PUBLIC LAW 591 - CHAPTER 736
APPROVED AUGUST 16, 1954, 9:45 a. m., E. D. T.
H. R. 8300

Internal Revenue Code of 1954

ENACTED DURING THE
SECOND SESSION OF THE EIGHTY-THIRD CONGRESS
OF THE UNITED STATES OF AMERICA

Begun and held at the City of Washington on Wednesday, January 6, 1954.

An Act

To revise the internal revenue laws of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) CITATION.—

(1) The provisions of this Act set forth under the heading "Internal Revenue Title" may be cited as the "Internal Revenue Code of 1954".

(2) The Internal Revenue Code enacted on February 10, 1939, as amended, may be cited as the "Internal Revenue Code of 1939".

(b) PUBLICATION.—This Act shall be published as volume 68A of the United States Statutes at Large, with a comprehensive table of contents and an appendix; but without an index or marginal references. The date of enactment, bill number, public law number, and chapter number, shall be printed as a headnote.

(c) CROSS REFERENCE.—For saving provisions, effective date provisions, and other related provisions, see chapter 80 (sec. 7801 and following) of the Internal Revenue Code of 1954.

(d) ENACTMENT OF INTERNAL REVENUE TITLE INTO LAW.—The Internal Revenue Title referred to in subsection (a) (1) is as follows:

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INTERNAL REVENUE TITLE

SUBTITLE A. Income taxes.
SUBTITLE B. Estate and gift taxes.
SUBTITLE C. Employment taxes.
SUBTITLE D. Miscellaneous excise taxes.
SUBTITLE E. Alcohol, tobacco, and certain other excise taxes.
SUBTITLE F. Procedure and administration.
SUBTITLE G. The Joint Committee on Internal Revenue Taxation.

Subtitle A—Income Taxes

CHAPTER 1. Normal taxes and surtaxes.
CHAPTER 2. Tax on self-employment income.
CHAPTER 3. Withholding of tax on nonresident aliens and foreign corporations and tax-free covenant bonds.
CHAPTER 4. Rules applicable to recovery of excessive profits on government contracts.
CHAPTER 5. Tax on transfers to avoid income tax.
CHAPTER 6. Consolidated returns.

CHAPTER 1—NORMAL TAXES AND SURTAXES

SUBCHAPTER A. Determination of tax liability.
SUBCHAPTER B. Computation of taxable income.
SUBCHAPTER C. Corporate distributions and adjustments.
SUBCHAPTER D. Deferred compensation, etc.
SUBCHAPTER E. Accounting periods and methods of accounting.
SUBCHAPTER F. Exempt organizations.
SUBCHAPTER G. Corporations used to avoid income tax on shareholders.
SUBCHAPTER H. Banking institutions.
SUBCHAPTER I. Natural resources.
SUBCHAPTER J. Estates, trusts, beneficiaries, and decedents.
SUBCHAPTER K. Partners and partnerships.
SUBCHAPTER L. Insurance companies.
SUBCHAPTER M. Regulated investment companies.
SUBCHAPTER N. Tax based on income from sources within or without the United States.
SUBCHAPTER O. Gain or loss on disposition of property.
SUBCHAPTER P. Capital gains and losses.
SUBCHAPTER Q. Readjustment of tax between years and special limitations.
SUBCHAPTER R. Election of certain partnerships and proprietorships as to taxable status.

Subchapter A—Determination of Tax Liability

Part I. Tax on individuals.
Part II. Tax on corporations.
Part III. Changes in rates during a taxable year.
Part IV. Credits against tax.

PART I—TAX ON INDIVIDUALS

Sec. 1. Tax imposed.
Sec. 2. Tax in case of joint return or return of surviving spouse.
Sec. 3. Optional tax if adjusted gross income is less than $5,000.
Sec. 4. Rules for optional tax.
Sec. 5. Cross references relating to tax on individuals.

SEC. 1. TAX IMPOSED.

(a) RATES OF TAX ON INDIVIDUALS.—A tax is hereby imposed for each taxable year on the taxable income of every individual other than a head of a household to whom subsection (b) applies. The amount of the tax shall be determined in accordance with the following table:

If the taxable income is:	The tax is:
Not over $2,000	20% of the taxable income.
Over $2,000 but not over $4,000	$400, plus 22% of excess over $2,000.
Over $4,000 but not over $6,000	$840, plus 26% of excess over $4,000.
Over $6,000 but not over $8,000	$1,360, plus 30% of excess over $6,000.
Over $8,000 but not over $10,000	$1,960, plus 34% of excess over $8,000.
Over $10,000 but not over $12,000	$2,640, plus 38% of excess over $10,000.
Over $12,000 but not over $14,000	$3,400, plus 43% of excess over $12,000.
Over $14,000 but not over $16,000	$4,260, plus 47% of excess over $14,000.
Over $16,000 but not over $18,000	$5,200, plus 50% of excess over $16,000.
Over $18,000 but not over $20,000	$6,200, plus 53% of excess over $18,000.
Over $20,000 but not over $22,000	$7,260, plus 56% of excess over $20,000.
Over $22,000 but not over $26,000	$8,380, plus 59% of excess over $22,000.
Over $26,000 but not over $32,000	$10,740, plus 62% of excess over $26,000.
Over $32,000 but not over $38,000	$14,460, plus 65% of excess over $32,000.
Over $38,000 but not over $44,000	$18,360, plus 69% of excess over $38,000.
Over $44,000 but not over $50,000	$22,500, plus 72% of excess over $44,000.
Over $50,000 but not over $60,000	$26,820, plus 75% of excess over $50,000.
Over $60,000 but not over $70,000	$34,320, plus 78% of excess over $60,000.
Over $70,000 but not over $80,000	$42,120, plus 81% of excess over $70,000.
Over $80,000 but not over $90,000	$50,220, plus 84% of excess over $80,000.
Over $90,000 but not over $100,000	$58,620, plus 87% of excess over $90,000.
Over $100,000 but not over $150,000	$67,320, plus 89% of excess over $100,000.
Over $150,000 but not over $200,000	$111,820, plus 90% of excess over $150,000.
Over $200,000	$156,820, plus 91% of excess over $200,000.

(b) RATES OF TAX ON HEADS OF HOUSEHOLDS.—

(1) RATES OF TAX.—A tax is hereby imposed for each taxable year on the taxable income of every individual who is the head of a household. The amount of the tax shall be determined in accordance with the following table:

If the taxable income is:	The tax is:
Not over $2,000	20% of the taxable income.
Over $2,000 but not over $4,000	$400, plus 21% of excess over $2,000.
Over $4,000 but not over $6,000	$820, plus 24% of excess over $4,000.
Over $6,000 but not over $8,000	$1,300, plus 26% of excess over $6,000.
Over $8,000 but not over $10,000	$1,820, plus 30% of excess over $8,000.
Over $10,000 but not over $12,000	$2,420, plus 32% of excess over $10,000.
Over $12,000 but not over $14,000	$3,060, plus 36% of excess over $12,000.
Over $14,000 but not over $16,000	$3,780, plus 39% of excess over $14,000.
Over $16,000 but not over $18,000	$4,560, plus 42% of excess over $16,000.
Over $18,000 but not over $20,000	$5,400, plus 43% of excess over $18,000.
Over $20,000 but not over $22,000	$6,260, plus 47% of excess over $20,000.
Over $22,000 but not over $24,000	$7,200, plus 49% of excess over $22,000.
Over $24,000 but not over $28,000	$8,180, plus 52% of excess over $24,000.
Over $28,000 but not over $32,000	$10,260, plus 54% of excess over $28,000.
Over $32,000 but not over $38,000	$12,420, plus 58% of excess over $32,000.
Over $38,000 but not over $44,000	$15,900, plus 62% of excess over $38,000.
Over $44,000 but not over $50,000	$19,620, plus 66% of excess over $44,000.
Over $50,000 but not over $60,000	$23,580, plus 68% of excess over $50,000.
Over $60,000 but not over $70,000	$30,380, plus 71% of excess over $60,000.
Over $70,000 but not over $80,000	$37,480, plus 74% of excess over $70,000.
Over $80,000 but not over $90,000	$44,880, plus 76% of excess over $80,000.
Over $90,000 but not over $100,000	$52,480, plus 80% of excess over $90,000.
Over $100,000 but not over $150,000	$60,480, plus 83% of excess over $100,000.
Over $150,000 but not over $200,000	$101,980, plus 87% of excess over $150,000.
Over $200,000 but not over $300,000	$145,480, plus 90% of excess over $200,000.
Over $300,000	$235,480, plus 91% of excess over $300,000.

(2) DEFINITION OF HEAD OF HOUSEHOLD.—For purposes of this subtitle, an individual shall be considered a head of a household if, and only if, such individual is not married at the close of his taxable year, is not a surviving spouse (as defined in section 2 (b)), and either—

(A) maintains as his home a household which constitutes for such taxable year the principal place of abode, as a member of such household, of—

(i) a son, stepson, daughter, or stepdaughter of the taxpayer, or a descendant of a son or daughter of the taxpayer, but if such son, stepson, daughter, stepdaughter, or descendant is married at the close of the taxpayer's taxable year, only if the taxpayer is entitled to a deduction for the taxable year for such person under section 151, or

(ii) any other person who is a dependent of the taxpayer, if the taxpayer is entitled to a deduction for the taxable year for such person under section 151, or

(B) maintains a household which constitutes for such taxable year the principal place of abode of the father or mother of the taxpayer, if the taxpayer is entitled to a deduction for the taxable year for such father or mother under section 151.

For purposes of this paragraph and of section 2 (b) (1) (B), an individual shall be considered as maintaining a household only if over half of the cost of maintaining the household during the taxable year is furnished by such individual.

(3) DETERMINATION OF STATUS.—For purposes of this subsection—

(A) a legally adopted child of a person shall be considered a child of such person by blood;

(B) an individual who is legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married;

(C) a taxpayer shall be considered as not married at the close of his taxable year if at any time during the taxable year his spouse is a nonresident alien; and

(D) a taxpayer shall be considered as married at the close of his taxable year if his spouse (other than a spouse described in subparagraph (C)) died during the taxable year.

(4) LIMITATIONS.—Notwithstanding paragraph (2), for purposes of this subtitle a taxpayer shall not be considered to be a head of a household—

(A) if at any time during the taxable year he is a nonresident alien; or

(B) by reason of an individual who would not be a dependent for the taxable year but for—

(i) paragraph (9) of section 152 (a),

(ii) paragraph (10) of section 152 (a), or

(iii) subsection (c) of section 152.

(c) SPECIAL RULES.—The tax imposed by subsection (a), and the tax imposed by paragraph (1) of subsection (b), consists of—

(1) a normal tax of 3 percent of the taxable income, and

(2) a surtax equal to (A) the amount determined in accordance with the table in subsection (a) or paragraph (1) of subsection (b), minus (B) the normal tax.

The tax shall in no event exceed 87 percent of the taxable income for the taxable year.

(d) CROSS REFERENCE.—

For definition of taxable income, see section 63.

SEC. 2. TAX IN CASE OF JOINT RETURN OR RETURN OF SURVIVING SPOUSE.

(a) RATE OF TAX.—In the case of a joint return of a husband and wife under section 6013, the tax imposed by section 1 shall be twice the tax which would be imposed if the taxable income were cut in half. For purposes of this subsection and section 3, a return of a surviving spouse (as defined in subsection (b)) shall be treated as a joint return of a husband and wife under section 6013.

(b) DEFINITION OF SURVIVING SPOUSE.—

(1) IN GENERAL.—For purposes of subsection (a), the term "surviving spouse" means a taxpayer—

(A) whose spouse died during either of his two taxable years immediately preceding the taxable year, and

(B) who maintains as his home a household which constitutes for the taxable year the principal place of abode (as a member of such household) of a dependent (i) who (within the meaning of section 152) is a son, stepson, daughter, or stepdaughter of the taxpayer, and (ii) with respect to whom the taxpayer is entitled to a deduction for the taxable year under section 151.

(2) LIMITATIONS.—Notwithstanding paragraph (1), for purposes of subsection (a) a taxpayer shall not be considered to be a surviving spouse—

(A) if the taxpayer has remarried at any time before the close of the taxable year, or

(B) unless, for the taxpayer's taxable year during which his spouse died, a joint return could have been made under the provisions of section 6013 (without regard to subsection (a) (3) thereof) or under the corresponding provisions of the Internal Revenue Code of 1939.

SEC. 3. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS LESS THAN $5,000.

In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year, on the taxable income of each individual whose adjusted gross income for such year is less than $5,000 and who has elected for such year to pay the tax imposed by this section, the tax shown in the following table:

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—											
								1		2			3						
At least	But less than	1	2	3	4 or more	At least	But less than	And taxpayer is single or married filing separately	And taxpayer is head of household	And taxpayer is single or married filing separately	And taxpayer is head of household	And a joint return is filed	And taxpayer is single or married filing separately	And taxpayer is head of household	And a joint return is filed	4	5	6	7	8 or more
		The tax is—						The tax is—											
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$301	$301	$181	$181	$181	$61	$61	$61	$0	$0	$0	$0	$0
675	700	4	0	0	0	2,350	2,375	305	305	185	185	185	65	65	65	0	0	0	0	0
700	725	8	0	0	0	2,375	2,400	310	310	190	190	190	70	70	70	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	314	314	194	194	194	74	74	74	0	0	0	0	0
750	775	17	0	0	0	2,425	2,450	319	319	199	199	199	79	79	79	0	0	0	0	0
775	800	22	0	0	0	2,450	2,475	323	323	203	203	203	83	83	83	0	0	0	0	0
800	825	26	0	0	0	2,475	2,500	328	328	208	208	208	88	88	88	0	0	0	0	0
825	850	31	0	0	0	2,500	2,525	332	332	212	212	212	92	92	92	0	0	0	0	0
850	875	35	0	0	0	2,525	2,550	337	337	217	217	217	97	97	97	0	0	0	0	0
875	900	40	0	0	0	2,550	2,575	341	341	221	221	221	101	101	101	0	0	0	0	0
900	925	44	0	0	0	2,575	2,600	346	346	226	226	226	106	106	106	0	0	0	0	0
925	950	49	0	0	0	2,600	2,625	350	350	230	230	230	110	110	110	0	0	0	0	0
950	975	53	0	0	0	2,625	2,650	355	355	235	235	235	115	115	115	0	0	0	0	0
975	1,000	58	0	0	0	2,650	2,675	359	359	239	239	239	119	119	119	0	0	0	0	0
1,000	1,025	62	0	0	0	2,675	2,700	364	364	244	244	244	124	124	124	4	0	0	0	0
1,025	1,050	67	0	0	0	2,700	2,725	368	368	248	248	248	128	128	128	8	0	0	0	0
1,050	1,075	71	0	0	0	2,725	2,750	373	373	253	253	253	133	133	133	13	0	0	0	0
1,075	1,100	76	0	0	0	2,750	2,775	377	377	257	257	257	137	137	137	17	0	0	0	0
1,100	1,125	80	0	0	0	2,775	2,800	382	382	262	262	262	142	142	142	22	0	0	0	0
1,125	1,150	85	0	0	0	2,800	2,825	386	386	266	266	266	146	146	146	26	0	0	0	0
1,150	1,175	89	0	0	0	2,825	2,850	391	391	271	271	271	151	151	151	31	0	0	0	0
1,175	1,200	94	0	0	0	2,850	2,875	395	395	275	275	275	155	155	155	35	0	0	0	0
1,200	1,225	98	0	0	0	2,875	2,900	400	400	280	280	280	160	160	160	40	0	0	0	0
1,225	1,250	103	0	0	0	2,900	2,925	405	404	284	284	284	164	164	164	44	0	0	0	0
1,250	1,275	107	0	0	0	2,925	2,950	410	409	289	289	289	169	169	169	49	0	0	0	0
1,275	1,300	112	0	0	0	2,950	2,975	415	414	293	293	293	173	173	173	53	0	0	0	0
1,300	1,325	116	0	0	0	2,975	3,000	420	419	298	298	298	178	178	178	58	0	0	0	0
1,325	1,350	121	1	0	0	3,000	3,050	427	426	305	305	305	185	185	185	65	0	0	0	0
1,350	1,375	125	5	0	0	3,050	3,100	437	435	314	314	314	194	194	194	74	0	0	0	0
1,375	1,400	130	10	0	0	3,100	3,150	447	445	323	323	323	203	203	203	83	0	0	0	0
1,400	1,425	134	14	0	0	3,150	3,200	457	454	332	332	332	212	212	212	92	0	0	0	0
1,425	1,450	139	19	0	0	3,200	3,250	467	464	341	341	341	221	221	221	101	0	0	0	0
1,450	1,475	143	23	0	0	3,250	3,300	476	473	350	350	350	230	230	230	110	0	0	0	0
1,475	1,500	148	28	0	0	3,300	3,350	486	482	359	359	359	239	239	239	119	0	0	0	0
1,500	1,525	152	32	0	0	3,350	3,400	496	492	368	368	368	248	248	248	128	8	0	0	0
1,525	1,550	157	37	0	0	3,400	3,450	506	501	377	377	377	257	257	257	137	17	0	0	0
1,550	1,575	161	41	0	0	3,450	3,500	516	511	386	386	386	266	266	266	146	26	0	0	0
1,575	1,600	166	46	0	0	3,500	3,550	526	520	395	395	395	275	275	275	155	35	0	0	0
1,600	1,625	170	50	0	0	3,550	3,600	536	530	404	404	404	284	284	284	164	44	0	0	0
1,625	1,650	175	55	0	0	3,600	3,650	546	539	414	413	413	293	293	293	173	53	0	0	0
1,650	1,675	179	59	0	0	3,650	3,700	556	549	424	423	422	302	302	302	182	62	0	0	0
1,675	1,700	184	64	0	0	3,700	3,750	566	558	434	432	431	311	311	311	191	71	0	0	0
1,700	1,725	188	68	0	0	3,750	3,800	575	567	443	441	440	320	320	320	200	80	0	0	0
1,725	1,750	193	73	0	0	3,800	3,850	585	577	453	451	449	329	329	329	209	89	0	0	0
1,750	1,775	197	77	0	0	3,850	3,900	595	586	463	460	458	338	338	338	218	98	0	0	0
1,775	1,800	202	82	0	0	3,900	3,950	605	596	473	470	467	347	347	347	227	107	0	0	0
1,800	1,825	206	86	0	0	3,950	4,000	615	605	483	479	476	356	356	356	236	116	0	0	0
1,825	1,850	211	91	0	0	4,000	4,050	625	615	493	489	485	365	365	365	245	125	5	0	0
1,850	1,875	215	95	0	0	4,050	4,100	635	624	503	498	494	374	374	374	254	134	14	0	0
1,875	1,900	220	100	0	0	4,100	4,150	645	634	513	508	503	383	383	383	263	143	23	0	0
1,900	1,925	224	104	0	0	4,150	4,200	655	643	523	517	512	392	392	392	272	152	32	0	0
1,925	1,950	229	109	0	0	4,200	4,250	665	653	533	527	521	401	401	401	281	161	41	0	0
1,950	1,975	233	113	0	0	4,250	4,300	674	662	542	536	530	410	410	410	290	170	50	0	0
1,975	2,000	238	118	0	0	4,300	4,350	684	671	552	545	539	420	419	419	299	179	59	0	0
2,000	2,025	242	122	2	0	4,350	4,400	694	681	562	555	548	430	429	428	308	188	68	0	0
2,025	2,050	247	127	7	0	4,400	4,450	704	690	572	564	557	440	438	437	317	197	77	0	0
2,050	2,075	251	131	11	0	4,450	4,500	714	700	582	574	566	450	448	446	326	206	86	0	0
2,075	2,100	256	136	16	0	4,500	4,550	724	709	592	583	575	460	457	455	335	215	95	0	0
2,100	2,125	260	140	20	0	4,550	4,600	734	719	602	593	584	470	467	464	344	224	104	0	0
2,125	2,150	265	145	25	0	4,600	4,650	744	728	612	602	593	480	476	473	353	233	113	0	0
2,150	2,175	269	149	29	0	4,650	4,700	754	738	622	612	602	490	486	482	362	242	122	2	0
2,175	2,200	274	154	34	0	4,700	4,750	764	747	632	621	611	500	495	491	371	251	131	11	0
2,200	2,225	278	158	38	0	4,750	4,800	773	756	641	630	620	509	504	500	380	260	140	20	0
2,225	2,250	283	163	43	0	4,800	4,850	783	766	651	640	629	519	514	509	389	269	149	29	0
2,250	2,275	287	167	47	0	4,850	4,900	793	775	661	649	638	529	523	518	398	278	158	38	0
2,275	2,300	292	172	52	0	4,900	4,950	803	785	671	659	647	539	533	527	407	287	167	47	0
2,300	2,325	296	176	56	0	4,950	5,000	813	794	681	668	656	549	542	536	416	296	176	56	0

§ 3

SEC. 4. RULES FOR OPTIONAL TAX.

(a) NUMBER OF EXEMPTIONS.—For purposes of the table in section 3, the term "number of exemptions" means the number of the exemptions allowed under section 151 as deductions in computing taxable income.

(b) MANNER OF ELECTION.—The election referred to in section 3 shall be made in the manner provided in regulations prescribed by the Secretary or his delegate.

(c) HUSBAND OR WIFE FILING SEPARATE RETURN.—A husband or wife may not elect to pay the optional tax imposed by section 3 if the tax of the other spouse is determined under section 1 on the basis of taxable income computed without regard to the standard deduction. For purposes of the preceding sentence, determination of marital status shall be made under section 143.

(d) CERTAIN OTHER TAXPAYERS INELIGIBLE.—Section 3 shall not apply to—

(1) a nonresident alien individual;

(2) a citizen of the United States entitled to the benefits of section 931 (relating to income from sources within possessions of the United States);

(3) an individual making a return under section 443 (a) (1) for a period of less than 12 months on account of a change in his accounting period; or

(4) an estate or trust.

(e) TAXABLE INCOME COMPUTED WITH STANDARD DEDUCTION.—Whenever it is necessary to determine the taxable income of a taxpayer who made the election referred to in section 3, the taxable income shall be determined under section 63 (b) (relating to definition of taxable income for individuals electing standard deduction).

(f) CROSS REFERENCES.—

(1) For other applicable rules (including rules as to the change of an election under section 3), see section 144.

(2) For disallowance of certain credits against tax, see section 36.

SEC. 5. CROSS REFERENCES RELATING TO TAX ON INDIVIDUALS.

(a) OTHER RATES OF TAX ON INDIVIDUALS, ETC.—

(1) For rates of tax on nonresident aliens, see section 871.

(2) For doubling of tax on citizens of certain foreign countries, see section 891.

(3) For alternative tax in case of capital gain, see section 1201 (b).

(4) For rate of withholding in the case of nonresident aliens, see section 1441.

(b) SPECIAL LIMITATIONS ON TAX.—

(1) For limitation on tax attributable to receipt of lump sum under annuity, endowment, or life insurance contract, see section 72 (e) (3).

(2) For limitation on surtax attributable to sales of oil or gas properties, see section 632.

(3) For limitation on tax in case of income of members of Armed Forces on death, see section 692.

(4) For limitation on tax with respect to compensation for long-term services, see section 1301.

(5) For limitation on tax with respect to income from artistic work or inventions, see section 1302.

(6) For limitation on tax in case of back pay, see section 1303.

(7) For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.

(8) For limitation on surtax attributable to claims against the United States involving acquisitions of property, see section 1347.

PART II—TAX ON CORPORATIONS

Sec. 11. Tax imposed.
Sec. 12. Cross references relating to tax on corporations.

SEC. 11. TAX IMPOSED.

(a) CORPORATIONS IN GENERAL.—A tax is hereby imposed for each taxable year on the taxable income of every corporation. The tax shall consist of a normal tax computed under subsection (b) and a surtax computed under subsection (c).

(b) NORMAL TAX.—

(1) TAXABLE YEARS BEGINNING BEFORE APRIL 1, 1955.—In the case of a taxable year beginning before April 1, 1955, the normal tax is equal to 30 percent of the taxable income.

(2) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1955.—In the case of a taxable year beginning after March 31, 1955, the normal tax is equal to 25 percent of the taxable income.

(c) SURTAX.—The surtax is equal to 22 percent of the amount by which the taxable income (computed without regard to the deduction, if any, provided in section 242 for partially tax-exempt interest) exceeds $25,000.

(d) EXCEPTIONS.—Subsection (a) shall not apply to a corporation subject to a tax imposed by—

(1) section 594 (relating to mutual savings banks conducting life insurance business),

(2) subchapter L (sec. 801 and following, relating to insurance companies),

(3) subchapter M (sec. 851 and following, relating to regulated investment companies), or

(4) section 881 (a) (relating to foreign corporations not engaged in business in United States).

SEC. 12. CROSS REFERENCES RELATING TO TAX ON CORPORATIONS.

(1) For tax on the unrelated business income of certain charitable and other corporations exempt from tax under this chapter, see section 511.

(2) For accumulated earnings tax and personal holding company tax, see parts I and II of subchapter G (sec. 531 and following).

(3) For doubling of tax on corporations of certain foreign countries, see section 891.

(4) For alternative tax in case of capital gains, see section 1201 (a).

(5) For rate of withholding in case of foreign corporations, see section 1442.

(6) For withholding of tax on tax-free covenant bonds, see section 1451.

(7) For limitation on the $25,000 exemption from surtax provided in section 11 (c), see section 1551.

(8) For additional tax for corporations filing consolidated returns, see section 1503.

PART III—CHANGES IN RATES DURING A TAXABLE YEAR

Sec. 21. Effect of changes.

SEC. 21. EFFECT OF CHANGES.

(a) GENERAL RULE.—If any rate of tax imposed by this chapter changes, and if the taxable year includes the effective date of the change (unless that date is the first day of the taxable year), then—

(1) tentative taxes shall be computed by applying the rate for the period before the effective date of the change, and the rate for the period on and after such date, to the taxable income for the entire taxable year; and

(2) the tax for such taxable year shall be the sum of that proportion of each tentative tax which the number of days in each period bears to the number of days in the entire taxable year.

(b) REPEAL OF TAX.—For purposes of subsection (a)—

(1) if a tax is repealed, the repeal shall be considered a change of rate; and

(2) the rate for the period after the repeal shall be zero.

(c) EFFECTIVE DATE OF CHANGE.—For purposes of subsections (a) and (b)—

(1) if the rate changes for taxable years "beginning after" or "ending after" a certain date, the following day shall be considered the effective date of the change; and

(2) if a rate changes for taxable years "beginning on or after" a certain date, that date shall be considered the effective date of the change.

(d) TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1954, AND ENDING AFTER DECEMBER 31, 1953.—In the case of a taxable year beginning before January 1, 1954, and ending after December 31, 1953—

(1) subsection (a) of this section does not apply; and

(2) in the application of subsection (j) of section 108 of the Internal Revenue Code of 1939, the provisions of such code referred to in such subsection shall be considered as continuing in effect as if this subtitle had not been enacted.

PART IV—CREDITS AGAINST TAX

Sec. 31. Tax withheld on wages.
Sec. 32. Tax withheld at source on nonresident aliens and foreign corporations and on tax-free covenant bonds.
Sec. 33. Taxes of foreign countries and possessions of the United States.
Sec. 34. Dividends received by individuals.
Sec. 35. Partially tax-exempt interest received by individuals.
Sec. 36. Credits not allowed to individuals paying optional tax or taking standard deduction.
Sec. 37. Retirement income.
Sec. 38. Overpayments of tax.

SEC. 31. TAX WITHHELD ON WAGES.

(a) WAGE WITHHOLDING FOR INCOME TAX PURPOSES.—

(1) IN GENERAL.—The amount withheld under section 3402 as tax on the wages of any individual shall be allowed to the recipient of the income as a credit against the tax imposed by this subtitle.

(2) YEAR OF CREDIT.—The amount so withheld during any calendar year shall be allowed as a credit for the taxable year beginning in such calendar year. If more than one taxable year begins in a calendar year, such amount shall be allowed as a credit for the last taxable year so beginning.

(b) CREDIT FOR SPECIAL REFUNDS OF SOCIAL SECURITY TAX.—

(1) IN GENERAL.—The Secretary or his delegate may prescribe regulations providing for the crediting against the tax imposed by this subtitle of the amount determined by the taxpayer or the Secretary (or his delegate) to be allowable under section 6413 (c) as a special refund of tax imposed on wages. The amount allowed as a credit under such regulations shall, for purposes of this subtitle, be considered an amount withheld at source as tax under section 3402.

(2) YEAR OF CREDIT.—Any amount to which paragraph (1) applies shall be allowed as a credit for the taxable year beginning in the calendar year during which the wages were received. If more than one taxable year begins in the calendar year, such amount shall be allowed as a credit for the last taxable year so beginning.

SEC. 32. TAX WITHHELD AT SOURCE ON NONRESIDENT ALIENS AND FOREIGN CORPORATIONS AND ON TAX-FREE COVENANT BONDS.

There shall be allowed as credits against the tax imposed by this chapter—

(1) the amount of tax withheld at source under subchapter A of chapter 3 (relating to withholding of tax on nonresident aliens and on foreign corporations), and

(2) the amount of tax withheld at source under subchapter B of chapter 3 (relating to interest on tax-free covenant bonds).

SEC. 33. TAXES OF FOREIGN COUNTRIES AND POSSESSIONS OF THE UNITED STATES.

The amount of taxes imposed by foreign countries and possessions of the United States shall be allowed as a credit against the tax imposed by this chapter to the extent provided in section 901.

SEC. 34. DIVIDENDS RECEIVED BY INDIVIDUALS.

(a) GENERAL RULE.—Effective with respect to taxable years ending after July 31, 1954, there shall be allowed to an individual, as a credit against the tax imposed by this subtitle for the taxable year, an amount equal to 4 percent of the dividends which are received after July 31, 1954, from domestic corporations and are included in gross income.

(b) LIMITATION ON AMOUNT OF CREDIT.—The credit allowed by subsection (a) shall not exceed whichever of the following is the lesser:

(1) the amount of the tax imposed by this chapter for the taxable year, reduced by the credit allowable under section 33 (relating to foreign tax credit); or

(2) the following percent of the taxable income for the taxable year:

(A) 2 percent, in the case of a taxable year ending before January 1, 1955.

(B) 4 percent, in the case of a taxable year ending after December 31, 1954.

(c) NO CREDIT ALLOWED FOR DIVIDENDS FROM CERTAIN CORPORATIONS.—Subsection (a) shall not apply to any dividend from—

(1) an insurance company subject to a tax imposed by part I or II of subchapter L (sec. 801 and following);

(2) a corporation organized under the China Trade Act, 1922 (see sec. 941); or

(3) a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is—

(A) a corporation exempt from tax under section 501 (relating to certain charitable, etc., organizations) or section 521 (relating to farmers' cooperative associations); or

(B) a corporation to which section 931 (relating to income from sources within possessions of the United States) applies.

(d) SPECIAL RULES FOR CERTAIN DISTRIBUTIONS.—For purposes of subsection (a)—

(1) Any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.) shall not be treated as a dividend.

(2) A dividend received from a regulated investment company shall be subject to the limitations prescribed in section 854.

(e) 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).

(f) CROSS REFERENCES.—

(1) For exclusion of certain dividends from gross income, see section 116.

(2) For special rules relating to the credit provided by subsection (a), see sections 642 (trusts and estates), 702 (partnerships), and 584 (common trust funds).

(3) For disallowance of credit where tax is computed by Secretary or his delegate, see section 6014.

