FOR DIVIDENDS RECEIVED AND FOR PARTIALLY TAX-EXEMPT INTEREST IN CASE OF NONRESIDENT ALIENS.

(a) MINIMUM TAX.—Section 871 (b) (relating to tax on certain nonresident alien individuals) is amended—

26 USC 871.

(1) by striking out the semicolon at the end of paragraph (2) and inserting in lieu thereof a period;

(2) by striking out paragraph (3); and

(3) by adding at the end thereof the following new sentences: "If (without regard to this sentence) the amount of the taxes imposed in the case of such an individual under section 1 or under section 1201 (b), minus the sum of the credits under sections 34 and 35, is an amount which is less than 30 percent of the sum of—

26 USC 1201, 34,35.

"(A) the aggregate amount received from the sources specified in subsection (a) (1), plus

"(B) the amount, determined under subsection (a) (2), by which gains from sales or exchanges of capital assets exceed losses from such sales or exchanges,

then this subsection shall not apply and subsection (a) shall apply. For purposes of this subsection, the term 'aggregate amount received from the sources specified in subsection (a) (1)' shall be applied without any exclusion under section 116."

(b) CREDIT FOR PARTIALLY TAX-EXEMPT INTEREST.—Section 35 (relating to credit for partially tax-exempt interest received by individuals) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) CERTAIN NONRESIDENT ALIENS INELIGIBLE FOR CREDIT.—No credit shall be allowed under subsection (a) to a nonresident alien individual with respect to whom a tax is imposed for the taxable year under section 871 (a)."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply only with respect to taxable years beginning after December 31, 1957.

SEC. 42. CARRYBACK AND CARRYOVER OF FOREIGN TAX CREDIT.

(a) ALLOWANCE.—Section 904 (relating to limitation on foreign tax credit) is amended by adding at the end thereof the following new subsection:

26 USC 904.

"(c) CARRYBACK AND CARRYOVER OF EXCESS TAX PAID.—Any amount by which any such tax paid or accrued to any foreign country or possession of the United States for any taxable year beginning after December 31, 1957, for which the taxpayer chooses to have the benefits of this subpart exceeds the limitation under subsection (a) shall be deemed tax paid or accrued to such foreign country or possession of the United States in the second preceding taxable year, in the first preceding taxable year, and in the first, second, third, fourth, or fifth succeeding taxable years, in that order and to the extent not deemed tax paid or accrued in a prior taxable year, in the amount by which the limitation under subsection (a) for such preceding or succeeding taxable year exceeds the sum of the tax paid or accrued to such foreign country or possession for such preceding or succeeding taxable year and the amount of the tax for any taxable year earlier than the current taxable year which shall be deemed to have been paid or accrued in such preceding or subsequent taxable year (whether or not the taxpayer chooses to have the benefits of this subpart with respect to such

earlier taxable year). Such amount deemed paid or accrued in any year may be availed of only as a tax credit and not as a deduction and only if taxpayer for such year chooses to have the benefits of this subpart as to taxes paid or accrued for that year to foreign countries or possessions. For purposes of this subsection, the terms 'second preceding taxable year' and 'first preceding taxable year' do not include any taxable year beginning before January 1, 1958.".

26 USC 6611.

(b) INTEREST ON OVERPAYMENTS.—Section 6611 (relating to interest on overpayments) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

"(g) REFUND OF INCOME TAX CAUSED BY CARRYBACK OF FOREIGN TAXES.—For purposes of subsection (a), if any overpayment of tax results from a carryback of tax paid or accrued to foreign countries or possessions of the United States, such overpayment shall be deemed not to have been paid or accrued prior to the close of the taxable year under this subtitle in which such taxes were in fact paid or accrued.".

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply only with respect to taxable years beginning after December 31, 1957.

SEC. 43. BASIS OF PROPERTY ACQUIRED BY GIFT.

26 USC 1015.

(a) INCREASE FOR GIFT TAX PAID.—Section 1015 (relating to basis of property acquired by gifts and transfers in trust) is amended by adding at the end thereof the following new subsection:

"(d) INCREASED BASIS FOR GIFT TAX PAID.—

"(1) IN GENERAL.—If—

"(A) the property is acquired by gift on or after the date of the enactment of the Technical Amendments Act of 1958, the basis shall be the basis determined under subsection (a), increased (but not above the fair market value of the property at the time of the gift) by the amount of gift tax paid with respect to such gift, or

"(B) the property was acquired by gift before the date of the enactment of the Technical Amendments Act of 1958 and has not been sold, exchanged, or otherwise disposed of before such date, the basis of the property shall be increased on such date by the amount of gift tax paid with respect to such gift, but such increase shall not exceed an amount equal to the amount by which the fair market value of the property at the time of the gift exceeded the basis of the property in the hands of the donor at the time of the gift.

"(2) AMOUNT OF TAX PAID WITH RESPECT TO GIFT.—For purposes of paragraph (1), the amount of gift tax paid with respect to any gift is an amount which bears the same ratio to the amount of gift tax paid under chapter 12 with respect to all gifts made by the donor for the calendar year in which such gift is made as the amount of such gift bears to the taxable gifts (as defined in section 2503 (a) but computed without the deduction allowed by section 2521) made by the donor during such calendar year. For purposes of the preceding sentence, the amount of any gift shall be the amount included with respect to such gift in determining (for the purposes of section 2503 (a)) the total amount of gifts made during the calendar year, reduced by the amount of any deduction allowed with respect to such gift under section 2522 (relating to charitable deduction) or under section 2523 (relating to marital deduction).

26 USC 2503, 2521.

26 USC 2522, 2523.

"(3) GIFTS TREATED AS MADE ONE-HALF BY EACH SPOUSE.—For purposes of paragraph (1), where the donor and his spouse elected, under section 2513 to have the gift considered as made one-half by

26 USC 2513.

each, the amount of gift tax paid with respect to such gift under chapter 12 shall be the sum of the amounts of tax paid with respect to each half of such gift (computed in the manner provided in paragraph (2)).

"(4) TREATMENT AS ADJUSTMENT TO BASIS.—For purposes of section 1016 (b), an increase in basis under paragraph (1) shall be treated as an adjustment under section 1016 (a).

26 USC 1016.

"(5) APPLICATION TO GIFTS BEFORE 1955.—With respect to any property acquired by gift before 1955, references in this subsection to any provision of this title shall be deemed to refer to the corresponding provision of the Internal Revenue Code of 1939 or prior revenue laws which was effective for the year in which such gift was made."

(b) CROSS REFERENCE.—Section 2501 (b) is amended to read as follows:

26 USC 2501.

"(b) CROSS REFERENCES.—

"(1) For increase in basis of property acquired by gift for gift tax paid, see section 1015 (d).

"(2) For exclusion of transfers of property outside the United States by a nonresident who is not a citizen of the United States, see section 2511 (a)."

SEC. 44. PROPERTY ACQUIRED IN TAX-FREE EXCHANGE.

(a) BASIS.—The first sentence of section 1031 (d) (relating to basis of property acquired in certain tax-free exchanges) is amended to read as follows: "If property was acquired on an exchange described in this section, section 1035 (a), or section 1036 (a), then the basis shall be the same as that of the property exchanged, decreased in the amount of any money received by the taxpayer and increased in the amount of gain or decreased in the amount of loss to the taxpayer that was recognized on such exchange."

26 USC 1031.

26 USC 1035, 1036.

(b) CLERICAL AMENDMENT.—The second sentence of section 1031 (d) is amended by striking out "paragraph" and inserting in lieu thereof "subsection".

SEC. 45. INVOLUNTARY CONVERSIONS.

Section 1033 (a) (2) (relating to involuntary conversions) is amended by adding at the end thereof the following new sentence: "For purposes of this paragraph and paragraph (3), the term 'control' means the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote and at least 80 percent of the total number of shares of all other classes of stock of the corporation."

26 USC 1033.

SEC. 46. CONDEMNATION OF REAL PROPERTY HELD FOR PRODUCTIVE USE IN TRADE OR BUSINESS OR FOR INVESTMENT.

(a) CONVERSION INTO OR PURCHASE OF LIKE PROPERTY.—Section 1033 (relating to involuntary conversions) is amended by redesignating subsection (g) as (h), and by inserting after subsection (f) the following new subsection:

26 USC 1033.

"(g) CONDEMNATION OF REAL PROPERTY HELD FOR PRODUCTIVE USE IN TRADE OR BUSINESS OR FOR INVESTMENT.—

"(1) SPECIAL RULE.—For purposes of subsection (a), if real property (not including stock in trade or other property held primarily for sale) held for productive use in trade or business or for investment is (as the result of its seizure, requisition, or condemnation, or threat or imminence thereof) compulsorily or involuntarily converted, property of a like kind to be held either for productive use in trade or business or for investment shall be treated as property similar or related in service or use to the property so converted.

"(2) LIMITATIONS.—

"(A) PURCHASE OF STOCK.—Paragraph (1) shall not apply to the purchase of stock in the acquisition of control of a corporation described in subsection (a) (3) (A).

"(B) CONVERSIONS BEFORE JANUARY 1, 1958.—Paragraph (1) shall apply with respect to the compulsory or involuntary conversion of any real property only if the disposition of the converted property (within the meaning of subsection (a) (2)) occurs after December 31, 1957."

26 USC 1034.

(b) PERSONAL RESIDENCES.—Section 1034 (i) (relating to special rule for involuntary conversions of residences) is amended by renumbering paragraph (2) as (3), and by inserting after paragraph (1) the following new paragraph:

"(2) CONDEMNATIONS AFTER DECEMBER 31, 1957.—For purposes of this section, the seizure, requisition, or condemnation of property, or the sale or exchange of property under threat or imminence thereof, if occurring after December 31, 1957, shall, at the election of the taxpayer, be treated as the sale of such property. Such election shall be made at such time and in such manner as the Secretary or his delegate shall prescribe by regulations."

SEC. 47. PROPERTY ACQUIRED BEFORE MARCH 1, 1913.

26 USC 1053.

The first sentence of section 1053 (relating to basis for determining gain in the case of property acquired before March 1, 1913) is amended by striking out "under this part" and inserting in lieu thereof "under this subtitle".

SEC. 48. POSTPONEMENT OF GAIN FROM SALE OR EXCHANGE TO EFFECTUATE FEDERAL COMMUNICATIONS COMMISSION POLICIES.

26 USC 1071.

(a) REQUIREMENT OF CHANGE IN POLICY.—Section 1071 (a) (relating to gain from sale or exchange to effectuate policies of Federal Communications Commission) is amended by striking out "necessary or appropriate to effectuate the policies of the Commission" and inserting in lieu thereof "necessary or appropriate to effectuate a change in a policy of, or the adoption of a new policy by, the Commission".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to any sale or exchange after December 31, 1957.

SEC. 49. CASUALTY LOSSES SUSTAINED UPON CERTAIN UNINSURED PROPERTY.

26 USC 1231.

(a) TREATMENT AS ORDINARY LOSS.—Section 1231 (a) (relating to property used in the trade or business and involuntary conversions) is amended by adding at the end thereof the following new sentence: "In the case of any property used in the trade or business and of any capital asset held for more than 6 months and held for the production of income, this subsection shall not apply to any loss, in respect of which the taxpayer is not compensated for by insurance in any amount, arising from fire, storm, shipwreck, or other casualty, or from theft."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1957.

SEC. 50. BONDS ISSUED AT DISCOUNT.

26 USC 1232.

(a) TREATMENT OF GAIN.—The first sentence of section 1232 (a) (2) (A) (relating to treatment of gain on sale or exchange of certain bonds and other evidences of indebtedness) is amended by striking out "which does not exceed an amount which bears the same ratio to the original issue discount (as defined in subsection (b)) as the number of complete months that the bond or other evidences of indebtedness was held by the taxpayer bears to the number of complete months

from the date of original issue to the date of maturity," and inserting in lieu thereof "which does not exceed—

"(i) an amount equal to the original issue discount (as defined in subsection (b)), or

"(ii) if at the time of original issue there was no intention to call the bond or other evidence of indebtedness before maturity, an amount which bears the same ratio to the original issue discount (as defined in subsection (b)) as the number of complete months that the bond or other evidence of indebtedness was held by the taxpayer bears to the number of complete months from the date of original issue to the date of maturity,".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years ending after December 31, 1957, but only with respect to dispositions after such date.

SEC. 51. BONDS WITH COUPONS DETACHED.

Section 1232 (c) (relating to bonds with excess number of coupons detached) is amended to read as follows:

26 USC 1232.

"(c) BOND WITH UNMATURED COUPONS DETACHED.—If a bond or other evidence of indebtedness issued at any time with interest coupons—

"(1) is purchased after August 16, 1954, and before January 1, 1958, and the purchaser does not receive all the coupons which first become payable more than 12 months after the date of the purchase, or

"(2) is purchased after December 31, 1957, and the purchaser does not receive all the coupons which first become payable after the date of the purchase,

then the gain on the sale or other disposition of such evidence of indebtedness by such purchaser (or by a person whose basis is determined by reference to the basis in the hands of such purchaser) shall be considered as gain from the sale or exchange of property which is not a capital asset to the extent that the fair market value (determined as of the time of the purchase) of the evidence of indebtedness with coupons attached exceeds the purchase price. If this subsection and subsection (a) (2) (A) apply with respect to gain realized on the sale or exchange of any evidence of indebtedness, then subsection (a) (2) (A) shall apply with respect to that part of the gain to which this subsection does not apply."

SEC. 52. SHORT SALES.

(a) SHORT SALES MADE BY DEALERS IN SECURITIES.—Section 1233 (relating to gains and losses in case of short sales) is amended by adding at the end of subsection (e) thereof the following new paragraph:

26 USC 1233.

"(4) (A) In the case of a taxpayer who is a dealer in securities (within the meaning of section 1236)—

26 USC 1236.

"(i) if, on the date of a short sale of stock, substantially identical property which is a capital asset in the hands of the taxpayer has been held for not more than 6 months, and

"(ii) if such short sale is closed more than 20 days after the date on which it was made,

subsection (b) (2) shall apply in respect of the holding period of such substantially identical property.

"(B) For purposes of subparagraph (A)—

"(i) the last sentence of subsection (b) applies; and

"(ii) the term 'stock' means any share or certificate of stock in a corporation, any bond or other evidence of indebtedness which is convertible into any such share or certificate,

or any evidence of an interest in, or right to subscribe to or purchase, any of the foregoing."

26 USC 1233.

(b) HEDGING TRANSACTIONS.—Section 1233 (a) (relating to gains and losses from short sales) is amended by striking out ", other than a hedging transaction in commodity futures,". Section 1233 is amended by adding after subsection (f) the following new subsection:

"(g) HEDGING TRANSACTIONS.—This section shall not apply in the case of a hedging transaction in commodity futures."

(c) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to short sales made after December 31, 1957.

SEC. 53. OPTIONS TO BUY OR SELL.

26 USC 1234.

Section 1234 (relating to options to buy or sell) is amended to read as follows:

"SEC. 1234. OPTIONS TO BUY OR SELL.

"(a) TREATMENT OF GAIN OR LOSS.—Gain or loss attributable to the sale or exchange of, or loss attributable to failure to exercise, a privilege or option to buy or sell property shall be considered gain or loss from the sale or exchange of property which has the same character as the property to which the option or privilege relates has in the hands of the taxpayer (or would have in the hands of the taxpayer if acquired by him).

"(b) SPECIAL RULE FOR LOSS ATTRIBUTABLE TO FAILURE TO EXERCISE OPTION.—For purposes of subsection (a), if loss is attributable to failure to exercise a privilege or option, the privilege or option shall be deemed to have been sold or exchanged on the day it expired.

"(c) NON-APPLICATION OF SECTION.—This section shall not apply to—

"(1) a privilege or option which constitutes property described in paragraph (1) of section 1221;

26 USC 1221.

"(2) in the case of gain attributable to the sale or exchange of a privilege or option, any income derived in connection with such privilege or option which, without regard to this section, is treated as other than gain from the sale or exchange of a capital asset;

"(3) a loss attributable to failure to exercise an option described in section 1233 (c); or

26 USC 1233.

"(4) gain attributable to the sale or exchange of a privilege or option acquired by the taxpayer before March 1, 1954, if in the hands of the taxpayer such privilege or option is a capital asset."

SEC. 54. SALE OR EXCHANGE OF PATENTS.

26 USC 1235.

(a) APPLICATION IN CASE OF RELATED PERSONS.—Section 1235 (d) (relating to sale or exchange of patents between related persons) is amended to read as follows:

"(d) RELATED PERSONS.—Subsection (a) shall not apply to any transfer, directly or indirectly, between persons specified within any one of the paragraphs of section 267 (b); except that, in applying section 267 (b) and (c) for purposes of this section—

26 USC 267.

"(1) the phrase '25 percent or more' shall be substituted for the phrase 'more than 50 percent' each place it appears in section 267 (b), and

"(2) paragraph (4) of section 267 (c) shall be treated as providing that the family of an individual shall include only his spouse, ancestors, and lineal descendants."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to taxable years ending after the date of the enactment of this Act, but only with respect to transfers after such date.

SEC. 55. REAL PROPERTY SUBDIVIDED FOR SALE.

Section 1237 (a) (1) (relating to real property subdivided for sale) is amended by striking out "or, in the same taxable year" and inserting in lieu thereof "and, in the same taxable year".

26 USC 1237.

SEC. 56. GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES, ETC.

Section 1239 (relating to gain from sale of certain property between spouses or between an individual and a controlled corporation) is amended by adding at the end thereof the following new subsection:

26 USC 1239.

"(c) SECTION NOT APPLICABLE WITH RESPECT TO SALES OR EXCHANGES MADE ON OR BEFORE MAY 3, 1951.—This section shall apply only in the case of a sale or exchange made after May 3, 1951."

SEC. 57. SMALL BUSINESS INVESTMENT COMPANIES.

(a) LOSSES ON SMALL BUSINESS INVESTMENT COMPANY STOCK AND LOSSES OF SMALL BUSINESS INVESTMENT COMPANIES.—Part IV of subchapter P of chapter 1 (relating to special rules for determining capital gains and losses) is amended by adding at the end thereof the following new sections:

"SEC. 1242. LOSSES ON SMALL BUSINESS INVESTMENT COMPANY STOCK.

"If—

"(1) a loss is on stock in a small business investment company operating under the Small Business Investment Act of 1958, and

"(2) such loss would (but for this section) be a loss from the sale or exchange of a capital asset,

then such loss shall be treated as a loss from the sale or exchange of property which is not a capital asset. For purposes of section 172 (relating to the net operating loss deduction) any amount of loss treated by reason of this section as a loss from the sale or exchange of property which is not a capital asset shall be treated as attributable to a trade or business of the taxpayer.

26 USC 172.

"SEC. 1243. LOSS OF SMALL BUSINESS INVESTMENT COMPANY.

"In the case of a small business investment company operating under the Small Business Investment Act of 1958, if—

Ante, p. 689.

"(1) a loss is on convertible debentures (including stock received pursuant to the conversion privilege) acquired pursuant to section 304 of the Small Business Investment Act of 1958, and

"(2) such loss would (but for this section) be a loss from the sale or exchange of a capital asset,

then such loss shall be treated as a loss from the sale or exchange of property which is not a capital asset."

(b) DIVIDENDS RECEIVED BY SMALL BUSINESS INVESTMENT COMPANIES.—Section 243 (relating to dividends received by corporations) is amended—

26 USC 243.

(1) by striking out in subsection (a) "In the case of a corporation" and inserting in lieu thereof "In the case of a corporation (other than a small business investment company operating under the Small Business Investment Act of 1958)";

(2) by redesignating subsection (b) as (c), and by inserting after subsection (a) the following new subsection:

"(b) SMALL BUSINESS INVESTMENT COMPANIES.—In the case of a small business investment company operating under the Small Business Investment Act of 1958, there shall be allowed as a deduction an amount equal to 100 percent of the amount received as dividends (other than dividends described in paragraph (1) of section 244, relating to dividends on preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter."; and

26 USC 244.

(3) by striking out in subsection (c) (as redesignated by paragraph (2)) "subsection (a)" and inserting in lieu thereof "subsections (a) and (b)".

(c) TECHNICAL AMENDMENTS.—

26 USC 165.

(1) Section 165 (h) (relating to deduction for losses) is amended by adding at the end thereof the following new paragraphs:

"(3) For special rule for losses on stock in a small business investment company, see section 1242.

"(4) For special rule for losses of a small business investment company, see section 1243."

26 USC 246.

(2) Section 246 (b) (1) (relating to limitation on aggregate amount of deductions for dividends received by corporations) is amended by striking out "243" each place it appears therein and inserting in lieu thereof "243 (a)".

(3) The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end thereof

"Sec. 1242. Losses on small business investment company stock.
"Sec. 1243. Loss of small business investment company."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after the date of the enactment of this Act.

SEC. 58. AMOUNTS RECEIVED AS DAMAGES FOR INJURIES UNDER THE ANTITRUST LAWS.

(a) LIMITATION ON TAX.—Part I of subchapter Q of chapter 1 (relating to income attributable to several taxable years) is amended by renumbering section 1306 as 1307, and by inserting after section 1305 the following new section:

"SEC. 1306. DAMAGES FOR INJURIES UNDER THE ANTITRUST LAWS.

"If an amount representing damages is received or accrued during a taxable year as a result of an award in, or settlement of, a civil action brought under section 4 of the Act entitled 'An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes', approved October 15, 1914 (commonly known as the Clayton Act), for injuries sustained by the taxpayer in his business or property by reason of anything forbidden in the antitrust laws, then the tax attributable to the inclusion of such amount in gross income for the taxable year shall not be greater than the aggregate of the increases in taxes which would have resulted if such amount had been included in gross income in equal installments for each month during the period in which such injuries were sustained by the taxpayer."

38 Stat. 730.
15 USC 12-27, 44.

(b) TABLE OF CONTENTS.—The table of sections for part I of subchapter Q of chapter 1 is amended by striking out

"Sec. 1306. Rules applicable to this part."

and inserting in lieu thereof

"Sec. 1306. Damages for injuries under the antitrust laws.
"Sec. 1307. Rules applicable to this part."

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to taxable years ending after the date of the enactment of this Act, but only with respect to amounts received or accrued after such date as a result of awards or settlements made after such date.

SEC. 59. MITIGATION OF EFFECT OF LIMITATIONS.

(a) CIRCUMSTANCES OF ADJUSTMENT.—Section 1312 (relating to circumstances of adjustment) is amended by renumbering paragraph (6) as (7), and by inserting after paragraph (5) the following new paragraph:

26 USC 1312.

"(6) CORRELATIVE DEDUCTIONS AND CREDITS FOR CERTAIN RELATED CORPORATIONS.—The determination allows or disallows a deduction (including a credit) in computing the taxable income (or, as the case may be, net income, normal tax net income, or surtax net income) of a corporation, and a correlative deduction or credit has been erroneously allowed, omitted, or disallowed, as the case may be, in respect of a related taxpayer described in section 1313 (c) (7)."

(b) ADJUSTMENTS UNAFFECTED BY OTHER ITEMS.—The second sentence of section 1314 (c) (relating to certain adjustments for closed taxable years) is amended by striking out "Other than in the case of an adjustment resulting from a determination under section 1313 (a) (4), the" and inserting in lieu thereof "The".

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to determinations (as defined in section 1313 (a)) made after November 14, 1954.

26 USC 1313.

SEC. 60. COMPUTATION OF TAX WHERE TAXPAYER RESTORES SUBSTANTIAL AMOUNT HELD UNDER CLAIM OF RIGHT.

(a) DEFINITION OF CORRESPONDING PROVISIONS OF 1939 CODE.—The last sentence of section 1341 (a) (relating to definition of corresponding provisions of the 1939 Code) is amended by inserting before the period at the end thereof "and subchapter E of chapter 2 of such code".

26 USC 1341.

(b) REFUNDS OR REPAYMENTS BY REGULATED PUBLIC UTILITIES.—The last sentence of section 1341 (b) (2) (relating to special rules applicable to computation of tax where taxpayer restores substantial amount held under claim of right) is amended to read as follows: "This paragraph shall not apply if the deduction arises out of refunds or repayments with respect to rates made by a regulated public utility (as defined in section 1503 (c) without regard to paragraph (2) thereof) if such refunds or repayments are required to be made by the Government, political subdivision, agency, or instrumentality referred to in such section, or by an order of a court, or are made in settlement of litigation or under threat or imminence of litigation."

(c) PAYMENTS OR REPAYMENTS PURSUANT TO PRICE REDETERMINATION.—Section 1341 (b) (2) is further amended by adding at the end thereof the following new sentence: "This paragraph shall not apply if the deduction arises out of payments or repayments made pursuant to a price redetermination provision in a subcontract entered into before January 1, 1958, between persons other than those bearing the relationship set forth in section 267 (b), if the subcontract containing the price redetermination provision is subject to statutory renegotiation and section 1481 (relating to mitigation of effect of renegotiation of Government contracts) does not apply to such payment or repayment solely because such payment or repayment is not paid or repaid to the United States or any agency thereof."

(d) TECHNICAL AMENDMENT.—Section 1341 (b) is further amended by adding at the end thereof the following new paragraph:

"(3) If the tax imposed by this chapter for the taxable year is the amount determined under subsection (a) (5), then the deduction referred to in subsection (a) (2) shall not be taken into account for any purpose of this subtitle other than this section."

(e) EFFECTIVE DATE.—The amendment made by subsection (b) shall apply with respect to taxable years beginning after December

31, 1957. No interest shall be allowed or paid on any overpayment resulting from the application of the amendment made by subsection (c).

SEC. 61. CLAIMS AGAINST UNITED STATES INVOLVING ACQUISITIONS OF PROPERTY.

26 USC 1347.

(a) LIMIT ON SURTAX.—Section 1347 (relating to claims against United States involving acquisitions of property) is amended—

(1) by striking out "the tax imposed by section 1" and inserting in lieu thereof "the surtax imposed by section 1"; and

(2) by adding at the end thereof the following new sentence: "This section shall apply only if claim was filed with the United States before January 1, 1958."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) (1) shall apply only with respect to taxable years beginning after December 31, 1957.

SEC. 62. MITIGATION OF EFFECT OF PRICE REDETERMINATIONS OF SUBCONTRACTS SUBJECT TO RENEGOTIATION.

(a) READJUSTMENT OF TAX FOR PRIOR YEARS.—Subchapter B of chapter 4 (relating to mitigation of effect of renegotiation of Government contracts) is amended by adding at the end thereof the following new section:

"SEC. 1482. READJUSTMENT FOR REPAYMENTS MADE PURSUANT TO PRICE REDETERMINATIONS.

"(a) GENERAL RULE.—If, pursuant to a price redetermination provision in a subcontract to which this section applies, a repayment with respect to an amount paid under the subcontract is made by one party to the subcontract (hereinafter referred to as the 'payor') to another party to the subcontract (hereinafter referred to as the 'payee'), then—

"(1) the tax of the payor for prior taxable years shall be recomputed as if the amount received or accrued by him with respect to which the repayment is made did not include an amount equal to the amount of the repayment, and

"(2) the tax of the payee for prior taxable years shall be recomputed as if the amount paid or incurred by him with respect to which the repayment is made did not include an amount equal to the amount of the repayment.

"(b) SUBCONTRACTS TO WHICH SECTION APPLIES.—Subsection (a) shall apply only to a subcontract which is subject to renegotiation under the applicable Federal renegotiation act.

"(c) LIMITATION.—Subsection (a) shall not apply to any repayment to the extent that section 1481 applies to the amount repaid.

26 USC 1481.

"(d) TREATMENT IN YEAR OF REPAYMENT.—The amount of any repayment to which subsection (a) applies shall not be taken into account by the payor or payee for the taxable year in which the repayment is made; but any overpayment or underpayment of tax resulting from the application of subsection (a) shall be treated as if it were an overpayment or underpayment for the taxable year in which the repayment is made."

(b) TABLE OF CONTENTS.—The table of sections for such subchapter is amended by adding at the end thereof the following:

"Sec. 1482. Readjustment for repayments made pursuant to price redeterminations."

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply only with respect to subcontracts entered into after December 31, 1957.

SEC. 63. REVOCATION OF ELECTION PERMITTING CERTAIN PROPRIETORSHIPS AND PARTNERSHIPS TO BE TAXED AS CORPORATIONS.

(a) REVOCATION OF ELECTION.—If—

(1) a statement of an election to be taxed as a domestic corporation is heretofore or hereafter filed with respect to any unincorporated business enterprise under section 1361 of the Internal Revenue Code of 1954, and

26 USC 1361.

(2) such filing is in accordance with regulations prescribed by the Secretary of the Treasury or his delegate,

then such statement of election shall be treated as a valid election; but such election may be revoked (in accordance with regulations prescribed by the Secretary of the Treasury or his delegate) after the date of the enactment of this section and on or before the last day of the third month following the month in which regulations prescribed under such section 1361 are published in the Federal Register.

(b) TOLLING OF STATUTE OF LIMITATIONS.—In the case of any election referred to in subsection (a) with respect to any unincorporated business enterprise—

(1) The statutory period for the assessment of any deficiency against any taxpayer for any taxable year, to the extent such deficiency is attributable to such enterprise and to the period to which such election applies (or would apply but for a revocation under subsection (a)), shall not expire before the expiration date specified in subsection (c); and such deficiency may be assessed at any time on or before such expiration date, notwithstanding any law or rule of law which would otherwise prevent such assessment.

(2) If credit or refund of the amount of any overpayment is prevented, at any time on or before the expiration date specified in subsection (c), by the operation of any law or rule of law (other than chapter 74 of the Internal Revenue Code of 1954, relating to closing agreements and compromises), credit or refund of such overpayment may, nevertheless, be allowed or made, to the extent such overpayment is attributable to such enterprise and to the period referred to in paragraph (1), if claim therefor is filed on or before the expiration date specified in subsection (c).

26 USC 7121-7123.

(c) EXPIRATION DATE DEFINED.—For purposes of subsection (b), the term "expiration date" means that day which is one year after whichever of the following days is the earlier:

(1) The last day of the third month following the month in which regulations prescribed under section 1361 of the Internal Revenue Code of 1954 are published in the Federal Register; or

Publication in FR.

(2) if the election is revoked under subsection (a), the day on which such revocation is filed with the Secretary of the Treasury or his delegate.

(d) EXCEPTION.—This section shall not apply to any statement of election filed with respect to any unincorporated business enterprise under section 1361 of the Internal Revenue Code of 1954, if, before the date of the enactment of this Act, such statement of election has been withdrawn with the permission of the Secretary of the Treasury or his delegate.

SEC. 64. ELECTION OF CERTAIN SMALL BUSINESS CORPORATIONS.

(a) ELECTION AS TO TAXABLE STATUS.—Chapter 1 (relating to normal taxes and surtaxes) is amended by adding at the end thereof the following new subchapter:

"Subchapter S—Election of Certain Small Business Corporations as to Taxable Status

"Sec. 1371. Definitions.
"Sec. 1372. Election by small business corporation.
"Sec. 1373. Corporation undistributed taxable income taxed to shareholders.
"Sec. 1374. Corporation net operating loss allowed to shareholders.
"Sec. 1375. Special rules applicable to distributions of electing small business corporations.
"Sec. 1376. Adjustment to basis of stock of, and indebtedness owing, shareholders.
"Sec. 1377. Special rules applicable to earnings and profits of electing small business corporations.

"SEC. 1371. DEFINITIONS.

"(a) SMALL BUSINESS CORPORATION.—For purposes of this subchapter, the term 'small business corporation' means a domestic corporation which is not a member of an affiliated group (as defined in section 1504) and which does not—

26 USC 1504.

"(1) have more than 10 shareholders;

"(2) have as a shareholder a person (other than an estate) who is not an individual;

"(3) have a nonresident alien as a shareholder; and

"(4) have more than one class of stock.

"(b) ELECTING SMALL BUSINESS CORPORATION.—For purposes of this subchapter, the term 'electing small business corporation' means, with respect to any taxable year, a small business corporation which has made an election under section 1372 (a) which, under section 1372, is in effect for such taxable year.

"SEC. 1372. ELECTION BY SMALL BUSINESS CORPORATION.

"(a) ELIGIBILITY.—Except as provided in subsection (f), any small business corporation may elect, in accordance with the provisions of this section, not to be subject to the taxes imposed by this chapter. Such election shall be valid only if all persons who are shareholders in such corporation—

"(1) on the first day of the first taxable year for which such election is effective, if such election is made on or before such first day, or

"(2) on the day on which the election is made, if the election is made after such first day,

consent to such election.