SEC. 35. PARTIALLY TAX-EXEMPT INTEREST RECEIVED BY INDIVIDUALS.

(a) IN GENERAL.—There shall be allowed to an individual, as a credit against the tax imposed by this subtitle for the taxable year, an amount equal to 3 percent of the amount received as interest on obligations of the United States or on obligations of corporations organized under Act of Congress which are instrumentalities of the United States, but only if—

(1) such interest is included in gross income; and

(2) such interest is exempt from normal tax under the Act authorizing the issuance of such obligations.

(b) LIMITATION ON AMOUNT OF CREDIT.—The credit allowed by subsection (a) shall not exceed whichever of the following is the lesser:

(1) the amount of the tax imposed by this chapter for the taxable year, reduced by the sum of the credits allowable under sections 33 and 34; or

(2) 3 percent of the taxable income for the taxable year.

(c) CROSS REFERENCE.—

For reduction of credit under this section on account of amortizable bond premium, see section 171.

SEC. 36. CREDITS NOT ALLOWED TO INDIVIDUALS PAYING OPTIONAL TAX OR TAKING STANDARD DEDUCTION.

If an individual elects to pay the optional tax imposed by section 3, or if he elects under section 144 to take the standard deduction, the credits provided by sections 32, 33, and 35 shall not be allowed.

SEC. 37. RETIREMENT INCOME.

(a) GENERAL RULE.—In the case of an individual who has received earned income before the beginning of the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the amount received by such individual as retirement income (as defined in subsection (c) and as limited by subsection (d)), multiplied by the rate provided in section 1 for the first $2,000 of taxable income; but this credit shall not exceed such tax reduced by the credits allowable under section 32 (2) (relating to tax withheld at source on tax-free covenant bonds), section 33 (relating to foreign tax credit), section 34 (relating to credit for dividends received by individuals), and section 35 (relating to partially tax exempt interest).

(b) INDIVIDUAL WHO HAS RECEIVED EARNED INCOME.—For purposes of subsection (a), an individual shall be considered to have received earned income if he has received, in each of any 10 calendar years before the taxable year, earned income (as defined in subsection (g)) in excess of $600. A widow or widower whose spouse had received such earned income shall be considered to have received earned income.

(c) RETIREMENT INCOME.—For purposes of subsection (a), the term "retirement income" means—

(1) in the case of an individual who has attained the age of 65 before the close of the taxable year, income from—

(A) pensions and annuities,

(B) interest,

(C) rents, and

(D) dividends, or

(2) in the case of an individual who has not attained the age of 65 before the close of the taxable year, income from pensions and annuities under a public retirement system (as defined in subsection (f)),

to the extent included in gross income without reference to this section, but only to the extent such income does not represent compensation for personal services rendered during the taxable year.

(d) LIMITATION ON RETIREMENT INCOME.—For purposes of subsection (a), the amount of retirement income shall not exceed $1,200 less—

(1) in the case of any individual, any amount received by the individual as a pension or annuity—

(A) under title II of the Social Security Act,

(B) under the Railroad Retirement Acts of 1935 or 1937, or

(C) otherwise excluded from gross income, and

(2) in the case of any individual who has not attained the age of 75 before the close of the taxable year, any amount of earned income (as defined in subsection (g)) in excess of $900 received by the individual in the taxable year.

(e) RULE FOR APPLICATION OF SUBSECTION (d) (1).—Subsection (d) (1) shall not apply to any amount excluded from gross income under section 72 (relating to annuities), 101 (relating to life insurance proceeds), 104 (relating to compensation for injuries or sickness), 105 (relating to amounts received under accident and health plans), 402 (relating to taxability of beneficiary of employees' trust), or 403 (relating to taxation of employee annuities).

(f) PUBLIC RETIREMENT SYSTEM DEFINED.—For purposes of subsection (c) (2), the term "public retirement system" means a pension, annuity, retirement, or similar fund or system established by the United States, a State, a Territory, a possession of the United States, any political subdivision of any of the foregoing, or the District of Columbia; except that such term does not include a fund or system established by the United States for members of the Armed Forces of the United States.

(g) EARNED INCOME DEFINED.—For purposes of subsections (b) and (d) (2), the term "earned income" has the meaning assigned to such term in section 911 (b), except that such term does not include any amount received as a pension or annuity.

(h) NONRESIDENT ALIEN INELIGIBLE FOR CREDIT.—No credit shall be allowed under subsection (a) to any nonresident alien.

(i) CROSS REFERENCE.—

For disallowance of credit where tax is computed by Secretary or his delegate, see section 6014 (a).

SEC. 38. OVERPAYMENTS OF TAX.

For credit against the tax imposed by this subtitle for overpayments of tax, see section 6401.

Subchapter B—Computation of Taxable Income

Part I. Definition of gross income, adjusted gross income, and taxable income.
Part II. Items specifically included in gross income.
Part III. Items specifically excluded from gross income.
Part IV. Standard deduction for individuals.
Part V. Deductions for personal exemptions.
Part VI. Itemized deductions for individuals and corporations.
Part VII. Additional itemized deductions for individuals.
Part VIII. Special deductions for corporations.
Part IX. Items not deductible.

PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, AND TAXABLE INCOME

Sec. 61. Gross income defined.
Sec. 62. Adjusted gross income defined.
Sec. 63. Taxable income defined.

SEC. 61. GROSS INCOME DEFINED.

(a) GENERAL DEFINITION.—Except as otherwise provided in this subtitle, gross income means all income from whatever source derived, including (but not limited to) the following items:

(1) Compensation for services, including fees, commissions, and similar items;
(2) Gross income derived from business;
(3) Gains derived from dealings in property;
(4) Interest;
(5) Rents;
(6) Royalties;
(7) Dividends;
(8) Alimony and separate maintenance payments;
(9) Annuities;
(10) Income from life insurance and endowment contracts;
(11) Pensions;
(12) Income from discharge of indebtedness;
(13) Distributive share of partnership gross income;
(14) Income in respect of a decedent; and
(15) Income from an interest in an estate or trust.

(b) CROSS REFERENCES.—

For items specifically included in gross income, see part II (sec. 71 and following). For items specifically excluded from gross income, see part III (sec. 101 and following).

SEC. 62. ADJUSTED GROSS INCOME DEFINED.

For purposes of this subtitle, the term "adjusted gross income" means, in the case of an individual, gross income minus the following deductions:

(1) TRADE AND BUSINESS DEDUCTIONS.—The deductions allowed by this chapter (other than by part VII of this subchapter) which are attributable to a trade or business carried on by the taxpayer,

if such trade or business does not consist of the performance of services by the taxpayer as an employee.

(2) TRADE AND BUSINESS DEDUCTIONS OF EMPLOYEES.—

(A) REIMBURSED EXPENSES.—The deductions allowed by part VI (sec. 161 and following) which consist of expenses paid or incurred by the taxpayer, in connection with the performance by him of services as an employee, under a reimbursement or other expense allowance arrangement with his employer.

(B) EXPENSES FOR TRAVEL AWAY FROM HOME.—The deductions allowed by part VI (sec. 161 and following) which consist of expenses of travel, meals, and lodging while away from home, paid or incurred by the taxpayer in connection with the performance by him of services as an employee.

(C) TRANSPORTATION EXPENSES.—The deductions allowed by part VI (sec. 161 and following) which consist of expenses of transportation paid or incurred by the taxpayer in connection with the performance by him of services as an employee.

(D) OUTSIDE SALESMEN.—The deductions allowed by part VI (sec. 161 and following) which are attributable to a trade or business carried on by the taxpayer, if such trade or business consists of the performance of services by the taxpayer as an employee and if such trade or business is to solicit, away from the employer's place of business, business for the employer.

(3) LONG-TERM CAPITAL GAINS.—The deduction allowed by section 1202.

(4) LOSSES FROM SALE OR EXCHANGE OF PROPERTY.—The deductions allowed by part VI (sec. 161 and following) as losses from the sale or exchange of property.

(5) DEDUCTIONS ATTRIBUTABLE TO RENTS AND ROYALTIES.—The deductions allowed by part VI (sec. 161 and following), by section 212 (relating to expenses for production of income), and by section 611 (relating to depletion) which are attributable to property held for the production of rents or royalties.

(6) CERTAIN DEDUCTIONS OF LIFE TENANTS AND INCOME BENEFICIARIES OF PROPERTY.—In the case of a life tenant of property, or an income beneficiary of property held in trust, or an heir, legatee, or devisee of an estate, the deduction for depreciation allowed by section 167 and the deduction allowed by section 611.

Nothing in this section shall permit the same item to be deducted more than once.

SEC. 63. TAXABLE INCOME DEFINED.

(a) GENERAL RULE.—Except as provided in subsection (b), for purposes of this subtitle the term "taxable income" means gross income, minus the deductions allowed by this chapter, other than the standard deduction allowed by part IV (sec. 141 and following).

(b) INDIVIDUALS ELECTING STANDARD DEDUCTION.—In the case of an individual electing under section 144 to use the standard deduction provided in part IV (sec. 141 and following), for purposes of this subtitle the term "taxable income" means adjusted gross income, minus—

(1) such standard deduction, and

(2) the deductions for personal exemptions provided in section 151.

PART II—ITEMS SPECIFICALLY INCLUDED IN GROSS INCOME

Sec. 71. Alimony and separate maintenance payments.
Sec. 72. Annuities; certain proceeds of endowment and life insurance contracts.
Sec. 73. Services of child.
Sec. 74. Prizes and awards.
Sec. 75. Dealers in tax-exempt securities.
Sec. 76. Mortgages made or obligations issued by joint-stock land banks.
Sec. 77. Commodity credit loans.

SEC. 71. ALIMONY AND SEPARATE MAINTENANCE PAYMENTS.

(a) GENERAL RULE.—

(1) DECREE OF DIVORCE OR SEPARATE MAINTENANCE.—If a wife is divorced or legally separated from her husband under a decree of divorce or of separate maintenance, the wife's gross income includes periodic payments (whether or not made at regular intervals) received after such decree in discharge of (or attributable to property transferred, in trust or otherwise, in discharge of) a legal obligation which, because of the marital or family relationship, is imposed on or incurred by the husband under the decree or under a written instrument incident to such divorce or separation.

(2) WRITTEN SEPARATION AGREEMENT.—If a wife is separated from her husband and there is a written separation agreement executed after the date of the enactment of this title, the wife's gross income includes periodic payments (whether or not made at regular intervals) received after such agreement is executed which are made under such agreement and because of the marital or family relationship (or which are attributable to property transferred, in trust or otherwise, under such agreement and because of such relationship). This paragraph shall not apply if the husband and wife make a single return jointly.

(3) DECREE FOR SUPPORT.—If a wife is separated from her husband, the wife's gross income includes periodic payments (whether or not made at regular intervals) received by her after the date of the enactment of this title from her husband under a decree entered after March 1, 1954, requiring the husband to make the payments for her support or maintenance. This paragraph shall not apply if the husband and wife make a single return jointly.

(b) PAYMENTS TO SUPPORT MINOR CHILDREN.—Subsection (a) shall not apply to that part of any payment which the terms of the decree, instrument, or agreement fix, in terms of an amount of money or a part of the payment, as a sum which is payable for the support of minor children of the husband. For purposes of the preceding sentence, if any payment is less than the amount specified in the decree, instrument, or agreement, then so much of such payment as does not exceed the sum payable for support shall be considered a payment for such support.

(c) PRINCIPAL SUM PAID IN INSTALLMENTS.—

(1) GENERAL RULE.—For purposes of subsection (a), installment payments discharging a part of an obligation the principal sum of which is, either in terms of money or property, specified in the

decree, instrument, or agreement shall not be treated as periodic payments.

(2) WHERE PERIOD FOR PAYMENT IS MORE THAN 10 YEARS.—If, by the terms of the decree, instrument, or agreement, the principal sum referred to in paragraph (1) is to be paid or may be paid over a period ending more than 10 years from the date of such decree, instrument, or agreement, then (notwithstanding paragraph (1)) the installment payments shall be treated as periodic payments for purposes of subsection (a), but (in the case of any one taxable year of the wife) only to the extent of 10 percent of the principal sum. For purposes of the preceding sentence, the part of any principal sum which is allocable to a period after the taxable year of the wife in which it is received shall be treated as an installment payment for the taxable year in which it is received.

(d) RULE FOR HUSBAND IN CASE OF TRANSFERRED PROPERTY.—The husband's gross income does not include amounts received which, under subsection (a), are (1) includible in the gross income of the wife, and (2) attributable to transferred property.

(e) CROSS REFERENCES.—

(1) For definitions of "husband" and "wife", see section 7701 (a) (17).
(2) For deduction by husband of periodic payments not attributable to transferred property, see section 215.
(3) For taxable status of income of an estate or trust in case of divorce, etc., see section 682.

SEC. 72. ANNUITIES; CERTAIN PROCEEDS OF ENDOWMENT AND LIFE INSURANCE CONTRACTS.

(a) GENERAL RULE FOR ANNUITIES.—Except as otherwise provided in this chapter, gross income includes any amount received as an annuity (whether for a period certain or during one or more lives) under an annuity, endowment, or life insurance contract.

(b) EXCLUSION RATIO.—Gross income does not include that part of any amount received as an annuity under an annuity, endowment, or life insurance contract which bears the same ratio to such amount as the investment in the contract (as of the annuity starting date) bears to the expected return under the contract (as of such date). This subsection shall not apply to any amount to which subsection (d) (1) (relating to certain employee annuities) applies.

(c) DEFINITIONS.—

(1) INVESTMENT IN THE CONTRACT.—For purposes of subsection (b), the investment in the contract as of the annuity starting date is—

(A) the aggregate amount of premiums or other consideration paid for the contract, minus

(B) the aggregate amount received under the contract before such date, to the extent that such amount was excludable from gross income under this subtitle or prior income tax laws.

(2) ADJUSTMENT IN INVESTMENT WHERE THERE IS REFUND FEATURE.—If—

(A) the expected return under the contract depends in whole or in part on the life expectancy of one or more individuals;

(B) the contract provides for payments to be made to a beneficiary (or to the estate of an annuitant) on or after the death of the annuitant or annuitants; and

(C) such payments are in the nature of a refund of the consideration paid,

then the value (computed without discount for interest) of such payments on the annuity starting date shall be subtracted from the amount determined under paragraph (1). Such value shall be computed in accordance with actuarial tables prescribed by the Secretary or his delegate. For purposes of this paragraph and of subsection (e) (2) (A), the term "refund of the consideration paid" includes amounts payable after the death of an annuitant by reason of a provision in the contract for a life annuity with minimum period of payments certain, but (if part of the consideration was contributed by an employer) does not include that part of any payment to a beneficiary (or to the estate of the annuitant) which is not attributable to the consideration paid by the employee for the contract as determined under paragraph (1) (A).

(3) EXPECTED RETURN.—For purposes of subsection (b), the expected return under the contract shall be determined as follows:

(A) LIFE EXPECTANCY.—If the expected return under the contract, for the period on and after the annuity starting date, depends in whole or in part on the life expectancy of one or more individuals, the expected return shall be computed with reference to actuarial tables prescribed by the Secretary or his delegate.

(B) INSTALLMENT PAYMENTS.—If subparagraph (A) does not apply, the expected return is the aggregate of the amounts receivable under the contract as an annuity.

(4) ANNUITY STARTING DATE.—For purposes of this section, the annuity starting date in the case of any contract is the first day of the first period for which an amount is received as an annuity under the contract; except that if such date was before January 1, 1954, then the annuity starting date is January 1, 1954.

(d) EMPLOYEES' ANNUITIES.—

(1) EMPLOYEE'S CONTRIBUTIONS RECOVERABLE IN 3 YEARS.—Where—

(A) part of the consideration for an annuity, endowment, or life insurance contract is contributed by the employer, and

(B) during the 3-year period beginning on the date (whether or not before January 1, 1954) on which an amount is first received under the contract as an annuity, the aggregate amount receivable by the employee under the terms of the contract is equal to or greater than the consideration for the contract contributed by the employee,

then all amounts received as an annuity under the contract shall be excluded from gross income until there has been so excluded (under this paragraph and prior income tax laws) an amount equal to the consideration for the contract contributed by the employee. Thereafter all amounts so received under the contract shall be included in gross income.

(2) SPECIAL RULES FOR APPLICATION OF PARAGRAPH (1).—For purposes of paragraph (1), if the employee died before any amount was received as an annuity under the contract, the words "receivable by the employee" shall be read as "receivable by a beneficiary of the employee".

(3) CROSS REFERENCE.—

For certain rules for determining whether amounts contributed by employer are includible in the gross income of the employee, see part I of subchapter D (sec. 401 and following, relating to pension, profit-sharing, and stock bonus plans, etc.).

(e) AMOUNTS NOT RECEIVED AS ANNUITIES.—

(1) GENERAL RULE.—If any amount is received under an annuity, endowment, or life insurance contract, if such amount is not received as an annuity, and if no other provision of this subtitle applies, then such amount—

(A) if received on or after the annuity starting date, shall be included in gross income; or

(B) if subparagraph (A) does not apply, shall be included in gross income, but only to the extent that it (when added to amounts previously received under the contract which were excludable from gross income under this subtitle or prior income tax laws) exceeds the aggregate premiums or other consideration paid.

For purposes of this section, any amount received which is in the nature of a dividend or similar distribution shall be treated as an amount not received as an annuity.

(2) SPECIAL RULES FOR APPLICATION OF PARAGRAPH (1).—For purposes of paragraph (1), the following shall be treated as amounts not received as an annuity:

(A) any amount received, whether in a single sum or otherwise, under a contract in full discharge of the obligation under the contract which is in the nature of a refund of the consideration paid for the contract; and

(B) any amount received under a contract on its surrender, redemption, or maturity.

In the case of any amount to which the preceding sentence applies, the rule of paragraph (1) (B) shall apply (and the rule of paragraph (1) (A) shall not apply).

(3) LIMIT ON TAX ATTRIBUTABLE TO RECEIPT OF LUMP SUM.—If a lump sum is received under an annuity, endowment, or life insurance contract, and the part which is includible in gross income is determined under paragraph (1), then the tax attributable to the inclusion of such part in gross income for the taxable year shall not be greater than the aggregate of the taxes attributable to such part had it been included in the gross income of the taxpayer ratably over the taxable year in which received and the preceding 2 taxable years.

(f) SPECIAL RULES FOR COMPUTING EMPLOYEES' CONTRIBUTIONS.—In computing, for purposes of subsection (c) (1) (A), the aggregate amount of premiums or other consideration paid for the contract, for purposes of subsection (d) (1), the consideration for the contract contributed by the employee, and for purposes of subsection (e) (1) (B), the aggregate premiums or other consideration paid, amounts contributed by the employer shall be included, but only to the extent that—

(1) such amounts were includible in the gross income of the employee under this subtitle or prior income tax laws; or

(2) if such amounts had been paid directly to the employee at the time they were contributed, they would not have been includible in the gross income of the employee under the law applicable at the time of such contribution.

(g) RULES FOR TRANSFEREE WHERE TRANSFER WAS FOR VALUE.—Where any contract (or any interest therein) is transferred (by assignment or otherwise) for a valuable consideration, to the extent that the contract (or interest therein) does not, in the hands of the transferee, have a basis which is determined by reference to the basis in the hands of the transferor, then—

(1) for purposes of this section, only the actual value of such consideration, plus the amount of the premiums and other consideration paid by the transferee after the transfer, shall be taken into account in computing the aggregate amount of the premiums or other consideration paid for the contract;

(2) for purposes of subsection (c) (1) (B), there shall be taken into account only the aggregate amount received under the contract by the transferee before the annuity starting date, to the extent that such amount was excludable from gross income under this subtitle or prior income tax laws; and

(3) the annuity starting date is January 1, 1954, or the first day of the first period for which the transferee received an amount under the contract as an annuity, whichever is the later.

For purposes of this subsection, the term "transferee" includes a beneficiary of, or the estate of, the transferee.

(h) OPTION TO RECEIVE ANNUITY IN LIEU OF LUMP SUM.—If—

(1) a contract provides for payment of a lump sum in full discharge of an obligation under the contract, subject to an option to receive an annuity in lieu of such lump sum;

(2) the option is exercised within 60 days after the day on which such lump sum first became payable; and

(3) part or all of such lump sum would (but for this subsection) be includible in gross income by reason of subsection (e) (1),

then, for purposes of this subtitle, no part of such lump sum shall be considered as includible in gross income at the time such lump sum first became payable.

(i) JOINT AND SURVIVOR ANNUITIES WHERE FIRST ANNUITANT DIED IN 1951, 1952, OR 1953.—Where an annuitant died after December 31, 1950, and before January 1, 1954, and the basis of a surviving annuitant's interest in the joint and survivor annuity contract was determinable under section 113 (a) (5) of the Internal Revenue Code of 1939, then—

(1) subsection (d) shall not apply with respect to such contract;

(2) for purposes of this section, the aggregate amount of premiums or other consideration paid for the contract is the basis of the contract determined under such section 113 (a) (5);

(3) for purposes of subsection (c) (1) (B), there shall be taken into account only the aggregate amount received by the surviving annuitant under the contract before the annuity starting date, to the extent that such amount was excludable from gross income under this subtitle or prior income tax laws; and

(4) the annuity starting date is January 1, 1954, or the first day of the first period for which the surviving annuitant received an amount under the contract as an annuity, whichever is the later.

(j) INTEREST.—Notwithstanding any other provision of this section, if any amount is held under an agreement to pay interest thereon, the interest payments shall be included in gross income.

(k) PAYMENTS IN DISCHARGE OF ALIMONY.—

(1) IN GENERAL.—This section shall not apply to so much of any payment under an annuity, endowment, or life insurance contract (or any interest therein) as is includible in the gross income of the wife under section 71 or section 682 (relating to income of an estate or trust in case of divorce, etc.).

(2) CROSS REFERENCE.—

For definition of "wife", see section 7701 (a) (17).

(l) FACE-AMOUNT CERTIFICATES.—For purposes of this section, the term "endowment contract" includes a face-amount certificate, as defined in section 2 (a) (15) of the Investment Company Act of 1940 (15 U. S. C., sec. 80a–2), issued after December 31, 1954.

(m) CROSS REFERENCE.—

For limitation on adjustments to basis of annuity contracts sold, see section 1021.

SEC. 73. SERVICES OF CHILD.

(a) TREATMENT OF AMOUNTS RECEIVED.—Amounts received in respect of the services of a child shall be included in his gross income and not in the gross income of the parent, even though such amounts are not received by the child.

(b) TREATMENT OF EXPENDITURES.—All expenditures by the parent or the child attributable to amounts which are includible in the gross income of the child (and not of the parent) solely by reason of subsection (a) shall be treated as paid or incurred by the child.

(c) PARENT DEFINED.—For purposes of this section, the term "parent" includes an individual who is entitled to the services of a child by reason of having parental rights and duties in respect of the child.

(d) CROSS REFERENCE.—

For assessment of tax against parent in certain cases, see section 6201 (c).

SEC. 74. PRIZES AND AWARDS.

(a) GENERAL RULE.—Except as provided in subsection (b) and in section 117 (relating to scholarships and fellowship grants), gross income includes amounts received as prizes and awards.

(b) EXCEPTION.—Gross income does not include amounts received as prizes and awards made primarily in recognition of religious, charitable, scientific, educational, artistic, literary, or civic achievement, but only if—

(1) the recipient was selected without any action on his part to enter the contest or proceeding; and

(2) the recipient is not required to render substantial future services as a condition to receiving the prize or award.

SEC. 75. DEALERS IN TAX-EXEMPT SECURITIES.

(a) ADJUSTMENT FOR BOND PREMIUM.—In computing the gross income of a taxpayer who holds during the taxable year a short-term municipal bond (as defined in subsection (b) (1)) primarily for sale to customers in the ordinary course of his trade or business—

(1) if the gross income of the taxpayer from such trade or business is computed by the use of inventories and his inventories are valued on any basis other than cost, the cost of securities sold (as defined in subsection (b) (2)) during such year shall be reduced by an amount equal to the amortizable bond premium which would be disallowed as a deduction for such year by section 171 (a) (2) (relating to deduction for amortizable bond premium) if the definition in section 171 (d) of the term "bond" did not exclude such short-term municipal bond; or

(2) if the gross income of the taxpayer from such trade or business is computed without the use of inventories, or by use of inventories valued at cost, and the short-term municipal bond is sold or otherwise disposed of during such year, the adjusted basis (computed without regard to this paragraph) of the short-term municipal bond shall be reduced by the amount of the adjustment which would be required under section 1016 (a) (5) (relating to adjustment to basis for amortizable bond premium) if the definition in section 171 (d) of the term "bond" did not exclude such short-term municipal bond.

(b) DEFINITIONS.—For purposes of subsection (a)—

(1) The term "short-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) it is sold or otherwise disposed of by the taxpayer within 30 days after the date of its acquisition by him, or

(B) its earliest maturity or call date is a date more than 5 years from the date on which it was acquired by the taxpayer.

(2) The term "cost of securities sold" means the amount ascertained by subtracting the inventory value of the closing inventory of a taxable year from the sum of—

(A) the inventory value of the opening inventory for such year, and

(B) the cost of securities and other property purchased during such year which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year.

SEC. 76. MORTGAGES MADE OR OBLIGATIONS ISSUED BY JOINT-STOCK LAND BANKS.

All income (except interest) derived from mortgages made, or obligations issued, after May 28, 1938, by a joint-stock land bank shall (notwithstanding section 26 of the Federal Farm Loan Act; 12 U. S. C. 931–3) be included in gross income.

SEC. 77. COMMODITY CREDIT LOANS.

(a) ELECTION TO INCLUDE LOANS IN INCOME.—Amounts received as loans from the Commodity Credit Corporation shall, at the election of the taxpayer, be considered as income and shall be included in gross income for the taxable year in which received.

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(b) EFFECT OF ELECTION ON ADJUSTMENTS FOR SUBSEQUENT YEARS.—If a taxpayer exercises the election provided for in subsection (a) for any taxable year, then the method of computing income so adopted shall be adhered to with respect to all subsequent taxable years unless with the approval of the Secretary or his delegate a change to a different method is authorized.

PART III—ITEMS SPECIFICALLY EXCLUDED FROM GROSS INCOME

Sec. 101. Certain death payments.
Sec. 102. Gifts and inheritances.
Sec. 103. Interest on certain governmental obligations.
Sec. 104. Compensation for injuries or sickness.
Sec. 105. Amounts received under accident and health plans.
Sec. 106. Contributions by employer to accident and health plans.
Sec. 107. Rental value of parsonages.
Sec. 108. Income from discharge of indebtedness.
Sec. 109. Improvements by lessee on lessor's property.
Sec. 110. Income taxes paid by lessee corporation.
Sec. 111. Recovery of bad debts, prior taxes, and delinquency amounts.
Sec. 112. Certain combat pay of members of the Armed Forces.
Sec. 113. Mustering-out payments for members of the Armed Forces.
Sec. 114. Sports programs conducted for the American National Red Cross.
Sec. 115. Income of States, municipalities, etc.
Sec. 116. Partial exclusion of dividends received by individuals.
Sec. 117. Scholarships and fellowship grants.
Sec. 118. Contributions to the capital of a corporation.
Sec. 119. Meals or lodging furnished for convenience of employer.
Sec. 120. Statutory subsistence allowance received by police.
Sec. 121. Cross references to other Acts.

SEC. 101. CERTAIN DEATH BENEFITS.

(a) PROCEEDS OF LIFE INSURANCE CONTRACTS PAYABLE BY REASON OF DEATH.—

(1) GENERAL RULE.—Except as otherwise provided in paragraph (2) and in subsection (d), gross income does not include amounts received (whether in a single sum or otherwise) under a life insurance contract, if such amounts are paid by reason of the death of the insured.

(2) TRANSFER FOR VALUABLE CONSIDERATION.—In the case of a transfer for a valuable consideration, by assignment or otherwise, of a life insurance contract or any interest therein, the amount excluded from gross income by paragraph (1) shall not exceed an amount equal to the sum of the actual value of such consideration and the premiums and other amounts subsequently paid by the transferee. The preceding sentence shall not apply in the case of such a transfer—

(A) if such contract or interest therein has a basis for determining gain or loss in the hands of a transferee determined in whole or in part by reference to such basis of such contract or interest therein in the hands of the transferor, or

(B) if such transfer is to the insured, to a partner of the insured, to a partnership in which the insured is a partner, or to a corporation in which the insured is a shareholder or officer.

(b) EMPLOYEES' DEATH BENEFITS.—

(1) GENERAL RULE.—Gross income does not include amounts received (whether in a single sum or otherwise) by the beneficiaries or the estate of an employee, if such amounts are paid by or on behalf of an employer and are paid by reason of the death of the employee.

(2) SPECIAL RULES FOR PARAGRAPH (1).—

(A) $5,000 LIMITATION.—The aggregate amounts excludable under paragraph (1) with respect to the death of any employee shall not exceed $5,000.

(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 (other than total distributions payable, as defined in section 402 (a) (3), which are paid to a distributee, by a stock bonus, pension, or profit-sharing trust described in section 401 (a) which is exempt from tax under section 501 (a), or under an annuity contract under a plan which meets the requirements of paragraphs (3), (4), (5), and (6) of section 401 (a), within one taxable year of the distributee by reason of the employee's death).

(C) JOINT AND SURVIVOR ANNUITIES.—Paragraph (1) shall not apply to amounts received by a surviving annuitant under a joint and survivor's annuity contract after the first day of the first period for which an amount was received as an annuity by the employee (or would have been received if the employee had lived).

(D) OTHER ANNUITIES.—In the case of any amount to which section 72 (relating to annuities, etc.) applies, the amount which is excludable under paragraph (1) (as modified by the preceding subparagraphs of this paragraph) shall be determined by reference to the value of such amount as of the day on which the employee died. Any amount so excludable under paragraph (1) shall, for purposes of section 72, be treated as additional consideration paid by the employee.

(c) INTEREST.—If any amount excluded from gross income by subsection (a) or (b) is held under an agreement to pay interest thereon, the interest payments shall be included in gross income.

(d) PAYMENT OF LIFE INSURANCE PROCEEDS AT A DATE LATER THAN DEATH.—

(1) GENERAL RULE.—The amounts held by an insurer with respect to any beneficiary shall be prorated (in accordance with such regulations as may be prescribed by the Secretary or his delegate) over the period or periods with respect to which such payments are to be made. There shall be excluded from the gross income of such beneficiary in the taxable year received—

(A) any amount determined by such proration, and

(B) in the case of the surviving spouse of the insured, that portion of the excess of the amounts received under one or more agreements specified in paragraph (2) (A) (whether or not payment of any part of such amounts is guaranteed by the insurer) over the amount determined in subparagraph (A) of this para-

graph which is not greater than $1,000 with respect to any insured.

Gross income includes, to the extent not excluded by the preceding sentence, amounts received under agreements to which this subsection applies.

(2) AMOUNT HELD BY AN INSURER.—An amount held by an insurer with respect to any beneficiary shall mean an amount to which subsection (a) applies which is—

(A) held by any insurer under an agreement provided for in the life insurance contract, whether as an option or otherwise, to pay such amount on a date or dates later than the death of the insured, and

(B) is equal to the value of such agreement to such beneficiary

(i) as of the date of death of the insured (as if any option exercised under the life insurance contract were exercised at such time), and

(ii) as discounted on the basis of the interest rate and mortality tables used by the insurer in calculating payments under the agreement.

(3) SURVIVING SPOUSE.—For purposes of this subsection, the term "surviving spouse" means the spouse of the insured as of the date of death, including a spouse legally separated but not under a decree of absolute divorce.