"(b) EFFECT.—If a small business corporation makes an election under subsection (a), then—

"(1) with respect to the taxable years of the corporation for which such election is in effect, such corporation shall not be subject to the taxes imposed by this chapter and, with respect to such taxable years and all succeeding taxable years, the provisions of section 1377 shall apply to such corporation, and

"(2) with respect to the taxable years of a shareholder of such corporation in which or with which the taxable years of the corporation for which such election is in effect end, the provisions of sections 1373, 1374, and 1375 shall apply to such shareholder, and with respect to such taxable years and all succeeding taxable years, the provisions of section 1376 shall apply to such shareholder.

"(c) WHERE AND HOW MADE.—

"(1) IN GENERAL.—An election under subsection (a) may be made by a small business corporation for any taxable year at any time during the first month of such taxable year, or at any time during the month preceding such first month. Such election shall be made in such manner as the Secretary or his delegate shall prescribe by regulations.

"(2) TAXABLE YEARS BEGINNING BEFORE DATE OF ENACTMENT.—An election may be made under subsection (a) by a small business corporation for its first taxable year which begins after December 31, 1957, and on or before the date of the enactment of this subchapter, and ends after such date at any time—

"(A) within the 90-day period beginning on the day after the date of the enactment of this subchapter, or

"(B) if its taxable year ends within such 90-day period, before the close of such taxable year.

An election may be made pursuant to this paragraph only if the small business corporation has been a small business corporation (as defined in section 1371 (a)) on each day after the date of the enactment of this subchapter and before the day of such election.

"(d) YEARS FOR WHICH EFFECTIVE.—An election under subsection (a) shall be effective for the taxable year of the corporation for which it is made and for all succeeding taxable years of the corporation, unless it is terminated, with respect to any such taxable year, under subsection (e).

"(e) TERMINATION.—

"(1) NEW SHAREHOLDERS.—An election under subsection (a) made by a small business corporation shall terminate if any person who was not a shareholder in such corporation—

"(A) on the first day of the first taxable year of the corporation for which the election is effective, if such election is made on or before such first day, or

"(B) on the day on which the election is made, if such election is made after such first day,

becomes a shareholder in such corporation and does not consent to such election within such time as the Secretary or his delegate shall prescribe by regulations. Such termination shall be effective for the taxable year of the corporation in which such person becomes a shareholder in the corporation and for all succeeding taxable years of the corporation.

"(2) REVOCATION.—An election under subsection (a) made by a small business corporation may be revoked by it for any taxable year of the corporation after the first taxable year for which the election is effective. An election may be revoked only if all persons who are shareholders in the corporation on the day on which the revocation is made consent to the revocation. A revocation under this paragraph shall be effective—

"(A) for the taxable year in which made, if made before the close of the first month of such taxable year,

"(B) for the taxable year following the taxable year in which made, if made after the close of such first month,

and for all succeeding taxable years of the corporation. Such revocation shall be made in such manner as the Secretary or his delegate shall prescribe by regulations.

"(3) CEASES TO BE SMALL BUSINESS CORPORATION.—An election under subsection (a) made by a small business corporation shall terminate if at any time—

"(A) after the first day of the first taxable year of the corporation for which the election is effective, if such election is made on or before such first day, or

"(B) after the day on which the election is made, if such election is made after such first day,

the corporation ceases to be a small business corporation (as defined in section 1371 (a)). Such termination shall be effective for the taxable year of the corporation in which the corporation ceases to be a small business corporation and for all succeeding taxable years of the corporation.

"(4) FOREIGN INCOME.—An election under subsection (a) made by a small business corporation shall terminate if for any taxable year of the corporation for which the election is in effect, such corporation derives more than 80 percent of its gross receipts from sources outside the United States. Such termination shall be effective for the taxable year of the corporation in which it derives more than 80 percent of its gross receipts from sources outside the United States, and for all succeeding taxable years of the corporation.

"(5) PERSONAL HOLDING COMPANY INCOME.—An election under subsection (a) made by a small business corporation shall terminate if, for any taxable year of the corporation for which the election is in effect, such corporation has gross receipts more than 20 percent of which is derived from royalties, rents, dividends, interest, annuities, and sales or exchanges of stock or securities (gross receipts from such sales or exchanges being taken into account for purposes of this paragraph only to the extent of gains therefrom). Such termination shall be effective for the taxable year of the corporation in which it has gross receipts of such amount, and for all succeeding taxable years of the corporation.

"(f) ELECTION AFTER TERMINATION.—If a small business corporation has made an election under subsection (a) and if such election has been terminated or revoked under subsection (e), such corporation (and any successor corporation) shall not be eligible to make an election under subsection (a) for any taxable year prior to its fifth taxable year which begins after the first taxable year for which such termination or revocation is effective, unless the Secretary or his delegate consents to such election.

"SEC. 1373. CORPORATION UNDISTRIBUTED TAXABLE INCOME TAXED TO SHAREHOLDERS.

"(a) GENERAL RULE.—The undistributed taxable income of an electing small business corporation for any taxable year shall be included in the gross income of the shareholders of such corporation in the manner and to the extent set forth in this section.

"(b) AMOUNT INCLUDED IN GROSS INCOME.—Each person who is a shareholder of an electing small business corporation on the last day of a taxable year of such corporation shall include in his gross income, for his taxable year in which or with which the taxable year of the corporation ends, the amount he would have received as a dividend, if on such last day there had been distributed pro rata to its shareholders by such corporation an amount equal to the corporation's undistributed taxable income for the corporation's taxable year. For purposes of this chapter, the amount so included shall be treated as an amount distributed as a dividend on the last day of the taxable year of the corporation.

"(c) UNDISTRIBUTED TAXABLE INCOME DEFINED.—For purposes of this section, the term 'undistributed taxable income' means taxable income (computed as provided in subsection (d)) minus the amount of money distributed as dividends during the taxable year, to the

extent that any such amount is a distribution out of earnings and profits of the taxable year as specified in section 316 (a) (2). 26 USC 316.

"(d) TAXABLE INCOME.—For purposes of this subchapter, the taxable income of an electing small business corporation shall be determined without regard to—

"(1) the deduction allowed by section 172 (relating to net operating loss deduction), and 26 USC 172.

"(2) the deductions allowed by part VIII of subchapter B (other than the deduction allowed by section 248, relating to organization expenditures). 26 USC 248.

"SEC. 1374. CORPORATION NET OPERATING LOSS ALLOWED TO SHAREHOLDERS.

"(a) GENERAL RULE.—A net operating loss of an electing small business corporation for any taxable year shall be allowed as a deduction from gross income of the shareholders of such corporation in the manner and to the extent set forth in this section.

"(b) ALLOWANCE OF DEDUCTION.—Each person who is a shareholder of an electing small business corporation at any time during a taxable year of the corporation in which it has a net operating loss shall be allowed as a deduction from gross income, for his taxable year in which or with which the taxable year of the corporation ends, an amount equal to his portion of the corporation's net operating loss (as determined under subsection (c)).

"(c) DETERMINATION OF SHAREHOLDER'S PORTION.—

"(1) IN GENERAL.—For purposes of this section, a shareholder's portion of the net operating loss of an electing small business corporation is his pro rata share of the corporation's net operating loss (computed as provided in section 172 (c), except that the deductions provided in part VIII (except section 248) of subchapter B shall not be allowed) for his taxable year in which or with which the taxable year of the corporation ends. For purposes of this paragraph, a shareholder's pro rata share of the corporation's net operating loss is the sum of the portions of the corporation's daily net operating loss attributable on a pro rata basis to the shares held by him on each day of the taxable year. For purposes of the preceding sentence, the corporation's daily net operating loss is the corporation's net operating loss divided by the number of days in the taxable year. 26 USC 172. 26 USC 248.

"(2) LIMITATION.—A shareholder's portion of the net operating loss of an electing small business corporation for any taxable year shall not exceed the sum of—

"(A) the adjusted basis (determined without regard to any adjustment under section 1376 for the taxable year) of the shareholder's stock in the electing small business corporation, determined as of the close of the taxable year of the corporation (or, in respect of stock sold or otherwise disposed of during such taxable year, as of the day before the day of such sale or other disposition), and

"(B) the adjusted basis (determined without regard to any adjustment under section 1376 for the taxable year) of any indebtedness of the corporation to the shareholder, determined as of the close of the taxable year of the corporation (or, if the shareholder is not a shareholder as of the close of such taxable year, as of the close of the last day in such taxable year on which the shareholder was a shareholder in the corporation).

"(d) APPLICATION WITH OTHER PROVISIONS.—

"(1) IN GENERAL.—The deduction allowed by subsection (b) shall, for purposes of this chapter, be considered as a deduction attributable to a trade or business carried on by the shareholder.

"(2) ADJUSTMENT OF NET OPERATING LOSS CARRYBACKS AND CARRYOVERS OF SHAREHOLDERS.—For purposes of determining, under section 172, the net operating loss carrybacks to taxable years beginning before January 1, 1958, from a taxable year of the shareholder for which he is allowed a deduction under subsection (b), such deduction shall be disregarded in determining the net operating loss for such taxable year. In the case of a net operating loss for a taxable year in which a shareholder is allowed a deduction under subsection (b), the determination of the portion of such loss which may be carried to subsequent years shall be made without regard to the preceding sentence and in accordance with section 172 (b) (2), but the sum of the taxable incomes for taxable years beginning before January 1, 1958, shall be deemed not to exceed the amount of the net operating loss determined with the application of the preceding sentence.

26 USC 172.

"SEC. 1375. SPECIAL RULES APPLICABLE TO DISTRIBUTIONS OF ELECTING SMALL BUSINESS CORPORATIONS.

"(a) CAPITAL GAINS.—

"(1) TREATMENT IN HANDS OF SHAREHOLDERS.—The amount includible in the gross income of a shareholder as dividends (including amounts treated as dividends under section 1373 (b)) from an electing small business corporation during any taxable year of the corporation, to the extent that such amount is a distribution of property out of earnings and profits of the taxable year as specified in section 316 (a) (2), shall be treated as a long-term capital gain to the extent of the shareholder's pro rata share of the excess of the corporation's net long-term capital gain over its net short-term capital loss for such taxable year. For purposes of this paragraph, such excess shall be deemed not to exceed the corporation's taxable income (computed as provided in section 1373 (d)) for the taxable year.

26 USC 316.

"(2) DETERMINATION OF SHAREHOLDER'S PRO RATA SHARE.—A shareholder's pro rata share of such excess for any taxable year shall be an amount which bears the same ratio to such excess as the amount of dividends described in paragraph (1) includible in the shareholder's gross income bears to the entire amount of dividends described in paragraph (1) includible in the gross income of all shareholders.

"(b) DIVIDENDS RECEIVED CREDIT NOT ALLOWED.—The amount includible in the gross income of a shareholder as dividends from an electing small business corporation during any taxable year of the corporation (including any amount treated as a dividend under section 1373 (b)) shall not be considered a dividend for purposes of section 34, section 37, or section 116 to the extent that such amount is a distribution of property out of earnings and profits of the taxable year as specified in section 316 (a) (2). For purposes of this subsection, the earnings and profits of the taxable year shall be deemed not to exceed the corporation's taxable income (computed as provided in section 1373 (d)) for the taxable year.

26 USC 34, 37, 116.

26 USC 316.

"(c) TREATMENT OF FAMILY GROUPS.—Any dividend received by a shareholder from an electing small business corporation (including any amount treated as a dividend under section 1373 (b)) may be apportioned or allocated by the Secretary or his delegate between or among shareholders of such corporation who are members of such shareholder's family (as defined in section 704 (e) (3)), if he determines that such apportionment or allocation is necessary in order to reflect the value of services rendered to the corporation by such shareholders.

26 USC 704.

"(d) DISTRIBUTIONS OF UNDISTRIBUTED TAXABLE INCOME PREVIOUSLY TAXED TO SHAREHOLDERS.—

"(1) DISTRIBUTIONS NOT CONSIDERED AS DIVIDENDS.—An electing small business corporation may distribute, in accordance with regulations prescribed by the Secretary or his delegate, to any shareholder all or any portion of the shareholder's net share of the corporation's undistributed taxable income for taxable years prior to the taxable year in which such distribution is made. Any such distribution shall, for purposes of this chapter, be considered a distribution which is not a dividend, but the earnings and profits of the corporation shall not be reduced by reason of any such distribution.

"(2) SHAREHOLDER'S NET SHARE OF UNDISTRIBUTED TAXABLE INCOME.—For purposes of this subsection, a shareholder's net share of the undistributed taxable income of an electing small business corporation is an amount equal to—

"(A) the sum of the amounts included in the gross income of the shareholder under section 1373 (b) for all prior taxable years (excluding any taxable year to which the provisions of this section do not apply and all taxable years preceding such year), reduced by

"(B) the sum of—

"(i) the amounts allowable under section 1374 (b) as a deduction from gross income of the shareholder for all prior taxable years (excluding any taxable year to which the provisions of this section do not apply and all taxable years preceding such year), and

"(ii) all amounts previously distributed during the taxable year and all prior taxable years (excluding any taxable year to which the provisions of this section do not apply and all taxable years preceding such year) to the shareholder which under paragraph (1) were considered distributions which were not dividends.

"SEC. 1376. ADJUSTMENT TO BASIS OF STOCK OF, AND INDEBTEDNESS OWING, SHAREHOLDERS.

"(a) INCREASE IN BASIS OF STOCK FOR AMOUNTS TREATED AS DIVIDENDS.—The basis of a shareholder's stock in an electing small business corporation shall be increased by the amount required to be included in the gross income of such shareholder under section 1373 (b), but only to the extent to which such amount is included in his gross income in his return, increased or decreased by any adjustment of such amount in any redetermination of the shareholder's tax liability.

"(b) REDUCTION IN BASIS OF STOCK AND INDEBTEDNESS FOR SHAREHOLDER'S PORTION OF CORPORATION NET OPERATING LOSS.—

"(1) REDUCTION IN BASIS OF STOCK.—The basis of a shareholder's stock in an electing small business corporation shall be reduced (but not below zero) by an amount equal to the amount of his portion of the corporation's net operating loss for any taxable year attributable to such stock (as determined under section 1374 (c)).

"(2) REDUCTION IN BASIS OF INDEBTEDNESS.—The basis of any indebtedness of an electing small business corporation to a shareholder of such corporation shall be reduced (but not below zero) by an amount equal to the amount of the shareholder's portion of the corporation's net operating loss for any taxable year (as determined under section 1374 (c)), but only to the extent that such amount exceeds the adjusted basis of the stock of such corporation held by the shareholder.

"SEC. 1377. SPECIAL RULES APPLICABLE TO EARNINGS AND PROFITS OF ELECTING SMALL BUSINESS CORPORATIONS.

"(a) REDUCTION FOR UNDISTRIBUTED TAXABLE INCOME.—The accumulated earnings and profits of an electing small business corporation as of the close of its taxable year shall be reduced to the extent that its undistributed taxable income for such year is required to be included in the gross income of the shareholders of such corporation under section 1373 (b).

"(b) CURRENT EARNINGS AND PROFITS NOT REDUCED BY ANY AMOUNT NOT ALLOWABLE AS DEDUCTION.—The earnings and profits of an electing small business corporation for any taxable year (but not its accumulated earnings and profits) shall not be reduced by any amount which is not allowable as a deduction in computing its taxable income (as provided in section 1373 (d)) for such taxable year.

"(c) EARNINGS AND PROFITS NOT AFFECTED BY NET OPERATING LOSS.—The earnings and profits and the accumulated earnings and profits of an electing small business corporation shall not be affected by any item of gross income or any deduction taken into account in determining the amount of any net operating loss (computed as provided in section 1374 (c)) of such corporation."

(b) NET OPERATING LOSS DISALLOWED TO ELECTING SMALL BUSINESS CORPORATION.—Section 172 (relating to net operating loss deduction) is amended by redesignating subsection (h) as (i), and by inserting after subsection (g) the following new subsection:

26 USC 172.

"(h) DISALLOWANCE OF NET OPERATING LOSS OF ELECTING SMALL BUSINESS CORPORATIONS.—In determining the amount of the net operating loss deduction under subsection (a) of any corporation, there shall be disregarded the net operating loss of such corporation for any taxable year for which such corporation is an electing small business corporation under subchapter S."