(4) APPLICATION OF SUBSECTION.—This subsection shall not apply to any amount to which subsection (c) is applicable.

(e) ALIMONY, ETC., PAYMENTS.—

(1) IN GENERAL.—This section shall not apply to so much of any payment as is includible in the gross income of the wife under section 71 (relating to alimony) or section 682 (relating to income of an estate or trust in case of divorce, etc.).

(2) CROSS REFERENCE.—

For definition of "wife", see section 7701 (a) (17).

(f) EFFECTIVE DATE OF SECTION.—This section shall apply only to amounts received by reason of the death of an insured or an employee occurring after the date of enactment of this title. Section 22 (b) (1) of the Internal Revenue Code of 1939 shall apply to amounts received by reason of the death of an insured or an employee occurring on or before such date.

SEC. 102. GIFTS AND INHERITANCES.

(a) GENERAL RULE.—Gross income does not include the value of property acquired by gift, bequest, devise, or inheritance.

(b) INCOME.—Subsection (a) shall not exclude from gross income—

(1) the income from any property referred to in subsection (a); or

(2) where the gift, bequest, devise, or inheritance is of income from property, the amount of such income.

Where, under the terms of the gift, bequest, devise, or inheritance, the payment, crediting, or distribution thereof is to be made at intervals, then, to the extent that it is paid or credited or to be distributed out of income from property, it shall be treated for purposes of paragraph (2) as a gift, bequest, devise, or inheritance of income from property. Any amount included in the gross income of a

beneficiary under subchapter J shall be treated for purposes of paragraph (2) as a gift, bequest, devise, or inheritance of income from property.

SEC. 103. INTEREST ON CERTAIN GOVERNMENTAL OBLIGATIONS.

(a) GENERAL RULE.—Gross income does not include interest on—

(1) the obligations of a State, a Territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia;

(2) the obligations of the United States; or

(3) the obligations of a corporation organized under Act of Congress, if such corporation is an instrumentality of the United States and if under the respective Acts authorizing the issue of the obligations the interest is wholly exempt from the taxes imposed by this subtitle.

(b) EXCEPTION.—Subsection (a) (2) shall not apply to interest on obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit, to the extent they represent deposits made before March 1, 1941), unless under the respective Acts authorizing the issuance thereof such interest is wholly exempt from the taxes imposed by this subtitle.

(c) CROSS REFERENCES.—

For provisions relating to the taxable status of—

(1) Bonds and certificates of indebtedness authorized by the First Liberty Bond Act, see sections 1 and 6 of that Act (40 Stat. 35, 36; 31 U. S. C. 746, 755);

(2) Bonds issued to restore or maintain the gold reserve, see section 2 of the Act of March 14, 1900 (31 Stat. 46; 31 U. S. C. 408);

(3) Bonds, notes, certificates of indebtedness, and Treasury bills authorized by the Second Liberty Bond Act, see sections 4, 5 (b) and (d), 7, 18 (b), and 22 (d) of that Act, as amended (40 Stat. 290; 46 Stat. 20, 775; 40 Stat. 291, 1310; 55 Stat. 8; 31 U. S. C. 752a, 754, 747, 753, 757c);

(4) Bonds, notes, and certificates of indebtedness of the United States and bonds of the War Finance Corporation owned by certain nonresidents, see section 3 of the Fourth Liberty Bond Act, as amended (40 Stat. 1311, § 4; 31 U. S. C. 750);

(5) Certificates of indebtedness issued after February 4, 1910, see section 2 of the Act of that date (36 Stat. 192; 31 U. S. C. 769);

(6) Consols of 1930, see section 11 of the Act of March 14, 1900 (31 Stat. 48; 31 U. S. C. 751);

(7) Obligations and evidences of ownership issued by the United States or any of its agencies or instrumentalities on or after March 28, 1942, see section 4 of the Public Debt Act of 1941, as amended (c. 147, 61 Stat. 180; 31 U. S. C. 742a);

(8) Commodity Credit Corporation obligations, see section 5 of the Act of March 8, 1938 (52 Stat. 108; 15 U. S. C. 713a–5);

(9) Debentures issued by Federal Housing Administrator, see sections 204 (d) and 207 (i) of the National Housing Act, as amended (52 Stat. 14, 20; 12 U. S. C. 1710, 1713);

(10) Debentures issued to mortgagees by United States Maritime Commission, see section 1105 (c) of the Merchant Marine Act, 1936, as amended (52 Stat. 972; 46 U. S. C. 1275);

(11) Federal Deposit Insurance Corporation obligations, see section 15 of the Federal Deposit Insurance Act (64 Stat. 890; 12 U. S. C. 1825);

(12) Federal Home Loan Bank obligations, see section 13 of the Federal Home Loan Bank Act, as amended (49 Stat. 295, § 8; 12 U. S. C. 1433);

(13) Federal savings and loan association loans, see section 5 (h) of the Home Owners' Loan Act of 1933, as amended (48 Stat. 133; 12 U. S. C. 1464);

(14) Federal Savings and Loan Insurance Corporation obligations, see section 402 (e) of the National Housing Act (48 Stat. 1257; 12 U. S. C. 1725);

(15) Home Owners' Loan Corporation bonds, see section 4 (c) of the Home Owners' Loan Act of 1933, as amended (48 Stat. 644, c. 168; 12 U. S. C. 1463);

(16) Obligations of Central Bank for Cooperatives, production credit corporations, production credit associations, and banks for cooperatives, see section 63 of the Farm Credit Act of 1933 (48 Stat. 267; 12 U. S. C. 1138c);

(17) Panama Canal bonds, see section 1 of the Act of December 21, 1904 (34 Stat. 5; 31 U. S. C. 743), section 8 of the Act of June 28, 1902 (32 Stat. 484; 31 U. S. C. 744), and section 39 of the Tariff Act of 1909 (36 Stat. 117; 31 U. S. C. 745);

(18) Philippine bonds, etc., issued before the independence of the Philippines, see section 9 of the Philippine Independence Act (48 Stat. 463; 48 U. S. C. 1239);

(19) Postal savings bonds, see section 10 of the Act of June 25, 1910 (36 Stat. 817; 39 U. S. C. 760);

(20) Puerto Rican bonds, see section 3 of the Act of March 2, 1917, as amended (50 Stat. 844; 48 U. S. C. 745);

(21) Treasury notes issued to retire national bank notes, see section 18 of the Federal Reserve Act (38 Stat. 268; 12 U. S. C. 447);

(22) United States Housing Authority obligations, see sections 5 (e) and 20 (b) of the United States Housing Act of 1937 (50 Stat. 890, 898; 42 U. S. C. 1405, 1420);

(23) Virgin Islands insular and municipal bonds, see section 1 of the Act of October 27, 1949 (63 Stat. 940; 48 U. S. C. 1403).

SEC. 104. COMPENSATION FOR INJURIES OR SICKNESS.

(a) IN GENERAL.—Except in the case of amounts attributable to (and not in excess of) deductions allowed under section 213 (relating to medical, etc., expenses) for any prior taxable year, gross income does not include—

(1) amounts received under workmen's compensation acts as compensation for personal injuries or sickness;

(2) the amount of any damages received (whether by suit or agreement) on account of personal injuries or sickness;

(3) amounts received through accident or health insurance for personal injuries or sickness (other than amounts received by an employee, to the extent such amounts (A) are attributable to contributions by the employer which were not includible in the gross income of the employee, or (B) are paid by the employer); and

(4) amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country or in the Coast and Geodetic Survey or the Public Health Service.

(b) CROSS REFERENCES.—

(1) For exclusion from employee's gross income of employer contributions to accident and health plans, see section 106.

(2) For exclusion of part of disability retirement pay from the application of subsection (a) (4) of this section, see section 402 (h) of the Career Compensation Act of 1949 (37 U. S. C. 272 (h)).

SEC. 105. AMOUNTS RECEIVED UNDER ACCIDENT AND HEALTH PLANS.

(a) AMOUNTS ATTRIBUTABLE TO EMPLOYER CONTRIBUTIONS.—Except as otherwise provided in this section, amounts received by an

employee through accident or health insurance for personal injuries or sickness shall be included in gross income to the extent such amounts (1) are attributable to contributions by the employer which were not includible in the gross income of the employee, or (2) are paid by the employer.

(b) AMOUNTS EXPENDED FOR MEDICAL CARE.—Except in the case of amounts attributable to (and not in excess of) deductions allowed under section 213 (relating to medical, etc., expenses) for any prior taxable year, gross income does not include amounts referred to in subsection (a) if such amounts are paid, directly or indirectly, to the taxpayer to reimburse the taxpayer for expenses incurred by him for the medical care (as defined in section 213 (e)) of the taxpayer, his spouse, and his dependents (as defined in section 152).

(c) PAYMENTS UNRELATED TO ABSENCE FROM WORK.—Gross income does not include amounts referred to in subsection (a) to the extent such amounts—

(1) constitute payment for the permanent loss or loss of use of a member or function of the body, or the permanent disfigurement, of the taxpayer, his spouse, or a dependent (as defined in section 152), and

(2) are computed with reference to the nature of the injury without regard to the period the employee is absent from work.

(d) WAGE CONTINUATION PLANS.—Gross income does not include amounts referred to in subsection (a) if such amounts constitute wages or payments in lieu of wages for a period during which the employee is absent from work on account of personal injuries or sickness; but this subsection shall not apply to the extent that such amounts exceed a weekly rate of $100. In the case of a period during which the employee is absent from work on account of sickness, the preceding sentence shall not apply to amounts attributable to the first 7 calendar days in such period unless the employee is hospitalized on account of sickness for at least one day during such period. If such amounts are not paid on the basis of a weekly pay period, the Secretary or his delegate shall by regulations prescribe the method of determining the weekly rate at which such amounts are paid.

(e) ACCIDENT AND HEALTH PLANS.—For purposes of this section and section 104—

(1) amounts received under an accident or health plan for employees, and

(2) amounts received from a sickness and disability fund for employees maintained under the law of a State, a Territory, or the District of Columbia,

shall be treated as amounts received through accident or health insurance.

(f) RULES FOR APPLICATION OF SECTION 213.—For purposes of section 213 (a) (relating to medical, dental, etc., expenses) amounts excluded from gross income under subsection (c) or (d) shall not be considered as compensation (by insurance or otherwise) for expenses paid for medical care.

SEC. 106. CONTRIBUTIONS BY EMPLOYER TO ACCIDENT AND HEALTH PLANS.

Gross income does not include contributions by the employer to accident or health plans for compensation (through insurance or otherwise) to his employees for personal injuries or sickness.

SEC. 107. RENTAL VALUE OF PARSONAGES.

In the case of a minister of the gospel, gross income does not include—

(1) the rental value of a home furnished to him as part of his compensation; or

(2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home.

SEC. 108. INCOME FROM DISCHARGE OF INDEBTEDNESS.

(a) SPECIAL RULE OF EXCLUSION.—No amount shall be included in gross income by reason of the discharge, in whole or in part, within the taxable year, of any indebtedness for which the taxpayer is liable, or subject to which the taxpayer holds property, if—

(1) the indebtedness was incurred or assumed—

(A) by a corporation, or

(B) by an individual in connection with property used in his trade or business, and

(2) such taxpayer makes and files a consent to the regulations prescribed under section 1017 (relating to adjustment of basis) then in effect at such time and in such manner as the Secretary or his delegate by regulations prescribes.

In such case, the amount of any income of such taxpayer attributable to any unamortized premium (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be included in gross income, and the amount of the deduction attributable to any unamortized discount (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be allowed as a deduction.

(b) RAILROAD CORPORATIONS.—No amount shall be included in gross income by reason of the discharge, cancellation, or modification, in whole or in part, within the taxable year, of any indebtedness of a railroad corporation, as defined in section 77 (m) of the Bankruptcy Act (11 U. S. C. 205 (m)), if such discharge, cancellation, or modification is effected pursuant to an order of a court in a receivership proceeding or in a proceeding under section 77 of the Bankruptcy Act. In such cases, the amount of any income of the taxpayer attributable to any unamortized premium (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be included in gross income, and the amount of the deduction attributable to any unamortized discount (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be allowed as a deduction. Subsection (a) of this section shall not apply with respect to any discharge of indebtedness to which this subsection applies. This subsection shall not apply to any discharge occurring in a taxable year beginning after December 31, 1955.

SEC. 109. IMPROVEMENTS BY LESSEE ON LESSOR'S PROPERTY.

Gross income does not include income (other than rent) derived by a lessor of real property on the termination of a lease, representing the value of such property attributable to buildings erected or other improvements made by the lessee.

SEC. 110. INCOME TAXES PAID BY LESSEE CORPORATION.

If—

(1) a lease was entered into before January 1, 1954,

(2) both lessee and lessor are corporations, and

(3) under the lease, the lessee is obligated to pay, or to reimburse the lessor for, any part of the tax imposed by this subtitle on the lessor with respect to the rentals derived by the lessor from the lessee,

then gross income of the lessor does not include such payment or reimbursement, and no deduction for such payment or reimbursement shall be allowed to the lessee. For purposes of the preceding sentence, a lease shall be considered to have been entered into before January 1, 1954, if it is a renewal or continuance of a lease entered into before such date and if such renewal or continuance was made in accordance with an option contained in the lease on December 31, 1953.

SEC. 111. RECOVERY OF BAD DEBTS, PRIOR TAXES, AND DELINQUENCY AMOUNTS.

(a) GENERAL RULE.—Gross income does not include income attributable to the recovery during the taxable year of a bad debt, prior tax, or delinquency amount, to the extent of the amount of the recovery exclusion with respect to such debt, tax, or amount.

(b) DEFINITIONS.—For purposes of subsection (a)—

(1) BAD DEBT.—The term "bad debt" means a debt on account of the worthlessness or partial worthlessness of which a deduction was allowed for a prior taxable year.

(2) PRIOR TAX.—The term "prior tax" means a tax on account of which a deduction or credit was allowed for a prior taxable year.

(3) DELINQUENCY AMOUNT.—The term "delinquency amount" means an amount paid or accrued on account of which a deduction or credit was allowed for a prior taxable year and which is attributable to failure to file return with respect to a tax, or pay a tax, within the time required by the law under which the tax is imposed, or to failure to file return with respect to a tax or pay a tax.

(4) RECOVERY EXCLUSION.—The term "recovery exclusion", with respect to a bad debt, prior tax, or delinquency amount, means the amount, determined in accordance with regulations prescribed by the Secretary or his delegate, of the deductions or credits allowed, on account of such bad debt, prior tax, or delinquency amount, which did not result in a reduction of the taxpayer's tax under this subtitle (not including the accumulated earnings tax imposed by section 531 or the tax on personal holding companies imposed by section 541) or corresponding provisions of prior income tax laws (other than subchapter E of chapter 2 of the Internal Revenue Code of 1939, relating to World War II excess profits tax), reduced by the amount excludable in previous taxable years with respect to such debt, tax, or amount under this section.

(c) SPECIAL RULES FOR ACCUMULATED EARNINGS TAX AND FOR PERSONAL HOLDING COMPANY TAX.—In applying subsections (a) and (b) for the purpose of determining the accumulated earnings tax under section 531 or the tax under section 541 (relating to personal holding companies)—

(1) a recovery exclusion allowed for purposes of this subtitle (other than section 531 or section 541) shall be allowed whether or not the bad debt, prior tax, or delinquency amount resulted in a reduction of the tax under section 531 or the tax under section 541 for the prior taxable year; and

(2) where a bad debt, prior tax, or delinquency amount was not allowable as a deduction or credit for the prior taxable year for purposes of this subtitle other than of section 531 or section 541 but was allowable for the same taxable year under section 531 or section 541, then a recovery exclusion shall be allowable if such bad debt, prior tax, or delinquency amount did not result in a reduction of the tax under section 531 or the tax under section 541.

SEC. 112. CERTAIN COMBAT PAY OF MEMBERS OF THE ARMED FORCES.

(a) ENLISTED PERSONNEL.—Gross income does not include compensation received for active service as a member below the grade of commissioned officer in the Armed Forces of the United States for any month during any part of which such member—

(1) served in a combat zone during an induction period, or

(2) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone during an induction period; but this paragraph shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subsection (c) (3) of this section.

(b) COMMISSIONED OFFICERS.—Gross income does not include so much of the compensation as does not exceed $200 received for active service as a commissioned officer in the Armed Forces of the United States for any month during any part of which such officer—

(1) served in a combat zone during an induction period, or

(2) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone during an induction period; but this paragraph shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subsection (c) (3) of this section.

(c) DEFINITIONS.—For purposes of this section—

(1) The term "commissioned officer" does not include a commissioned warrant officer.

(2) The term "combat zone" means any area which the President of the United States by Executive Order designates, for purposes of this section or corresponding provisions of prior income tax laws, as an area in which Armed Forces of the United States are or have (after June 24, 1950) engaged in combat.

(3) Service is performed in a combat zone only if performed on or after the date designated by the President by Executive Order as the date of the commencing of combatant activities in such zone, and on or before the date designated by the President by Executive Order as the date of the termination of combatant activities in

such zone; except that June 25, 1950, shall be considered the date of the commencing of combatant activities in the combat zone designated in Executive Order 10195.

(4) The term "compensation" does not include pensions and retirement pay.

(5) The term "induction period" means any period during which, under laws heretofore or hereafter enacted relating to the induction of individuals for training and service in the Armed Forces of the United States, individuals (other than individuals liable for induction by reason of a prior deferment) are liable for induction for such training and service.

SEC. 113. MUSTERING-OUT PAYMENTS FOR MEMBERS OF THE ARMED FORCES.

Gross income does not include amounts received during the taxable year as mustering-out payments with respect to service in the Armed Forces of the United States.

SEC. 114. SPORTS PROGRAMS CONDUCTED FOR THE AMERICAN NATIONAL RED CROSS.

(a) GENERAL RULE.—In the case of a taxpayer which is a corporation primarily engaged in the furnishing of sports programs, gross income does not include amounts received as proceeds from a sports program conducted by the taxpayer if—

(1) the taxpayer agrees in writing with the American National Red Cross to conduct such sports program exclusively for the benefit of the American National Red Cross;

(2) the taxpayer turns over to the American National Red Cross the proceeds from such sports program, minus the expenses paid or incurred by the taxpayer—

(A) which would not have been so paid or incurred but for such sports program, and

(B) which would be allowable as a deduction under section 162 (relating to trade or business expenses) but for subsection (b) of this section; and

(3) the facilities used for such program are not regularly used during the taxable year for the conduct of sports programs to which this subsection applies.

For purposes of this subsection, the term "proceeds from such sports program" includes all amounts paid for admission to the sports program, plus all proceeds received by the taxpayer from such program or activities carried on in connection therewith.

(b) TREATMENT OF EXPENSES.—Expenses described in subsection (a) (2) shall be allowed as a deduction under section 162 only to the extent that such expenses exceed the amount excluded from gross income by subsection (a) of this section.

SEC. 115. INCOME OF STATES, MUNICIPALITIES, ETC.

(a) GENERAL RULE.—Gross income does not include—

(1) income derived from any public utility or the exercise of any essential governmental function and accruing to a State or Territory, or any political subdivision thereof, or the District of Columbia; or

(2) income accruing to the government of any possession of the United States, or any political subdivision thereof.

(b) CONTRACTS MADE BEFORE SEPTEMBER 8, 1916, RELATING TO PUBLIC UTILITIES.—Where a State or Territory, or any political subdivision thereof, or the District of Columbia, before September 8, 1916, entered in good faith into a contract with any person, the object and purpose of which was to acquire, construct, operate, or maintain a public utility—

(1) If—

(A) by the terms of such contract the tax imposed by this subtitle is to be paid out of the proceeds from the operation of such public utility before any division of such proceeds between the person and the State, Territory, political subdivision, or the District of Columbia, and

(B) a part of such proceeds for the taxable year would (but for the imposition of the tax imposed by this subtitle) accrue directly to or for the use of such State, Territory, political subdivision, or the District of Columbia,

then a tax on the taxable income from the operation of such public utility shall be levied, assessed, collected, and paid in the manner and at the rates prescribed in this subtitle, but there shall be refunded to such State, Territory, political subdivision, or the District of Columbia (under regulations prescribed by the Secretary or his delegate) an amount which bears the same relation to the amount of the tax as the amount which (but for the imposition of the tax imposed by this subtitle) would have accrued directly to or for the use of such State, Territory, political subdivision, or the District of Columbia, bears to the amount of the taxable income from the operation of such public utility for such taxable year.

(2) If by the terms of such contract no part of the proceeds from the operation of the public utility for the taxable year would, irrespective of the tax imposed by this subtitle, accrue directly to or for the use of such State, Territory, political subdivision, or the District of Columbia, then the tax on the taxable income of such person from the operation of such public utility shall be levied, assessed, collected, and paid in the manner and at the rates prescribed in this subtitle.

(c) CONTRACTS MADE BEFORE MAY 29, 1928, RELATING TO BRIDGE ACQUISITIONS.—Where a State or political subdivision thereof, pursuant to a contract entered into before May 29, 1928, to which it is not a party, is to acquire a bridge—

(1) If—

(A) by the terms of such contract the tax imposed by this subtitle is to be paid out of the proceeds from the operation of such bridge before any division of such proceeds, and

(B) a part of such proceeds for the taxable year would (but for the imposition of the tax imposed by this subtitle) accrue directly to or for the use of or would be applied for the benefit of such State or political subdivision,

then a tax on the taxable income from the operation of such bridge shall be levied, assessed, collected, and paid in the manner and at the rates prescribed in this subtitle, but there shall be refunded to such State or political subdivision (under regulations to be prescribed by the Secretary or his delegate) an amount which bears the same

relation to the amount of the tax as the amount which (but for the imposition of the tax imposed by this subtitle) would have accrued directly to or for the use of or would be applied for the benefit of such State or political subdivision bears to the amount of the taxable income from the operation of such bridge for such taxable year. No such refund shall be made unless the entire amount of the refund is to be applied in part payment for the acquisition of such bridge.

(2) If by the terms of such contract no part of the proceeds from the operation of the bridge for the taxable year would, irrespective of the tax imposed by this subtitle, accrue directly to or for the use of or be applied for the benefit of such State or political subdivision, then the tax on the taxable income from the operation of such bridge shall be levied, assessed, collected, and paid in the manner and at the rates prescribed in this subtitle.

SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS RECEIVED BY INDIVIDUALS.

(a) EXCLUSION FROM GROSS INCOME.—Effective with respect to any taxable year ending after July 31, 1954, gross income does not include amounts received by an individual as dividends from domestic corporations, to the extent that the dividends do not exceed $50. If the dividends received in a taxable year exceed $50, the exclusion provided by the preceding sentence shall apply to the dividends first received in such year.

(b) CERTAIN DIVIDENDS EXCLUDED.—Subsection (a) shall not apply to any dividend from—

(1) an insurance company subject to a tax imposed by part I or II of subchapter L (sec. 801 and following);

(2) a corporation organized under the China Trade Act, 1922 (see sec. 941); or

(3) a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is—

(A) a corporation exempt from tax under section 501 (relating to certain charitable, etc., organizations) or section 521 (relating to farmers' cooperative associations); or

(B) a corporation to which section 931 (relating to income from sources within possessions of the United States) applies.

(c) SPECIAL RULES FOR CERTAIN DISTRIBUTIONS.—For purposes of subsection (a)—

(1) Any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.) shall not be treated as a dividend.

(2) A dividend received from a regulated investment company shall be subject to the limitations prescribed in section 854.

(d) CERTAIN NONRESIDENT ALIENS INELIGIBLE FOR EXCLUSION.—Subsection (a) does not apply to a nonresident alien individual with respect to whom a tax is imposed for the taxable year under section 871 (a).

SEC. 117. SCHOLARSHIPS AND FELLOWSHIP GRANTS.

(a) GENERAL RULE.—In the case of an individual, gross income does not include—

(1) any amount received—

(A) as a scholarship at an educational institution (as defined in section 151 (e) (4)), or

(B) as a fellowship grant,

including the value of contributed services and accommodations; and

(2) any amount received to cover expenses for—

(A) travel,

(B) research,

(C) clerical help, or

(D) equipment,

which are incident to such a scholarship or to a fellowship grant, but only to the extent that the amount is so expended by the recipient.

(b) LIMITATIONS.—

(1) INDIVIDUALS WHO ARE CANDIDATES FOR DEGREES.—In the case of an individual who is a candidate for a degree at an educational institution (as defined in section 151 (e) (4)), subsection (a) shall not apply to that portion of any amount received which represents payment for teaching, research, or other services in the nature of part-time employment required as a condition to receiving the scholarship or the fellowship grant. If teaching, research, or other services are required of all candidates (whether or not recipients of scholarships or fellowship grants) for a particular degree as a condition to receiving such degree, such teaching, research, or other services shall not be regarded as part-time employment within the meaning of this paragraph.

(2) INDIVIDUALS WHO ARE NOT CANDIDATES FOR DEGREES.—In the case of an individual who is not a candidate for a degree at an educational institution (as defined in section 151 (e) (4)), subsection (a) shall apply only if the condition in subparagraph (A) is satisfied and then only within the limitations provided in subparagraph (B).

(A) CONDITIONS FOR EXCLUSION.—The grantor of the scholarship or fellowship grant is an organization described in section 501 (c) (3) which is exempt from tax under section 501 (a), the United States, or an instrumentality or agency thereof, or a State, a Territory, or a possession of the United States, or any political subdivision thereof, or the District of Columbia.

(B) EXTENT OF EXCLUSION.—The amount of the scholarship or fellowship grant excluded under subsection (a) (1) in any taxable year shall be limited to an amount equal to $300 times the number of months for which the recipient received amounts under the scholarship or fellowship grant during such taxable year, except that no exclusion shall be allowed under subsection (a) after the recipient has been entitled to exclude under this section for a period of 36 months (whether or not consecutive) amounts received as a scholarship or fellowship grant while not a candidate for a degree at an educational institution (as defined in section 151 (e) (4)).

SEC. 118. CONTRIBUTIONS TO THE CAPITAL OF A CORPORATION.

(a) GENERAL RULE.—In the case of a corporation, gross income does not include any contribution to the capital of the taxpayer.

(b) CROSS REFERENCE.—

For basis of property acquired by a corporation through a contribution to its capital, see section 362.

SEC. 119. MEALS OR LODGING FURNISHED FOR THE CONVENIENCE OF THE EMPLOYER.

There shall be excluded from gross income of an employee the value of any meals or lodging furnished to him by his employer for the convenience of the employer, but only if—

(1) in the case of meals, the meals are furnished on the business premises of the employer, or

(2) in the case of lodging, the employee is required to accept such lodging on the business premises of his employer as a condition of his employment.

In determining whether meals or lodging are furnished for the convenience of the employer, the provisions of an employment contract or of a State statute fixing terms of employment shall not be determinative of whether the meals or lodging are intended as compensation.

SEC. 120. STATUTORY SUBSISTENCE ALLOWANCE RECEIVED BY POLICE.

(a) GENERAL RULE.—Gross income does not include any amount received as a statutory subsistence allowance by an individual who is employed as a police official by a State, a Territory, or a possession of the United States, by any political subdivision of any of the foregoing, or by the District of Columbia.

(b) LIMITATIONS.—

(1) Amounts to which subsection (a) applies shall not exceed $5 per day.

(2) If any individual receives a subsistence allowance to which subsection (a) applies, no deduction shall be allowed under any other provision of this chapter for expenses in respect of which he has received such allowance, except to the extent that such expenses exceed the amount excludable under subsection (a) and the excess is otherwise allowable as a deduction under this chapter.

SEC. 121. CROSS REFERENCES TO OTHER ACTS.

(a) For exemption of—

(1) Adjustments of indebtedness under wage earners' plans, see section 679 of the Bankruptcy Act (52 Stat. 938; 11 U. S. C. 1079);

(2) Allowances and expenditures to meet losses sustained by persons serving the United States abroad, due to appreciation of foreign currencies, see the Acts of March 6, 1934 (48 Stat. 466; 5 U. S. C. 118c) and April 25, 1938 (52 Stat. 221; 5 U. S. C. 118c–1);

(3) Amounts credited to the Maritime Administration under section 9 (b) (6) of the Merchant Ship Sales Act of 1946, see section 9 (c) (1) of that Act (60 Stat. 48; 50 U. S. C. App. 1742);

(4) Benefits under World War Adjusted Compensation Act, see section 308 of that Act, as amended (43 Stat. 125; 44 Stat. 827, § 3; 38 U. S. C. 618);

(5) Benefits under World War Veterans' Act, 1924, see section 3 of the Act of August 12, 1935 (49 Stat. 609; 38 U. S. C. 454a);

(6) Dividends and interest derived from certain preferred stock by Reconstruction Finance Corporation, see section 304 of the Act of March 9, 1933, as amended (49 Stat. 1185; 12 U. S. C. 51d);

(7) Earnings of ship contractors deposited in special reserve funds, see section 607 (h) of the Merchant Marine Act, 1936, as amended (52 Stat. 961, § 28; 46 U. S. C. 1177);

(8) Income derived from Federal Reserve banks, including capital stock and surplus, see section 7 of the Federal Reserve Act (38 Stat. 258; 12 U. S. C. 531);

(9) Income derived from Ogdensburg bridge across Saint Lawrence River, see section 4 of the Act of June 14, 1933, as amended (54 Stat. 259, § 2);

(10) Income derived from Owensboro bridge across Ohio River and nearby ferries, see section 4 of the Act of August 14, 1937 (50 Stat. 643);

(11) Income derived from Saint Clair River bridge and ferries, see section 4 of the Act of June 25, 1930, as amended (48 Stat. 140, § 1);

(12) Leave compensation payments under section 6 of Armed Forces Leave Act of 1946, see section 7 of that Act (60 Stat. 967; 37 U. S. C. 36);

(13) Mustering-out payments made to or on account of veterans under the Mustering-Out Payment Act of 1944, see section 5 (a) of that Act (58 Stat. 10; 38 U. S. C. 691e);

(14) Railroad retirement annuities and pensions, see section 12 of the Railroad Retirement Act of 1935, as amended (50 Stat. 316; 45 U. S. C. 228l);

(15) Railroad unemployment benefits, see section 2 (e) of the Railroad Unemployment Insurance Act, as amended (52 Stat. 1097; 53 Stat. 845, § 9; 45 U. S. C. 352);

(16) Special pensions of persons on Army and Navy medal of honor roll, see section 3 of the Act of April 27, 1916 (39 Stat. 54; 38 U. S. C. 393);

(17) Gain derived from the sale or other disposition of Treasury Bills, issued after June 17, 1930, under the Second Liberty Bond Act, as amended, see Act of June 17, 1930 (C. 512, 46 Stat. 775; 31 U. S. C. 754).

(b) For extension of military income-tax-exemption benefits to commissioned officers of Public Health Service in certain circumstances, see section 212 of the Public Health Service Act (58 Stat. 689; 42 U. S. C. 213).

PART IV—STANDARD DEDUCTION FOR INDIVIDUALS

Sec. 141. Standard deduction.
Sec. 142. Individuals not eligible for standard deduction.
Sec. 143. Determination of marital status.
Sec. 144. Election of standard deduction.
Sec. 145. Cross reference.

SEC. 141. STANDARD DEDUCTION.

The standard deduction referred to in section 63 (b) (defining taxable income in case of individual electing standard deduction) shall be an amount equal to 10 percent of the adjusted gross income or $1,000, whichever is the lesser, except that in the case of a separate return by a married individual the standard deduction shall not exceed $500.

SEC. 142. INDIVIDUALS NOT ELIGIBLE FOR STANDARD DEDUCTION.

(a) HUSBAND AND WIFE.—The standard deduction shall not be allowed to a husband or wife if the tax of the other spouse is determined under section 1 on the basis of the taxable income computed without regard to the standard deduction.

(b) CERTAIN OTHER TAXPAYERS INELIGIBLE.—The standard deduction shall not be allowed in computing the taxable income of—

(1) a nonresident alien individual;

(2) a citizen of the United States entitled to the benefits of section 931 (relating to income from sources within possessions of the United States);

(3) an individual making a return under section 443 (a) (1) for a period of less than 12 months on account of a change in his annual accounting period; or

(4) an estate or trust, common trust fund, or partnership.

SEC. 143. DETERMINATION OF MARITAL STATUS.

For purposes of this part—

(1) The determination of whether an individual is married shall be made as of the close of his taxable year; except that if his spouse dies during his taxable year such determination shall be made as of the time of such death; and

(2) An individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

SEC. 144. ELECTION OF STANDARD DEDUCTION.

(a) METHOD AND EFFECT OF ELECTION.—

(1) If the adjusted gross income shown on the return is $5,000 or more, the standard deduction shall be allowed if the taxpayer so elects in his return, and the Secretary or his delegate shall by regulations prescribe the manner of signifying such election in the return. If the adjusted gross income shown on the return is $5,000 or more, but the correct adjusted gross income is less than $5,000, then an election by the taxpayer under the preceding sentence to take the standard deduction shall be considered as his election to pay the tax imposed by section 3 (relating to tax based on tax table); and his failure to make under the preceding sentence an election to take the standard deduction shall be considered his election not to pay the tax imposed by section 3.

(2) If the adjusted gross income shown on the return is less than $5,000, the standard deduction shall be allowed only if the taxpayer elects, in the manner provided in section 4, to pay the tax imposed by section 3. If the adjusted gross income shown on the return is less than $5,000, but the correct adjusted gross income is $5,000 or more, then an election by the taxpayer to pay the tax imposed by section 3 shall be considered as his election to take the standard deduction; and his failure to elect to pay the tax imposed by section 3 shall be considered his election not to take the standard deduction.

(3) If the taxpayer on making his return fails to signify, in the manner provided by paragraph (1) or (2), his election to take the standard deduction or to pay the tax imposed by section 3, as the case may be, such failure shall be considered his election not to take the standard deduction.

(b) CHANGE OF ELECTION.—Under regulations prescribed by the Secretary or his delegate, a change of an election for any taxable year to take, or not to take, the standard deduction, or to pay, or not to pay, the tax under section 3, may be made after the filing of the return for such year. If the spouse of the taxpayer filed a separate return for any taxable year corresponding, for purposes of section 142 (a), to the taxable year of the taxpayer, the change shall not be allowed unless, in accordance with such regulations—

(1) the spouse makes a change of election with respect to the standard deduction for the taxable year covered in such separate

return, consistent with the change of election sought by the taxpayer, and

(2) the taxpayer and his spouse consent in writing to the assessment, within such period as may be agreed on with the Secretary or his delegate, of any deficiency, to the extent attributable to such change of election, even though at the time of the filing of such consent the assessment of such deficiency would otherwise be prevented by the operation of any law or rule of law.

This subsection shall not apply if the tax liability of the taxpayer's spouse, for the taxable year corresponding (for purposes of section 142 (a)) to the taxable year of the taxpayer, has been compromised under section 7122.

SEC. 145. CROSS REFERENCE.

For disallowance of certain credits against the tax in the case of individuals electing the standard deduction, see section 36.

PART V—DEDUCTIONS FOR PERSONAL EXEMPTIONS

Sec. 151. Allowance of deductions for personal exemptions.
Sec. 152. Dependent defined.
Sec. 153. Determination of marital status.
Sec. 154. Gross references.

SEC. 151. ALLOWANCE OF DEDUCTIONS FOR PERSONAL EXEMPTIONS.

(a) ALLOWANCE OF DEDUCTIONS.—In the case of an individual, the exemptions provided by this section shall be allowed as deductions in computing taxable income.

(b) TAXPAYER AND SPOUSE.—An exemption of $600 for the taxpayer; and an additional exemption of $600 for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

(c) ADDITIONAL EXEMPTION FOR TAXPAYER OR SPOUSE AGED 65 OR MORE.—

(1) FOR TAXPAYER.—An additional exemption of $600 for the taxpayer if he has attained the age of 65 before the close of his taxable year.

(2) FOR SPOUSE.—An additional exemption of $600 for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse has attained the age of 65 before the close of such taxable year, and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

(d) ADDITIONAL EXEMPTION FOR BLINDNESS OF TAXPAYER OR SPOUSE.—

(1) FOR TAXPAYER.—An additional exemption of $600 for the taxpayer if he is blind at the close of his taxable year.

(2) FOR SPOUSE.—An additional exemption of $600 for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse is blind and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer. For purposes of this paragraph, the determination of whether the spouse is blind shall be made

as of the close of the taxable year of the taxpayer; except that if the spouse dies during such taxable year such determination shall be made as of the time of such death.

(3) BLINDNESS DEFINED.—For purposes of this subsection, an individual is blind only if his central visual acuity does not exceed 20/200 in the better eye with correcting lenses, or if his visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

(e) ADDITIONAL EXEMPTION FOR DEPENDENTS.—

(1) IN GENERAL.—An exemption of $600 for each dependent (as defined in section 152)—

(A) whose gross income for the calendar year in which the taxable year of the taxpayer begins is less than $600, or

(B) who is a child of the taxpayer and who (i) has not attained the age of 19 at the close of the calendar year in which the taxable year of the taxpayer begins, or (ii) is a student.

(2) EXEMPTION DENIED IN CASE OF CERTAIN MARRIED DEPENDENTS.—No exemption shall be allowed under this subsection for any dependent who has made a joint return with his spouse under section 6013 for the taxable year beginning in the calendar year in which the taxable year of the taxpayer begins.

(3) CHILD DEFINED.—For purposes of paragraph (1) (B), the term "child" means an individual who (within the meaning of section 152) is a son, stepson, daughter, or stepdaughter of the taxpayer.

(4) STUDENT AND EDUCATIONAL INSTITUTION DEFINED.—For purposes of paragraph (1) (B) (ii), the term "student" means an individual who during each of 5 calendar months during the calendar year in which the taxable year of the taxpayer begins—

(A) is a full-time student at an educational institution; or

(B) is pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution or of a State or political subdivision of a State.

For purposes of this paragraph, the term "educational institution" means only an educational institution which normally maintains a regular faculty and curriculum and normally has a regularly organized body of students in attendance at the place where its educational activities are carried on.

SEC. 152. DEPENDENT DEFINED.

(a) GENERAL DEFINITION.—For purposes of this subtitle, the term "dependent" means any of the following individuals over half of whose support, for the calendar year in which the taxable year of the taxpayer begins, was received from the taxpayer (or is treated under subsection (c) as received from the taxpayer):

(1) A son or daughter of the taxpayer, or a descendant of either,
(2) A stepson or stepdaughter of the taxpayer,
(3) A brother, sister, stepbrother, or stepsister of the taxpayer,
(4) The father or mother of the taxpayer, or an ancestor of either,
(5) A stepfather or stepmother of the taxpayer,
(6) A son or daughter of a brother or sister of the taxpayer,

(7) A brother or sister of the father or mother of the taxpayer,

(8) A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the taxpayer,

(9) An individual 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

(10) An individual who—

(A) is a descendant of a brother or sister of the father or mother of the taxpayer,

(B) for the taxable year of the taxpayer receives institutional care required by reason of a physical or mental disability, and

(C) before receiving such institutional care, was a member of the same household as the taxpayer.

(b) RULES RELATING TO GENERAL DEFINITION.—For purposes of this section—

(1) The terms "brother" and "sister" include a brother or sister by the halfblood.

(2) In determining whether any of the relationships specified in subsection (a) or paragraph (1) of this subsection exists, a legally adopted child of an individual shall be treated as a child of such individual by blood.

(3) The term "dependent" does not include any individual who is not a citizen of the United States unless such individual is a resident of the United States, of a country contiguous to the United States, of the Canal Zone, or of the Republic of Panama. The preceding sentence shall not exclude from the definition of "dependent" any child of the taxpayer born to him, or legally adopted by him, in the Philippine Islands before July 5, 1946, 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.

(4) A payment to a wife which is includible in the gross income of the wife under section 71 or 682 shall not be treated as a payment by her husband for the support of any dependent.

(c) MULTIPLE SUPPORT AGREEMENTS.—For purposes of subsection (a), over half of the support of an individual for a calendar year shall be treated as received from the taxpayer if—

(1) no one person contributed over half of such support;

(2) over half of such support was received from persons each of whom, but for the fact that he did not contribute over half of such support, would have been entitled to claim such individual as a dependent for a taxable year beginning in such calendar year;

(3) the taxpayer contributed over 10 percent of such support; and

(4) each person described in paragraph (2) (other than the taxpayer) who contributed over 10 percent of such support files a written declaration (in such manner and form as the Secretary or his delegate may by regulations prescribe) that he will not claim such individual as a dependent for any taxable year beginning in such calendar year.

(d) SPECIAL SUPPORT TEST IN CASE OF STUDENTS.—For purposes of subsection (a), in the case of any individual who is—

(1) a son, stepson, daughter, or stepdaughter of the taxpayer (within the meaning of this section), and

(2) a student (within the meaning of section 151 (e) (4)),

amounts received as scholarships for study at an educational institution (as defined in section 151 (e) (4)) shall not be taken into account in determining whether such individual received more than half of his support from the taxpayer.

SEC. 153. DETERMINATION OF MARITAL STATUS.

For purposes of this part—

(1) The determination of whether an individual is married shall be made as of the close of his taxable year; except that if his spouse dies during his taxable year such determination shall be made as of the time of such death; and

(2) An individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

SEC. 154. CROSS REFERENCES.

(1) For definitions of "husband" and "wife", as used in section 152 (b) (4), see section 7701 (a) (17).

(2) For deductions of estates and trusts, in lieu of the exemptions under section 151, see section 642 (b).

(3) For exemptions of nonresident aliens, see section 873 (d).

(4) For exemptions of citizens deriving income mainly from sources within possessions of the United States, see section 931 (e).

PART VI—ITEMIZED DEDUCTIONS FOR INDIVIDUALS AND CORPORATIONS

Sec. 161. Allowance of deductions.
Sec. 162. Trade or business expenses.
Sec. 163. Interest.
Sec. 164. Taxes.
Sec. 165. Losses.
Sec. 166. Bad debts.
Sec. 167. Depreciation.
Sec. 168. Amortization of emergency facilities.
Sec. 169. Amortization of grain-storage facilities.
Sec. 170. Charitable, etc., contributions and gifts.
Sec. 171. Amortizable bond premium.
Sec. 172. Net operating loss deduction.
Sec. 173. Circulation expenditures.
Sec. 174. Research and experimental expenditures.
Sec. 175. Soil and water conservation expenditures.

SEC. 161. ALLOWANCE OF DEDUCTIONS.

In computing taxable income under section 63 (a), there shall be allowed as deductions the items specified in this part, subject to the exceptions provided in part IX (sec. 261 and following, relating to items not deductible).

SEC. 162. TRADE OR BUSINESS EXPENSES.

(a) IN GENERAL.—There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including—

(1) a reasonable allowance for salaries or other compensation for personal services actually rendered;

(2) traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business; and

(3) rentals or other payments required to be made as a condition to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

For purposes of the preceding sentence, the place of residence of a Member of Congress (including any Delegate and Resident Commissioner) within the State, congressional district, Territory, or possession which he represents in Congress shall be considered his home, but amounts expended by such Members within each taxable year for living expenses shall not be deductible for income tax purposes in excess of $3,000.

(b) CHARITABLE CONTRIBUTIONS AND GIFTS EXCEPTED.—No deduction shall be allowed under subsection (a) for any contribution or gift which would be allowable as a deduction under section 170 were it not for the percentage limitations, or the requirements as to the time of payment, set forth in such section.

(c) CROSS REFERENCE.—

For special rule relating to expenses in connection with subdividing real property for sale, see section 1237.

SEC. 163. INTEREST.

(a) GENERAL RULE.—There shall be allowed as a deduction all interest paid or accrued within the taxable year on indebtedness.

(b) INSTALLMENT PURCHASES WHERE INTEREST CHARGE IS NOT SEPARATELY STATED.—

(1) GENERAL RULE.—If personal property is purchased under a contract—

(A) which provides that payment of part or all of the purchase price is to be made in installments, and

(B) in which carrying charges are separately stated but the interest charge cannot be ascertained,

then the payments made during the taxable year under the contract shall be treated for purposes of this section as if they included interest equal to 6 percent of the average unpaid balance under the contract during the taxable year. For purposes of the preceding sentence, the average unpaid balance is the sum of the unpaid balance outstanding on the first day of each month beginning during the taxable year, divided by 12.

(2) LIMITATION.—In the case of any contract to which paragraph (1) applies, the amount treated as interest for any taxable year shall not exceed the aggregate carrying charges which are properly attributable to such taxable year.

(c) CROSS REFERENCES.—

(1) For disallowance of certain amounts paid in connection with insurance, endowment, or annuity contracts, see section 264.

(2) For disallowance of deduction for interest relating to tax-exempt income, see section 265 (2).

(3) For disallowance of deduction for carrying charges chargeable to capital account, see section 266.

(4) For disallowance of interest with respect to transactions between related taxpayers, see section 267.

SEC. 164. TAXES.

(a) GENERAL RULE.—Except as otherwise provided in this section, there shall be allowed as a deduction taxes paid or accrued within the taxable year.

(b) DEDUCTION DENIED IN CASE OF CERTAIN TAXES.—No deduction shall be allowed for the following taxes:

(1) Federal income taxes, including—

(A) the tax imposed by section 3101 (relating to the tax on employees under the Federal Insurance Contributions Act);

(B) the taxes imposed by sections 3201 and 3211 (relating to the taxes on railroad employees and railroad employee representatives); and

(C) the tax withheld at source on wages under section 3402, and corresponding provisions of prior revenue laws.

(2) Federal war profits and excess profits taxes.

(3) Federal import duties, and Federal excise and stamp taxes (not described in paragraph (1), (2), (4), or (5)); but this paragraph shall not prevent such duties and taxes from being deducted under section 162 (relating to trade or business expenses) or section 212 (relating to expenses for the production of income).

(4) Estate, inheritance, legacy, succession, and gift taxes.

(5) Taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not prevent—

(A) the deduction of so much of such taxes as is properly allocable to maintenance or interest charges; or

(B) the deduction of taxes levied by a special taxing district if—

(i) the district covers the whole of at least one county;

(ii) at least 1,000 persons are subject to the taxes levied by the district; and

(iii) the district levies its assessments annually at a uniform rate on the same assessed value of real property, including improvements, as is used for purposes of the real property tax generally.

(6) Income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States, if the taxpayer chooses to take to any extent the benefits of section 901 (relating to the foreign tax credit).

(7) Taxes on real property, to the extent that subsection (d) requires such taxes to be treated as imposed on another taxpayer.

(c) CERTAIN RETAIL SALES TAXES AND GASOLINE TAXES.—

(1) GENERAL RULE.—In the case of any State or local sales tax, if the amount of the tax is separately stated, then, to the extent that the amount so stated is paid by the consumer (otherwise than in connection with the consumer's trade or business) to his seller, such amount shall be allowed as a deduction to the consumer as if it constituted a tax imposed on, and paid by, such consumer.

(2) DEFINITION.—For purposes of paragraph (1), the term "State or local sales tax" means a tax imposed by a State, a Territory, a possession of the United States, or a political subdivision of any of the foregoing, or by the District of Columbia, which tax—

(A) is imposed on persons engaged in selling tangible personal property at retail (or on persons selling gasoline or other motor vehicle fuels at wholesale or retail) and is a stated sum per unit of property sold or is measured either by the gross sales price or by the gross receipts from the sale; or

(B) is imposed on persons engaged in furnishing services at retail and is measured by the gross receipts for furnishing such services.

(d) APPORTIONMENT OF TAXES ON REAL PROPERTY BETWEEN SELLER AND PURCHASER.—

(1) GENERAL RULE.—For purposes of subsection (a), if real property is sold during any real property tax year, then—

(A) so much of the real property tax as is properly allocable to that part of such year which ends on the day before the date of the sale shall be treated as a tax imposed on the seller, and

(B) so much of such tax as is properly allocable to that part of such year which begins on the date of the sale shall be treated as a tax imposed on the purchaser.

(2) SPECIAL RULES.—

(A) In the case of any sale of real property, if—

(i) a taxpayer may not, by reason of his method of accounting, deduct any amount for taxes unless paid, and

(ii) the other party to the sale is (under the law imposing the real property tax) liable for the real property tax for the real property tax year,

then for purposes of subsection (a) the taxpayer shall be treated as having paid, on the date of the sale, so much of such tax as, under paragraph (1) of this subsection, is treated as imposed on the taxpayer. For purposes of the preceding sentence, if neither party is liable for the tax, then the party holding the property at the time the tax becomes a lien on the property shall be considered liable for the real property tax for the real property tax year.

(B) Paragraph (1) shall apply to taxable years ending after December 31, 1953, but only in the case of sales after December 31, 1953.

(C) Paragraph (1) shall not apply to any real property tax, to the extent that such tax was allowable as a deduction under the Internal Revenue Code of 1939 to the seller for a taxable year which ended before January 1, 1954.

(D) In the case of any sale of real property, if the taxpayer's taxable income for the taxable year during which the sale occurs is computed under an accrual method of accounting, and if no election under section 461 (c) (relating to the accrual of real property taxes) applies, then, for purposes of subsection (a), that portion of such tax which—

(i) is treated, under paragraph (1) of this subsection, as imposed on the taxpayer, and

(ii) may not, by reason of the taxpayer's method of accounting, be deducted by the taxpayer for any taxable year,

shall be treated as having accrued on the date of the sale.

(e) TAXES OF SHAREHOLDER PAID BY CORPORATION.—Where a corporation pays a tax imposed on a shareholder on his interest as a shareholder, and where the shareholder does not reimburse the corporation, then—

(1) the deduction allowed by subsection (a) shall be allowed to the corporation; and

(2) no deduction shall be allowed the shareholder for such tax.

(f) CROSS REFERENCE.—

For provisions disallowing any deduction for the payment of the tax imposed by subchapter B of chapter 3 (relating to tax-free covenant bonds) see section 1451 (f).

SEC. 165. LOSSES.

(a) GENERAL RULE.—There shall be allowed as a deduction any loss sustained during the taxable year and not compensated for by insurance or otherwise.

(b) AMOUNT OF DEDUCTION.—For purposes of subsection (a), the basis for determining the amount of the deduction for any loss shall be the adjusted basis provided in section 1011 for determining the loss from the sale or other disposition of property.

(c) LIMITATION ON LOSSES OF INDIVIDUALS.—In the case of an individual, the deduction under subsection (a) shall be limited to—

(1) losses incurred in a trade or business;

(2) losses incurred in any transaction entered into for profit, though not connected with a trade or business; and

(3) losses of property not connected with a trade or business, if such losses arise from fire, storm, shipwreck, or other casualty, or from theft. No loss described in this paragraph shall be allowed if, at the time of the filing of the return, such loss has been claimed for estate tax purposes in the estate tax return.

(d) WAGERING LOSSES.—Losses from wagering transactions shall be allowed only to the extent of the gains from such transactions.

(e) THEFT LOSSES.—For purposes of subsection (a), any loss arising from theft shall be treated as sustained during the taxable year in which the taxpayer discovers such loss.

(f) CAPITAL LOSSES.—Losses from sales or exchanges of capital assets shall be allowed only to the extent allowed in sections 1211 and 1212.

(g) WORTHLESS SECURITIES.—

(1) GENERAL RULE.—If any security which is a capital asset becomes worthless during the taxable year, the loss resulting therefrom shall, for purposes of this subtitle, be treated as a loss from the sale or exchange, on the last day of the taxable year, of a capital asset.

(2) SECURITY DEFINED.—For purposes of this subsection, the term "security" means—

(A) a share of stock in a corporation;

(B) a right to subscribe for, or to receive, a share of stock in a corporation; or

(C) a bond, debenture, note, or certificate, or other evidence of indebtedness, issued by a corporation or by a government or political subdivision thereof, with interest coupons or in registered form.

(3) SECURITIES IN AFFILIATED CORPORATION.—For purposes of paragraph (1), any security in a corporation affiliated with a taxpayer which is a domestic corporation shall not be treated as a capital asset. For purposes of the preceding sentence, a corporation shall be treated as affiliated with the taxpayer only if—

(A) at least 95 percent of each class of its stock is owned directly by the taxpayer, and

(B) more than 90 percent of the aggregate of its gross receipts for all taxable years has been from sources other than royalties, rents (except rents derived from rental from properties to employees of the corporation in the ordinary course of its operating business), dividends, interest (except interest received on deferred purchase price of operating assets sold), annuities, and gains from sales or exchanges of stocks and securities.

In computing gross receipts for purposes of the preceding sentence, gross receipts from sales or exchanges of stocks and securities shall be taken into account only to the extent of gains therefrom.

(h) CROSS REFERENCES.—

(1) For special rule for banks with respect to worthless securities, see section 582.

(2) For disallowance of deduction for worthlessness of securities to which subsection (g) (2) (C) applies, if issued by a political party or similar organization, see section 271.

SEC. 166. BAD DEBTS.

(a) GENERAL RULE.—

(1) WHOLLY WORTHLESS DEBTS.—There shall be allowed as a deduction any debt which becomes worthless within the taxable year.

(2) PARTIALLY WORTHLESS DEBTS.—When satisfied that a debt is recoverable only in part, the Secretary or his delegate may allow such debt, in an amount not in excess of the part charged off within the taxable year, as a deduction.

(b) AMOUNT OF DEDUCTION.—For purposes of subsection (a), the basis for determining the amount of the deduction for any bad debt shall be the adjusted basis provided in section 1011 for determining the loss from the sale or other disposition of property.

(c) RESERVE FOR BAD DEBTS.—In lieu of any deduction under subsection (a), there shall be allowed (in the discretion of the Secretary or his delegate) a deduction for a reasonable addition to a reserve for bad debts.

(d) NONBUSINESS DEBTS.—

(1) GENERAL RULE.—In the case of a taxpayer other than a corporation—

(A) subsections (a) and (c) shall not apply to any nonbusiness debt; and

(B) where any nonbusiness debt becomes worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange, during the taxable year, of a capital asset held for not more than 6 months.

(2) NONBUSINESS DEBT DEFINED.—For purposes of paragraph (1), the term "nonbusiness debt" means a debt other than—

(A) a debt created or acquired (as the case may be) in connection with a taxpayer's trade or business; or

(B) a debt the loss from the worthlessness of which is incurred in the taxpayer's trade or business.

(e) WORTHLESS SECURITIES.—This section shall not apply to a debt which is evidenced by a security as defined in section 165 (g) (2) (C).

(f) GUARANTOR OF CERTAIN NONCORPORATE OBLIGATIONS.—A payment by the taxpayer (other than a corporation) in discharge of part or all of his obligation as a guarantor, endorser, or indemnitor of a noncorporate obligation the proceeds of which were used in the trade or business of the borrower shall be treated as a debt becoming worthless within such taxable year for purposes of this section (except that subsection (d) shall not apply), but only if the obligation of the borrower to the person to whom such payment was made was worthless (without regard to such guaranty, endorsement, or indemnity) at the time of such payment.

(g) CROSS REFERENCES.—

(1) For disallowance of deduction for worthlessness of debts owed by political parties and similar organizations, see section 271.

(2) For special rule for banks with respect to worthless securities, see section 582.

(3) For special rule for bad debt reserves of certain mutual savings banks, domestic building and loan associations, and cooperative banks, see section 593.

SEC. 167. DEPRECIATION.

(a) GENERAL RULE.—There shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)—

(1) of property used in the trade or business, or

(2) of property held for the production of income.

(b) USE OF CERTAIN METHODS AND RATES.—For taxable years ending after December 31, 1953, the term "reasonable allowance" as used in subsection (a) shall include (but shall not be limited to) an allowance computed in accordance with regulations prescribed by the Secretary or his delegate, under any of the following methods:

(1) the straight line method,

(2) the declining balance method, using a rate not exceeding twice the rate which would have been used had the annual allowance been computed under the method described in paragraph (1),

(3) the sum of the years-digits method, and

(4) any other consistent method productive of an annual allowance which, when added to all allowances for the period commencing with the taxpayer's use of the property and including the taxable year, does not, during the first two-thirds of the useful life of the property, exceed the total of such allowances which would have been used had such allowances been computed under the method described in paragraph (2).

Nothing in this subsection shall be construed to limit or reduce an allowance otherwise allowable under subsection (a).

(c) LIMITATIONS ON USE OF CERTAIN METHODS AND RATES.—Paragraphs (2), (3), and (4) of subsection (b) shall apply only in the case of property (other than intangible property) described in subsection (a) with a useful life of 3 years or more—

(1) the construction, reconstruction, or erection of which is completed after December 31, 1953, and then only to that portion of the basis which is properly attributable to such construction, reconstruction, or erection after December 31, 1953, or

(2) acquired after December 31, 1953, if the original use of such property commences with the taxpayer and commences after such date.

(d) AGREEMENT AS TO USEFUL LIFE ON WHICH DEPRECIATION RATE IS BASED.—Where, under regulations prescribed by the Secretary or his delegate, the taxpayer and the Secretary or his delegate have, after the date of enactment of this title, entered into an agreement in writing specifically dealing with the useful life and rate of depreciation of any property, the rate so agreed upon shall be binding on both the taxpayer and the Secretary in the absence of facts or circumstances not taken into consideration in the adoption of such agreement. The responsibility of establishing the existence of such facts and circumstances shall rest with the party initiating the modification. Any change in the agreed rate and useful life specified in the agreement shall not be effective for taxable years before the taxable year in which notice in writing by registered mail is served by the party to the agreement initiating such change.

(e) CHANGE IN METHOD.—In the absence of an agreement under subsection (d) containing a provision to the contrary, a taxpayer may at any time elect in accordance with regulations prescribed by the Secretary or his delegate to change from the method of depreciation described in subsection (b) (2) to the method described in subsection (b) (1).

(f) BASIS FOR DEPRECIATION.—The basis on which exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be the adjusted basis provided in section 1011 for the purpose of determining the gain on the sale or other disposition of such property.

(g) LIFE TENANTS AND BENEFICIARIES OF TRUSTS AND ESTATES.—In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust, the allowable deduction shall be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or, in the absence of such provisions, on the basis of the trust income allocable to each. In the case of an estate, the allowable deduction shall be apportioned between the estate and the heirs, legatees, and devisees on the basis of the income of the estate allocable to each.

(h) DEPRECIATION OF IMPROVEMENTS IN THE CASE OF MINES, ETC.—

For additional rule applicable to depreciation of improvements in the case of mines, oil and gas wells, other natural deposits, and timber, see section 611.

SEC. 168. AMORTIZATION OF EMERGENCY FACILITIES.

(a) GENERAL RULE.—Every person, at his election, shall be entitled to a deduction with respect to the amortization of the adjusted

basis (for determining gain) of any emergency facility (as defined in subsection (d)), based on a period of 60 months. Such amortization deduction shall be an amount, with respect to each month of such period within the taxable year, equal to the adjusted basis of the facility at the end of such month divided by the number of months (including the month for which the deduction is computed) remaining in the period. Such adjusted basis at the end of the month shall be computed without regard to the amortization deduction for such month. The amortization deduction above provided with respect to any month shall, except to the extent provided in subsection (f), be in lieu of the depreciation deduction with respect to such facility for such month provided by section 167. The 60-month period shall begin as to any emergency facility, at the election of the taxpayer, with the month following the month in which the facility was completed or acquired, or with the succeeding taxable year.

(b) ELECTION OF AMORTIZATION.—The election of the taxpayer to take the amortization deduction and to begin the 60-month period with the month following the month in which the facility was completed or acquired, or with the taxable year succeeding the taxable year in which such facility was completed or acquired, shall be made by filing with the Secretary or his delegate, in such manner, in such form, and within such time, as the Secretary or his delegate may by regulations prescribe, a statement of such election.

(c) TERMINATION OF AMORTIZATION DEDUCTION.—A taxpayer which has elected under subsection (b) to take the amortization deduction provided in subsection (a) may, at any time after making such election, discontinue the amortization deduction with respect to the remainder of the amortization period, such discontinuance to begin as of the beginning of any month specified by the taxpayer in a notice in writing filed with the Secretary or his delegate before the beginning of such month. The depreciation deduction provided under section 167 shall be allowed, beginning with the first month as to which the amortization deduction does not apply, and the taxpayer shall not be entitled to any further amortization deduction with respect to such emergency facility.

(d) DEFINITIONS.—

(1) EMERGENCY FACILITY.—For purposes of this section, the term "emergency facility" means any facility, land, building, machinery, or equipment, or any part thereof, the construction, reconstruction, erection, installation, or acquisition of which was completed after December 31, 1949, and with respect to which a certificate under subsection (e) has been made. In no event shall an amortization deduction be allowed in respect of any emergency facility for any taxable year unless a certificate in respect thereof under this paragraph shall have been made before the filing of the taxpayer's return for such taxable year.

(2) EMERGENCY PERIOD.—For purposes of this section, the term "emergency period" means the period beginning January 1, 1950, and ending on the date on which the President proclaims that the utilization of a substantial portion of the emergency facilities with respect to which certifications under subsection (e) have been made is no longer required in the interest of national defense.

(e) DETERMINATION OF ADJUSTED BASIS OF EMERGENCY FACILITY.—In determining, for purposes of subsection (a) or (g), the adjusted basis of an emergency facility—

(1) There shall be included only so much of the amount of the adjusted basis of such facility (computed without regard to this section) as is properly attributable to such construction, reconstruction, erection, installation, or acquisition after December 31, 1949, as the certifying authority, designated by the President by Executive Order, has certified as necessary in the interest of national defense during the emergency period, and only such portion of such amount as such authority has certified as attributable to defense purposes. Such certification shall be under such regulations as may be prescribed from time to time by such certifying authority with the approval of the President. An application for a certificate must be filed at such time and in such manner as may be prescribed by such certifying authority under such regulations, but in no event shall such certificate have any effect unless an application therefor is filed before March 24, 1951, or before the expiration of 6 months after the beginning of such construction, reconstruction, erection, or installation or the date of such acquisition, whichever is later.

(2) After the completion or acquisition of any emergency facility with respect to which a certificate under paragraph (1) has been made, any expenditure (attributable to such facility and to the period after such completion or acquisition) which does not represent construction, reconstruction, erection, installation, or acquisition included in such certificate, but with respect to which a separate certificate is made under paragraph (1), shall not be applied in adjustment of the basis of such facility, but a separate basis shall be computed therefor pursuant to paragraph (1) as if it were a new and separate emergency facility.

(f) DEPRECIATION DEDUCTION.—If the adjusted basis of the emergency facility (computed without regard to this section) is in excess of the adjusted basis computed under subsection (e), the depreciation deduction provided by section 167 shall, despite the provisions of subsection (a) of this section, be allowed with respect to such emergency facility as if its adjusted basis for the purpose of such deduction were an amount equal to the amount of such excess.