(c) RETURNS BY ELECTING SMALL BUSINESS CORPORATIONS.—Subpart A of part III of subchapter A of chapter 61 (relating to information returns) is amended by renumbering section 6037 as 6038, and by inserting after section 6036 the following new section:

"SEC. 6037. RETURN OF ELECTING SMALL BUSINESS CORPORATION.

"Every electing small business corporation (as defined in section 1371 (a) (2)) shall make a return for each taxable year, stating specifically the items of its gross income and the deductions allowable by subtitle A, the names and addresses of all persons owning stock in the corporation at any time during the taxable year, the number of shares of stock owned by each shareholder at all times during the taxable year, the amount of money and other property distributed by the corporation during the taxable year to each shareholder, the date of each such distribution, and such other information, for the purpose of carrying out the provisions of subchapter S of chapter 1, as the Secretary or his delegate may by forms and regulations prescribe. Any return filed pursuant to this section shall, for purposes of chapter 66 (relating to limitations), be treated as a return filed by the corporation under section 6012."

26 USC 6012.

(d) TECHNICAL AMENDMENTS.—

(1) The table of subchapters for chapter 1 is amended by adding at the end thereof

"SUBCHAPTER S.—Election of certain small business corporations as to taxable status."

26 USC 1016.

(2) Section 1016 (a) (relating to adjustments of basis) is amended by striking out the period at the end of paragraph (17) (as added by section 16 (b) of this Act) and inserting in lieu

thereof a semicolon, and by adding after paragraph (17) the following new paragraph:

"(18) to the extent provided in section 1376 in the case of stock of, and indebtedness owing, shareholders of an electing small business corporation (as defined in section 1371 (b))."

(3) Section 1504 (b) (relating to definition of includible corporation) is amended by adding at the end thereof the following new paragraph:

26 USC 1504.

"(8) An electing small business corporation (as defined in section 1371 (b))."

(4) The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by striking out

"Sec. 6037. Cross references."

and inserting in lieu thereof

"Sec. 6037. Return of electing small business corporation.
"Sec. 6038. Cross references."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply only with respect to taxable years beginning after December 31, 1957.

SEC. 65. PERIOD OF LIMITATION FOR FILING CLAIM FOR CREDIT FOR STATE DEATH TAXES.

(a) PERIOD UNDER 1954 CODE.—Section 2011 (c) (relating to period of limitations on credit for State death taxes) is amended by inserting after paragraph (2) the following new paragraph:

26 USC 2011.

"(3) If a claim for refund or credit of an overpayment of tax imposed by this chapter has been filed within the time prescribed in section 6511, then within such 4-year period or before the expiration of 60 days from the date of mailing by certified mail or registered mail by the Secretary or his delegate to the taxpayer of a notice of the disallowance of any part of such claim, or before the expiration of 60 days after a decision by any court of competent jurisdiction becomes final with respect to a timely suit instituted upon such claim, whichever is later."

26 USC 6511.

(b) PERIOD UNDER 1939 CODE.—Section 813 (b) of the Internal Revenue Code of 1939 (relating to period of limitations on credit for State death taxes) is amended by inserting after paragraph (2) the following new paragraph:

26 USC 2011.

"(3) If a claim for refund or credit of an overpayment of tax imposed by this chapter has been filed within the time prescribed in section 910, then within such 4-year period or before the expiration of 60 days from the date of mailing by certified mail or registered mail by the Secretary or his delegate to the taxpayer of a notice of the disallowance of any part of such claim, or before the expiration of 60 days after a decision by any court of competent jurisdiction becomes final with respect to a timely suit instituted upon such claim, whichever is later."

(c) EFFECTIVE DATES.—The amendment made by subsection (a) shall apply with respect to estates of decedents dying after August 16, 1954. The amendment made by subsection (b) shall apply with respect to estates of decedents dying after February 10, 1939, and on or before August 16, 1954.

SEC. 66. ESTATE TAX IN CASE OF REVERSIONARY OR REMAINDER INTEREST IN PROPERTY.

(a) CREDIT FOR DEATH TAXES.—

(1) CREDIT UNDER 1954 CODE.—Section 2015 (relating to credit for death taxes on remainders) is amended by striking out "60 days after the termination of the precedent interest or interests in the property" and inserting in lieu thereof "the time for pay-

26 USC 2015.

26 USC 2001, 2101.

ment of the tax imposed by section 2001 or 2101 as postponed and extended under section 6163".

(2) CREDIT UNDER 1939 CODE.—Section 927 of the Internal Revenue Code of 1939 (relating to credit for death taxes) is amended by striking out "60 days after the termination of the precedent interest or interests in the property" and inserting in lieu thereof "the time for payment of the tax imposed by this subchapter as postponed and extended under section 925".

26 USC 2015.

(3) EFFECTIVE DATE.—The amendments made by paragraphs (1) and (2) shall apply in the case of any reversionary or remainder interest in property only if the precedent interest or interests in the property did not terminate before the beginning of the 60-day period which ends on the date of the enactment of this Act.

(b) EXTENSION OF PAYMENT OF ESTATE TAX ATTRIBUTABLE TO FUTURE INTERESTS.—

26 USC 6163.

(1) EXTENSION UNDER 1954 CODE.—Section 6163 (relating to extension of time for paying estate tax on value of reversionary or remainder interest in property) is amended by redesignating subsection (b) as subsection (c), and by inserting after subsection (a) the following new subsection:

"(b) EXTENSION TO PREVENT UNDUE HARDSHIP.—If the Secretary or his delegate finds that the payment of the tax at the expiration of the period of postponement provided for in subsection (a) would result in undue hardship to the estate, he may extend the time for payment for a reasonable period not in excess of 2 years from the expiration of such period of postponement."

(2) EXTENSION UNDER 1939 CODE.—

26 USC 6601, 6163.

(A) Section 925 of the Internal Revenue Code of 1939 (relating to period of extension of time for paying estate tax attributable to future interests) is amended by adding at the end thereof the following: "If the Secretary or his delegate finds that the payment of the tax at the expiration of the period of postponement provided for in the preceding sentence would result in undue hardship to the estate, he may extend the time for payment for a reasonable period not in excess of 2 years from the expiration of such period of postponement."

26 USC 6163, 7101.

(B) Section 926 of the Internal Revenue Code of 1939 (relating to requirements for postponement) is amended by striking out "interest or interests" and inserting in lieu thereof "interest or interests (or, in the case of an extension under section 925, within the period of such extension)".

(3) EFFECTIVE DATE.—The amendments made by paragraphs (1) and (2) shall apply in the case of any reversionary or remainder interest only if the precedent interest or interests in the property did not terminate before the beginning of the 6-month period which ends on the date of the enactment of this Act.

26 USC 6601.

(c) INTEREST.—Section 6601 (b) (relating to interest in case of extensions of time for payment of estate taxes) is amended by striking out "if postponement of the payment of an amount of such tax is permitted by section 6163 (a)," and inserting in lieu thereof "if the time for payment of an amount of such tax is postponed or extended as provided by section 6163,".

SEC. 67. RETIREMENT ANNUITIES EXCLUDED FROM GROSS ESTATE.

26 USC 2039.

(a) REQUIREMENTS.—Section 2039 (c) (2) (relating to exclusion from gross estate in the case of certain retirement annuity contracts) is amended by striking out "section 401 (a) (3)" and inserting in lieu thereof "section 401 (a) (3), (4), (5), and (6)".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to estates of decedents dying after December 31, 1953.

SEC. 68. GIFT TAX NOT TO APPLY TO ELECTION OF SURVIVOR BENEFITS UNDER CERTAIN QUALIFIED PLANS.

(a) IN GENERAL.—Subchapter B of chapter 12 (relating to gift tax in the case of certain transfers) is amended by adding at the end thereof the following new section:

"SEC. 2517. CERTAIN ANNUITIES UNDER QUALIFIED PLANS.

"(a) GENERAL RULE.—The exercise or nonexercise by an employee of an election or option whereby an annuity or other payment will become payable to any beneficiary at or after the employee's death shall not be considered a transfer for purposes of this chapter if the option or election and annuity or other payment is provided for under—

"(1) an employees' trust (or under a contract purchased by an employees' trust) forming part of a pension, stock bonus, or profit-sharing plan which, at the time of such exercise or nonexercise, or at the time of termination of the plan if earlier, met the requirements of section 401 (a); or

26 USC 401.

"(2) a retirement annuity contract purchased by an employer (and not by an employees' trust) pursuant to a plan which, at the time of such exercise or nonexercise, or at the time of termination of the plan if earlier, met the requirements of section 401 (a) (3), (4), (5), and (6).

"(b) TRANSFERS ATTRIBUTABLE TO EMPLOYEE CONTRIBUTIONS.—If the annuity or other payment referred to in subsection (a) is attributable to any extent to payments or contributions made by the employee, then subsection (a) shall not apply to that part of the value of such annuity or other payment which bears the same proportion to the total value of the annuity or other payment as the total payments or contributions made by the employee bear to the total payments or contributions made.

"(c) EMPLOYEE DEFINED.—For purposes of this section, the term 'employee' includes a former employee."

(b) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 12 is amended by adding at the end thereof the following:

"Sec. 2517. Certain annuities under qualified plans."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to the calendar year 1955 and all calendar years thereafter. For calendar years before 1955, the determination as to whether the exercise or nonexercise by an employee of an election or option described in section 2517 of the Internal Revenue Code of 1954 (as added by subsection (a)) is a transfer for purposes of chapter 4 of the Internal Revenue Code of 1939 shall be made as if this section had not been enacted and without inferences drawn from the fact that this section is not made applicable with respect to calendar years before 1955.

SEC. 69. OASI COVERAGE FOR EMPLOYEES OF FOREIGN SUBSIDIARIES.

The heading of section 3121 (l) (3) (relating to agreements entered into by domestic corporations for the purpose of extending old-age and survivors insurance coverage to service performed by certain employees of foreign subsidiaries) is amended by striking out "BE" and inserting in lieu thereof "BY".

26 USC 3121.

SEC. 70. FEDERAL SERVICE.

26 USC 3122.

The last sentence of section 3122 (relating to collection and payment of employment taxes with respect to Coast Guard Exchanges) is amended by striking out "this subsection" wherever it appears therein and inserting in lieu thereof "this section".

SEC. 71. ACTS TO BE PERFORMED BY AGENTS.

26 USC 3504.

The first sentence of section 3504 (relating to acts to be performed by agents in the case of employment taxes) is amended effective with respect to remuneration paid after December 31, 1954, by striking out "this subtitle" and inserting in lieu thereof "this title".

SEC. 72. PERSONS REQUIRED TO MAKE RETURNS.

26 USC 6012.

(a) EARNED INCOME WITHOUT THE UNITED STATES.—Section 6012 (relating to persons required to make returns of income) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) CERTAIN INCOME EARNED ABROAD.—For purposes of this section, gross income shall be computed without regard to the exclusion provided for in section 911 (relating to earned income from sources without the United States)."

26 USC 911.

(b) CROSS REFERENCE.—Section 911 (relating to earned income from sources without the United States) is amended by adding at the end thereof the following new subsection:

"(c) CROSS REFERENCE.—

"For administrative and penal provisions relating to the exclusion provided for in this section, see sections 6001, 6011, 6012 (c), and the other provisions of subtitle F."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1957.

SEC. 73. ELECTION TO MAKE JOINT RETURN AFTER FILING SEPARATE RETURN.

26 USC 6013.

Section 6013 (b) (2) (C) (relating to limitation on election to make joint return after filing separate return) is amended by striking out "such section" and inserting in lieu thereof "section 6213".

SEC. 74. RETURNS TREATED AS DECLARATIONS OF ESTIMATED TAX BY INDIVIDUALS.

26 USC 6015.

Section 6015 (f) (relating to returns treated as declarations of estimated income tax by individuals) is amended by adding after paragraph (2) the following: "In the application of this subsection in the case of a taxable year beginning on any date other than January 1, there shall be substituted, for the 15th or last day of the months specified in this subsection, the 15th or last day of the months which correspond thereto."

SEC. 75. PUBLICITY OF EXEMPT ORGANIZATION INFORMATION.

26 USC 6104.

(a) PUBLICITY REQUIRED.—Section 6104 (relating to publicity of information required from certain exempt organizations and certain trusts) is amended—

(1) by striking out "The information" and inserting in lieu thereof:

"(b) INSPECTION OF ANNUAL INFORMATION RETURNS.—The information"; and

(2) by inserting after the heading of such section the following new subsection:

"(a) INSPECTION OF APPLICATIONS FOR TAX EXEMPTION.—

"(1) PUBLIC INSPECTION.—

"(A) IN GENERAL.—If an organization described in section 501 (c) or (d) is exempt from taxation under section 501 (a) for any taxable year, the application filed by the organ-

ization with respect to which the Secretary or his delegate made his determination that such organization was entitled to exemption under section 501 (a), together with any papers submitted in support of such application, shall be open to public inspection at the national office of the Internal Revenue Service. In the case of any application filed after the date of the enactment of this subparagraph, a copy of such application shall be open to public inspection at the appropriate field office of the Internal Revenue Service (determined under regulations prescribed by the Secretary or his delegate). Any inspection under this subparagraph may be made at such times, and in such manner, as the Secretary or his delegate shall by regulations prescribe. After the application of any organization has been opened to public inspection under this subparagraph, the Secretary or his delegate shall, on the request of any person with respect to such organization, furnish a statement indicating the subsection and paragraph of section 501 which it has been determined describes such organization.

26 USC 501.

"(B) WITHHOLDING OF CERTAIN INFORMATION.—Upon request of the organization submitting any supporting papers described in subparagraph (A), the Secretary or his delegate shall withhold from public inspection any information contained therein which he determines relates to any trade secret, patent, process, style of work, or apparatus, of the organization, if he determines that public disclosure of such information would adversely affect the organization. The Secretary or his delegate shall withhold from public inspection any information contained in supporting papers described in subparagraph (A) the public disclosure of which he determines would adversely affect the national defense.

"(2) INSPECTION BY COMMITTEES OF CONGRESS.—Section 6103 (d) shall apply with respect to—

"(A) the application for exemption of any organization described in section 501 (c) or (d) which is exempt from taxation under section 501 (a) for any taxable year, and

"(B) any other papers which are in the possession of the Secretary or his delegate and which relate to such application, as if such papers constituted returns."

(b) ANNUAL INFORMATION WITH RESPECT TO TOTAL CONTRIBUTIONS.—Section 6033 (b) (relating to returns by certain exempt organizations) is amended by striking out "and" at the end of paragraph (6), by striking out the period at the end of paragraph (7) and inserting in lieu thereof a comma and the word "and", and by adding after paragraph (7) the following new paragraph:

26 USC 6033.

"(8) the total of the contributions and gifts received by it during the year."

(c) EFFECTIVE DATE.—The amendments made by subsection (a) shall take effect on the 60th day after the day on which this Act is enacted. The amendments made by subsection (b) shall apply to taxable years ending on or after December 31, 1958.

SEC. 76. ADDRESS FOR NOTICE OF DEFICIENCY.

Section 6212 (b) (1) (relating to address for notice of deficiency in the case of income and gift taxes) is amended by striking out "chapter 1 or 12" and inserting in lieu thereof "subtitle A or chapter 12", and by striking out "such chapter and" and inserting in lieu thereof "subtitle A, chapter 12, and".

26 USC 6212.

SEC. 77. RELEASE OF LIEN OR PARTIAL DISCHARGE OF PROPERTY.

26 USC 6325.

Section 6325 (relating to release of lien or partial discharge of property) is amended—

(1) by striking out paragraph (1) of subsection (a) and inserting in lieu thereof the following:

"(1) LIABILITY SATISFIED OR UNENFORCEABLE.—The Secretary or his delegate finds that the liability for the amount assessed, together with all interest in respect thereof, has been fully satisfied or has become legally unenforceable; or".

(2) by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting after subsection (b) the following new subsection:

"(c) ESTATE OR GIFT TAX.—Subject to such rules or regulations as the Secretary or his delegate may prescribe, the Secretary or his delegate may issue a certificate of discharge of any or all of the property subject to any lien imposed by section 6324 if the Secretary or his delegate finds that the liability secured by such lien has been fully satisfied or provided for."

26 USC 6324.

(3) by striking out the word "partial" where it appears in the heading and text of subsection (d) (as redesignated by paragraph (2)).

SEC. 78. CORRECTION OF REFERENCES TO UNITED STATES ATTORNEYS.