(g) PAYMENT BY UNITED STATES OF UNAMORTIZED COST OF FACILITY.—If an amount is properly includible in the gross income of the taxpayer on account of a payment with respect to an emergency facility and such payment is certified as provided in paragraph (1), then, at the election of the taxpayer in its return for the taxable year in which such amount is so includible—

(1) The amortization deduction for the month in which such amount is so includible shall (in lieu of the amount of the deduction for such month computed under subsection (a)) be equal to the amount so includible but not in excess of the adjusted basis of the emergency facility as of the end of such month (computed without regard to any amortization deduction for such month). Payments referred to in this subsection shall be payments the amounts of which are certified, under such regulations as the President may

prescribe, by the certifying authority designated by the President as compensation to the taxpayer for the unamortized cost of the emergency facility made because—

(A) a contract with the United States involving the use of the facility has been terminated by its terms or by cancellation, or

(B) the taxpayer had reasonable ground (either from provisions of a contract with the United States involving the use of the facility, or from written or oral representations made under authority of the United States) for anticipating future contracts involving the use of the facility, which future contracts have not been made.

(2) In case the taxpayer is not entitled to any amortization deduction with respect to the emergency facility, the depreciation deduction allowable under section 167 on account of the month in which such amount is so includible shall be increased by such amount, but such deduction on account of such month shall not be in excess of the adjusted basis of the emergency facility as of the end of such month (computed without regard to any amount allowable, on account of such month, under section 167 or this paragraph).

(h) LIFE TENANT AND REMAINDERMAN.—In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowable to the life tenant.

(i) CROSS REFERENCE.—

For special rule with respect to gain derived from the sale or exchange of property the adjusted basis of which is determined with regard to this section, see section 1238.

SEC. 169. AMORTIZATION OF GRAIN-STORAGE FACILITIES.

(a) ALLOWANCE OF DEDUCTION.—

(1) ORIGINAL OWNER.—Any person who constructs, reconstructs, or erects a grain-storage facility (as defined in subsection (d)) shall, at his election, be entitled to a deduction with respect to the amortization of the adjusted basis (for determining gain) of such facility based on a period of 60 months. The 60-month period shall begin as to any such facility, at the election of the taxpayer, with the month following the month in which the facility was completed, or with the succeeding taxable year.

(2) SUBSEQUENT OWNERS.—Any person who acquires a grain-storage facility from a taxpayer who—

(A) elected under subsection (b) to take the amortization deduction provided by this subsection with respect to such facility, and

(B) did not discontinue the amortization deduction pursuant to subsection (c),

shall, at his election, be entitled to a deduction with respect to the adjusted basis (determined under subsection (e) (2)) of such facility based on the period, if any, remaining (at the time of acquisition) in the 60-month period elected under subsection (b) by the person who constructed, reconstructed, or erected such facility.

(3) AMOUNT OF DEDUCTION.—The amortization deduction provided in paragraphs (1) and (2) shall be an amount, with respect to each month of the amortization period within the taxable year, equal to the adjusted basis of the facility at the end of such month, divided by the number of months (including the month for which the deduction is computed) remaining in the period. Such adjusted basis at the end of the month shall be computed without regard to the amortization deduction for such month. The amortization deduction above provided with respect to any month shall be in lieu of the depreciation deduction with respect to such facility for such month provided by section 167.

(b) ELECTION OF AMORTIZATION.—The election of the taxpayer under subsection (a) (1) to take the amortization deduction and to begin the 60-month period with the month following the month in which the facility was completed shall be made only by a statement to that effect in the return for the taxable year in which the facility was completed. The election of the taxpayer under subsection (a) (1) to take the amortization deduction and to begin such period with the taxable year succeeding such year shall be made only by a statement to that effect in the return for such succeeding taxable year. The election of the taxpayer under subsection (a) (2) to take the amortization deduction shall be made only by a statement to that effect in the return for the taxable year in which the facility was acquired. Notwithstanding the preceding three sentences, the election of the taxpayer under subsection (a) (1) or (2) may be made, under such regulations as the Secretary or his delegate may prescribe, before the time prescribed in the applicable sentence.

(c) TERMINATION OF AMORTIZATION DEDUCTION.—A taxpayer which has elected under subsection (b) to take the amortization deduction provided in subsection (a) may, at any time after making such election, discontinue the amortization deduction with respect to the remainder of the amortization period, such discontinuance to begin as of the beginning of any month specified by the taxpayer in a notice in writing filed with the Secretary or his delegate before the beginning of such month. The depreciation deduction provided under section 167 shall be allowed, beginning with the first month as to which the amortization deduction does not apply, and the taxpayer shall not be entitled to any further amortization deduction with respect to such facility.

(d) DEFINITION OF GRAIN-STORAGE FACILITY.—For purposes of this section, the term "grain-storage facility" means—

(1) any corn crib, grain bin, or grain elevator, or any similar structure suitable primarily for the storage of grain, which crib, bin, elevator, or structure is intended by the taxpayer at the time of his election to be used for the storage of grain produced by him (or, if the election is made by a partnership, produced by the members thereof); and

(2) any public grain warehouse permanently equipped for receiving, elevating, conditioning, and loading out grain,

the construction, reconstruction, or erection of which was completed after December 31, 1952, and on or before December 31, 1956. If any structure described in clause (1) or (2) of the preceding sentence is

altered or remodeled so as to increase its capacity for the storage of grain, or if any structure is converted, through alteration or remodeling, into a structure so described, and if such alteration or remodeling was completed after December 31, 1952, and on or before December 31, 1956, such alteration or remodeling shall be treated as the construction of a grain-storage facility. The term "grain-storage facility" shall include only property of a character which is subject to the allowance for depreciation provided in section 167. The term "grain-storage facility" shall not include any facility any part of which is an emergency facility within the meaning of section 168 of this title.

(e) DETERMINATION OF ADJUSTED BASIS.—

(1) ORIGINAL OWNERS.—For purposes of subsection (a) (1)—

(A) in determining the adjusted basis of any grain-storage facility, the construction, reconstruction, or erection of which was begun before January 1, 1953, there shall be included only so much of the amount of the adjusted basis (computed without regard to this subsection) as is properly attributable to such construction, reconstruction, or erection after December 31, 1952; and

(B) in determining the adjusted basis of any facility which is a grain-storage facility within the meaning of the second sentence of subsection (d), there shall be included only so much of the amount otherwise included in such basis as is properly attributable to the alteration or remodeling.

If any existing grain-storage facility as defined in the first sentence of subsection (d) is altered or remodeled as provided in the second sentence of subsection (d), the expenditures for such remodeling or alteration shall not be applied in adjustment of the basis of such existing facility but a separate basis shall be computed in respect of such facility as if the part altered or remodeled were a new and separate grain-storage facility.

(2) SUBSEQUENT OWNERS.—For purposes of subsection (a) (2), the adjusted basis of any grain-storage facility shall be whichever of the following amounts is the smaller:

(A) The basis (unadjusted) of such facility for purposes of this section in the hands of the transferor, donor, or grantor, adjusted as if such facility in the hands of the taxpayer had a substituted basis within the meaning of section 1016 (b), or

(B) so much of the adjusted basis (for determining gain) of the facility in the hands of the taxpayer (as computed without regard to this subsection) as is properly attributable to construction, reconstruction, or erection after December 31, 1952.

(f) DEPRECIATION DEDUCTION.—If the adjusted basis of the grain-storage facility (computed without regard to subsection (e)) exceeds the adjusted basis computed under subsection (e), the depreciation deduction provided by section 167 shall, despite the provisions of subsection (a) (3) of this section, be allowed with respect to such grain-storage facility as if the adjusted basis for the purpose of such deduction were an amount equal to the amount of such excess.

(g) LIFE TENANT AND REMAINDERMAN.—In the case of property held by one person for life with remainder to another person, the amortization deduction provided in subsection (a) shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant.

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SEC. 170. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.

(a) ALLOWANCE OF DEDUCTION.—

(1) GENERAL RULE.—There shall be allowed as a deduction any charitable contribution (as defined in subsection (c)) payment of which is made within the taxable year. A charitable contribution shall be allowable as a deduction only if verified under regulations prescribed by the Secretary or his delegate.

(2) CORPORATIONS ON ACCRUAL BASIS.—In the case of a corporation reporting its taxable income on the accrual basis, if—

(A) the board of directors authorizes a charitable contribution during any taxable year, and

(B) payment of such contribution is made after the close of such taxable year and on or before the 15th day of the third month following the close of such taxable year,

then the taxpayer may elect to treat such contribution as paid during such taxable year. The election may be made only at the time of the filing of the return for such taxable year, and shall be signified in such manner as the Secretary or his delegate shall by regulations prescribe.

(b) LIMITATIONS.—

(1) INDIVIDUALS.—In the case of an individual the deduction provided in subsection (a) shall be limited as provided in subparagraphs (A), (B), (C), and (D).

(A) SPECIAL RULE.—Any charitable contribution to—

(i) a church or a convention or association of churches,

(ii) an educational organization referred to in section 503 (b) (2), or

(iii) a hospital referred to in section 503 (b) (5),

shall be allowed to the extent that the aggregate of such contributions does not exceed 10 percent of the taxpayer's adjusted gross income computed without regard to any net operating loss carryback to the taxable year under section 172.

(B) GENERAL LIMITATION.—The total deductions under subsection (a) for any taxable year shall not exceed 20 percent of the taxpayer's adjusted gross income computed without regard to any net operating loss carryback to the taxable year under section 172. For purposes of this subparagraph, the deduction under subsection (a) shall be computed without regard to any deduction allowed under subparagraph (A) but shall take into account any charitable contributions to the organizations described in clauses (i), (ii), and (iii) which are in excess of the amount allowable as a deduction under subparagraph (A).

(C) UNLIMITED DEDUCTION FOR CERTAIN INDIVIDUALS.—The limitation in subparagraph (B) shall not apply in the case of an individual if, in the taxable year and in 8 of the 10 preceding taxable years, the amount of the charitable contributions, plus the amount of income tax (determined without regard to chapter 2, relating to tax on self-employment income) paid during such year in respect of such year or preceding taxable years, exceeds 90 percent of the taxpayer's taxable income for such year, computed without regard to—

(i) this section,

(ii) section 151 (allowance of deductions for personal exemptions), and

(iii) any net operating loss carryback to the taxable year under section 172.

(D) DENIAL OF DEDUCTION IN CASE OF CERTAIN TRANSFERS IN TRUST.—No deduction shall be allowed under this section for the value of any interest in property transferred after March 9, 1954, to a trust if—

(i) the grantor has a reversionary interest in the corpus or income of that portion of the trust with respect to which a deduction would (but for this subparagraph) be allowable under this section; and

(ii) at the time of the transfer the value of such reversionary interest exceeds 5 percent of the value of the property constituting such portion of the trust.

For purposes of this subparagraph, a power exercisable by the grantor or a nonadverse party (within the meaning of section 672 (b)), or both, to revest in the grantor property or income therefrom shall be treated as a reversionary interest.

(2) CORPORATIONS.—In the case of a corporation, the total deductions under subsection (a) for any taxable year shall not exceed 5 percent of the taxpayer's taxable income computed without regard to—

(A) this section,

(B) part VIII (except section 248),

(C) any net operating loss carryback to the taxable year under section 172, and

(D) section 922 (special deduction for Western Hemisphere trade corporations).

Any contribution made by a corporation in a taxable year to which this section applies in excess of the amount deductible in such year under the foregoing limitation shall be deductible in each of the two succeeding taxable years in order of time, but only to the extent of the lesser of the two following amounts: (i) the excess of the maximum amount deductible for such succeeding taxable year under the foregoing limitation over the contributions made in such year; and (ii) in the case of the first succeeding taxable year the amount of such excess contribution, and in the case of the second succeeding taxable year the portion of such excess contribution not deductible in the first succeeding taxable year.

(c) CHARITABLE CONTRIBUTION DEFINED.—For purposes of this section, the term "charitable contribution" means a contribution or gift to or for the use of—

(1) A State, a Territory, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia, but only if the contribution or gift is made for exclusively public purposes.

(2) A corporation, trust, or community chest, fund, or foundation—

(A) created or organized in the United States or in any possession thereof, or under the law of the United States, any State or Territory, the District of Columbia, or any possession of the United States;

(B) organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals;

(C) no part of the net earnings of which inures to the benefit of any private shareholder or individual; and

(D) no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation.

A contribution or gift by a corporation to a trust, chest, fund, or foundation shall be deductible by reason of this paragraph only if it is to be used within the United States or any of its possessions exclusively for purposes specified in subparagraph (B).

(3) A post or organization of war veterans, or an auxiliary unit or society of, or trust or foundation for, any such post or organization—

(A) organized in the United States or any of its possessions, and

(B) no part of the net earnings of which inures to the benefit of any private shareholder or individual.

(4) In the case of a contribution or gift by an individual, a domestic fraternal society, order, or association, operating under the lodge system, but only if such contribution or gift is to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

(5) A cemetery company owned and operated exclusively for the benefit of its members, or any corporation chartered solely for burial purposes as a cemetery corporation and not permitted by its charter to engage in any business not necessarily incident to that purpose, if such company or corporation is not operated for profit and no part of the net earnings of such company or corporation inures to the benefit of any private shareholder or individual.

(d) DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.—

(1) For disallowance of deductions in case of contributions or gifts to charitable organizations engaging in prohibited transactions, see section 503 (e).

(2) For disallowance of deductions for contributions to or for the use of communist controlled organizations, see section 11 (a) of the Internal Security Act of 1950 (64 Stat. 996; 50 U. S. C. 790).

(e) OTHER CROSS REFERENCES.—

(1) For charitable contributions of estates and trusts, see section 642 (c).

(2) For nondeductibility of contributions by common trust funds, see section 584.

(3) For charitable contributions of partners, see section 702.

(4) For charitable contributions of nonresident aliens, see section 873.

(5) For treatment of gifts for benefit of or use in connection with the Naval Academy as gifts to or for the use of the United States, see section 3 of the Act of March 31, 1944 (58 Stat. 135; 34 U. S. C. 1115b).

(6) For treatment of gifts for benefit of the library of the Post Office Department as gifts to or for the use of the United States, see section 2 of the Act of August 8, 1946 (60 Stat. 924; 5 U. S. C. 393).

(7) For treatment of gifts accepted by the Secretary of State under the Foreign Service Act of 1946 as gifts to or for the use of the United States, see section 1021 (e) of that Act (60 Stat. 1032; 22 U. S. C. 809 (e)).

(8) For treatment of gifts of money accepted by the Attorney General for credit to the "Commissary Funds Federal Prisons" as gifts to or

for the use of the United States, see section 2 of the Act of May 15, 1952 (66 Stat. 73, as amended by the Act of July 9, 1952, 66 Stat. 479, 31 U. S. C. 725s–4).

SEC. 171. AMORTIZABLE BOND PREMIUM.

(a) GENERAL RULE.—In the case of any bond, as defined in subsection (d), the following rules shall apply to the amortizable bond premium (determined under subsection (b)) on the bond:

(1) INTEREST WHOLLY OR PARTIALLY TAXABLE.—In the case of a bond (other than a bond the interest on which is excludable from gross income), the amount of the amortizable bond premium for the taxable year shall be allowed as a deduction.

(2) INTEREST WHOLLY TAX-EXEMPT.—In the case of any bond the interest on which is excludable from gross income, no deduction shall be allowed for the amortizable bond premium for the taxable year.

(3) ADJUSTMENT OF CREDIT OR DEDUCTION FOR INTEREST PARTIALLY TAX-EXEMPT.—

(A) INDIVIDUALS.—In the case of any bond the interest on which is allowable as a credit under section 35, the amount which would otherwise be taken into account in computing such credit shall be reduced by the amount of the amortizable bond premium for the taxable year.

(B) CORPORATIONS.—In the case of any bond the interest on which is allowable as a deduction under section 242, such deduction shall be reduced by the amount of the amortizable bond premium for the taxable year.

(4) CROSS REFERENCE.—

For adjustment to basis on account of amortizable bond premium, see section 1016 (a) (5).

(b) AMORTIZABLE BOND PREMIUM.—

(1) AMOUNT OF BOND PREMIUM.—For purposes of paragraph (2), the amount of bond premium, in the case of the holder of any bond, shall be determined—

(A) with reference to the amount of the basis (for determining loss on sale or exchange) of such bond,

(B) with reference to the amount payable on maturity or on earlier call date (but in the case of bonds described in subsection (c) (1) (B) issued after January 22, 1951, and acquired after January 22, 1954, only if such earlier call date is a date more than 3 years after the date of such issue), and

(C) with adjustments proper to reflect unamortized bond premium, with respect to the bond, for the period before the date as of which subsection (a) becomes applicable with respect to the taxpayer with respect to such bond.

In no case shall the amount of bond premium on a convertible bond include any amount attributable to the conversion features of the bond.

(2) AMOUNT AMORTIZABLE.—The amortizable bond premium of the taxable year shall be the amount of the bond premium attributable to such year. 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, the amount of bond premium attributable to

the taxable year in which the bond is called shall include an amount equal to the excess of the amount of the adjusted basis (for determining loss on sale or exchange) of such bond as of the beginning of the taxable year over the amount received on redemption of the bond or (if greater) the amount payable on maturity.

(3) METHOD OF DETERMINATION.—The determinations required under paragraphs (1) and (2) shall be made—

(A) in accordance with the method of amortizing bond premium regularly employed by the holder of the bond, if such method is reasonable;

(B) in all other cases, in accordance with regulations prescribing reasonable methods of amortizing bond premium prescribed by the Secretary or his delegate.

(c) ELECTION AS TO TAXABLE AND PARTIALLY TAXABLE BONDS.—

(1) ELIGIBILITY TO ELECT; BONDS WITH RESPECT TO WHICH ELECTION PERMITTED.—This section shall apply with respect to the following classes of taxpayers with respect to the following classes of bonds only if the taxpayer has elected to have this section apply:

(A) PARTIALLY TAX-EXEMPT.—In the case of a taxpayer other than a corporation, bonds with respect to the interest on which the credit provided in section 35 is allowable; and

(B) WHOLLY TAXABLE.—In the case of any taxpayer, bonds the interest on which is not excludable from gross income but with respect to which the credit provided in section 35, or the deduction provided in section 242, is not allowable.

(2) MANNER AND EFFECT OF ELECTION.—The election authorized under this subsection shall be made in accordance with such regulations as the Secretary or his delegate shall prescribe. If such election is made with respect to any bond (described in paragraph (1)) of the taxpayer, it shall also apply to all such bonds held by the taxpayer at the beginning of the first taxable year to which the election applies and to all such bonds thereafter acquired by him and shall be binding for all subsequent taxable years with respect to all such bonds of the taxpayer, unless, on application by the taxpayer, the Secretary or his delegate permits him, subject to such conditions as the Secretary or his delegate deems necessary, to revoke such election. In the case of bonds held by a common trust fund, as defined in section 584 (a), or by a foreign personal holding company, as defined in section 552, the election authorized under this subsection shall be exercisable with respect to such bonds only by the common trust fund or foreign personal holding company. In case of bonds held by an estate or trust, the election authorized under this subsection shall be exercisable with respect to such bonds only by the fiduciary.

(d) BOND DEFINED.—For purposes of this section, the term "bond" means any bond, debenture, note, or certificate or other evidence of indebtedness, issued by any corporation and bearing interest (including any like obligation issued by a government or political subdivision thereof), but does not include any such obligation which constitutes stock in trade of the taxpayer or any such obligation of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or any such

obligation held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business.

(e) DEALERS IN TAX-EXEMPT SECURITIES.—

For special rules applicable, in the case of dealers in securities, with respect to premium attributable to certain wholly tax-exempt securities, see section 75.

SEC. 172. NET OPERATING LOSS DEDUCTION.

(a) DEDUCTION ALLOWED.—There shall be allowed as a deduction for the taxable year an amount equal to the aggregate of (1) the net operating loss carryovers to such year, plus (2) the net operating loss carrybacks to such year. For purposes of this subtitle, the term "net operating loss deduction" means the deduction allowed by this subsection.

(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, 1953, shall be—

(A) a net operating loss carryback to each of the 2 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 (f), 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 7 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 6 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. For purposes of the preceding sentence, the taxable income for any such prior taxable year shall be computed—

(A) with the modifications specified in subsection (d) other than paragraphs (1), (4), and (6) thereof; and

(B) by determining the amount of the net operating loss deduction without regard to the net operating loss for the loss year or for any taxable year thereafter,

and the taxable income so computed shall not be considered to be less than zero.

(c) NET OPERATING LOSS DEFINED.—For purposes of this section, the term "net operating loss" means (for any taxable year ending after December 31, 1953) the excess of the deductions allowed by this chapter over the gross income. Such excess shall be computed with the modifications specified in subsection (d).

(d) MODIFICATIONS.—The modifications referred to in this section are as follows:

(1) NET OPERATING LOSS DEDUCTION.—No net operating loss deduction shall be allowed.

(2) CAPITAL GAINS AND LOSSES OF TAXPAYERS OTHER THAN CORPORATIONS.—In the case of a taxpayer other than a corporation—

(A) the amount deductible on account of losses from sales or exchanges of capital assets shall not exceed the amount includible on account of gains from sales or exchanges of capital assets; and

(B) the deduction for long-term capital gains provided by section 1202 shall not be allowed.

(3) DEDUCTION FOR PERSONAL EXEMPTIONS.—No deduction shall be allowed under section 151 (relating to personal exemptions). No deduction in lieu of any such deduction shall be allowed.

(4) NONBUSINESS DEDUCTIONS OF TAXPAYERS OTHER THAN CORPORATIONS.—In the case of a taxpayer other than a corporation, the deductions allowable by this chapter which are not attributable to a taxpayer's trade or business shall be allowed only to the extent of the amount of the gross income not derived from such trade or business. For purposes of the preceding sentence—

(A) any gain or loss from the sale or other disposition of—

(i) property, used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or

(ii) real property used in the trade or business,

shall be treated as attributable to the trade or business;

(B) the modifications specified in paragraphs (1), (2) (B), and (3) shall be taken into account; and

(C) any deduction allowable under section 165 (c) (3) (relating to casualty losses) shall not be taken into account.

(5) SPECIAL DEDUCTIONS FOR CORPORATIONS.—No deduction shall be allowed under section 242 (relating to partially tax-exempt interest) or under section 922 (relating to Western Hemisphere trade corporations).

(6) COMPUTATION OF DEDUCTION FOR DIVIDENDS RECEIVED, ETC.—The deductions allowed by sections 243 (relating to dividends received by corporations), 244 (relating to dividends received on certain preferred stock of public utilities), and 245 (relating to dividends received from certain foreign corporations) shall be computed without regard to section 246 (b) (relating to limitation on aggregate amount of deductions); and the deduction allowed by section 247 (relating to dividends paid on certain preferred stock of public utilities) shall be computed without regard to subsection (a) (1) (B) of such section.

(e) LAW APPLICABLE TO COMPUTATIONS.—In determining the amount of any net operating loss carryback or carryover to any taxable year, the necessary computations involving any other taxable year shall be made under the law applicable to such other taxable year. The preceding sentence shall apply with respect to all taxable years, whether they begin before, on, or after January 1, 1954.

(f) TAXABLE YEARS BEGINNING IN 1953 AND ENDING IN 1954.—In the case of a taxable year beginning in 1953 and ending in 1954—

(1) In lieu of the amount specified in subsection (c), the net operating loss for such year shall be the sum of—

(A) that portion of the net operating loss for such year computed without regard to this subsection which the number of days in the loss year after December 31, 1953, bears to the total number of days in such year, and

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

(2) The amount of any net operating loss for such year which shall be carried to the second 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, 1953, bears to the total number of days in such year. In determining the amount carried to any other taxable year, the reduction for the second taxable year preceding the loss year shall not exceed the portion of the net operating loss which is carried to the second preceding taxable year.

(g) SPECIAL TRANSITIONAL RULES.—

(1) LOSSES FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 1954.—For purposes of this section, the determination of the taxable years ending after December 31, 1953, to which a net operating loss for any taxable year ending before January 1, 1954, may be carried shall be made under the Internal Revenue Code of 1939.

(2) LOSSES FOR TAXABLE YEARS ENDING AFTER DECEMBER 31, 1953.—For purposes of section 122 of the Internal Revenue Code of 1939—

(A) the determination of the taxable years ending before January 1, 1954, to which a net operating loss for any taxable year ending after December 31, 1953, may be carried shall be made under subsection (b) (1) (A) of this section; and

(B) in determining the amount of the carryback to the first taxable year preceding the first taxable year ending after December 31, 1953, the portion of the net operating loss carried to such year shall be such net operating loss reduced by—

(i) the net income for the second preceding taxable year computed as if the second sentence of section 122 (b) (2) (B) of the Internal Revenue Code of 1939 applied, or

(ii) if smaller, the portion of the net operating loss which by reason of subsection (f) of this section is carried to the second preceding taxable year.

(3) EXCESS PROFITS TAX NOT AFFECTED.—For purposes of subchapter D of chapter 1 of the Internal Revenue Code of 1939, excess profits net income shall be computed as if this section had not been enacted and as if section 122 of such Code continued to apply to taxable years to which this subtitle applies.

(h) CROSS REFERENCES.—

(1) For treatment of net operating loss carryovers in certain corporate acquisitions, see section 381.

(2) For special limitation on net operating loss carryovers in case of a corporate change of ownership, see section 382.

SEC. 173. CIRCULATION EXPENDITURES.

Notwithstanding section 263, all expenditures (other than expenditures for the purchase of land or depreciable property or for the acquisition of circulation through the purchase of any part of the business of another publisher of a newspaper, magazine, or other periodical) to establish, maintain, or increase the circulation of a newspaper, maga-

zine, or other periodical shall be allowed as a deduction; except that the deduction shall not be allowed with respect to the portion of such expenditures as, under regulations prescribed by the Secretary or his delegate, is chargeable to capital account if the taxpayer elects, in accordance with such regulations, to treat such portion as so chargeable. Such election, if made, must be for the total amount of such portion of the expenditures which is so chargeable to capital account, and shall be binding for all subsequent taxable years unless, upon application by the taxpayer, the Secretary or his delegate permits a revocation of such election subject to such conditions as he deems necessary.

SEC. 174. RESEARCH AND EXPERIMENTAL EXPENDITURES.

(a) TREATMENT AS EXPENSES.—

(1) IN GENERAL.—A taxpayer may treat research or experimental expenditures which are paid or incurred by him during the taxable year in connection with his trade or business as expenses which are not chargeable to capital account. The expenditures so treated shall be allowed as a deduction.

(2) WHEN METHOD MAY BE ADOPTED.—

(A) WITHOUT CONSENT.—A taxpayer may, without the consent of the Secretary or his delegate, adopt the method provided in this subsection for his first taxable year—

(i) which begins after December 31, 1953, and ends after the date on which this title is enacted, and

(ii) for which expenditures described in paragraph (1) are paid or incurred.

(B) WITH CONSENT.—A taxpayer may, with the consent of the Secretary or his delegate, adopt at any time the method provided in this subsection.

(3) SCOPE.—The method adopted under this subsection shall apply to all expenditures described in paragraph (1). The method adopted shall be adhered to in computing taxable income for the taxable year and for all subsequent taxable years unless, with the approval of the Secretary or his delegate, a change to a different method is authorized with respect to part or all of such expenditures.

(b) AMORTIZATION OF CERTAIN RESEARCH AND EXPERIMENTAL EXPENDITURES.—

(1) IN GENERAL.—At the election of the taxpayer, made in accordance with regulations prescribed by the Secretary or his delegate, research or experimental expenditures which are—

(A) paid or incurred by the taxpayer in connection with his trade or business,

(B) not treated as expenses under subsection (a), and

(C) chargeable to capital account but not chargeable to property of a character which is subject to the allowance under section 167 (relating to allowance for depreciation, etc.) or section 611 (relating to allowance for depletion),

may be treated as deferred expenses. In computing taxable income, such deferred expenses shall be allowed as a deduction ratably over such period of not less than 60 months as may be selected by the taxpayer (beginning with the month in which the taxpayer first realizes benefits from such expenditures). Such deferred expenses

are expenditures properly chargeable to capital account for purposes of section 1016 (a) (1) (relating to adjustments to basis of property).

(2) TIME FOR AND SCOPE OF ELECTION.—The election provided by paragraph (1) may be made for any taxable year beginning after December 31, 1953, but only if made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof). The method so elected, and the period selected by the taxpayer, shall be adhered to in computing taxable income for the taxable year for which the election is made and for all subsequent taxable years unless, with the approval of the Secretary or his delegate, a change to a different method (or to a different period) is authorized with respect to part or all of such expenditures. The election shall not apply to any expenditure paid or incurred during any taxable year before the taxable year for which the taxpayer makes the election.

(c) LAND AND OTHER PROPERTY.—This section shall not apply to any expenditure for the acquisition or improvement of land, or for the acquisition or improvement of property to be used in connection with the research or experimentation and of a character which is subject to the allowance under section 167 (relating to allowance for depreciation, etc.) or section 611 (relating to allowance for depletion); but for purposes of this section allowances under section 167, and allowances under section 611, shall be considered as expenditures.

(d) EXPLORATION EXPENDITURES.—This section shall not apply to any expenditure paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral (including oil and gas).

(e) CROSS REFERENCE.—

For adjustments to basis of property for amounts allowed as deductions as deferred expenses under subsection (b), see section 1016 (a) (14).

SEC. 175. SOIL AND WATER CONSERVATION EXPENDITURES.

(a) IN GENERAL.—A taxpayer engaged in the business of farming may treat expenditures which are paid or incurred by him during the taxable year for the purpose of soil or water conservation in respect of land used in farming, or for the prevention of erosion of land used in farming, as expenses which are not chargeable to capital account. The expenditures so treated shall be allowed as a deduction.

(b) LIMITATION.—The amount deductible under subsection (a) for any taxable year shall not exceed 25 percent of the gross income derived from farming during the taxable year. If for any taxable year the total of the expenditures treated as expenses which are not chargeable to capital account exceeds 25 percent of the gross income derived from farming during the taxable year, such excess shall be deductible for succeeding taxable years in order of time; but the amount deductible under this section for any one such succeeding taxable year (including the expenditures actually paid or incurred during the taxable year) shall not exceed 25 percent of the gross income derived from farming during the taxable year.

(c) DEFINITIONS.—For purposes of subsection (a)—

(1) The term "expenditures which are paid or incurred by him during the taxable year for the purpose of soil or water conserva-

tion in respect of land used in farming, or for the prevention of erosion of land used in farming" means expenditures paid or incurred for the treatment or moving of earth, including (but not limited to) leveling, grading and terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets, and ponds, the eradication of brush, and the planting of windbreaks. Such term does not include—

(A) the purchase, construction, installation, or improvement of structures, appliances, or facilities which are of a character which is subject to the allowance for depreciation provided in section 167, or

(B) any amount paid or incurred which is allowable as a deduction without regard to this section.

Notwithstanding the preceding sentences, such term also includes any amount, not otherwise allowable as a deduction, paid or incurred to satisfy any part of an assessment levied by a soil or water conservation or drainage district to defray expenditures made by such district which, if paid or incurred by the taxpayer, would without regard to this sentence constitute expenditures deductible under this section.

(2) The term "land used in farming" means land used (before or simultaneously with the expenditures described in paragraph (1)) by the taxpayer or his tenant for the production of crops, fruits, or other agricultural products or for the sustenance of livestock.