26 USC 6338, 7324, 7325, 7422.

Sections 6338 (c) (relating to deeds for real property purchased by the United States), 7324 (3) (relating to special disposition of perishable goods), 7325 (3) (relating to personal property valued at $1,000 or less), and 7422 (f) (2) (cross reference) are each amended by striking out the word "district" each place it appears in the phrases "United States district attorney" and "United States district attorneys".

SEC. 79. CONVEYANCE OF TITLE.

26 USC 6339.

The heading to section 6339 (b) (2) (relating to conveyance of title) is amended by striking out "OF" the first place it appears and inserting in lieu thereof "AS".

SEC. 80. REQUEST FOR PROMPT ASSESSMENT.

26 USC 6501.

(a) SUBSECTION REFERENCES.—The first sentence of section 6501 (d) (relating to request for prompt assessment) is amended by striking out "subsection (c)," and inserting in lieu thereof "subsection (c), (e), or (f),".

(b) CORPORATIONS.—The second sentence of section 6501 (d) (relating to request for prompt assessment) is amended to read as follows: "This subsection shall not apply in the case of a corporation unless—

"(1) (A) such written request notifies the Secretary or his delegate that the corporation contemplates dissolution at or before the expiration of such 18-month period, (B) the dissolution is in good faith begun before the expiration of such 18-month period, and (C) the dissolution is completed;

"(2) (A) such written request notifies the Secretary or his delegate that a dissolution has in good faith been begun, and (B) the dissolution is completed; or

"(3) a dissolution has been completed at the time such written request is made."

SEC. 81. LIMITATIONS ON ASSESSMENT AND COLLECTION.

26 USC 6501.

(a) EXEMPT ORGANIZATIONS.—Section 6501 (g) (2) (relating to returns as exempt organizations) is amended by striking out "corporation" each place it appears and inserting in lieu thereof "organization".

(b) NET OPERATING LOSS CARRYBACKS.—Section 6501 (relating to limitations on assessment and collection) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

26 USC 6501.

"(h) NET OPERATING LOSS CARRYBACKS.—In the case of a deficiency attributable to the application to the taxpayer of a net operating loss carryback (including deficiencies which may be assessed pursuant to the provisions of section 6213 (b) (2)), such deficiency may be assessed at any time before the expiration of the period within which a deficiency for the taxable year of the net operating loss which results in such carryback may be assessed."

26 USC 6213.

SEC. 82. LIMITATIONS ON CREDIT OR REFUND.

(a) PERIOD FOR FILING CLAIM.—The first sentence of section 6511 (a) (relating to period of limitation for filing claim for credit or refund) is amended to read as follows: "Claim for credit or refund of an overpayment of any tax imposed by this title in respect of which tax the taxpayer is required to file a return shall be filed by the taxpayer within 3 years from the time the return was filed or 2 years from the time the tax was paid, whichever of such periods expires the later, or if no return was filed by the taxpayer, within 2 years from the time the tax was paid."

26 USC 6511.

(b) LIMIT ON AMOUNT OF CREDIT OR REFUND.—The heading and the first sentence of subparagraph (A) of section 6511 (b) (2) (relating to limit on amount of credit or refund) are amended to read as follows:

"(A) LIMIT WHERE CLAIM FILED WITHIN 3-YEAR PERIOD.—If the claim was filed by the taxpayer during the 3-year period prescribed in subsection (a), the amount of the credit or refund shall not exceed the portion of the tax paid within the period, immediately preceding the filing of the claim, equal to 3 years plus the period of any extension of time for filing the return."

(c) CORRECTION OF HEADING.—The heading of section 6511 (b) (2) (B) is amended to read as follows:

"(B) LIMIT WHERE CLAIM NOT FILED WITHIN 3-YEAR PERIOD.—".

(d) NET OPERATING LOSS CARRYBACKS.—The first sentence of section 6511 (d) (2) (A) (relating to special period of limitation for credit or refund in case of net operating loss carrybacks) is amended by striking out "15th day of the 39th month" and inserting in lieu thereof "15th day of the 40th month (or 39th month, in the case of a corporation)".

SEC. 83. CORRELATION OF INTEREST WHERE OVERPAYMENT OF TAX IS CREDITED AGAINST UNDERPAYMENT OF TAX.

(a) INTEREST ON UNDERPAYMENT SATISFIED BY CREDIT.—

(1) UNDERPAYMENT UNDER 1954 CODE.—Section 6601 (relating to interest on underpayments, etc.) is amended by redesignating subsections (g) and (h) as subsections (i) and (j), and by inserting after subsection (f) the following new subsection:

26 USC 6601.

"(g) SATISFACTION BY CREDITS.—If any portion of a tax is satisfied by credit of an overpayment, then no interest shall be imposed under this section on the portion of the tax so satisfied for any period during which, if the credit had not been made, interest would have been allowable with respect to such overpayment."

(2) UNDERPAYMENT UNDER 1939 CODE.—Section 3794 of the Internal Revenue Code of 1939 (relating to interest on delinquent taxes) is amended by inserting "(a) General Rule.—" before

26 USC 6601.

"Notwithstanding", and by adding at the end of such section the following new subsection:

"(b) INTEREST NOT IMPOSED ON CERTAIN UNDERPAYMENTS.—If any portion of any tax due from the taxpayer under any provision of this title is satisfied by credit of an overpayment, then no interest shall be imposed on the portion of the tax so satisfied for any period during which, if the credit had not been made, interest would have been allowable with respect to such overpayment."

(b) INTEREST ON OVERPAYMENTS CREDITED AGAINST UNDERPAYMENT.—Paragraph (1) of section 6611 (b) of the Internal Revenue Code of 1954 (relating to period for computation of interest on overpayments credited against other taxes), and paragraph (1) of section 3771 (b) of the Internal Revenue Code of 1939, are each amended to read as follows:

26 USC 6611.

26 USC 6611.

"(1) CREDITS.—In the case of a credit, from the date of the overpayment to the due date of the amount against which the credit is taken."

(c) TECHNICAL AMENDMENT.—Subsection (c) of section 6611 (relating to interest on overpayments) is hereby repealed.

(d) EFFECTIVE DATE.—The amendments made by subsections (a), (b), and (c) shall apply only in respect of overpayments credited after December 31, 1957.

(e) INTEREST ATTRIBUTABLE TO NET OPERATING LOSS CARRYBACK FOR CERTAIN TAXABLE YEARS ENDING IN 1954.—If by reason of enactment of section 172 (b) (1) (A) of the Internal Revenue Code of 1954—

26 USC 172.

(1) a deficiency resulted for the first taxable year preceding a taxable year ending after December 31, 1953, and before August 17, 1954, and

(2) an overpayment resulted for the second preceding taxable year,

no interest shall be payable with respect to any portion of such deficiency for any period during which there existed a corresponding amount of such overpayment with respect to which interest is not payable.

SEC. 84. INTEREST ON UNDERPAYMENTS.

26 USC 6601.

26 USC 83.

(a) LIMITATION ON ASSESSMENT AND COLLECTION.—Section 6601 (relating to interest on underpayments of tax) is amended by inserting after subsection (g) (added by section 83) the following new subsection:

"(h) LIMITATION ON ASSESSMENT AND COLLECTION.—Interest prescribed under this section on any tax may be assessed and collected at any time during the period within which the tax to which such interest relates may be collected."

26 USC 6504.

(b) CROSS REFERENCE.—Section 6504 (cross references) is amended by adding at the end thereof the following:

"(15) Assessment and collection of interest, see section 6601 (h)."

SEC. 85. FAILURE TO FILE CERTAIN INFORMATION RETURNS.

26 USC 6652.

Subsection (a) of section 6652 (relating to failure to file certain information returns) is amended to read as follows:

26 USC 6041, 6042, 6044, 6051.

"(a) ADDITIONAL AMOUNT.—In case of each failure to file a statement of a payment to another person, required under authority of section 6041 (relating to information at source), section 6042 (1) (relating to payments of corporate dividends), section 6044 (relating to patronage dividends), or section 6051 (d) (relating to information returns with respect to income tax withheld), on the date prescribed therefor (determined with regard to any extension of time for filing), unless it is shown that such failure is due to reasonable cause and not

to willful neglect, there shall be paid (upon notice and demand by the Secretary or his delegate and in the same manner as tax), by the person failing to so file the statement, $1 for each such statement not so filed, but the total amount imposed on the delinquent person for all such failures during any calendar year shall not exceed $1,000."

SEC. 86. DEFINITION OF UNDERPAYMENT.

26 USC 6653.

Section 6653 (c) (1) (relating to definition of underpayment) is amended by inserting "on or" after "such return was filed".

SEC. 87. TERMINATION OF TAXABLE YEAR IN CASE OF DEPARTING ALIENS.

26 USC 6851.

Subsection (d) of section 6851 (relating to departure of alien) is amended to read as follows:

"(d) DEPARTURE OF ALIEN.—Subject to such exceptions as may, by regulations, be prescribed by the Secretary or his delegate—

"(1) No alien shall depart from the United States unless he first procures from the Secretary or his delegate a certificate that he has complied with all the obligations imposed upon him by the income tax laws.

"(2) Payment of taxes shall not be enforced by any proceedings under the provisions of this section prior to the expiration of the time otherwise allowed for paying such taxes if, in the case of an alien about to depart from the United States, the Secretary or his delegate determines that the collection of the tax will not be jeopardized by the departure of the alien."

SEC. 88. BANKRUPTCY AND RECEIVERSHIP PROCEEDINGS.

26 USC 6871.

(a) IMMEDIATE ASSESSMENT.—Section 6871 (a) (relating to immediate assessment in bankruptcy and receivership proceedings) is amended by striking out "the approval of a petition of, or against, any taxpayer" and inserting in lieu thereof the following: "the filing or (where approval is required by the Bankruptcy Act) the approval of a petition of, or the approval of a petition against, any taxpayer".

30 Stat. 544.
11 USC 1 note.

(b) CLAIM FILED DESPITE PENDENCY OF TAX COURT PROCEEDINGS.—Section 6871 (b) (relating to claim filed despite pendency of Tax Court proceedings) is amended by striking out "approval of the petition" and inserting in lieu thereof "the filing or (where approval is required by the Bankruptcy Act) the approval of a petition of, or the approval of a petition against, any taxpayer".

SEC. 89. USE OF CERTIFIED MAIL.

26 USC 7502.

(a) TIMELY MAILING TREATED AS TIMELY FILING.—Section 7502 (c) (relating to the timely mailing of registered mail being treated as timely filing) is amended to read as follows:

"(c) REGISTERED AND CERTIFIED MAIL.—

"(1) REGISTERED MAIL.—If any such claim, statement, or other document is sent by United States registered mail, such registration shall be prima facie evidence that the claim, statement, or other document was delivered to the agency, office, or officer to which addressed, and the date of registration shall be deemed the postmark date.

"(2) CERTIFIED MAIL.—The Secretary or his delegate is authorized to provide by regulations the extent to which the provisions of paragraph (1) of this subsection with respect to prima facie evidence of delivery and the postmark date shall apply to certified mail."

26 USC 167, 534, 6164, 6212.

(b) OTHER PROVISIONS OF 1954 CODE.—Sections 167 (d) (relating to agreement as to useful life on which depreciation rate is based), 534 (b) (relating to notification by Secretary), 6164 (d) (2) (relating to period of extension of time for payment of taxes by corporations expecting carrybacks), 6212 (a) (relating to notice of deficiency),

26 USC 6212, 6532, 7455.

6212 (b) (2) (relating to address for notice of deficiency in the case of a joint income tax return), 6532 (a) (1) (relating to periods of limitation on suits by taxpayers for refunds), 6532 (a) (4) (relating to reconsideration after mailing of notice), and 7455 (relating to service of process) are each amended by striking out "registered mail" each place it appears and inserting in lieu thereof "certified mail or registered mail".

(c) PROVISIONS OF INTERNAL REVENUE CODE OF 1939.—In applying any provision of the Internal Revenue Code of 1939 which requires, or provides for, the use of registered mail, the reference to registered mail shall be treated as including a reference to certified mail.

(d) EFFECTIVE DATE.—This section shall apply only if the mailing occurs after the date of the enactment of this Act.

SEC. 90. REPRODUCTION OF RETURNS AND OTHER DOCUMENTS.

(a) AUTHORIZATION.—Chapter 77 (miscellaneous provisions) is amended by adding at the end thereof the following new section:

"SEC. 7513. REPRODUCTION OF RETURNS AND OTHER DOCUMENTS.

"(a) IN GENERAL.—The Secretary or his delegate is authorized to have any Federal agency or any person process films or other photoimpressions of any return, document, or other matter, and make reproductions from films or photoimpressions of any return, document, or other matter.

"(b) REGULATIONS.—The Secretary or his delegate shall prescribe regulations which shall provide such safeguards as in the opinion of the Secretary or his delegate are necessary or appropriate to protect the film, photoimpressions, and reproductions made therefrom, against any unauthorized use, and to protect the information contained therein against any unauthorized disclosure.

"(c) USE OF REPRODUCTIONS.—Any reproduction of any return, document, or other matter made in accordance with this section shall have the same legal status as the original; and any such reproduction shall, if properly authenticated, be admissible in evidence in any judicial or administrative proceeding, as if it were the original, whether or not the original is in existence.

"(d) PENALTY.—

"For penalty for violation of regulations for safeguarding against unauthorized use of any film or photoimpression, or reproduction made therefrom, and against unauthorized disclosure of information contained therein, see section 7213."

(b) The table of sections for chapter 77 is amended by adding at the end thereof the following:

"Sec. 7513. Reproduction of returns and other documents."

26 USC 7213.

(c) PENALTY FOR UNAUTHORIZED USE OR DISCLOSURE.—Section 7213 (relating to unauthorized disclosure of information) is amended by redesignating subsection (c) as subsection (d), and by inserting after subsection (b) the following new subsection:

"(c) OFFENSES RELATING TO REPRODUCTION OF DOCUMENTS.—Any person who uses any film or photoimpression, or reproduction therefrom, or who discloses any information contained in any such film, photoimpression, or reproduction, in violation of any provision of the regulations prescribed pursuant to section 7513 (b), shall be fined not more than $1,000, or imprisoned not more than 1 year, or both."

SEC. 91. SEALS FOR OFFICES OF TREASURY DEPARTMENT.

(a) AUTHORITY TO PRESCRIBE SEALS.—Chapter 77 (relating to miscellaneous provisions) is amended by adding after section 7513 (added by section 90 of this Act) the following new section:

"SEC. 7514. AUTHORITY TO PRESCRIBE OR MODIFY SEALS.

"The Secretary or his delegate is authorized to prescribe or modify seals of office for the district directors of internal revenue and other officers or employees of the Treasury Department to whom any of the functions of the Secretary shall have been or may be delegated. Each seal so prescribed shall contain such device as the Secretary or his delegate may select. Each seal shall remain in the custody of any officer or employee whom the Secretary or his delegate may designate, and, in accordance with the regulations approved by the Secretary or his delegate, may be affixed in lieu of the seal of the Treasury Department to any certificate or attestation (except for material to be published in the Federal Register) that may be required of such officer or employee. Judicial notice shall be taken of any seal prescribed in accordance with this authority, a facsimile of which has been published in the Federal Register together with the regulations prescribing such seal and the affixation thereof."

(b) TECHNICAL AMENDMENT.—The table of sections for such chapter is amended by adding at the end thereof the following:

"Sec. 7514. Authority to prescribe or modify seals."

SEC. 92. INCOME TAXES PAID UNDER CONTRACT.

(a) AMENDMENT OF 1939 CODE.—Section 22 of the Internal Revenue Code of 1939 is amended by adding after subsection (o) the following new subsection:

26 USC 75.

"(p) INCOME TAXES PAID UNDER CONTRACT BY ONE CORPORATION FOR ANOTHER CORPORATION.—If—

"(1) a contract was entered into before January 1, 1952,

"(2) under the contract, one party (hereinafter referred to as the 'payor') is obligated to pay, or to reimburse another party (hereinafter referred to as the 'payee') for any part of the tax imposed by this chapter on the payee with respect to the income derived under the contract by the payee from the payor, and

"(3) both the payor and the payee are corporations,

then gross income of the payee shall not include any such payment or reimbursement other than the payment or reimbursement of the tax imposed by this chapter on the payee with respect to the income derived under the contract by the payee from the payor, determined without the inclusion of any such payment or reimbursement in gross income, and a deduction for all such payments or reimbursements shall be allowed to the payor but only to the extent that any such payment or reimbursement is attributable to an amount paid by the payor to the payee under the contract (other than any payment or reimbursement of the tax imposed by this chapter) which is allowable as a deduction to the payor. For purposes of this subsection, a contract shall be considered to have been entered into before January 1, 1952, if it is a renewal or continuance of a contract entered into before such date and if such renewal or continuance was made in accordance with an option contained in the contract on December 31, 1951. For purposes of this subsection, a contract includes a lease."

(b) EFFECTIVE DATE, ETC.—The amendment made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1951, to which the Internal Revenue Code of 1939 applies. If refund or credit of any overpayment resulting from the application of the amendment made by subsection (a) of this section is prevented on the date of the enactment of this Act, or within 6 months from

such date, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code of 1939 or section 7121 of the Internal Revenue Code of 1954, relating to closing agreements, and other than section 3761 of the Internal Revenue Code of 1939 or section 7122 of the Internal Revenue Code of 1954, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within 6 months from such date. No interest shall be paid on any overpayment resulting from the application of the amendment made by subsection (a) of this section.

26 USC 7121.

26 USC 7122.

SEC. 93. BEQUESTS, ETC., TO SURVIVING SPOUSE.

(a) AMENDMENT OF 1939 CODE.—Section 812 (e) (1) (F) of the Internal Revenue Code of 1939 (relating to trust with power of appointment in surviving spouse) is amended to read as follows:

26 USC 2056.

"(F) LIFE ESTATE WITH POWER OF APPOINTMENT IN SURVIVING SPOUSE.—In the case of an interest in property passing from the decedent, if his surviving spouse is entitled for life to all the income from the entire interest, or all the income from a specific portion thereof, payable annually or at more frequent intervals, with power in the surviving spouse to appoint the entire interest, or such specific portion (exercisable in favor of such surviving spouse, or of the estate of such surviving spouse, or in favor of either, whether or not in each case the power is exercisable in favor of others), and with no power in any other person to appoint any part of the interest, or such specific portion, to any person other than the surviving spouse—

"(i) the interest or such portion thereof so passing shall, for purposes of subparagraph (A), be considered as passing to the surviving spouse, and

"(ii) no part of the interest so passing shall, for purposes of subparagraph (B) (i), be considered as passing to any person other than the surviving spouse.

This subparagraph shall apply only if such power in the surviving spouse to appoint the entire interest, or such specific portion thereof, whether exercisable by will or during life, is exercisable by such spouse alone and in all events."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to estates of decedents dying after April 1, 1948, and before August 17, 1954. If refund or credit of any overpayment resulting from the application of such amendment is prevented on the date of the enactment of this Act, or at any time within one year from such date, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code of 1939 or section 7121 of the Internal Revenue Code of 1954, relating to closing agreements, and other than section 3761 of the Internal Revenue Code of 1939 or section 7122 of the Internal Revenue Code of 1954, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within one year after the date of the enactment of this Act. No interest shall be allowed or paid on any overpayment resulting from the enactment of this section.

26 USC 7121.

26 USC 7122.

SEC. 94. CHANGE FROM RETIREMENT TO STRAIGHT LINE METHOD OF COMPUTING DEPRECIATION IN CERTAIN CASES.

(a) SHORT TITLE.—This section may be cited as the "Retirement-Straight Line Adjustment Act of 1958".

Retirement-Straight Line Adjustment Act of 1958.

(b) MAKING OF ELECTION.—Any taxpayer who held retirement-straight line property on his 1956 adjustment date may elect to have this section apply. Such an election shall be made at such time and in such manner as the Secretary shall prescribe. Any election under this section shall be irrevocable and shall apply to all retirement-straight line property as hereinafter provided in this section (including such property for periods when held by predecessors of the taxpayer).

(c) RETIREMENT-STRAIGHT LINE PROPERTY DEFINED.—For purposes of this section, the term "retirement-straight line property" means any property of a kind or class with respect to which the taxpayer or a predecessor (under the terms and conditions prescribed for him by the Commissioner) for any taxable year beginning after December 31, 1940, and before January 1, 1956, changed from the retirement to the straight line method of computing the allowance of deductions for depreciation.

(d) BASIS ADJUSTMENTS AS OF 1956 ADJUSTMENT DATE.—If the taxpayer has made an election under this section, then in determining the adjusted basis on his 1956 adjustment date of all retirement-straight line property held by the taxpayer, in lieu of the adjustments for depreciation provided in section 1016 (a) (2) and (3) of the Internal Revenue Code of 1954, the following adjustments shall be made (effective as of his 1956 adjustment date) in respect of all periods before the 1956 adjustment date:

26 USC 1016.

(1) DEPRECIATION SUSTAINED BEFORE MARCH 1, 1913.—For depreciation sustained before March 1, 1913, on retirement-straight line property held by the taxpayer or a predecessor on such date for which cost was or is claimed as basis and which either—

(A) RETIRED BEFORE CHANGEOVER.—Was retired by the taxpayer or a predecessor before the changeover date, but only if (i) a deduction was allowed in computing net income by reason of such retirement, and (ii) such deduction was computed on the basis of cost without adjustment for depreciation sustained before March 1, 1913. In the case of any such property retired during any taxable year beginning after December 31, 1929, the adjustment under this subparagraph shall not exceed that portion of the amount attributable to depreciation sustained before March 1, 1913, which resulted (by reason of the deduction so allowed) in a reduction in taxes under the Internal Revenue Code of 1954 or prior income, war-profits, or excess-profits tax laws.

(B) HELD ON CHANGEOVER DATE.—Was held by the taxpayer or a predecessor on the changeover date. This subparagraph shall not apply to property to which paragraph (2) applies.

The adjustment determined under this paragraph shall be allocated (in the manner prescribed by the Secretary) among all retirement-straight line property held by the taxpayer on his 1956 adjustment date.

(2) PROPERTY DISPOSED OF AFTER CHANGEOVER AND BEFORE 1956 ADJUSTMENT DATE.—For that portion of the reserve prescribed by the Commissioner in connection with the changeover which was applicable to property—

(A) sold, or

(B) with respect to which a deduction was allowed for Federal income tax purposes by reason of casualty or "abnormal" retirement in the nature of special obsolescence,

if such sale occurred in, or such deduction was allowed for, a period on or after the changeover date and before the taxpayer's 1956 adjustment date.

(3) DEPRECIATION ALLOWABLE FROM CHANGEOVER TO 1956 ADJUSTMENT DATE.—For depreciation allowable, under the terms and conditions prescribed by the Commissioner in connection with the changeover, for all periods on and after the changeover date and before the taxpayer's 1956 adjustment date.

This subsection shall apply only with respect to taxable years beginning after December 31, 1955.

(e) EFFECT ON PERIOD FROM CHANGEOVER TO 1956 ADJUSTMENT DATE.—If the taxpayer has made an election under this section, then in determining the adjusted basis of any retirement-straight line property as of any time on or after the changeover date and before the taxpayer's 1956 adjustment date, in lieu of the adjustments for depreciation provided in section 1016 (a) (2) and (3) of the Internal Revenue Code of 1954 and the corresponding provisions of prior revenue laws, the following adjustments shall be made:

26 USC 1016.

(1) FOR PRESCRIBED RESERVE.—For the amount of the reserve prescribed by the Commissioner in connection with the changeover.

(2) FOR ALLOWABLE DEPRECIATION.—For the depreciation allowable under the terms and conditions prescribed by the Commissioner in connection with the changeover.

This subsection shall not apply in determining adjusted basis for purposes of section 437 (c) of the Internal Revenue Code of 1939. This subsection shall apply only with respect to taxable years beginning on or after the changeover date and before the taxpayer's 1956 adjustment date.

(f) EQUITY INVESTED CAPITAL, ETC.—If an election is made under this section, then (notwithstanding the terms and conditions prescribed by the Commissioner in connection with the changeover)—

(1) EQUITY INVESTED CAPITAL.—In determining equity invested capital under sections 458 and 718 of the Internal Revenue Code of 1939, accumulated earnings and profits as of the changeover date, and as of the beginning of each taxable year thereafter, shall be reduced by the depreciation sustained before March 1, 1913, as computed under subsection (d) (1) (B); and

(2) DEFINITION OF EQUITY CAPITAL.—In determining the adjusted basis of assets for the purpose of section 437 (c) of the Internal Revenue Code of 1939 (and in addition to any other adjustments required by such Code), the basis shall be reduced by depreciation sustained before March 1, 1913 (as computed under subsection (d)), together with any depreciation allowable under subsection (e) (2) for any period before the year for which the excess profits credit is being computed.

(g) DEFINITIONS.—For purposes of this section—

(1) DEPRECIATION.—The term "depreciation" means exhaustion, wear and tear, and obsolescence.

(2) CHANGEOVER.—The term "changeover" means a change from the retirement to the straight line method of computing the allowance of deductions for depreciation.

(3) CHANGEOVER DATE.—The term "changeover date" means the first day of the first taxable year for which the changeover was effective.

(4) 1956 ADJUSTMENT DATE.—The term "1956 adjustment date" means, in the case of any taxpayer, the first day of his first taxable year beginning after December 31, 1955.

(5) PREDECESSOR.—The term "predecessor" means any person from whom property of a kind or class to which this section refers

was acquired, if the basis of such property is determined by reference to its basis in the hands of such person. Where a series of transfers of property has occurred and where in each instance the basis of the property was determined by reference to its basis in the hands of the prior holder, the term includes each such prior holder.

(6) The term "Secretary" means the Secretary of the Treasury or his delegate.

(7) The term "Commissioner" means the Commissioner of Internal Revenue.

SEC. 95. AMENDMENTS TO 1954 CODE WITH RESPECT TO PROPERTY ACQUIRED FROM RETIREMENT METHOD CORPORATION.

(a) General Rule.—Section 372 of the Internal Revenue Code of 1954 (relating to basis in connection with certain receivership and bankruptcy proceedings) is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

26 USC 372.

"(b) Adjustment for Depreciation Sustained Before March 1, 1913, in Certain Cases of Property Acquired From Retirement Method Corporations.—

"(1) In general.—If the taxpayer has acquired property in a transaction described in section 373 (b) or 374 (b), and if any such property constitutes retirement-straight line property, then, in determining the adjusted basis of all retirement-straight line property held by the taxpayer on his adjustment date, adjustment shall be made (in lieu of the adjustment provided in section 1016 (a) (3) (A)) for depreciation sustained before March 1, 1913, on retirement-straight line property which was held on such date for which cost was or is claimed as basis, and which either—

26 USC 373, 374.

"(A) Retired before acquisition by taxpayer.—Was retired before the acquisition of the retirement-straight line property by the taxpayer, but only if a deduction was allowed in computing net income by reason of such retirement, and such deduction was computed on the basis of cost without adjustment for depreciation sustained before March 1, 1913. In the case of any such property retired during any taxable year beginning after December 31, 1929, the adjustment under this subparagraph shall not exceed that portion of the amount attributable to depreciation sustained before March 1, 1913, which resulted (by reason of the deduction so allowed) in a reduction in taxes under this subtitle or prior income, war-profits, or excess-profits tax laws.

"(B) Acquired by taxpayer.—Was acquired by the taxpayer.

The adjustment determined under this paragraph shall be allocated (in the manner prescribed by the Secretary or his delegate) among all retirement-straight line property held by the taxpayer on his adjustment date. Such adjustment shall apply to all periods on and after the adjustment date.

"(2) Retirement-straight line property defined.—For purposes of this subsection, the term 'retirement-straight line property' means any property of a kind or class with respect to which (A) the corporation transferring such property to the taxpayer was using (at the time of transfer) the retirement method of computing the allowance of deductions for depreciation, and (B) the acquiring corporation has adopted any other method of computing such allowance.

"(3) OTHER DEFINITIONS.—For purposes of this subsection:

"(A) DEPRECIATION.—The term 'depreciation' means exhaustion, wear and tear, and obsolescence.

"(B) ADJUSTMENT DATE.—In the case of any kind or class of property, the term 'adjustment date' means whichever of the following is the later:

"(i) the first day of the taxpayer's first taxable year beginning after December 31, 1955, or

"(ii) the first day of the first taxable year in which the taxpayer uses a method of computing the allowance of deductions for depreciation other than the retirement method."

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by subsection (a) shall apply only to taxable years beginning after December 31, 1955.

(2) EXCEPTION.—The amendments made by subsection (a) shall not apply with respect to any taxpayer if, before the date of the enactment of this Act, there has been a determination, for any taxable year, of the adjusted basis of retirement-straight line property of the taxpayer of the type described in section 372 (b) of the Internal Revenue Code of 1954 (as added by subsection (a)) by the Tax Court of the United States, or by any other court of competent jurisdiction, in any proceeding in which the decision of the court became final after December 31, 1955, and which established the right of the taxpayer to use the straight line depreciation method of computing the annual depreciation allowance with respect to such property for Federal tax purposes for any year.

26 USC 372.

SEC. 96. EXTENSION OF TIME FOR FILING CLAIMS FOR REFUNDS OF OVERPAYMENTS OF INCOME TAX BASED UPON EDUCATION EXPENSES PAID OR INCURRED IN 1954.

If refund or credit of any overpayment of income tax—

(1) for any taxable year beginning after December 31, 1953, and ending after August 16, 1954, and

(2) resulting from the application of section 162 of the Internal Revenue Code of 1954 (relating to trade or business expenses) insofar as such section relates to expenses described in Income Tax Regulations § 1.162-5 (relating to expenses for education) as promulgated by Treasury Decision 6291 (23 Federal Register 2244),

26 USC 162.

is prevented on the date of the enactment of this Act, or within 60 days after such date, by the operation of any law or rule of law (other than chapter 74 of the Internal Revenue Code of 1954, relating to closing agreements and compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor has been filed on or before such date or is filed within 60 days after such date.

26 USC 7121-7123.

SEC. 97. DEDUCTIBILITY OF ACCRUED VACATION PAY.

26 USC 162.

Deduction under section 162 of the Internal Revenue Code of 1954 for accrued vacation pay, computed in accordance with the method of accounting consistently followed by the taxpayer in arriving at such deduction, shall not be denied for any taxable year ending before January 1, 1961, solely by reason of the fact that (1) the liability for the vacation pay to a specific person has not been clearly established, or (2) the amount of the liability to each individual is not capable of computation with reasonable accuracy, if at the time of the accrual the employee in respect of whom the vacation pay is accrued has performed the qualifying service necessary under a plan or policy (communicated to the employee before the beginning of the vacation year) which provides for vacations with pay to qualified employees.

SEC. 98. EXTENSION OF TIME FOR MAKING REFUND OF OVERPAYMENTS OF INCOME TAX RESULTING FROM ERRONEOUS INCLUSION OF CERTAIN COMPENSATION FOR INJURIES OR SICKNESS.

In the case of any overpayment of income tax resulting from the inclusion as an item of gross income of any amount which was excludable from gross income under section 22 (b) (5) of the Internal Revenue Code of 1939 (relating to compensation for injuries or sickness) as an amount received, through accident or health insurance, as compensation for personal injuries or sickness, if claim for credit or refund of such overpayment was filed after December 31, 1951, and within the time prescribed by law, the period prescribed by section 3772 (a) (2) of such Code (relating to time for commencing suits for refunds) shall not expire prior to one year after the date of the enactment of this Act.

26 USC 104.

26 USC 6532.

SEC. 99. AMOUNTS RECEIVED BY CERTAIN MOTOR CARRIERS IN SETTLEMENT OF CLAIMS AGAINST THE UNITED STATES.

Notwithstanding the provisions of section 42 of the Internal Revenue Code of 1939, an amount received in settlement of any claim against the United States arising out of the taking by the United States (pursuant to Executive Order Numbered 9462, dated August 11, 1944 (3 C. F. R., 1943-1948, p. 322)) of possession or control of any motor carrier transportation system owned or operated by the taxpayer shall, at the election of the taxpayer, under regulations prescribed by the Secretary of the Treasury or his delegate, be deemed to be income which was received or accrued in the taxable years during which such motor carrier transportation system was in the possession or control of the United States. The election referred to in the preceding sentence shall be made, under regulations prescribed by the Secretary of the Treasury or his delegate, within one year after the date of the enactment of this Act, and, if made, shall be irrevocable. The period for assessment of any deficiency attributable to the inclusion of income in any taxable year of the taxpayer by reason of the application of this section shall not expire prior to one year after the date on which the taxpayer makes the election referred to in the first sentence, notwithstanding the provisions of section 275 of the Internal Revenue Code of 1939 or any other provision of law or rule of law which would otherwise prevent such assessment. Notwithstanding section 292 of the Internal Revenue Code of 1939, no interest shall be assessed or collected for any period prior to March 15, 1953, with respect to that part of any deficiency which is attributable to the inclusion of income in any taxable year by reason of the application of this section.