(d) WHEN METHOD MAY BE ADOPTED.—

(1) WITHOUT CONSENT.—A taxpayer may, without the consent of the Secretary or his delegate, adopt the method provided in this section for his first taxable year—

(A) which begins after December 31, 1953, and ends after the date on which this title is enacted, and

(B) for which expenditures described in subsection (a) are paid or incurred.

(2) WITH CONSENT.—A taxpayer may, with the consent of the Secretary or his delegate, adopt at any time the method provided in this section.

(e) SCOPE.—The method adopted under this section shall apply to all expenditures described in subsection (a). The method adopted shall be adhered to in computing taxable income for the taxable year and for all subsequent taxable years unless, with the approval of the Secretary or his delegate, a change to a different method is authorized with respect to part or all of such expenditures.

PART VII—ADDITIONAL ITEMIZED DEDUCTIONS FOR INDIVIDUALS

Sec. 211. Allowance of deductions.
Sec. 212. Expenses for production of income.
Sec. 213. Medical, dental, etc., expenses.
Sec. 214. Expenses for care of certain dependents.
Sec. 215. Alimony, etc., payments.
Sec. 216. Amounts representing taxes and interest paid to cooperative housing corporation.
Sec. 217. Cross references.

SEC. 211. ALLOWANCE OF DEDUCTIONS.

In computing taxable income under section 63 (a), there shall be allowed as deductions the items specified in this part, subject to the exceptions provided in part IX (section 261 and following, relating to items not deductible).

SEC. 212. EXPENSES FOR PRODUCTION OF INCOME.

In the case of an individual, there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year—

(1) for the production or collection of income;

(2) for the management, conservation, or maintenance of property held for the production of income; or

(3) in connection with the determination, collection, or refund of any tax.

SEC. 213. MEDICAL, DENTAL, ETC., EXPENSES.

(a) ALLOWANCE OF DEDUCTION.—There shall be allowed as a deduction the expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent (as defined in section 152)—

(1) if neither the taxpayer nor his spouse has attained the age of 65 before the close of the taxable year, to the extent that such expenses exceed 3 percent of the adjusted gross income; or

(2) if either the taxpayer or his spouse has attained the age of 65 before the close of the taxable year—

(A) the amount of such expenses for the care of the taxpayer and his spouse, and

(B) the amount by which such expenses for the care of such dependents exceed 3 percent of the adjusted gross income.

(b) LIMITATION WITH RESPECT TO MEDICINE AND DRUGS.—Amounts paid during the taxable year for medicine and drugs which (but for this subsection) would be taken into account in computing the deduction under subsection (a) shall be taken into account only to the extent that the aggregate of such amounts exceeds 1 percent of the adjusted gross income.

(c) MAXIMUM LIMITATIONS.—The deduction under this section shall not exceed $2,500, multiplied by the number of exemptions allowed for the taxable year as a deduction under section 151 (other than exemptions allowed by reason of subsection (c) or (d), relating to additional exemptions for age or blindness); except that the maximum deduction under this section shall be—

(1) $5,000, if the taxpayer is single and not the head of a household (as defined in section 1 (b) (2)) and not a surviving spouse

(as defined in section 2 (b)) or is married but files a separate return; or

(2) $10,000, if the taxpayer files a joint return with his spouse under section 6013, or is the head of a household (as defined in section 1 (b) (2)) or a surviving spouse (as defined in section 2 (b)).

(d) SPECIAL RULE FOR DECEDENTS.—

(1) TREATMENT OF EXPENSES PAID AFTER DEATH.—For purposes of subsection (a), expenses for the medical care of the taxpayer which are paid out of his estate during the 1-year period beginning with the day after the date of his death shall be treated as paid by the taxpayer at the time incurred.

(2) LIMITATION.—Paragraph (1) shall not apply if the amount paid is allowable under section 2053 as a deduction in computing the taxable estate of the decedent, but this paragraph shall not apply if (within the time and in the manner and form prescribed by the Secretary or his delegate) there is filed—

(A) a statement that such amount has not been claimed or allowed as a deduction under section 2053, and

(B) a waiver of the right to have such amount allowed at any time as a deduction under section 2053.

(e) DEFINITIONS.—For purposes of this section—

(1) The term "medical care" means amounts paid—

(A) for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance), or

(B) for transportation primarily for and essential to medical care referred to in subparagraph (A).

(2) The determination of whether an individual is married at any time during the taxable year shall be made in accordance with the provisions of section 6013 (d) (relating to determination of status as husband and wife).

(f) EXCLUSION OF AMOUNTS ALLOWED FOR CARE OF CERTAIN DEPENDENTS.—Any expense allowed as a deduction under section 214 shall not be treated as an expense paid for medical care.

SEC. 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS

(a) GENERAL RULE.—There shall be allowed as a deduction expenses paid during the taxable year by a taxpayer who is a woman or a widower for the care of one or more dependents (as defined in subsection (c) (1)), but only if such care is for the purpose of enabling the taxpayer to be gainfully employed.

(b) LIMITATIONS.—

(1) IN GENERAL.—The deduction under subsection (a)—

(A) shall not exceed $600 for any taxable year; and

(B) shall not apply to any amount paid to an individual with respect to whom the taxpayer is allowed for his taxable year a deduction under section 151 (relating to deductions for personal exemptions).

(2) WORKING WIVES.—In the case of a woman who is married, the deduction under subsection (a)—

(A) shall not be allowed unless she files a joint return with her husband for the taxable year, and

(B) shall be reduced by the amount (if any) by which the adjusted gross income of the taxpayer and her spouse exceeds $4,500.

This paragraph shall not apply if the taxpayer's husband is incapable of self-support because mentally or physically defective.

(c) DEFINITIONS.—For purposes of this section—

(1) DEPENDENT.—The term "dependent" means a person with respect to whom the taxpayer is entitled to an exemption under section 151 (e) (1)—

(A) who has not attained the age of 12 years and who (within the meaning of section 152) is a son, stepson, daughter, or stepdaughter of the taxpayer; or

(B) who is physically or mentally incapable of caring for himself.

(2) WIDOWER.—The term "widower" includes an unmarried individual who is legally separated from his spouse under a decree of divorce or of separate maintenance.

(3) DETERMINATION OF STATUS.—A woman shall not be considered as married if she is legally separated from her spouse under a decree of divorce or of separate maintenance at the close of the taxable year.

SEC. 215. ALIMONY, ETC., PAYMENTS.

(a) GENERAL RULE.—In the case of a husband described in section 71, there shall be allowed as a deduction amounts includible under section 71 in the gross income of his wife, payment of which is made within the husband's taxable year. No deduction shall be allowed under the preceding sentence with respect to any payment if, by reason of section 71 (d) or 682, the amount thereof is not includible in the husband's gross income.

(b) CROSS REFERENCE.—

For definitions of "husband" and "wife", see section 7701 (a) (17).

SEC. 216. AMOUNTS REPRESENTING TAXES AND INTEREST PAID TO COOPERATIVE HOUSING CORPORATION.

(a) ALLOWANCE OF DEDUCTION.—In the case of a tenant-stockholder (as defined in subsection (b) (2)), there shall be allowed as a deduction amounts (not otherwise deductible) paid or accrued to a cooperative housing corporation within the taxable year, but only to the extent that such amounts represent the tenant-stockholder's proportionate share of—

(1) the real estate taxes allowable as a deduction to the corporation under section 164 which are paid or incurred by the corporation on the houses or apartment building and on the land on which such houses (or building) are situated, or

(2) the interest allowable as a deduction to the corporation under section 163 which is paid or incurred by the corporation on its indebtedness contracted—

(A) in the acquisition, construction, alteration, rehabilitation, or maintenance of the houses or apartment building, or

(B) in the acquisition of the land on which the houses (or apartment building) are situated.

(b) DEFINITIONS.—For purposes of this section—

(1) COOPERATIVE HOUSING CORPORATION.—The term "cooperative housing corporation" means a corporation—

(A) having one and only one class of stock outstanding,

(B) each of the stockholders of which is entitled, solely by reason of his ownership of stock in the corporation, to occupy for dwelling purposes a house, or an apartment in a building, owned or leased by such corporation,

(C) no stockholder of which is entitled (either conditionally or unconditionally) to receive any distribution not out of earnings and profits of the corporation except on a complete or partial liquidation of the corporation, and

(D) 80 percent or more of the gross income of which for the taxable year in which the taxes and interest described in subsection (a) are paid or incurred is derived from tenant-stockholders.

(2) TENANT-STOCKHOLDER.—The term "tenant-stockholder" means an individual who is a stockholder in a cooperative housing corporation, and whose stock is fully paid-up in an amount not less than an amount shown to the satisfaction of the Secretary or his delegate as bearing a reasonable relationship to the portion of the value of the corporation's equity in the houses or apartment building and the land on which situated which is attributable to the house or apartment which such individual is entitled to occupy.

(3) The term "tenant-stockholder's proportionate share" means that proportion which the stock of the cooperative housing corporation owned by the tenant-stockholder is of the total outstanding stock of the corporation (including any stock held by the corporation).

SEC. 217. CROSS REFERENCES.

(1) For deduction for long-term capital gains in the case of a taxpayer other than a corporation, see section 1202.

(2) For deductions in respect of a decedent, see section 691.

PART VIII—SPECIAL DEDUCTIONS FOR CORPORATIONS

Sec. 241. Allowance of special deductions.
Sec. 242. Partially tax-exempt interest.
Sec. 243. Dividends received by corporations.
Sec. 244. Dividends received on certain preferred stock.
Sec. 245. Dividends received from certain foreign corporations.
Sec. 246. Rules applying to deductions for dividends received.
Sec. 247. Dividends paid on certain preferred stock of public utilities.
Sec. 248. Organizational expenditures.

SEC. 241. ALLOWANCE OF SPECIAL DEDUCTIONS.

In addition to the deductions provided in part VI (sec. 161 and following), there shall be allowed as deductions in computing taxable income the items specified in this part.

SEC. 242. PARTIALLY TAX-EXEMPT INTEREST.

(a) ALLOWANCE OF DEDUCTION.—There shall be allowed to a corporation as a deduction the amount received as interest on obligations

of the United States or on obligations of corporations organized under Act of Congress which are instrumentalities of the United States, but only if—

(1) such interest is included in gross income; and

(2) such interest is exempt from normal tax under the Act authorizing the issuance of such obligations.

(b) CROSS REFERENCE.—

For reduction of deduction under subsection (a) on account of amortizable bond premium, see section 171.

SEC. 243. DIVIDENDS RECEIVED BY CORPORATIONS.

(a) GENERAL RULE.—In the case of a corporation, there shall be allowed as a deduction an amount equal to 85 percent of the amount received as dividends (other than dividends described in paragraph (1) of section 244, relating to dividends on the preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter.

(b) SPECIAL RULES FOR CERTAIN DISTRIBUTIONS.—For purposes of subsection (a)—

(1) Any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.) shall not be treated as a dividend.

(2) A dividend received from a regulated investment company shall be subject to the limitations prescribed in section 854.

SEC. 244. DIVIDENDS RECEIVED ON CERTAIN PREFERRED STOCK.

In the case of a corporation, there shall be allowed as a deduction an amount computed as follows:

(1) First determine the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the deduction provided in section 247 for dividends paid is allowable.

(2) Then multiply the amount determined under paragraph (1) by the fraction—

(A) the numerator of which is 14 percent, and

(B) the denominator of which is that percentage which equals the sum of the normal tax rate and the surtax rate for the taxable year prescribed by section 11.

(3) Finally ascertain the amount which is 85 percent of the excess of—

(A) the amount determined under paragraph (1), over

(B) the amount determined under paragraph (2).

SEC. 245. DIVIDENDS RECEIVED FROM CERTAIN FOREIGN CORPORATIONS.

In the case of dividends received from a foreign corporation (other than a foreign personal holding company) which is subject to taxation under this chapter, if, for an uninterrupted period of not less than 36 months ending with the close of such foreign corporation's taxable year in which such dividends are paid (or, if the corporation has not been in existence for 36 months at the close of such taxable year, for the period the foreign corporation has been in existence as of the close of such taxable year) such foreign corporation has been

engaged in trade or business within the United States and has derived 50 percent or more of its gross income from sources within the United States, there shall be allowed as a deduction in the case of a corporation—

(1) An amount equal to the percent (specified in section 243 for the taxable year) of the dividends received out of its earnings and profits specified in paragraph (2) of the first sentence of section 316 (a), but such amount shall not exceed an amount which bears the same ratio to such percent of such dividends received out of such earnings and profits as the gross income of such foreign corporation for the taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

(2) An amount equal to the percent (specified in section 243 for the taxable year) of the dividends received out of that part of its earnings and profits specified in paragraph (1) of the first sentence of section 316 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to such percent of such dividends received out of such accumulated earnings and profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of such taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

SEC. 246. RULES APPLYING TO DEDUCTIONS FOR DIVIDENDS RECEIVED.

(a) DEDUCTION NOT ALLOWED FOR DIVIDENDS FROM CERTAIN CORPORATIONS.—The deductions allowed by sections 243, 244, and 245 shall not apply to any dividend from—

(1) a corporation organized under the China Trade Act, 1922 (see sec. 941); or

(2) a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is—

(A) a corporation exempt from tax under section 501 (relating to certain charitable, etc., organizations) or section 521 (relating to farmers' cooperative associations); or

(B) a corporation to which section 931 (relating to income from sources within possessions of the United States) applies.

(b) LIMITATION ON AGGREGATE AMOUNT OF DEDUCTIONS.—

(1) GENERAL RULE.—Except as provided in paragraph (2), the aggregate amount of the deductions allowed by sections 243, 244, and 245 shall not exceed 85 percent of the taxable income computed without regard to the deductions allowed by sections 172, 243, 244, 245, and 247.

(2) EFFECT OF NET OPERATING LOSS.—Paragraph (1) shall not apply for any taxable year for which there is a net operating loss (as determined under section 172).

SEC. 247. DIVIDENDS PAID ON CERTAIN PREFERRED STOCK OF PUBLIC UTILITIES.

(a) AMOUNT OF DEDUCTION.—In the case of a public utility, there shall be allowed as a deduction an amount computed as follows:

(1) First determine the amount which is the lesser of—

(A) the amount of dividends paid during the taxable year on its preferred stock, or

(B) the taxable income for the taxable year (computed without the deduction allowed by this section).

(2) Then multiply the amount determined under paragraph (1) by the fraction—

(A) the numerator of which is 14 percent, and

(B) the denominator of which is that percentage which equals the sum of the normal tax rate and the surtax rate for the taxable year specified in section 11.

For purposes of the deduction provided in this section, the amount of dividends paid shall not include any amount distributed in the current taxable year with respect to dividends unpaid and accumulated in any taxable year ending before October 1, 1942. Amounts distributed in the current taxable year with respect to dividends unpaid and accumulated for a prior taxable year shall for purposes of this subsection be deemed to be distributed with respect to the earliest year or years for which there are dividends unpaid and accumulated.

(b) DEFINITIONS.—For purposes of this section and section 244—

(1) PUBLIC UTILITY.—The term "public utility" means a corporation engaged in the furnishing of telephone service or in the sale of electrical energy, gas, or water, if the rates for such furnishing or sale, as the case may be, have been established or approved by a State or political subdivision thereof or by an agency or instrumentality of the United States or by a public utility or public service commission or other similar body of the District of Columbia or of any State or political subdivision thereof.

(2) PREFERRED STOCK.—The term "preferred stock" means stock issued before October 1, 1942, which during the whole of the taxable year (or the part of the taxable year after its issue) was stock the dividends in respect of which were cumulative, limited to the same amount, and payable in preference to the payment of dividends on other stock. Stock issued on or after October 1, 1942, shall be deemed for purposes of this paragraph to have been issued before October 1, 1942, if it was issued (including issuance either by the same or another corporation in a transaction which is a reorganization (as defined in section 368 (a)), a transaction to which section 371 (relating to insolvency reorganizations) applies, or a transaction subject to part VI of subchapter O (relating to exchanges in SEC obedience orders), or the respectively corresponding provisions of the Internal Revenue Code of 1939) to refund or replace bonds or debentures issued before October 1, 1942, or to refund or replace other preferred stock (including stock which is preferred stock by reason of this sentence), but only to the extent that the par or stated value of the new stock does not exceed the par, stated, or face value of the bonds or debentures issued before October 1, 1942, or the other preferred stock, which such new stock is issued to refund

or replace. The determination of whether stock was issued to refund or replace bonds or debentures issued before October 1, 1942, or to refund or replace other preferred stock, shall be made under regulations prescribed by the Secretary or his delegate.

SEC. 248. ORGANIZATIONAL EXPENDITURES.

(a) ELECTION TO AMORTIZE.—The organizational expenditures of a corporation may, at the election of the corporation (made in accordance with regulations prescribed by the Secretary or his delegate), be treated as deferred expenses. In computing taxable income, such deferred expenses shall be allowed as a deduction ratably over such period of not less than 60 months as may be selected by the corporation (beginning with the month in which the corporation begins business).

(b) ORGANIZATIONAL EXPENDITURES DEFINED.—The term "organizational expenditures" means any expenditure which—

(1) is incident to the creation of the corporation;

(2) is chargeable to capital account; and

(3) is of a character which, if expended incident to the creation of a corporation having a limited life, would be amortizable over such life.

(c) TIME FOR AND SCOPE OF ELECTION.—The election provided by subsection (a) may be made for any taxable year beginning after December 31, 1953, but only if made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof). The period so elected shall be adhered to in computing the taxable income of the corporation for the taxable year for which the election is made and all subsequent taxable years. The election shall apply only with respect to expenditures paid or incurred on or after the date of enactment of this title.

PART IX—ITEMS NOT DEDUCTIBLE

Sec. 261. General rule for disallowance of deductions.
Sec. 262. Personal, living, and family expenses.
Sec. 263. Capital expenditures.
Sec. 264. Certain amounts paid in connection with insurance contracts.
Sec. 265. Expenses and interest relating to tax-exempt income.
Sec. 266. Carrying charges.
Sec. 267. Losses, expenses, and interest with respect to transactions between related taxpayers.
Sec. 268. Sale of land with unharvested crop.
Sec. 269. Acquisitions made to evade or avoid income tax.
Sec. 270. Limitation on deductions allowable to individuals in certain cases.
Sec. 271. Debts owed by political parties, etc.
Sec. 272. Disposal of coal.
Sec. 273. Holders of life or terminable interest.

SEC. 261. GENERAL RULE FOR DISALLOWANCE OF DEDUCTIONS.

In computing taxable income no deduction shall in any case be allowed in respect of the items specified in this part.

SEC. 262. PERSONAL, LIVING, AND FAMILY EXPENSES.

Except as otherwise expressly provided in this chapter, no deduction shall be allowed for personal, living, or family expenses.

SEC. 263. CAPITAL EXPENDITURES.

(a) GENERAL RULE.—No deduction shall be allowed for—

(1) Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate. This paragraph shall not apply to—

(A) expenditures for the development of mines or deposits deductible under section 616,

(B) research and experimental expenditures deductible under section 174, or

(C) soil and water conservation expenditures deductible under section 175.

(2) Any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is or has been made.

(b) EXPENDITURES FOR ADVERTISING AND GOOD WILL.—If a corporation has, for the purpose of computing its excess profits tax credit under chapter 2E or subchapter D of chapter 1 of the Internal Revenue Code of 1939 claimed the benefits of the election provided in section 733 or section 451 of such code, as the case may be, no deduction shall be allowable under section 162 to such corporation for expenditures for advertising or the promotion of good will which, under the rules and regulations prescribed under section 733 or section 451 of such code, as the case may be, may be regarded as capital investments.

(c) INTANGIBLE DRILLING AND DEVELOPMENT COSTS IN THE CASE OF OIL AND GAS WELLS.—Notwithstanding subsection (a), regulations shall be prescribed by the Secretary or his delegate under this subtitle corresponding to the regulations which granted the option to deduct as expenses intangible drilling and development costs in the case of oil and gas wells and which were recognized and approved by the Congress in House Concurrent Resolution 50, Seventy-ninth Congress.

SEC. 264. CERTAIN AMOUNTS PAID IN CONNECTION WITH INSURANCE CONTRACTS.

(a) GENERAL RULE.—No deduction shall be allowed for—

(1) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy.

(2) Any amount paid or accrued on indebtedness incurred or continued to purchase or carry a single premium life insurance, endowment, or annuity contract.

Paragraph (2) shall apply in respect of annuity contracts only as to contracts purchased after March 1, 1954.

(b) CONTRACTS TREATED AS SINGLE PREMIUM CONTRACTS.—For purposes of subsection (a) (2), a contract shall be treated as a single premium contract—

(1) if substantially all the premiums on the contract are paid within a period of 4 years from the date on which the contract is purchased, or

(2) if an amount is deposited after March 1, 1954, with the insurer for payment of a substantial number of future premiums on the contract.

SEC. 265. EXPENSES AND INTEREST RELATING TO TAX-EXEMPT INCOME.

No deduction shall be allowed for—

(1) EXPENSES.—Any amount otherwise allowable as a deduction which is allocable to one or more classes of income other than interest (whether or not any amount of income of that class or classes is received or accrued) wholly exempt from the taxes imposed by this subtitle, or any amount otherwise allowable under section 212 (relating to expenses for production of income) which is allocable to interest (whether or not any amount of such interest is received or accrued) wholly exempt from the taxes imposed by this subtitle.

(2) INTEREST.—Interest on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest on which is wholly exempt from the taxes imposed by this subtitle.

SEC. 266. CARRYING CHARGES.

No deduction shall be allowed for amounts paid or accrued for such taxes and carrying charges as, under regulations prescribed by the Secretary or his delegate, are chargeable to capital account with respect to property, if the taxpayer elects, in accordance with such regulations, to treat such taxes or charges as so chargeable.

SEC. 267. LOSSES, EXPENSES, AND INTEREST WITH RESPECT TO TRANSACTIONS BETWEEN RELATED TAXPAYERS.

(a) DEDUCTIONS DISALLOWED.—No deduction shall be allowed—

(1) LOSSES.—In respect of losses from sales or exchanges of property (other than losses in cases of distributions in corporate liquidations), directly or indirectly, between persons specified within any one of the paragraphs of subsection (b).

(2) UNPAID EXPENSES AND INTEREST.—In respect of expenses, otherwise deductible under section 162 or 212, or of interest, otherwise deductible under section 163,—

(A) If within the period consisting of the taxable year of the taxpayer and 2½ months after the close thereof (i) such expenses or interest are not paid, and (ii) the amount thereof is not includible in the gross income of the person to whom the payment is to be made; and

(B) If, by reason of the method of accounting of the person to whom the payment is to be made, the amount thereof is not, unless paid, includible in the gross income of such person for the taxable year in which or with which the taxable year of the taxpayer ends; and

(C) If, at the close of the taxable year of the taxpayer or at any time within 2½ months thereafter, both the taxpayer and the person to whom the payment is to be made are persons specified within any one of the paragraphs of subsection (b).

(b) RELATIONSHIPS.—The persons referred to in subsection (a) are:

(1) Members of a family, as defined in subsection (c) (4);

(2) An individual and a corporation more than 50 percent in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual;

(3) Two corporations more than 50 percent in value of the outstanding stock of each of which is owned, directly or indirectly, by or for the same individual, if either one of such corporations, with respect to the taxable year of the corporation preceding the date of the sale or exchange was, under the law applicable to such taxable year, a personal holding company or a foreign personal holding company;

(4) A grantor and a fiduciary of any trust;

(5) A fiduciary of a trust and a fiduciary of another trust, if the same person is a grantor of both trusts;

(6) A fiduciary of a trust and a beneficiary of such trust;

(7) A fiduciary of a trust and a beneficiary of another trust, if the same person is a grantor of both trusts;

(8) A fiduciary of a trust and a corporation more than 50 percent in value of the outstanding stock of which is owned, directly or indirectly, by or for the trust or by or for a person who is a grantor of the trust; or

(9) A person and an organization to which section 501 (relating to certain educational and charitable organizations which are exempt from tax) applies and which is controlled directly or indirectly by such person or (if such person is an individual) by members of the family of such individual.

(c) CONSTRUCTIVE OWNERSHIP OF STOCK.—For purposes of determining, in applying subsection (b), the ownership of stock—

(1) Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

(2) An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family;

(3) An individual owning (otherwise than by the application of paragraph (2)) any stock in a corporation shall be considered as owning the stock owned, directly or indirectly, by or for his partner;

(4) The family of an individual shall include only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

(5) Stock constructively owned by a person by reason of the application of paragraph (1) shall, for the purpose of applying paragraph (1), (2), or (3), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of paragraph (2) or (3) shall not be treated as owned by him for the purpose of again applying either of such paragraphs in order to make another the constructive owner of such stock.

(d) AMOUNT OF GAIN WHERE LOSS PREVIOUSLY DISALLOWED.—If—

(1) in the case of a sale or exchange of property to the taxpayer a loss sustained by the transferor is not allowable to the transferor as a deduction by reason of subsection (a) (1) (or by reason of section 24 (b) of the Internal Revenue Code of 1939); and

(2) after December 31, 1953, the taxpayer sells or otherwise disposes of such property (or of other property the basis of which in his hands is determined directly or indirectly by reference to such property) at a gain,

then such gain shall be recognized only to the extent that it exceeds so much of such loss as is properly allocable to the property sold or otherwise disposed of by the taxpayer. This subsection applies with respect to taxable years ending after December 31, 1953. This subsection shall not apply if the loss sustained by the transferor is not allowable to the transferor as a deduction by reason of section 1091 (relating to wash sales) or by reason of section 118 of the Internal Revenue Code of 1939.

SEC. 268. SALE OF LAND WITH UNHARVESTED CROP.

Where an unharvested crop sold by the taxpayer is considered under the provisions of section 1231 as "property used in the trade or business", in computing taxable income no deduction (whether or not for the taxable year of the sale and whether for expenses, depreciation, or otherwise) attributable to the production of such crop shall be allowed.

SEC. 269. ACQUISITIONS MADE TO EVADE OR AVOID INCOME TAX.

(a) IN GENERAL.—If—

(1) any person or persons acquire, or acquired on or after October 8, 1940, directly or indirectly, control of a corporation, or

(2) any corporation acquires, or acquired on or after October 8, 1940, directly or indirectly, property of another corporation, not controlled, directly or indirectly, immediately before such acquisition, by such acquiring corporation or its stockholders, the basis of which property, in the hands of the acquiring corporation, is determined by reference to the basis in the hands of the transferor corporation,

and the principal purpose for which such acquisition was made is evasion or avoidance of Federal income tax by securing the benefit of a deduction, credit, or other allowance which such person or corporation would not otherwise enjoy, then such deduction, credit, or other allowance shall not be allowed. For purposes of paragraphs (1) and (2), 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.

(b) POWER OF SECRETARY OR HIS DELEGATE TO ALLOW DEDUCTION, ETC., IN PART.—In any case to which subsection (a) applies the Secretary or his delegate is authorized—

(1) to allow as a deduction, credit, or allowance any part of any amount disallowed by such subsection, if he determines that such allowance will not result in the evasion or avoidance of Federal income tax for which the acquisition was made; or

(2) to distribute, apportion, or allocate gross income, and distribute, apportion, or allocate the deductions, credits, or allowances the benefit of which was sought to be secured, between or among the corporations, or properties, or parts thereof, involved, and to allow such deductions, credits, or allowances so distributed, apportioned, or allocated, but to give effect to such allowance only to such extent as he determines will not result in the evasion or avoidance of Federal income tax for which the acquisition was made; or

(3) to exercise his powers in part under paragraph (1) and in part under paragraph (2).

(c) PRESUMPTION IN CASE OF DISPROPORTIONATE PURCHASE PRICE.—The fact that the consideration paid upon an acquisition by any person or corporation described in subsection (a) is substantially disproportionate to the aggregate—

(1) of the adjusted basis of the property of the corporation (to the extent attributable to the interest acquired specified in paragraph (1) of subsection (a)), or of the property acquired specified in paragraph (2) of subsection (a); and

(2) of the tax benefits (to the extent not reflected in the adjusted basis of the property) not available to such person or corporation otherwise than as a result of such acquisition,

shall be prima facie evidence of the principal purpose of evasion or avoidance of Federal income tax. This subsection shall apply only with respect to acquisitions after March 1, 1954.

SEC. 270. LIMITATION ON DEDUCTIONS ALLOWABLE TO INDIVIDUALS IN CERTAIN CASES.

(a) RECOMPUTATION OF TAXABLE INCOME.—If the deductions allowed by this chapter or the corresponding provisions of prior revenue laws (other than specially treated deductions, as defined in subsection (b)) allowable to an individual (except for the provisions of this section or the corresponding provisions of prior revenue laws) and attributable to a trade or business carried on by him for 5 consecutive taxable years have, in each of such years (including at least one year to which this subtitle applies), exceeded by more than $50,000 the gross income derived from such trade or business, the taxable income (computed under section 63 or the corresponding provisions of prior revenue laws) of such individual for each of such years shall be recomputed. For the purpose of such recomputation in the case of any such taxable year, such deductions shall be allowed only to the extent of $50,000 plus the gross income attributable to such trade or business, except that the net operating loss deduction, to the extent attributable to such trade or business, shall not be allowed.

(b) SPECIALLY TREATED DEDUCTIONS.—For the purpose of subsection (a) the specially treated deductions shall be taxes, interest, casualty and abandonment losses connected with a trade or business deductible under section 165 (c) (1), losses and expenses of the trade or business of farming which are directly attributable to drought, the net operating loss deduction allowed by section 172, and expenditures as to which taxpayers are given the option, under law or regulations, either (1) to deduct as expenses when incurred or (2) to defer or capitalize.

(c) REDETERMINATION OF TAX.—On the basis of the taxable income computed under the provisions of subsection (a) for each of the 5 consecutive taxable years specified in such subsection, the tax imposed by this subtitle or the corresponding provisions of prior revenue laws shall be redetermined for each such taxable year. If for any such taxable year assessment of a deficiency is prevented (except for the provisions of section 1311 and following) by the operation of any law or rule of law (other than section 7122, relating to compromises), any increase in the tax previously determined for such taxable year shall be considered a deficiency for purposes of this section. For purposes of this section, the term "tax previously determined" shall have the meaning assigned to such term by section 1314 (a) (1).

(d) EXTENSION OF STATUTE OF LIMITATIONS.—Notwithstanding any law or rule of law (other than section 7122, relating to compromises), any amount determined as a deficiency under subsection (c), or which would be so determined if assessment were prevented in the manner described in subsection (c), with respect to any taxable year may be assessed as if on the date of the expiration of the time prescribed by law for the assessment of a deficiency for the fifth taxable year of the 5 consecutive taxable years specified in subsection (a), 1 year remained before the expiration of the period of limitation upon assessment for any such taxable year.

SEC. 271. DEBTS OWED BY POLITICAL PARTIES, ETC.

(a) GENERAL RULE.—In the case of a taxpayer (other than a bank as defined in section 581) no deduction shall be allowed under section 166 (relating to bad debts) or under section 165 (g) (relating to worthlessness of securities) by reason of the worthlessness of any debt owed by a political party.

(b) DEFINITIONS.—

(1) POLITICAL PARTY.—For purposes of subsection (a), the term "political party" means—

(A) a political party;

(B) a national, State, or local committee of a political party; or

(C) a committee, association, or organization which accepts contributions or makes expenditures for the purpose of influencing or attempting to influence the election of presidential or vice-presidential electors or of any individual whose name is presented for election to any Federal, State, or local elective public office, whether or not such individual is elected.