26 USC 451,454.

26 USC 6501.

26 USC 6155, 6601.

SEC. 100. REASONABLE CAUSE FOR FAILURE TO FILE RETURN.

The second sentence of section 106 of the Internal Revenue Code of 1939 (relating to reasonable cause for failure to file a return in cases involving certain claims against the United States) shall apply with respect to taxable years ending after December 31, 1942, in any case in which an amount is received in any taxable year ending after such date by a taxpayer in settlement of a claim arising under the same contract as a claim the settlement of which resulted in the receipt in a subsequent taxable year of an amount to which section 106 (b) of such Code applies. If refund or credit of any overpayment resulting from the application of the preceding sentence is prevented on the date of enactment of this Act, or at any time within one year after such date, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code of 1939 or section 7121 of the Internal Revenue Code of 1954, relating to closing agreements, and other than section 3761 of the Internal Revenue Code of 1939 or

26 USC 1347.

26 USC 7121.

26 USC 7122.

section 7122 of the Internal Revenue Code of 1954, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within one year after the date of enactment of this Act.

SEC. 101. DEFINITION OF EARNINGS AND PROFITS IN THE CASE OF REGULATED INVESTMENT COMPANIES.

26 USC 852.

(a) AMENDMENT OF SECTION 852 (a).—Section 852 (a) (relating to requirements applicable to regulated investment companies) is amended by striking out "this subchapter" and inserting in lieu thereof "this subchapter (other than subsection (c) of this section)".

(b) AMENDMENT OF SECTION 852 (c).—Section 852 (c) (relating to definition of earnings and profits in the case of regulated investment companies) is amended by adding at the end thereof the following new sentence: "For purposes of this subsection, the term 'regulated investment company' includes a domestic corporation which is a regulated investment company determined without regard to the requirements of subsection (a)."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years of regulated investment companies beginning on or after March 1, 1958.

SEC. 102. APPLICATION OF ESTATE AND GIFT TAXES IN POSSESSIONS.

(a) ESTATE TAX.—Subchapter C of chapter 11 (relating to miscellaneous estate tax provisions) is amended by adding at the end thereof the following new section:

"SEC. 2208. CERTAIN RESIDENTS OF POSSESSIONS CONSIDERED CITIZENS OF THE UNITED STATES.

"A decedent who was a citizen of the United States and a resident of a possession thereof at the time of his death shall, for purposes of the tax imposed by this chapter, be considered a 'citizen' of the United States within the meaning of that term wherever used in this title unless he acquired his United States citizenship solely by reason of (1) his being a citizen of such possession of the United States, or (2) his birth or residence within such possession of the United States."

26 USC 2501.

(b) GIFT TAX.—Section 2501 (relating to imposition of gift tax) is amended by redesignating subsection (b) to be subsection (c) and by adding after subsection (a) the following new subsection:

"(b) CERTAIN RESIDENTS OF POSSESSIONS CONSIDERED CITIZENS OF THE UNITED STATES.—A donor who is a citizen of the United States and a resident of a possession thereof shall, for purposes of the tax imposed by this chapter, be considered a 'citizen' of the United States within the meaning of that term wherever used in this title unless he acquired his United States citizenship solely by reason of (1) his being a citizen of such possession of the United States, or (2) his birth or residence within such possession of the United States."

(c) RELATED AMENDMENTS.—

26 USC 2011.

(1) Section 2011 (a) (relating to the credit for estate, inheritance, legacy, or succession taxes) is amended by striking out "or any possession of the United States,".

26 USC 2014.

(2) Section 2014 (relating to credit for foreign death taxes) is amended by adding at the end thereof the following new subsection:

"(f) POSSESSION OF UNITED STATES DEEMED A FOREIGN COUNTRY.—For purposes of the credits authorized by this section, each possession of the United States shall be deemed to be a foreign country."

(3) Section 2053 (d) (1) (relating to the deduction for estate, inheritance, legacy, or succession taxes paid in respect of a transfer for public, charitable, or religious uses) is amended by striking out "or any possession of the United States,".

26 USC 2053.

(4) The table of sections for subchapter C of chapter 11 is amended by adding at the end thereof the following:

"Sec. 2208. Certain residents of possessions considered citizens of the United States."

(d) EFFECTIVE DATE.—The amendments made by this section (other than by subsection (b)) shall apply to the estates of decedents dying after the date of the enactment of this Act. The amendment made by subsection (b) shall apply to gifts made after the date of the enactment of this Act.

SEC. 103. FOREIGN TAX CREDIT FOR UNITED KINGDOM INCOME TAX PAID WITH RESPECT TO ROYALTIES, ETC.

(a) CREDIT UNDER 1939 CODE.—Section 131 (e) of the Internal Revenue Code of 1939 (relating to the foreign tax credit) is hereby amended by adding at the end thereof the following new sentence: "For the purposes of this section, the recipient of a royalty or other amount paid or accrued as consideration for the use of, or for the privilege of using, copyrights, patents, designs, secret processes and formulas, trademarks, and other like property, and derived from sources within the United Kingdom of Great Britain and Northern Ireland, shall be deemed to have paid or accrued any income, war-profits, and excess-profits taxes paid or accrued to the United Kingdom with respect to such royalty or other amount (including the amount by which the payor's United Kingdom tax was increased by inability to deduct such royalty or other amount) if such recipient elects to include in its gross income the amount of such United Kingdom tax."

26 USC 905.

(b) CREDIT UNDER 1954 CODE.—Section 905 (b) of the Internal Revenue Code of 1954 is hereby amended by adding at the end thereof the following new sentence: "For purposes of this subpart, the recipient of a royalty or other amount paid or accrued as consideration for the use of, or for the privilege of using, copyrights, patents, designs, secret processes and formulas, trademarks, and other like property, and derived from sources within the United Kingdom of Great Britain and Northern Ireland, shall be deemed to have paid or accrued any income, war-profits and excess-profits taxes paid or accrued to the United Kingdom with respect to such royalty or other amount (including the amount by which the payor's United Kingdom tax was increased by inability to deduct such royalty or other amount) if such recipient elects to include in its gross income the amount of such United Kingdom tax."

(c) EFFECTIVE DATE.—The amendment made by subsection (a) of this section shall apply for all taxable years beginning on or after January 1, 1950, as to which section 131 of the Internal Revenue Code of 1939 is the applicable provision. The amendment made by subsection (b) of this section shall apply with respect to taxable years beginning after December 31, 1953, and ending after August 16, 1954. No interest shall be allowed or paid on any overpayment resulting from the amendments made by subsections (a) and (b) of this section.

26 USC 901, 902, 903, 904, 905, 6155, 7101.

TITLE II—SMALL BUSINESS TAX REVISION ACT OF 1958

SECTION 201. SHORT TITLE.

This title may be cited as the "Small Business Tax Revision Act of 1958".

SEC. 202. LOSSES ON SMALL BUSINESS STOCK.

(a) CROSS REFERENCE.—Section 165 of the Internal Revenue Code of 1954 (relating to deduction for losses) is amended by adding at the end of subsection (h) the following new paragraph—

26 USC 165.

"(5) For special rule for losses on small business stock, see section 1244."

(b) TREATMENT AS ORDINARY LOSS.—Part IV of subchapter P of chapter 1 of the Internal Revenue Code of 1954 (relating to special rules for determining capital gains and losses) is amended by adding after section 1243 (as added by section 57 of this Act) the following new section:

"SEC. 1244. LOSSES ON SMALL BUSINESS STOCK.

"(a) GENERAL RULE.—In the case of an individual, a loss on section 1244 stock issued to such individual or to a partnership which would (but for this section) be treated as a loss from the sale or exchange of a capital asset shall, to the extent provided in this section, be treated as a loss from the sale or exchange of an asset which is not a capital asset.

"(b) MAXIMUM AMOUNT FOR ANY TAXABLE YEAR.—For any taxable year the aggregate amount treated by the taxpayer by reason of this section as a loss from the sale or exchange of an asset which is not a capital asset shall not exceed—

"(1) $25,000, or

"(2) $50,000, in the case of a husband and wife filing a joint return for such year under section 6013.

"(c) SECTION 1244 STOCK DEFINED.—

"(1) IN GENERAL.—For purposes of this section, the term 'section 1244 stock' means common stock in a domestic corporation if—

"(A) such corporation adopted a plan after June 30, 1958, to offer such stock for a period (ending not later than two years after the date such plan was adopted) specified in the plan,

"(B) at the time such plan was adopted, such corporation was a small business corporation,

"(C) at the time such plan was adopted, no portion of a prior offering was outstanding,

"(D) such stock was issued by such corporation, pursuant to such plan, for money or other property (other than stock and securities), and

"(E) such corporation, during the period of its 5 most recent taxable years ending before the date the loss on such stock is sustained (or if such corporation has not been in existence for 5 taxable years ending before such date, during the period of its taxable years ending before such date, or if such corporation has not been in existence for one taxable year ending before such date, during the period such corporation has been in existence before such date), derived more than 50 percent of its aggregate gross receipts from sources other than royalties, rents, dividends, interest, annuities, and sales or exchanges of stock or securities (gross receipts from such sales or exchanges being taken into account for purposes of this subparagraph only to the extent

of gains therefrom); except that this subparagraph shall not apply with respect to any corporation if, for the period referred to, the amount of the deductions allowed by this chapter (other than by sections 172, 242, 243, 244, and 245) exceed the amount of gross income.

26 USC 172, 242-245.

Such term does not include stock if issued (pursuant to the plan referred to in subparagraph (A)) after a subsequent offering of stock has been made by the corporation.

"(2) SMALL BUSINESS CORPORATION DEFINED.—For purposes of this section, a corporation shall be treated as a small business corporation if at the time of the adoption of the plan—

"(A) the sum of—

"(i) the aggregate amount which may be offered under the plan, plus

"(ii) the aggregate amount of money and other property (taken into account in an amount, as of the time received by the corporation, equal to the adjusted basis to the corporation of such property for determining gain, reduced by any liabilities to which the property was subject or which were assumed by the corporation at such time) received by the corporation after June 30, 1958, for stock, as a contribution to capital, and as paid-in surplus,

does not exceed $500,000; and

"(B) the sum of—

"(i) the aggregate amount which may be offered under the plan, plus

"(ii) the equity capital of the corporation (determined on the date of the adoption of the plan),

does not exceed $1,000,000.

For purposes of subparagraph (B), the equity capital of a corporation is the sum of its money and other property (in an amount equal to the adjusted basis of such property for determining gain), less the amount of its indebtedness (other than indebtedness to shareholders).

"(d) SPECIAL RULES.—

"(1) LIMITATIONS ON AMOUNT OF ORDINARY LOSS.—

"(A) CONTRIBUTIONS OF PROPERTY HAVING BASIS IN EXCESS OF VALUE.—If—

"(i) section 1244 stock was issued in exchange for property,

"(ii) the basis of such stock in the hands of the taxpayer is determined by reference to the basis in his hands of such property, and

"(iii) the adjusted basis (for determining loss) of such property immediately before the exchange exceeded its fair market value at such time,

then in computing the amount of the loss on such stock for purposes of this section the basis of such stock shall be reduced by an amount equal to the excess described in clause (iii).

"(B) INCREASES IN BASIS.—In computing the amount of the loss on stock for purposes of this section, any increase in the basis of such stock (through contributions to the capital of the corporation, or otherwise) shall be treated as allocable to stock which is not section 1244 stock.

"(2) RECAPITALIZATIONS, CHANGES IN NAME, ETC.—To the extent provided in regulations prescribed by the Secretary or his delegate, common stock in a corporation, the basis of which (in the

hands of a taxpayer) is determined in whole or in part by reference to the basis in his hands of stock in such corporation which meets the requirements of subsection (c) (1) (other than subparagraph (E) thereof), or which is received in a reorganization described in section 368 (a) (1) (F) in exchange for stock which meets such requirements, shall be treated as meeting such requirements. For purposes of paragraphs (1) (E) and (2) (A) of subsection (c), a successor corporation in a reorganization described in section 368 (a) (1) (F) shall be treated as the same corporation as its predecessor.

26 USC 368.

"(3) RELATIONSHIP TO NET OPERATING LOSS DEDUCTION.—For purposes of section 172 (relating to the net operating loss deduction), any amount of loss treated by reason of this section as a loss from the sale or exchange of an asset which is not a capital asset shall be treated as attributable to a trade or business of the taxpayer.

26 USC 172.

"(4) INDIVIDUAL DEFINED.—For purposes of this section, the term 'individual' does not include a trust or estate.

"(e) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section."

(c) TECHNICAL AMENDMENT.—The table of sections for such part IV is amended by adding at the end thereof the following new item:

"Sec. 1244. Losses on small business stock."

SEC. 203. THREE-YEAR NET OPERATING LOSS CARRYBACK.

(a) ALLOWANCE.—Paragraph (1), and so much of paragraph (2) as precedes the third sentence thereof, of section 172 (b) of the Internal Revenue Code of 1954 (relating to net operating loss deduction) are amended to read as follows:

26 USC 172.

"(b) NET OPERATING LOSS CARRYBACKS AND CARRYOVERS.—

"(1) YEARS TO WHICH LOSS MAY BE CARRIED.—A net operating loss for any taxable year ending after December 31, 1957, shall be—

"(A) a net operating loss carryback to each of the 3 taxable years preceding the taxable year of such loss, and

"(B) a net operating loss carryover to each of the 5 taxable years following the taxable year of such loss.

"(2) AMOUNT OF CARRYBACKS AND CARRYOVERS.—Except as provided in subsection (i), the entire amount of the net operating loss for any taxable year (hereinafter in this section referred to as the 'loss year') shall be carried to the earliest of the 8 taxable years to which (by reason of subparagraphs (A) and (B) of paragraph (1)) such loss may be carried. The portion of such loss which shall be carried to each of the other 7 taxable years shall be the excess, if any, of the amount of such loss over the sum of the taxable income for each of the prior taxable years to which such loss may be carried."

(b) TAXABLE YEARS BEGINNING IN 1957 AND ENDING IN 1958.—Section 172 of such Code is amended by relettering subsection (i) as subsection (j), and by inserting after subsection (h) (as added by section 64 of this Act) the following new subsection:

"(i) CARRYBACK OF NET OPERATING LOSS FOR TAXABLE YEARS BEGINNING IN 1957 AND ENDING IN 1958.—In the case of a taxable year beginning in 1957 and ending in 1958, the amount of any net operating loss for such year which shall be carried to the third preceding taxable year is the amount which bears the same ratio to such net operating loss as the number of days in the loss year after December 31, 1957, bears to the total number of days in such year. In determining the amount carried to any other taxable year, the reduction for the third taxable year preceding the loss year shall not exceed the portion

of the net operating loss which is carried to the third preceding taxable year."

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply in respect of net operating losses for taxable years ending after December 31, 1957.

SEC. 204. ADDITIONAL FIRST-YEAR DEPRECIATION ALLOWANCE FOR SMALL BUSINESS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to itemized deductions for individuals and corporations) is amended by adding after section 178 (as added by section 15 of this Act) the following new section:

"SEC. 179. ADDITIONAL FIRST-YEAR DEPRECIATION ALLOWANCE FOR SMALL BUSINESS.

"(a) GENERAL RULE.—In the case of section 179 property, the term 'reasonable allowance' as used in section 167 (a) may, at the election of the taxpayer, include an allowance, for the first taxable year for which a deduction is allowable under section 167 to the taxpayer with respect to such property, of 20 percent of the cost of such property.

26 USC 167.

(b) DOLLAR LIMITATION.—If in any one taxable year the cost of section 179 property with respect to which the taxpayer may elect an allowance under subsection (a) for such taxable year exceeds $10,000, then subsection (a) shall apply with respect to those items selected by the taxpayer, but only to the extent of an aggregate cost of $10,000. In the case of a husband and wife who file a joint return under section 6013 for the taxable year, the limitation under the preceding sentence shall be $20,000 in lieu of $10,000.