(2) CONTRIBUTIONS.—For purposes of paragraph (1) (C), the term "contributions" includes a gift, subscription, loan, advance, or deposit, of money, or anything of value, and includes a contract, promise, or agreement to make a contribution, whether or not legally enforceable.

(3) EXPENDITURES.—For purposes of paragraph (1) (C), the term "expenditures" includes a payment, distribution, loan, advance, deposit, or gift, of money, or anything of value, and includes a contract, promise, or agreement to make an expenditure, whether or not legally enforceable.

SEC. 272. DISPOSAL OF COAL.

Where the disposal of coal is covered by section 631, no deduction shall be allowed for expenditures attributable to the making and administering of the contract under which such disposition occurs and to the preservation of the economic interest retained under such contract, except that if in any taxable year such expenditures plus the adjusted depletion basis of the coal disposed of in such taxable year exceed the amount realized under such contract, such excess, to the extent not availed of as a reduction of gain under section 1231, shall be a loss deductible under section 165 (a). This section shall not apply to any taxable year during which there is no income under the contract.

SEC. 273. HOLDERS OF LIFE OR TERMINABLE INTEREST.

Amounts paid under the laws of a State, a Territory, the District of Columbia, a possession of the United States, or a foreign country as income to the holder of a life or terminable interest acquired by gift, bequest, or inheritance shall not be reduced or diminished by any deduction for shrinkage (by whatever name called) in the value of such interest due to the lapse of time.

Subchapter C—Corporate Distributions and Adjustments

Part I. Distributions by corporations.
Part II. Corporate liquidations.
Part III. Corporate organizations and reorganizations.
Part IV. Insolvency reorganizations.
Part V. Carryovers.
Part VI. Effective date of subchapter C.

PART I—DISTRIBUTIONS BY CORPORATIONS

Subpart A. Effects on recipients.
Subpart B. Effects on corporation.
Subpart C. Definitions; constructive ownership of stock.

Subpart A—Effects on Recipients

Sec. 301. Distributions of property.
Sec. 302. Distributions in redemption of stock.
Sec. 303. Distributions in redemption of stock to pay death taxes.
Sec. 304. Redemption through use of related corporations.
Sec. 305. Distributions of stock and stock rights.
Sec. 306. Dispositions of certain stock.
Sec. 307. Basis of stock and stock rights acquired in distributions.

SEC. 301. DISTRIBUTIONS OF PROPERTY.

(a) IN GENERAL.—Except as otherwise provided in this chapter, a distribution of property (as defined in section 317 (a)) made by a corporation to a shareholder with respect to its stock shall be treated in the manner provided in subsection (c).

(b) AMOUNT DISTRIBUTED.—

(1) GENERAL RULE.—For purposes of this section, the amount of any distribution shall be—

(A) NONCORPORATE DISTRIBUTEES.—If the shareholder is not a corporation, the amount of money received, plus the fair market value of the other property received.

(B) CORPORATE DISTRIBUTEES.—If the shareholder is a corporation, the amount of money received, plus whichever of the following is the lesser:

(i) the fair market value of the other property received; or

(ii) the adjusted basis (in the hands of the distributing corporation immediately before the distribution) of the other property received, increased in the amount of gain to the distributing corporation which is recognized under subsection (b) or (c) of section 311.

(2) REDUCTION FOR LIABILITIES.—The amount of any distribution determined under paragraph (1) shall be reduced (but not below zero) by—

(A) the amount of any liability of the corporation assumed by the shareholder in connection with the distribution, and

(B) the amount of any liability to which the property received by the shareholder is subject immediately before, and immediately after, the distribution.

(3) DETERMINATION OF FAIR MARKET VALUE.—For purposes of this section, fair market value shall be determined as of the date of the distribution.

(c) AMOUNT TAXABLE.—In the case of a distribution to which subsection (a) applies—

(1) AMOUNT CONSTITUTING DIVIDEND.—That portion of the distribution which is a dividend (as defined in section 316) shall be included in gross income.

(2) AMOUNT APPLIED AGAINST BASIS.—That portion of the distribution which is not a dividend shall be applied against and reduce the adjusted basis of the stock.

(3) AMOUNT IN EXCESS OF BASIS.—

(A) IN GENERAL.—Except as provided in subparagraph (B), that portion of the distribution which is not a dividend, to the extent that it exceeds the adjusted basis of the stock, shall be treated as gain from the sale or exchange of property.

(B) DISTRIBUTIONS OUT OF INCREASE IN VALUE ACCRUED BEFORE MARCH 1, 1913.—That portion of the distribution which is not a dividend, to the extent that it exceeds the adjusted basis of the stock and to the extent that it is out of increase in value accrued before March 1, 1913, shall be exempt from tax.

(d) BASIS.—The basis of property received in a distribution to which subsection (a) applies shall be—

(1) NONCORPORATE DISTRIBUTEES.—If the shareholder is not a corporation, the fair market value of such property.

(2) CORPORATE DISTRIBUTEES.—If the shareholder is a corporation, whichever of the following is the lesser:

(A) the fair market value of such property; or

(B) the adjusted basis (in the hands of the distributing corporation immediately before the distribution) of such property, increased in the amount of gain to the distributing corporation which is recognized under subsection (b) or (c) of section 311.

(e) EXCEPTION FOR CERTAIN DISTRIBUTIONS BY PERSONAL SERVICE CORPORATIONS.—Any distribution made by a corporation, which was classified as a personal service corporation under the provisions of the Revenue Act of 1918 or the Revenue Act of 1921, out of its earnings or profits which were taxable in accordance with the provisions of section 218 of the Revenue Act of 1918 (40 Stat. 1070), or section 218 of the Revenue Act of 1921 (42 Stat. 245), shall be exempt from tax to the distributees.

(f) SPECIAL RULES.—

(1) For distributions in redemption of stock, see section 302.

(2) For distributions in partial or complete liquidation, see part II (sec. 331 and following).

(3) For distributions in corporate organizations and reorganizations, see part III (sec. 351 and following).

(4) For partial exclusion from gross income of dividends received by individuals, see section 116.

SEC. 302. DISTRIBUTIONS IN REDEMPTION OF STOCK.

(a) GENERAL RULE.—If a corporation redeems its stock (within the meaning of section 317 (b)), and if paragraph (1), (2), (3), or (4) of subsection (b) applies, such redemption shall be treated as a distribution in part or full payment in exchange for the stock.

(b) REDEMPTIONS TREATED AS EXCHANGES.—

(1) REDEMPTIONS NOT EQUIVALENT TO DIVIDENDS.—Subsection (a) shall apply if the redemption is not essentially equivalent to a dividend.

(2) SUBSTANTIALLY DISPROPORTIONATE REDEMPTION OF STOCK.—

(A) IN GENERAL.—Subsection (a) shall apply if the distribution is substantially disproportionate with respect to the shareholder.

(B) LIMITATION.—This paragraph shall not apply unless immediately after the redemption the shareholder owns less than 50 percent of the total combined voting power of all classes of stock entitled to vote.

(C) DEFINITIONS.—For purposes of this paragraph, the distribution is substantially disproportionate if—

(i) the ratio which the voting stock of the corporation owned by the shareholder immediately after the redemption bears to all of the voting stock of the corporation at such time,

is less than 80 percent of—

(ii) the ratio which the voting stock of the corporation owned by the shareholder immediately before the redemption bears to all of the voting stock of the corporation at such time.

For purposes of this paragraph, no distribution shall be treated as substantially disproportionate unless the shareholder's ownership of the common stock of the corporation (whether voting or nonvoting) after and before redemption also meets the 80 percent requirement of the preceding sentence. For purposes of the preceding sentence, if there is more than one class of common stock, the determinations shall be made by reference to fair market value.

(D) SERIES OF REDEMPTIONS.—This paragraph shall not apply to any redemption made pursuant to a plan the purpose or effect of which is a series of redemptions resulting in a distribution which (in the aggregate) is not substantially disproportionate with respect to the shareholder.

(3) TERMINATION OF SHAREHOLDER'S INTEREST.—Subsection (a) shall apply if the redemption is in complete redemption of all of the stock of the corporation owned by the shareholder.

(4) STOCK ISSUED BY RAILROAD CORPORATIONS IN CERTAIN REORGANIZATIONS.—Subsection (a) shall apply if the redemption is of stock issued by a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act, as amended) pursuant to a plan of reorganization under section 77 of the Bankruptcy Act.

(5) APPLICATION OF PARAGRAPHS.—In determining whether a redemption meets the requirements of paragraph (1), the fact that such redemption fails to meet the requirements of paragraph (2), (3), or (4) shall not be taken into account. If a redemption meets the requirements of paragraph (3) and also the requirements of paragraph (1), (2), or (4), then so much of subsection (c) (2) as would (but for this sentence) apply in respect of the acquisition of an interest in the corporation within the 10-year period beginning on the date of the distribution shall not apply.

(c) CONSTRUCTIVE OWNERSHIP OF STOCK.—

(1) IN GENERAL.—Except as provided in paragraph (2) of this subsection, section 318 (a) shall apply in determining the ownership of stock for purposes of this section.

(2) FOR DETERMINING TERMINATION OF INTEREST.—

(A) In the case of a distribution described in subsection (b) (3), section 318 (a) (1) shall not apply if—

(i) immediately after the distribution the distributee has no interest in the corporation (including an interest as officer, director, or employee), other than an interest as a creditor,

(ii) the distributee does not acquire any such interest (other than stock acquired by bequest or inheritance) within 10 years from the date of such distribution, and

(iii) the distributee, at such time and in such manner as the Secretary or his delegate by regulations prescribes, files an agreement to notify the Secretary or his delegate of any acquisition described in clause (ii) and to retain such records as may be necessary for the application of this paragraph.

If the distributee acquires such an interest in the corporation (other than by bequest or inheritance) within 10 years from the date of the distribution, then the periods of limitation provided in sections 6501 and 6502 on the making of an assessment and the collection by levy or a proceeding in court shall, with respect to any deficiency (including interest and additions to the tax) resulting from such acquisition, include one year immediately following the date on which the distributee (in accordance with regulations prescribed by the Secretary or his delegate) notifies the Secretary or his delegate of such acquisition; and such assessment and collection may be made notwithstanding any provision of law or rule of law which otherwise would prevent such assessment and collection.

(B) Subparagraph (A) of this paragraph shall not apply if—

(i) any portion of the stock redeemed was acquired, directly or indirectly, within the 10-year period ending on the date of the distribution by the distributee from a person the ownership of whose stock would (at the time of distribution) be attributable to the distributee under section 318 (a), or

(ii) any person owns (at the time of the distribution) stock the ownership of which is attributable to the distributee under section 318 (a) and such person acquired any stock in the corporation, directly or indirectly, from the distributee within the 10-year period ending on the date of the distribution, unless such stock so acquired from the distributee is redeemed in the same transaction.

The preceding sentence shall not apply if the acquisition (or, in the case of clause (ii), the disposition) by the distributee did not have as one of its principal purposes the avoidance of Federal income tax.

(d) REDEMPTIONS TREATED AS DISTRIBUTIONS OF PROPERTY.—Except as otherwise provided in this subchapter, if a corporation redeems its stock (within the meaning of section 317 (b)), and if subsection (a) of this section does not apply, such redemption shall be treated as a distribution of property to which section 301 applies.

(e) CROSS REFERENCES.—

For special rules relating to redemption—

(1) Death Taxes.—Of stock to pay death taxes, see section 303.

(2) Section 306 Stock.—Of section 306 stock, see section 306.

(3) Liquidations.—Of stock in partial or complete liquidation, see section 331.

SEC. 303. DISTRIBUTIONS IN REDEMPTION OF STOCK TO PAY DEATH TAXES.

(a) IN GENERAL.—A distribution of property to a shareholder by a corporation in redemption of part or all of the stock of such corporation which (for Federal estate tax purposes) is included in determining the gross estate of a decedent, to the extent that the amount of such distribution does not exceed the sum of—

(1) the estate, inheritance, legacy, and succession taxes (including any interest collected as a part of such taxes) imposed because of such decedent's death, and

(2) the amount of funeral and administration expenses allowable as deductions to the estate under section 2053 (or under section 2106 in the case of the estate of a decedent nonresident, not a citizen of the United States),

shall be treated as a distribution in full payment in exchange for the stock so redeemed.

(b) LIMITATIONS ON APPLICATION OF SUBSECTION (a).—

(1) PERIOD FOR DISTRIBUTION.—Subsection (a) shall apply only to amounts distributed after the death of the decedent and—

(A) within the period of limitations provided in section 6501 (a) for the assessment of the Federal estate tax (determined without the application of any provision other than section 6501 (a)), or within 90 days after the expiration of such period, or

(B) if a petition for redetermination of a deficiency in such estate tax has been filed with the Tax Court within the time prescribed in section 6213, at any time before the expiration of 60 days after the decision of the Tax Court becomes final.

(2) RELATIONSHIP OF STOCK TO DECEDENT'S ESTATE.—

(A) IN GENERAL.—Subsection (a) shall apply to a distribution by a corporation only if the value (for Federal estate tax purposes) of all of the stock of such corporation which is included in determining the value of the decedent's gross estate is either—

(i) more than 35 percent of the value of the gross estate of such decedent, or

(ii) more than 50 percent of the taxable estate of such decedent.

(B) SPECIAL RULE FOR STOCK OF TWO OR MORE CORPORATIONS.—For purposes of the 35 percent and 50 percent requirements of subparagraph (A), stock of two or more corporations, with respect to each of which there is included in determining the value of the decedent's gross estate more than 75 percent in value of the outstanding stock, shall be treated as the stock of a single corporation. For the purpose of the 75 percent requirement of the preceding sentence, stock which, at the decedent's death, 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.

(c) STOCK WITH SUBSTITUTED BASIS.—If—

(1) a shareholder owns stock of a corporation (referred to in this subsection as "new stock") the basis of which is determined by reference to the basis of stock of a corporation (referred to in this subsection as "old stock"),

(2) the old stock was included (for Federal estate tax purposes) in determining the gross estate of a decedent, and

(3) subsection (a) would apply to a distribution of property to such shareholder in redemption of the old stock,

then, subject to the limitation specified in subsection (b) (1), subsection (a) shall apply in respect of a distribution in redemption of the new stock.

SEC. 304. REDEMPTION THROUGH USE OF RELATED CORPORATIONS.

(a) TREATMENT OF CERTAIN STOCK PURCHASES.—

(1) ACQUISITION BY RELATED CORPORATION (OTHER THAN SUBSIDIARY).—For purposes of sections 302 and 303, if—

(A) one or more persons are in control of each of two corporations, and

(B) in return for property, one of the corporations acquires stock in the other corporation from the person (or persons) so in control,

then (unless paragraph (2) applies) such property shall be treated as a distribution in redemption of the stock of the corporation acquiring such stock. In any such case, the stock so acquired shall be treated as having been transferred by the person from whom acquired, and as having been received by the corporation acquiring it, as a contribution to the capital of such corporation.

(2) ACQUISITION BY SUBSIDIARY.—For purposes of sections 302 and 303, if—

(A) in return for property, one corporation acquires from a shareholder of another corporation stock in such other corporation, and

(B) the issuing corporation controls the acquiring corporation,

then such property shall be treated as a distribution in redemption of the stock of the issuing corporation.

(b) SPECIAL RULES FOR APPLICATION OF SUBSECTION (a).—

(1) RULE FOR DETERMINATIONS UNDER SECTION 302 (b).—In the case of any acquisition of stock to which subsection (a) of this section applies, determinations as to whether the acquisition is, by reason of section 302 (b), to be treated as a distribution in part or full payment in exchange for the stock shall be made by reference to the stock of the issuing corporation. In applying section 318 (a) (relating to constructive ownership of stock) with respect to section 302 (b) for purposes of this paragraph, section 318 (a) (2) (C) shall be applied without regard to the 50 percent limitation contained therein.

(2) AMOUNT CONSTITUTING DIVIDEND.—

(A) WHERE SUBSECTION (a) (1) APPLIES.—In the case of any acquisition of stock to which paragraph (1) (and not paragraph (2)) of subsection (a) of this section applies, the determination of

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the amount which is a dividend shall be made solely by reference to the earnings and profits of the acquiring corporation.

(B) WHERE SUBSECTION (a) (2) APPLIES.—In the case of any acquisition of stock to which subsection (a) (2) of this section applies, the determination of the amount which is a dividend shall be made as if the property were distributed by the acquiring corporation to the issuing corporation and immediately thereafter distributed by the issuing corporation.

(c) CONTROL.—

(1) IN GENERAL.—For purposes of this section, 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. If a person (or persons) is in control (within the meaning of the preceding sentence) of a corporation which in turn owns at least 50 percent of the total combined voting power of all stock entitled to vote of another corporation, or owns at least 50 percent of the total value of the shares of all classes of stock of another corporation, then such person (or persons) shall be treated as in control of such other corporation.

(2) CONSTRUCTIVE OWNERSHIP.—Section 318 (a) (relating to the constructive ownership of stock) shall apply for purposes of determining control under paragraph (1). For purposes of the preceding sentence, section 318 (a) (2) (C) shall be applied without regard to the 50 percent limitation contained therein.

SEC. 305. DISTRIBUTIONS OF STOCK AND STOCK RIGHTS.

(a) GENERAL RULE.—Except as provided in subsection (b), gross income does not include the amount of any distribution made by a corporation to its shareholders, with respect to the stock of such corporation, in its stock or in rights to acquire its stock.

(b) DISTRIBUTIONS IN LIEU OF MONEY.—Subsection (a) shall not apply to a distribution by a corporation of its stock (or rights to acquire its stock), and the distribution shall be treated as a distribution of property to which section 301 applies—

(1) to the extent that the distribution is made in discharge of preference dividends for the taxable year of the corporation in which the distribution is made or for the preceding taxable year; or

(2) if the distribution is, at the election of any of the shareholders (whether exercised before or after the declaration thereof), payable either—

(A) in its stock (or in rights to acquire its stock), or

(B) in property.

(c) CROSS REFERENCES.—

For special rules—

(1) Relating to the receipt of stock and stock rights in corporate organizations and reorganizations, see part III (sec. 351 and following).

(2) In the case of a distribution which results in a gift, see section 2501 and following.

(3) In the case of a distribution which has the effect of the payment of compensation, see section 61 (a) (1).

SEC. 306. DISPOSITIONS OF CERTAIN STOCK.

(a) GENERAL RULE.—If a shareholder sells or otherwise disposes of section 306 stock (as defined in subsection (c))—

(1) DISPOSITIONS OTHER THAN REDEMPTIONS.—If such disposition is not a redemption (within the meaning of section 317 (b))—

(A) The amount realized shall be treated as gain from the sale of property which is not a capital asset. This subparagraph shall not apply to the extent that—

(i) the amount realized, exceeds

(ii) such stock's ratable share of the amount which would have been a dividend at the time of distribution if (in lieu of section 306 stock) the corporation had distributed money in an amount equal to the fair market value of the stock at the time of distribution.

(B) Any excess of the amount realized over the sum of—

(i) the amount treated under subparagraph (A) as gain from the sale of property which is not a capital asset, plus

(ii) the adjusted basis of the stock,

shall be treated as gain from the sale of such stock.

(C) No loss shall be recognized.

(2) REDEMPTION.—If the disposition is a redemption, the amount realized shall be treated as a distribution of property to which section 301 applies.

(b) EXCEPTIONS.—Subsection (a) shall not apply—

(1) TERMINATION OF SHAREHOLDER'S INTEREST.—

(A) NOT IN REDEMPTION.—If the disposition—

(i) is not a redemption;

(ii) is not, directly or indirectly, to a person the ownership of whose stock would (under section 318 (a)) be attributable to the shareholder; and

(iii) terminates the entire stock interest of the shareholder in the corporation (and for purposes of this clause, section 318 (a) shall apply).

(B) IN REDEMPTION.—If the disposition is a redemption and section 302 (b) (3) applies.

(2) LIQUIDATIONS.—If the section 306 stock is redeemed in a distribution in partial or complete liquidation to which part II (sec. 331 and following) applies.

(3) WHERE GAIN OR LOSS IS NOT RECOGNIZED.—To the extent that, under any provision of this subtitle, gain or loss to the shareholder is not recognized with respect to the disposition of the section 306 stock.

(4) TRANSACTIONS NOT IN AVOIDANCE.—If it is established to the satisfaction of the Secretary or his delegate—

(A) that the distribution, and the disposition or redemption, or

(B) in the case of a prior or simultaneous disposition (or redemption) of the stock with respect to which the section 306 stock disposed of (or redeemed) was issued, that the disposition (or redemption) of the section 306 stock,

was not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income tax.

(c) SECTION 306 STOCK DEFINED.—

(1) IN GENERAL.—For purposes of this subchapter, the term "section 306 stock" means stock which meets the requirements of subparagraph (A), (B), or (C) of this paragraph.

(A) DISTRIBUTED TO SELLER.—Stock (other than common stock issued with respect to common stock) which was distributed to the shareholder selling or otherwise disposing of such stock if, by reason of section 305 (a), any part of such distribution was not includible in the gross income of the shareholder.

(B) RECEIVED IN A CORPORATE REORGANIZATION OR SEPARATION.—Stock which is not common stock and—

(i) which was received, by the shareholder selling or otherwise disposing of such stock, in pursuance of a plan of reorganization (within the meaning of section 368 (a)), or in a distribution or exchange to which section 355 (or so much of section 356 as relates to section 355) applied, and

(ii) with respect to the receipt of which gain or loss to the shareholder was to any extent not recognized by reason of part III, but only to the extent that either the effect of the transaction was substantially the same as the receipt of a stock dividend, or the stock was received in exchange for section 306 stock.

For purposes of this section, a receipt of stock to which the foregoing provisions of this subparagraph apply shall be treated as a distribution of stock.

(C) STOCK HAVING TRANSFERRED OR SUBSTITUTED BASIS.—Except as otherwise provided in subparagraph (B), stock the basis of which (in the hands of the shareholder selling or otherwise disposing of such stock) is determined by reference to the basis (in the hands of such shareholder or any other person) of section 306 stock.

(2) EXCEPTION WHERE NO EARNINGS AND PROFITS.—For purposes of this section, the term "section 306 stock" does not include any stock no part of the distribution of which would have been a dividend at the time of the distribution if money had been distributed in lieu of the stock.

(d) STOCK RIGHTS.—For purposes of this section—

(1) stock rights shall be treated as stock, and

(2) stock acquired through the exercise of stock rights shall be treated as stock distributed at the time of the distribution of the stock rights, to the extent of the fair market value of such rights at the time of the distribution.

(e) CONVERTIBLE STOCK.—For purposes of subsection (c)—

(1) if section 306 stock was issued with respect to common stock and later such section 306 stock is exchanged for common stock in the same corporation (whether or not such exchange is pursuant to a conversion privilege contained in the section 306 stock), then (except as provided in paragraph (2)) the common stock so received shall not be treated as section 306 stock; and

(2) common stock with respect to which there is a privilege of converting into stock other than common stock (or into property), whether or not the conversion privilege is contained in such stock, shall not be treated as common stock.

(f) SOURCE OF GAIN.—The amount treated under subsection (a) (1) (A) as gain from the sale of property which is not a capital asset shall, for purposes of part I of subchapter N (sec. 861 and following, relating

to determination of sources of income), be treated as derived from the same source as would have been the source if money had been received from the corporation as a dividend at the time of the distribution of such stock. If under the preceding sentence such amount is determined to be derived from sources within the United States, such amount shall be considered to be fixed or determinable annual or periodical gains, profits, and income within the meaning of section 871 (a) or section 881 (a), as the case may be.

(g) CHANGE IN TERMS AND CONDITIONS OF STOCK.—If a substantial change is made in the terms and conditions of any stock, then, for purposes of this section—

(1) the fair market value of such stock shall be the fair market value at the time of the distribution or at the time of such change, whichever such value is higher;

(2) such stock's ratable share of the amount which would have been a dividend if money had been distributed in lieu of stock shall be determined as of the time of distribution or as of the time of such change, whichever such ratable share is higher; and

(3) subsection (c) (2) shall not apply unless the stock meets the requirements of such subsection both at the time of such distribution and at the time of such change.

(h) STOCK RECEIVED IN DISTRIBUTIONS AND REORGANIZATIONS TO WHICH 1939 CODE APPLIED.—If stock—

(1) was received in a distribution or reorganization to which the Internal Revenue Code of 1939 (or the corresponding provisions of prior law) applied,

(2) such stock would have been section 306 stock if this Code applied to such distribution or reorganization, and

(3) such stock is disposed of or redeemed on or after June 22, 1954,

then the foregoing subsections of this section shall not apply in respect of such disposition or redemption. The extent to which such disposition or redemption shall be treated as a dividend shall be determined as if the Internal Revenue Code of 1939 (as modified by the provisions of this Code other than the foregoing subsections of this section) continued to apply in respect of such disposition or redemption.

SEC. 307. BASIS OF STOCK AND STOCK RIGHTS ACQUIRED IN DISTRIBUTIONS.

(a) GENERAL RULE.—If a shareholder in a corporation receives its stock or rights to acquire its stock (referred to in this subsection as "new stock") in a distribution to which section 305 (a) applies, then the basis of such new stock and of the stock with respect to which it is distributed (referred to in this section as "old stock"), respectively, shall, in the shareholder's hands, be determined by allocating between the old stock and the new stock the adjusted basis of the old stock. Such allocation shall be made under regulations prescribed by the Secretary or his delegate.

(b) EXCEPTION FOR CERTAIN STOCK RIGHTS.—

(1) IN GENERAL.—If—

(A) a corporation distributes rights to acquire its stock to a shareholder in a distribution to which section 305 (a) applies, and

(B) the fair market value of such rights at the time of the distribution is less than 15 percent of the fair market value of the old stock at such time,

then subsection (a) shall not apply and the basis of such rights shall be zero, unless the taxpayer elects under paragraph (2) of this subsection to determine the basis of the old stock and of the stock rights under the method of allocation provided in subsection (a).

(2) ELECTION.—The election referred to in paragraph (1) shall be made in the return filed within the time prescribed by law (including extensions thereof) for the taxable year in which such rights were received. Such election shall be made in such manner as the Secretary or his delegate may by regulations prescribe, and shall be irrevocable when made.

(c) CROSS REFERENCE.—

For basis of stock and stock rights distributed before June 22, 1954, see section 1052.

Subpart B—Effects on Corporation

Sec. 311. Taxability of corporation on distribution.
Sec. 312. Effect on earnings and profits.

SEC. 311. TAXABILITY OF CORPORATION ON DISTRIBUTION.

(a) GENERAL RULE.—Except as provided in subsections (b) and (c) of this section and section 453 (d), no gain or loss shall be recognized to a corporation on the distribution, with respect to its stock, of—

(1) its stock (or rights to acquire its stock), or

(2) property.

(b) LIFO INVENTORY.—

(1) RECOGNITION OF GAIN.—If a corporation inventorying goods under the method provided in section 472 (relating to last-in, first-out inventories) distributes inventory assets (as defined in paragraph (2) (A)), then the amount (if any) by which—

(A) the inventory amount (as defined in paragraph (2) (B)) of such assets under a method authorized by section 471 (relating to general rule for inventories), exceeds

(B) the inventory amount of such assets under the method provided in section 472,

shall be treated as gain to the corporation recognized from the sale of such inventory assets.

(2) DEFINITIONS.—For purposes of paragraph (1)—

(A) INVENTORY ASSETS.—The term "inventory assets" means stock in trade of the corporation, or other property of a kind which would properly be included in the inventory of the corporation if on hand at the close of the taxable year.

(B) INVENTORY AMOUNT.—The term "inventory amount" means, in the case of inventory assets distributed during a taxable year, the amount of such inventory assets determined as if the taxable year closed at the time of such distribution.

(3) METHOD OF DETERMINING INVENTORY AMOUNT.—For purposes of this subsection, the inventory amount of assets under a method authorized by section 471 shall be determined—

(A) if the corporation uses the retail method of valuing inventories under section 472, by using such method, or

(B) if subparagraph (A) does not apply, by using cost or market, whichever is lower.

(c) LIABILITY IN EXCESS OF BASIS.—If—

(1) a corporation distributes property to a shareholder with respect to its stock,

(2) such property is subject to a liability, or the shareholder assumes a liability of the corporation in connection with the distribution, and

(3) the amount of such liability exceeds the adjusted basis (in the hands of the distributing corporation) of such property,

then gain shall be recognized to the distributing corporation in an amount equal to such excess as if the property distributed had been sold at the time of the distribution. In the case of a distribution of property subject to a liability which is not assumed by the shareholder, the amount of gain to be recognized under the preceding sentence shall not exceed the excess, if any, of the fair market value of such property over its adjusted basis.

SEC. 312. EFFECT ON EARNINGS AND PROFITS.

(a) GENERAL RULE.—Except as otherwise provided in this section, on the distribution of property by a corporation with respect to its stock, the earnings and profits of the corporation (to the extent thereof) shall be decreased by the sum of—

(1) the amount of money,

(2) the principal amount of the obligations of such corporation, and

(3) the adjusted basis of the other property,

so distributed.

(b) CERTAIN INVENTORY ASSETS.—

(1) IN GENERAL.—On the distribution by a corporation, with respect to its stock, of inventory assets (as defined in paragraph (2) (A)) the fair market value of which exceeds the adjusted basis thereof, the earnings and profits of the corporation—

(A) shall be increased by the amount of such excess; and

(B) shall be decreased by whichever of the following is the lesser:

(i) the fair market value of the inventory assets distributed, or

(ii) the earnings and profits (as increased under subparagraph (A)).

(2) DEFINITIONS.—

(A) INVENTORY ASSETS.—For purposes of paragraph (1), the term "inventory assets" means—

(i) stock in trade of the corporation, or other property of a kind which would properly be included in the inventory of the corporation if on hand at the close of the taxable year;

(ii) property held by the corporation primarily for sale to customers in the ordinary course of its trade or business; and

(iii) unrealized receivables or fees, except receivables from sales or exchanges of assets other than assets described in this subparagraph.

(B) UNREALIZED RECEIVABLES OR FEES.—For purposes of subparagraph (A) (iii), the term "unrealized receivables or fees" means, to the extent not previously includible in income under the method of accounting used by the corporation, any rights (contractual or otherwise) to payment for—

(i) goods delivered, or to be delivered, to the extent that the proceeds therefrom would be treated as amounts received from the sale or exchange of property other than a capital asset, or

(ii) services rendered or to be rendered.

(c) ADJUSTMENTS FOR LIABILITIES, ETC.—In making the adjustments to the earnings and profits of a corporation under subsection (a) or (b), proper adjustment shall be made for—

(1) the amount of any liability to which the property distributed is subject,

(2) the amount of any liability of the corporation assumed by a shareholder in connection with the distribution, and

(3) any gain to the corporation recognized under subsection (b) or (c) of section 311.

(d) CERTAIN DISTRIBUTIONS OF STOCK AND SECURITIES.—

(1) IN GENERAL.—The distribution to a distributee by or on behalf of a corporation of its stock or securities, of stock or securities in another corporation, or of property, in a distribution to which this Code applies, shall not be considered a distribution of the earnings and profits of any corporation—

(A) if no gain to such distributee from the receipt of such stock or securities, or property, was recognized under this Code, or

(B) if the distribution was not subject to tax in the hands of such distributee by reason of section 305 (a).

(2) PRIOR DISTRIBUTIONS.—In the case of a distribution of stock or securities, or property, to which section 115 (h) of the Internal Revenue Code of 1939 (or the corresponding provision of prior law) applied, the effect on earnings and profits of such distribution shall be determined under such section 115 (h), or the corresponding provision of prior law, as the case may be.