"(c) ELECTION.—

"(1) IN GENERAL.—The election under this section for any taxable year shall be made within the time prescribed by law (including extensions thereof) for filing the return for such taxable year. The election shall be made in such manner as the Secretary or his delegate may by regulations prescribe.

"(2) ELECTION IRREVOCABLE.—Any election made under this section may not be revoked except with the consent of the Secretary or his delegate.

"(d) DEFINITIONS AND SPECIAL RULES.—

"(1) SECTION 179 PROPERTY.—For purposes of this section, the term 'section 179 property' means tangible personal property—

"(A) of a character subject to the allowance for depreciation under section 167,

"(B) acquired by purchase after December 31, 1957, for use in a trade or business or for holding for production of income, and

"(C) with a useful life (determined at the time of such acquisition) of 6 years or more.

"(2) PURCHASE DEFINED.—For purposes of paragraph (1), the term 'purchase' means any acquisition of property, but only if—

"(A) the property is not acquired from a person whose relationship to the person acquiring it would result in the disallowance of losses under section 267 or 707 (b) (but, in applying section 267 (b) and (c) for purposes of this section, paragraph (4) of section 267 (c) shall be treated as providing that the family of an individual shall include only his spouse, ancestors, and lineal descendants),

26 USC 267, 707.

"(B) the property is not acquired by one member of an affiliated group from another member of the same affiliated group, and

"(C) the basis of the property in the hands of the person acquiring it is not determined—

"(i) in whole or in part by reference to the adjusted basis of such property in the hands of the person from whom acquired, or

"(ii) under section 1014 (a) (relating to property acquired from a decedent).

26 USC 1014.

"(3) COST.—For purposes of this section, the cost of property does not include so much of the basis of such property as is determined by reference to the basis of other property held at any time by the person acquiring such property.

"(4) SECTION NOT TO APPLY TO TRUSTS.—This section shall not apply to trusts.

26 USC 167.

"(5) ESTATES.—In the case of an estate, any amount apportioned to an heir, legatee, or devisee under section 167 (g) shall not be taken into account in applying subsection (b) of this section to section 179 property of such heir, legatee, or devisee not held by such estate.

"(6) DOLLAR LIMITATION OF AFFILIATED GROUP.—For purposes of subsection (b) of this section—

"(A) all members of an affiliated group shall be treated as one taxpayer, and

"(B) the Secretary or his delegate shall apportion the dollar limitation contained in such subsection (b) among the members of such affiliated group in such manner as he shall by regulations prescribe.

26 USC 1504.

"(7) AFFILIATED GROUP DEFINED.—For purposes of paragraphs (2) and (6), the term 'affiliated group' has the meaning assigned to it by section 1504, except that, for such purposes, the phrase 'more than 50 percent' shall be substituted for the phrase 'at least 80 percent' each place it appears in section 1504 (a).

26 USC 1016.

"(8) ADJUSTMENT TO BASIS; WHEN MADE.—In applying section 167 (f), the adjustment under section 1016 (a) (2) resulting by reason of an election made under this section with respect to any section 179 property shall be made before any other deduction allowed by section 167 (a) is computed.

"(e) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section."

(b) TECHNICAL AMENDMENT.—The table of sections for such part VI is amended by adding at the end thereof the following new item:

"Sec. 179. Additional first-year depreciation allowance for small business."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years ending after June 30, 1958.

SEC. 205. INCREASE OF MINIMUM ACCUMULATED EARNINGS CREDIT.

26 USC 535, 1551.

(a) INCREASE.—Paragraphs (2) (relating to minimum accumulated earnings credit) and (3) (relating to accumulated earnings credit for holding and investment companies) of section 535 (c), and section 1551 (relating to disallowance of surtax exemption and accumulated earnings credit), of the Internal Revenue Code of 1954 are each amended by striking out "$60,000" and inserting in lieu thereof "$100,000".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1957.

SEC. 206. INSTALLMENT PAYMENTS OF ESTATE TAX ATTRIBUTABLE TO INVESTMENTS IN CLOSELY HELD BUSINESS ENTERPRISE.

(a) INSTALLMENT PAYMENTS PERMITTED.—Subchapter B of chapter 62 of the Internal Revenue Code of 1954 (relating to extensions of time for payment) is amended by adding at the end thereof the following new section:

"SEC. 6166. EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX WHERE ESTATE CONSISTS LARGELY OF INTEREST IN CLOSELY HELD BUSINESS.

"(a) EXTENSION PERMITTED.—If the value of an interest in a closely held business which is included in determining the gross estate of a decedent who was (at the date of his death) a citizen or resident of the United States exceeds either—

"(1) 35 percent of the value of the gross estate of such decedent, or

"(2) 50 percent of the taxable estate of such decedent,

the executor may elect to pay part or all of the tax imposed by section 2001 in two or more (but not exceeding 10) equal installments. Any such election shall be made not later than the time prescribed by section 6075 (a) for filing the return of such tax (including extensions thereof), and shall be made in such manner as the Secretary or his delegate shall by regulations prescribe. If an election under this section is made, the provisions of this subtitle shall apply as though the Secretary or his delegate were extending the time for payment of the tax. For purposes of this section, value shall be value determined for Federal estate tax purposes.

26 USC 2001.

26 USC 6075.

"(b) LIMITATION.—The maximum amount of tax which may be paid in installments as provided in this section shall be an amount which bears the same ratio to the tax imposed by section 2001 (reduced by the credits against such tax) as the value of the interest in a closely held business which qualifies under subsection (a) bears to the value of the gross estate.

"(c) CLOSELY HELD BUSINESS.—For purposes of this section, the term 'interest in a closely held business' means—

"(1) an interest as a proprietor in a trade or business carried on as a proprietorship.

"(2) an interest as a partner in a partnership carrying on a trade or business, if—

"(A) 20 percent or more of the total capital interest in such partnership is included in determining the gross estate of the decedent, or

"(B) such partnership had 10 or less partners,

"(3) stock in a corporation carrying on a trade or business, if—

"(A) 20 percent or more in value of the voting stock of such corporation is included in determining the gross estate of the decedent, or

"(B) such corporation had 10 or less shareholders.

For purposes of this subsection, determinations shall be made as of the time immediately before the decedent's death.

"(d) SPECIAL RULE FOR INTERESTS IN TWO OR MORE CLOSELY HELD BUSINESSES.—For purposes of subsections (a), (b), and (h) (1), interests in two or more closely held businesses, with respect to each of which there is included in determining the value of the decedent's gross estate more than 50 percent of the total value of each such business, shall be treated as an interest in a single closely held business. For purposes of the 50 percent requirement of the preceding sentence, an interest in a closely held business which represents the surviving

spouse's interest in property held by the decedent and the surviving spouse as community property shall be treated as having been included in determining the value of the decedent's gross estate.

"(e) DATE FOR PAYMENT OF INSTALLMENTS.—If an election is made under subsection (a), the first installment shall be paid on or before the date prescribed by section 6151 (a) for payment of the tax, and each succeeding installment shall be paid on or before the date which is one year after the date prescribed by this subsection for payment of the preceding installment.

26 USC 6151.

"(f) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election is made under subsection (a) to pay any part of the tax imposed by section 2001 in installments and a deficiency has been assessed, the deficiency shall (subject to the limitation provided by subsection (b)) be prorated to such installments. The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as a part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary or his delegate. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

26 USC 2001.

"(g) TIME FOR PAYMENT OF INTEREST.—If the time for payment of any amount of tax has been extended under this section, interest payable under section 6601 on any unpaid portion of such amount shall be paid annually at the same time as, and as a part of, each installment payment of the tax. Interest, on that part of a deficiency prorated under this section to any installment the date for payment of which has not arrived, for the period before the date fixed for the last installment preceding the assessment of the deficiency, shall be paid upon notice and demand from the Secretary or his delegate. In applying section 6601 (b) (relating to the application of the 4-percent rate of interest in the case of certain extensions of time to pay estate tax) in the case of a deficiency, the entire amount which is prorated to installments under this section shall be treated as an amount of tax the payment of which is extended under this section.

26 USC 6601.

"(h) ACCELERATION OF PAYMENT.—

"(1) WITHDRAWAL OF FUNDS FROM BUSINESS; DISPOSITION OF INTEREST.—

"(A) If—

"(i) aggregate withdrawals of money and other property from the trade or business, an interest in which qualifies under subsection (a), made with respect to such interest, equal or exceed 50 percent of the value of such trade or business, or

"(ii) 50 percent or more in value of an interest in a closely held business which qualifies under subsection (a) is distributed, sold, exchanged, or otherwise disposed of,

then the extension of time for payment of tax provided in this section shall cease to apply, and any unpaid portion of the tax payable in installments shall be paid upon notice and demand from the Secretary or his delegate.

"(B) In the case of a distribution in redemption of stock to which section 303 (or so much of section 304 as relates to section 303) applies—

26 USC 303, 304.

"(i) subparagraph (A) (i) does not apply with respect to withdrawals of money and other property distributed; and for purposes of such subparagraph the value of the trade or business shall be considered to be such value reduced by the amount of money and other property distributed, and

"(ii) subparagraph (A) (ii) does not apply with respect to the stock redeemed; and for purposes of such subparagraph the interest in the closely held business shall be considered to be such interest reduced by the value of the stock redeemed.

This subparagraph shall apply only if, on or before the date prescribed by subsection (e) for payment of the first installment which becomes due after the date of the distribution, there is paid an amount of the tax imposed by section 2001 not less than the amount of money and other property distributed.

"(C) Subparagraph (A) (ii) does not apply to an exchange of stock pursuant to a plan of reorganization described in subparagraph (D), (E), or (F) of section 368 (a) (1) nor to an exchange to which section 355 (or so much of section 356 as relates to section 355) applies; but any stock received in such an exchange shall be treated for purposes of such subparagraph as an interest qualifying under subsection (a).

26 USC 355, 356.

"(D) Subparagraph (A) (ii) does not apply to a transfer of property of the decedent by the executor to a person entitled to receive such property under the decedent's will or under the applicable law of descent and distribution.

"(2) UNDISTRIBUTED INCOME OF ESTATE.—

"(A) If an election is made under this section and the estate has undistributed net income for any taxable year after its fourth taxable year, the executor shall, on or before the date prescribed by law for filing the income tax return for such taxable year (including extensions thereof), pay an amount equal to such undistributed net income in liquidation of the unpaid portion of the tax payable in installments.

"(B) For purposes of subparagraph (A), the undistributed net income of the estate for any taxable year is the amount by which the distributable net income of the estate for such taxable year (as defined in section 643) exceeds the sum of—

26 USC 643.

"(i) the amounts for such taxable year specified in paragraphs (1) and (2) of section 661 (a) (relating to deduction for distributions, etc.);

26 USC 661.

"(ii) the amount of tax imposed for the taxable year on the estate under chapter 1; and

"(iii) the amount of the Federal estate tax (including interest) paid by the executor during the taxable year (other than any amount paid pursuant to this paragraph).

"(3) FAILURE TO PAY INSTALLMENT.—If any installment under this section is not paid on or before the date fixed for its payment by this section (including any extension of time for the payment of such installment), the unpaid portion of the tax payable in installments shall be paid upon notice and demand from the Secretary or his delegate.

"(i) TRANSITIONAL RULES.—

"(1) IN GENERAL.—If—

"(A) a deficiency in the tax imposed by section 2001 is assessed after the date of the enactment of this section, and

26 USC 2001.

"(B) the estate qualifies under paragraph (1) or (2) of subsection (a),

the executor may elect to pay the deficiency in installments. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

"(2) TIME OF ELECTION.—An election under this subsection shall be made not later than 60 days after issuance of notice and demand by the Secretary or his delegate for the payment of the deficiency, and shall be made in such manner as the Secretary or his delegate shall by regulations prescribe.

"(3) EFFECT OF ELECTION ON PAYMENT.—If an election is made under this subsection, the deficiency shall (subject to the limitation provided by subsection (b)) be prorated to the installments which would have been due if an election had been timely made under this section at the time the estate tax return was filed. The part of the deficiency so prorated to any installment the date for payment of which would have arrived shall be paid at the time of the making of the election under this subsection. The portion of the deficiency so prorated to installments the date for payment of which would not have so arrived shall be paid at the time such installments would have been due if such an election had been made.

"(4) APPLICATION OF SUBSECTION (h) (2).—In the case of an election under this subsection, subsection (h) (2) shall not apply with respect to undistributed net income for any taxable year ending before January 1, 1960.

"(j) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary to the application of this section.

"(k) CROSS REFERENCES.—

"(1) INTEREST.—

"For provisions requiring the payment of interest at the rate of 4 percent per annum for the period of an extension, see section 6601 (b).

"(2) SECURITY.—

"For authority of the Secretary or his delegate to require security in the case of an extension under this section, see section 6165.

"(3) PERIOD OF LIMITATION.—

"For extension of the period of limitation in the case of an extension under this section, see section 6503 (d)."

(b) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 62 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following:

"Sec. 6166. Extension of time for payment of estate tax where estate consists largely of interest in closely held business."

26 USC 6161.

(c) HARDSHIP EXTENSION.—Section 6161 (a) (2) of such Code (relating to extension of time for paying estate tax in the case of undue hardship) is amended to read as follows:

"(2) ESTATE TAX.—If the Secretary or his delegate finds—

"(A) that the payment, on the due date, of any part of the amount determined by the executor as the tax imposed by chapter 11,

"(B) that the payment, on the date fixed for the payment of any installment under section 6166, of any part of such installment (including any part of a deficiency prorated to an installment the date for payment of which had not arrived), or

"(C) that the payment upon notice and demand of any part of a deficiency prorated under the provisions of section 6166 to installments the date for payment of which had arrived,

would result in undue hardship to the estate, he may extend the time for payment for a reasonable period not in excess of 10 years from the date prescribed by section 6151 (a) for payment of the tax."

26 USC 6151.

(d) PERIOD OF LIMITATION FOR COLLECTION OF TAX.—Section 6503 (d) of the Internal Revenue Code of 1954 (relating to suspension of running of period of limitations when there is an extension of time for payment of estate tax) is amended by striking out "assessment or" and by adding before the period at the end thereof the following: "or under the provisions of section 6166".

26 USC 6503.

(e) INTEREST.—Section 6601 (b) of the Internal Revenue Code of 1954 (relating to interest at the rate of 4 percent per annum in the case of extension of time for payment of estate tax) is amended by striking out "section 6161 (a) (2)" and inserting in lieu thereof "section 6161 (a) (2) or 6166,".

26 USC 6601.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents with respect to which the date for the filing of the estate tax return (including extensions thereof) prescribed by section 6075 (a) of the Internal Revenue Code of 1954 is after the date of the enactment of this Act; except that (1) section 6166 (i) of such Code as added by this section shall apply to estates of decedents dying after August 16, 1954, but only if the date for the filing of the estate tax return (including extensions thereof) expired on or before the date of the enactment of this Act, and (2) notwithstanding section 6166 (a) of such Code, if an election under such section is required to be made before the sixtieth day after the date of the enactment of this Act such an election shall be considered timely if made on or before such sixtieth day.

26 USC 6075.

Ante, p. 1681.

Approved September 2, 1958.

Public Law 85-867

AN ACT

To provide further protection against the introduction and dissemination of livestock diseases, and for other purposes.

September 2, 1958 [H. R. 12126]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraphs (a) and (c) of section 306 of the Act approved June 17, 1930 (46 Stat. 689; 19 U. S. C. 1306 (a) and (c)) are amended by deleting the word "domestic" each time it appears in said paragraphs and said paragraph (a) is amended (1) by deleting the phrase "beef, veal, mutton, lamb, or pork," and substituting therefor the phrase "meat of such animals,"; and (2) by inserting before the period at the end thereof a colon and the following: "*Provided*, That wild ruminants or swine may be imported from any such country upon such conditions, including post entry conditions, to be prescribed in import permits or in regulations, as the Secretary may impose for the purpose of preventing the dissemination of said diseases into or within the United States: *And provided further*, That the subsequent distribution, maintenance, and exhibition of such animals in the United States shall be limited to zoological parks approved by said Secretary as meeting such standards as he may by regulation prescribe for the purpose of preventing the dissemination of said diseases into or within the United States. The Secretary may at any time seize and dispose of any such animals which are not handled in accordance with the conditions imposed by him or which are distributed to or maintained or exhibited at any place in the United States which is not then an approved zoological park, in such manner as he deems necessary for said purpose".

Agriculture.
Livestock protection against disease.

Approved September 2, 1958.