(3) STOCK OR SECURITIES.—For purposes of this subsection, the term "stock or securities" includes rights to acquire stock or securities.

(e) SPECIAL RULE FOR PARTIAL LIQUIDATIONS AND CERTAIN REDEMPTIONS.—In the case of amounts distributed in partial liquidation (whether before, on, or after June 22, 1954) or in a redemption to which section 302 (a) or 303 applies, the part of such distribution which is properly chargeable to capital account shall not be treated as a distribution of earnings and profits.

(f) EFFECT ON EARNINGS AND PROFITS OF GAIN OR LOSS AND OF RECEIPT OF TAX-FREE DISTRIBUTIONS.—

(1) EFFECT ON EARNINGS AND PROFITS OF GAIN OR LOSS.—The gain or loss realized from the sale or other disposition (after February 28, 1913) of property by a corporation—

(A) for the purpose of the computation of the earnings and profits of the corporation, shall (except as provided in subparagraph (B)) be determined by using as the adjusted basis the adjusted basis (under the law applicable to the year in which the sale or other disposition was made) for determining gain, except

that no regard shall be had to the value of the property as of March 1, 1913; but

(B) for purposes of the computation of the earnings and profits of the corporation for any period beginning after February 28, 1913, shall be determined by using as the adjusted basis the adjusted basis (under the law applicable to the year in which the sale or other disposition was made) for determining gain.

Gain or loss so realized shall increase or decrease the earnings and profits to, but not beyond, the extent to which such a realized gain or loss was recognized in computing taxable income under the law applicable to the year in which such sale or disposition was made. Where, in determining the adjusted basis used in computing such realized gain or loss, the adjustment to the basis differs from the adjustment proper for the purpose of determining earnings and profits, then the latter adjustment shall be used in determining the increase or decrease above provided. For purposes of this subsection, a loss with respect to which a deduction is disallowed under section 1091 (relating to wash sales of stock or securities), or the corresponding provision of prior law, shall not be deemed to be recognized.

(2) EFFECT ON EARNINGS AND PROFITS OF RECEIPT OF TAX-FREE DISTRIBUTIONS.—Where a corporation receives (after February 28, 1913) a distribution from a second corporation which (under the law applicable to the year in which the distribution was made) was not a taxable dividend to the shareholders of the second corporation, the amount of such distribution shall not increase the earnings and profits of the first corporation in the following cases:

(A) no such increase shall be made in respect of the part of such distribution which (under such law) is directly applied in reduction of the basis of the stock in respect of which the distribution was made; and

(B) no such increase shall be made if (under such law) the distribution causes the basis of the stock in respect of which the distribution was made to be allocated between such stock and the property received (or such basis would, but for section 307 (b), be so allocated).

(g) EARNINGS AND PROFITS—INCREASE IN VALUE ACCRUED BEFORE MARCH 1, 1913.—

(1) If any increase or decrease in the earnings and profits for any period beginning after February 28, 1913, with respect to any matter would be different had the adjusted basis of the property involved been determined without regard to its March 1, 1913, value, then, except as provided in paragraph (2), an increase (properly reflecting such difference) shall be made in that part of the earnings and profits consisting of increase in value of property accrued before March 1, 1913.

(2) If the application of subsection (f) to a sale or other disposition after February 28, 1913, results in a loss which is to be applied in decrease of earnings and profits for any period beginning after February 28, 1913, then, notwithstanding subsection (f) and in lieu of the rule provided in paragraph (1) of this subsection, the amount of such loss so to be applied shall be reduced by the amount,

if any, by which the adjusted basis of the property used in determining the loss exceeds the adjusted basis computed without regard to the value of the property on March 1, 1913, and if such amount so applied in reduction of the decrease exceeds such loss, the excess over such loss shall increase that part of the earnings and profits consisting of increase in value of property accrued before March 1, 1913.

(h) EARNINGS AND PROFITS OF PERSONAL SERVICE CORPORATIONS.—In the case of a personal service corporation subject for any taxable year to supplement S of the Internal Revenue Code of 1939, an amount equal to the undistributed supplement S net income of the personal service corporation for its taxable year shall be considered as paid in as of the close of such taxable year as paid-in surplus or as a contribution to capital, and the accumulated earnings and profits as of the close of such taxable year shall be correspondingly reduced, if such amount or any portion thereof is required to be included as a dividend in the gross income of the shareholders.

(i) ALLOCATION IN CERTAIN CORPORATE SEPARATIONS.—In the case of a distribution or exchange to which section 355 (or so much of section 356 as relates to section 355) applies, proper allocation with respect to the earnings and profits of the distributing corporation and the controlled corporation (or corporations) shall be made under regulations prescribed by the Secretary or his delegate.

(j) DISTRIBUTION OF PROCEEDS OF LOAN INSURED BY THE UNITED STATES.—

(1) IN GENERAL.—If a corporation distributes property with respect to its stock, and if, at the time of the distribution—

(A) there is outstanding a loan to such corporation which was made, guaranteed, or insured by the United States (or by any agency or instrumentality thereof), and

(B) the amount of such loan so outstanding exceeds the adjusted basis of the property constituting security for such loan,

then the earnings and profits of the corporation shall be increased by the amount of such excess, and (immediately after the distribution) shall be decreased by the amount of such excess. For purposes of subparagraph (B) of the preceding sentence, the adjusted basis of the property at the time of distribution shall be determined without regard to any adjustment under section 1016 (a) (2) (relating to adjustment for depreciation, etc.). For purposes of this paragraph, a commitment to make, guarantee, or insure a loan shall be treated as the making, guaranteeing, or insuring of a loan.

(2) EFFECTIVE DATE.—Paragraph (1) shall apply only with respect to distributions made on or after June 22, 1954.

Subpart C—Definitions; Constructive Ownership of Stock

Sec. 316. Dividend defined.
Sec. 317. Other definitions.
Sec. 318. Constructive ownership of stock.

SEC. 316. DIVIDEND DEFINED.

(a) GENERAL RULE.—For purposes of this subtitle, the term "dividend" means any distribution of property made by a corporation to its shareholders—

(1) out of its earnings and profits accumulated after February 28, 1913, or

(2) out of its earnings and profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year), without regard to the amount of the earnings and profits at the time the distribution was made.

Except as otherwise provided in this subtitle, every distribution is made out of earnings and profits to the extent thereof, and from the most recently accumulated earnings and profits. To the extent that any distribution is, under any provision of this subchapter, treated as a distribution of property to which section 301 applies, such distribution shall be treated as a distribution of property for purposes of this subsection.

(b) SPECIAL RULES.—

(1) CERTAIN INSURANCE COMPANY DIVIDENDS.—The definition in subsection (a) shall not apply to the term "dividend" as used in sections 803 (e), 821 (a) (2), 823 (2), and 832 (c) (11) (where the reference is to dividends of insurance companies paid to policyholders).

(2) DISTRIBUTIONS BY PERSONAL HOLDING COMPANIES.—In the case of a corporation which—

(A) under the law applicable to the taxable year in which the distribution is made, is a personal holding company (as defined in section 542), or

(B) for the taxable year in respect of which the distribution is made under section 563 (b) (relating to dividends paid after the close of the taxable year), or section 547 (relating to deficiency dividends), or the corresponding provisions of prior law, is a personal holding company under the law applicable to such taxable year,

the term "dividend" also means any distribution of property (whether or not a dividend as defined in subsection (a)) made by the corporation to its shareholders, to the extent of its undistributed personal holding company income (determined under section 545 without regard to distributions under this paragraph) for such year.

SEC. 317. OTHER DEFINITIONS.

(a) PROPERTY.—For purposes of this part, the term "property" means money, securities, and any other property; except that such term does not include stock in the corporation making the distribution (or rights to acquire such stock).

(b) REDEMPTION OF STOCK.—For purposes of this part, stock shall be treated as redeemed by a corporation if the corporation acquires its stock from a shareholder in exchange for property, whether or not the stock so acquired is cancelled, retired, or held as treasury stock.

SEC. 318. CONSTRUCTIVE OWNERSHIP OF STOCK.

(a) GENERAL RULE.—For purposes of those provisions of this subchapter to which the rules contained in this section are expressly made applicable—

(1) MEMBERS OF FAMILY.—

(A) IN GENERAL.—An individual shall be considered as owning the stock owned, directly or indirectly, by or for—

(i) his spouse (other than a spouse who is legally separated from the individual under a decree of divorce or separate maintenance), and

(ii) his children, grandchildren, and parents.

(B) EFFECT OF ADOPTION.—For purposes of subparagraph (A) (ii), a legally adopted child of an individual shall be treated as a child of such individual by blood.

(2) PARTNERSHIPS, ESTATES, TRUSTS, AND CORPORATIONS.—

(A) PARTNERSHIPS AND ESTATES.—Stock owned, directly or indirectly, by or for a partnership or estate shall be considered as being owned proportionately by its partners or beneficiaries. Stock owned, directly or indirectly, by or for a partner or a beneficiary of an estate shall be considered as being owned by the partnership or estate.

(B) TRUSTS.—Stock owned, directly or indirectly, by or for a trust shall be considered as being owned by its beneficiaries in proportion to the actuarial interest of such beneficiaries in such trust. Stock owned, directly or indirectly, by or for a beneficiary of a trust shall be considered as being owned by the trust, unless such beneficiary's interest in the trust is a remote contingent interest. For purposes of the preceding sentence, a contingent interest of a beneficiary in a trust shall be considered remote if, under the maximum exercise of discretion by the trustee in favor of such beneficiary, the value of such interest, computed actuarially, is 5 percent or less of the value of the trust property. Stock owned, directly or indirectly, by or for any portion of a trust of which a person is considered the owner under subpart E of part I of subchapter J (relating to grantors and others treated as substantial owners) shall be considered as being owned by such person; and such trust shall be treated as owning the stock owned, directly or indirectly, by or for that person. This subparagraph shall not apply with respect to any employees' trust described in section 401 (a) which is exempt from tax under section 501 (a).

(C) CORPORATIONS.—If 50 percent or more in value of the stock in a corporation is owned, directly or indirectly, by or for any person, then—

(i) such person shall be considered as owning the stock owned, directly or indirectly, by or for that corporation, in that proportion which the value of the stock which such person so owns bears to the value of all the stock in such corporation; and

(ii) such corporation shall be considered as owning the stock owned, directly or indirectly, by or for that person.

(3) OPTIONS.—If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

(4) CONSTRUCTIVE OWNERSHIP AS ACTUAL OWNERSHIP.—

(A) IN GENERAL.—Except as provided in subparagraph (B), stock constructively owned by a person by reason of the application of paragraph (1), (2), or (3) shall, for purposes of applying paragraph (1), (2), or (3), be treated as actually owned by such person.

(B) MEMBERS OF FAMILY.—Stock constructively owned by an individual by reason of the application of paragraph (1) shall not be treated as owned by him for purposes of again applying paragraph (1) in order to make another the constructive owner of such stock.

(C) OPTION RULE IN LIEU OF FAMILY RULE.—For purposes of this paragraph, if stock may be considered as owned by an individual under paragraph (1) or (3), it shall be considered as owned by him under paragraph (3).

(b) CROSS REFERENCES.—

For provisions to which the rules contained in subsection (a) apply, see—

(1) section 302 (relating to redemption of stock);

(2) section 304 (relating to redemption by related corporations);

(3) section 306 (b) (1) (A) (relating to disposition of section 306 stock);

(4) section 334 (b) (3) (C) (relating to basis of property received in certain liquidations of subsidiaries); and

(5) section 382 (a) (3) (relating to special limitations on net operating loss carryovers).

PART II—CORPORATE LIQUIDATIONS

Subpart A. Effects on recipients.
Subpart B. Effects on corporation.
Subpart C. Collapsible corporations; foreign personal holding companies.
Subpart D. Definition.

Subpart A—Effects on Recipients

Sec. 331. Gain or loss to shareholder in corporate liquidations.
Sec. 332. Complete liquidations of subsidiaries.
Sec. 333. Election as to recognition of gain in certain liquidations.
Sec. 334. Basis of property received in liquidations.

SEC. 331. GAIN OR LOSS TO SHAREHOLDERS IN CORPORATE LIQUIDATIONS.

(a) GENERAL RULE.—

(1) COMPLETE LIQUIDATIONS.—Amounts distributed in complete liquidation of a corporation shall be treated as in full payment in exchange for the stock.

(2) PARTIAL LIQUIDATIONS.—Amounts distributed in partial liquidation of a corporation (as defined in section 346) shall be treated as in part or full payment in exchange for the stock.

(b) NONAPPLICATION OF SECTION 301.—Section 301 (relating to effects on shareholder of distributions of property) shall not apply to any distribution of property in partial or complete liquidation.

(c) CROSS REFERENCES.—

(1) For general rule for determination of the amount of gain or loss to the distributee, see section 1001.

(2) For general rule for determination of the amount of gain or loss recognized, see section 1002.

SEC. 332. COMPLETE LIQUIDATIONS OF SUBSIDIARIES.

(a) GENERAL RULE.—No gain or loss shall be recognized on the receipt by a corporation of property distributed in complete liquidation of another corporation.

(b) LIQUIDATIONS TO WHICH SECTION APPLIES.—For purposes of subsection (a), a distribution shall be considered to be in complete liquidation only if—

(1) the corporation receiving such property was, on the date of the adoption of the plan of liquidation, and has continued to be at all times until the receipt of the property, the owner of stock (in such other corporation) possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote and the owner of at least 80 percent of the total number of shares of all other classes of stock (except nonvoting stock which is limited and preferred as to dividends); and either

(2) the distribution is by such other corporation in complete cancellation or redemption of all its stock, and the transfer of all the property occurs within the taxable year; in such case the adoption by the shareholders of the resolution under which is authorized the distribution of all the assets of such corporation in complete cancellation or redemption of all its stock shall be considered an adoption of a plan of liquidation, even though no time for the completion of the transfer of the property is specified in such resolution; or

(3) such distribution is one of a series of distributions by such other corporation in complete cancellation or redemption of all its stock in accordance with a plan of liquidation under which the transfer of all the property under the liquidation is to be completed within 3 years from the close of the taxable year during which is made the first of the series of distributions under the plan, except that if such transfer is not completed within such period, or if the taxpayer does not continue qualified under paragraph (1) until the completion of such transfer, no distribution under the plan shall be considered a distribution in complete liquidation.

If such transfer of all the property does not occur within the taxable year, the Secretary or his delegate may require of the taxpayer such bond, or waiver of the statute of limitations on assessment and collection, or both, as he may deem necessary to insure, if the transfer of the property is not completed within such 3-year period, or if the taxpayer does not continue qualified under paragraph (1) until the completion of such transfer, the assessment and collection of all income taxes then imposed by law for such taxable year or subsequent taxable years, to the extent attributable to property so received. A distribution otherwise constituting a distribution in complete liquidation within the meaning of this subsection shall not be considered as not constituting such a distribution merely because it does not constitute a distribution or liquidation within the meaning of the corporate law under which the distribution is made; and for purposes

of this subsection a transfer of property of such other corporation to the taxpayer shall not be considered as not constituting a distribution (or one of a series of distributions) in complete cancellation or redemption of all the stock of such other corporation, merely because the carrying out of the plan involves (A) the transfer under the plan to the taxpayer by such other corporation of property, not attributable to shares owned by the taxpayer, on an exchange described in section 361, and (B) the complete cancellation or redemption under the plan, as a result of exchanges described in section 354, of the shares not owned by the taxpayer.

(c) SPECIAL RULE FOR INDEBTEDNESS OF SUBSIDIARY TO PARENT.—If—

(1) a corporation is liquidated and subsection (a) applies to such liquidation, and

(2) on the date of the adoption of the plan of liquidation, such corporation was indebted to the corporation which meets the 80 percent stock ownership requirements specified in subsection (b),

then no gain or loss shall be recognized to the corporation so indebted because of the transfer of property in satisfaction of such indebtedness.

SEC. 333. ELECTION AS TO RECOGNITION OF GAIN IN CERTAIN LIQUIDATIONS.

(a) GENERAL RULE.—In the case of property distributed in complete liquidation of a domestic corporation (other than a collapsible corporation to which section 341 (a) applies), if—

(1) the liquidation is made in pursuance of a plan of liquidation adopted on or after June 22, 1954, and

(2) the distribution is in complete cancellation or redemption of all the stock, and the transfer of all the property under the liquidation occurs within some one calendar month,

then in the case of each qualified electing shareholder (as defined in subsection (c)) gain on the shares owned by him at the time of the adoption of the plan of liquidation shall be recognized only to the extent provided in subsections (e) and (f).

(b) EXCLUDED CORPORATION.—For purposes of this section, the term "excluded corporation" means a corporation which at any time between January 1, 1954, and the date of the adoption of the plan of liquidation, both dates inclusive, was the owner of stock possessing 50 percent or more of the total combined voting power of all classes of stock entitled to vote on the adoption of such plan.

(c) QUALIFIED ELECTING SHAREHOLDERS.—For purposes of this section, the term "qualified electing shareholder" means a shareholder (other than an excluded corporation) of any class of stock (whether or not entitled to vote on the adoption of the plan of liquidation) who is a shareholder at the time of the adoption of such plan, and whose written election to have the benefits of subsection (a) has been made and filed in accordance with subsection (d), but—

(1) in the case of a shareholder other than a corporation, only if written elections have been so filed by shareholders (other than corporations) who at the time of the adoption of the plan of liquidation are owners of stock possessing at least 80 percent of the total combined voting power (exclusive of voting power possessed by stock owned by corporations) of all classes of stock entitled to vote on the adoption of such plan of liquidation; or

(2) in the case of a shareholder which is a corporation, only if written elections have been so filed by corporate shareholders (other than an excluded corporation) which at the time of the adoption of such plan of liquidation are owners of stock possessing at least 80 percent of the total combined voting power (exclusive of voting power possessed by stock owned by an excluded corporation and by shareholders who are not corporations) of all classes of stock entitled to vote on the adoption of such plan of liquidation.

(d) MAKING AND FILING OF ELECTIONS.—The written elections referred to in subsection (c) must be made and filed in such manner as to be not in contravention of regulations prescribed by the Secretary or his delegate. The filing must be within 30 days after the date of the adoption of the plan of liquidation.

(e) NONCORPORATE SHAREHOLDERS.—In the case of a qualified electing shareholder other than a corporation—

(1) there shall be recognized, and treated as a dividend, so much of the gain as is not in excess of his ratable share of the earnings and profits of the corporation accumulated after February 28, 1913, such earnings and profits to be determined as of the close of the month in which the transfer in liquidation occurred under subsection (a) (2), but without diminution by reason of distributions made during such month; but by including in the computation thereof all amounts accrued up to the date on which the transfer of all the property under the liquidation is completed; and

(2) there shall be recognized, and treated as short-term or long-term capital gain, as the case may be, so much of the remainder of the gain as is not in excess of the amount by which the value of that portion of the assets received by him which consists of money, or of stock or securities acquired by the corporation after December 31, 1953, exceeds his ratable share of such earnings and profits.

(f) CORPORATE SHAREHOLDERS.—In the case of a qualified electing shareholder which is a corporation, the gain shall be recognized only to the extent of the greater of the two following—

(1) the portion of the assets received by it which consists of money, or of stock or securities acquired by the liquidating corporation after December 31, 1953; or

(2) its ratable share of the earnings and profits of the liquidating corporation accumulated after February 28, 1913, such earnings and profits to be determined as of the close of the month in which the transfer in liquidation occurred under subsection (a) (2), but without diminution by reason of distributions made during such month; but by including in the computation thereof all amounts accrued up to the date on which the transfer of all the property under the liquidation is completed.

SEC. 334. BASIS OF PROPERTY RECEIVED IN LIQUIDATIONS.

(a) GENERAL RULE.—If property is received in a distribution in partial or complete liquidation (other than a distribution to which section 333 applies), and if gain or loss is recognized on receipt of such property, then the basis of the property in the hands of the distributee shall be the fair market value of such property at the time of the distribution.

(b) LIQUIDATION OF SUBSIDIARY.—

(1) IN GENERAL.—If property is received by a corporation in a distribution in complete liquidation of another corporation (within the meaning of section 332 (b)), then, except as provided in paragraph (2), the basis of the property in the hands of the distributee shall be the same as it would be in the hands of the transferor. If property is received by a corporation in a transfer to which section 332 (c) applies, and if paragraph (2) of this subsection does not apply, then the basis of the property in the hands of the transferee shall be the same as it would be in the hands of the transferor.

(2) EXCEPTION.—If property is received by a corporation in a distribution in complete liquidation of another corporation (within the meaning of section 332 (b)), and if—

(A) the distribution is pursuant to a plan of liquidation adopted—

(i) on or after June 22, 1954, and

(ii) not more than 2 years after the date of the transaction described in subparagraph (B) (or, in the case of a series of transactions, the date of the last such transaction); and

(B) stock of the distributing corporation 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 (except nonvoting stock which is limited and preferred as to dividends), was acquired by the distributee by purchase (as defined in paragraph (3)) during a period of not more than 12 months,

then the basis of the property in the hands of the distributee shall be the adjusted basis of the stock with respect to which the distribution was made. For purposes of the preceding sentence, under regulations prescribed by the Secretary or his delegate, proper adjustment in the adjusted basis of any stock shall be made for any distribution made to the distributee with respect to such stock before the adoption of the plan of liquidation, for any money received, for any liabilities assumed or subject to which the property was received, and for other items.

(3) PURCHASE DEFINED.—For purposes of paragraph (2) (B), the term "purchase" means any acquisition of stock, but only if—

(A) the basis of the stock in the hands of the distributee is not determined (i) in whole or in part by reference to the adjusted basis of such stock in the hands of the person from whom acquired, or (ii) under section 1014 (a) (relating to property acquired from a decedent),

(B) the stock is not acquired in an exchange to which section 351 applies, and

(C) the stock is not acquired from a person the ownership of whose stock would, under section 318 (a), be attributed to the person acquiring such stock.

(4) DISTRIBUTEE DEFINED.—For purposes of this subsection, the term "distributee" means only the corporation which meets the 80 percent stock ownership requirements specified in section 332 (b).

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(c) PROPERTY RECEIVED IN LIQUIDATION UNDER SECTION 333.—If—

(1) property was acquired by a shareholder in the liquidation of a corporation in cancellation or redemption of stock, and

(2) with respect to such acquisition—

(A) gain was realized, but

(B) as the result of an election made by the shareholder under section 333, the extent to which gain was recognized was determined under section 333,

then the basis shall be the same as the basis of such stock cancelled or redeemed in the liquidation, decreased in the amount of any money received by the shareholder, and increased in the amount of gain recognized to him.

Subpart B—Effects on Corporation

Sec. 336. General rule.
Sec. 337. Gain or loss on sales or exchanges in connection with certain liquidations.
Sec. 338. Effect on earnings and profits.

SEC. 336. GENERAL RULE.

Except as provided in section 453 (d) (relating to disposition of installment obligations), no gain or loss shall be recognized to a corporation on the distribution of property in partial or complete liquidation.

SEC. 337. GAIN OR LOSS ON SALES OR EXCHANGES IN CONNECTION WITH CERTAIN LIQUIDATIONS.

(a) GENERAL RULE.—If—

(1) a corporation adopts a plan of complete liquidation on or after June 22, 1954, and

(2) within the 12-month period beginning on the date of the adoption of such plan, all of the assets of the corporation are distributed in complete liquidation, less assets retained to meet claims,

then no gain or loss shall be recognized to such corporation from the sale or exchange by it of property within such 12-month period.

(b) PROPERTY DEFINED.—

(1) IN GENERAL.—For purposes of subsection (a), the term "property" does not include—

(A) stock in trade of the corporation, or other property of a kind which would properly be included in the inventory of the corporation if on hand at the close of the taxable year, and property held by the corporation primarily for sale to customers in the ordinary course of its trade or business,

(B) installment obligations acquired in respect of the sale or exchange (without regard to whether such sale or exchange occurred before, on, or after the date of the adoption of the plan referred to in subsection (a)) of stock in trade or other property described in subparagraph (A) of this paragraph, and

(C) installment obligations acquired in respect of property (other than property described in subparagraph (A)) sold or exchanged before the date of the adoption of such plan of liquidation.

(2) NONRECOGNITION WITH RESPECT TO INVENTORY IN CERTAIN CASES.—Notwithstanding paragraph (1) of this subsection, if substantially all of the property described in subparagraph (A) of such paragraph (1) which is attributable to a trade or business of the corporation is, in accordance with this section, sold or exchanged to one person in one transaction, then for purposes of subsection (a) the term "property" includes—

(A) such property so sold or exchanged, and

(B) installment obligations acquired in respect of such sale or exchange.

(c) LIMITATIONS.—

(1) COLLAPSIBLE CORPORATIONS AND LIQUIDATIONS TO WHICH SECTION 333 APPLIES.—This section shall not apply to any sale or exchange—

(A) made by a collapsible corporation (as defined in section 341 (b)), or

(B) following the adoption of a plan of complete liquidation, if section 333 applies with respect to such liquidation.

(2) LIQUIDATIONS TO WHICH SECTION 332 APPLIES.—In the case of a sale or exchange following the adoption of a plan of complete liquidation, if section 332 applies with respect to such liquidation, then—

(A) if the basis of the property of the liquidating corporation in the hands of the distributee is determined under section 334 (b) (1), this section shall not apply; or

(B) if the basis of the property of the liquidating corporation in the hands of the distributee is determined under section 334 (b) (2), this section shall apply only to that portion (if any) of the gain which is not greater than the excess of (i) that portion of the adjusted basis (adjusted for any adjustment required under the second sentence of section 334 (b) (2)) of the stock of the liquidating corporation which is allocable, under regulations prescribed by the Secretary or his delegate, to the property sold or exchanged, over (ii) the adjusted basis, in the hands of the liquidating corporation, of the property sold or exchanged.

SEC. 338. EFFECT ON EARNINGS AND PROFITS.

For special rule relating to the effect on earnings and profits of certain distributions in partial liquidation, see section 312 (e).

Subpart C—Collapsible Corporations; Foreign Personal Holding Companies

Sec. 341. Collapsible corporations.
Sec. 342. Liquidation of certain foreign personal holding companies.

SEC. 341. COLLAPSIBLE CORPORATIONS.

(a) TREATMENT OF GAIN TO SHAREHOLDERS.—Gain from—

(1) the sale or exchange of stock of a collapsible corporation,

(2) a distribution in partial or complete liquidation of a collapsible corporation, which distribution is treated under this part as in part or full payment in exchange for stock, and

(3) a distribution made by a collapsible corporation which, under section 301 (c) (3) (A), is treated, to the extent it exceeds the basis

of the stock, in the same manner as a gain from the sale or exchange of property,

to the extent that it would be considered (but for the provisions of this section) as gain from the sale or exchange of a capital asset held for more than 6 months shall, except as provided in subsection (d), be considered as gain from the sale or exchange of property which is not a capital asset.

(b) DEFINITIONS.—

(1) COLLAPSIBLE CORPORATION.—For purposes of this section, the term "collapsible corporation" means a corporation formed or availed of principally for the manufacture, construction, or production of property, for the purchase of property which (in the hands of the corporation) is property described in paragraph (3), or for the holding of stock in a corporation so formed or availed of, with a view to—

(A) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, before the realization by the corporation manufacturing, constructing, producing, or purchasing the property of a substantial part of the taxable income to be derived from such property, and

(B) the realization by such shareholders of gain attributable to such property.

(2) PRODUCTION OR PURCHASE OF PROPERTY.—For purposes of paragraph (1), a corporation shall be deemed to have manufactured, constructed, produced, or purchased property, if—

(A) it engaged in the manufacture, construction, or production of such property to any extent,

(B) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in the hands of a person who manufactured, constructed, produced, or purchased the property, or

(C) it holds property having a basis determined, in whole or in part, by reference to the cost of property manufactured, constructed, produced, or purchased by the corporation.

(3) SECTION 341 ASSETS.—For purposes of this section, the term "section 341 assets" means property held for a period of less than 3 years which is—

(A) stock in trade of the corporation, or other property of a kind which would properly be included in the inventory of the corporation if on hand at the close of the taxable year;

(B) property held by the corporation primarily for sale to customers in the ordinary course of its trade or business;

(C) unrealized receivables or fees, except receivables from sales of property other than property described in this paragraph; or

(D) property described in section 1231 (b) (without regard to any holding period therein provided), except such property which is or has been used in connection with the manufacture, construction, production, or sale of property described in subparagraph (A) or (B).

In determining whether the 3-year holding period specified in this paragraph has been satisfied, section 1223 shall apply, but no such period shall be deemed to begin before the completion of the manufacture, construction, production, or purchase.

(4) UNREALIZED RECEIVABLES.—For purposes of paragraph (3) (C), the term "unrealized receivables or fees" means, to the extent not previously includible in income under the method of accounting used by the corporation, any rights (contractual or otherwise) to payment for—

(A) goods delivered, or to be delivered, to the extent the proceeds therefrom would be treated as amounts received from the sale or exchange of property other than a capital asset, or

(B) services rendered or to be rendered.

(c) PRESUMPTION IN CERTAIN CASES.—

(1) IN GENERAL.—For purposes of this section, a corporation shall, unless shown to the contrary, be deemed to be a collapsible corporation if (at the time of the sale or exchange, or the distribution, described in subsection (a)) the fair market value of its section 341 assets (as defined in subsection (b) (3)) is—

(A) 50 percent or more of the fair market value of its total assets, and

(B) 120 percent or more of the adjusted basis of such section 341 assets.

Absence of the conditions described in subparagraphs (A) and (B) shall not give rise to a presumption that the corporation was not a collapsible corporation.

(2) DETERMINATION OF TOTAL ASSETS.—In determining the fair market value of the total assets of a corporation for purposes of paragraph (1) (A), there shall not be taken into account—

(A) cash,

(B) obligations which are capital assets in the hands of the corporation (and governmental obligations described in section 1221 (5)), and

(C) stock in any other corporation.

(d) LIMITATIONS ON APPLICATION OF SECTION.—In the case of gain realized by a shareholder with respect to his stock in a collapsible corporation, this section shall not apply—

(1) unless, at any time after the commencement of the manufacture, construction, or production of the property, or at the time of the purchase of the property described in subsection (b) (3) or at any time thereafter, such shareholder (A) owned (or was considered as owning) more than 5 percent in value of the outstanding stock of the corporation, or (B) owned stock which was considered as owned at such time by another shareholder who then owned (or was considered as owning) more than 5 percent in value of the outstanding stock of the corporation;

(2) to the gain recognized during a taxable year, unless more than 70 percent of such gain is attributable to the property so manufactured, constructed, produced, or purchased; and

(3) to gain realized after the expiration of 3 years following the completion of such manufacture, construction, production, or purchase.

For purposes of paragraph (1), the ownership of stock shall be determined in accordance with the rules prescribed in paragraphs (1), (2), (3), (5), and (6) of section 544 (a) (relating to personal holding companies); except that, in addition to the persons prescribed by paragraph (2) of that section, the family of an individual shall include the spouses

of that individual's brothers and sisters (whether by the whole or half blood) and the spouses of that individual's lineal descendants.

SEC. 342. LIQUIDATION OF CERTAIN FOREIGN PERSONAL HOLDING COMPANIES.

(a) IN GENERAL.—If any distribution—

(1) is, within the meaning of the Internal Revenue Code of 1939, a distribution in partial liquidation or in complete liquidation (including any one of a series of distributions made by the corporation in complete cancellation or redemption of all its stock) and

(2) is made by a foreign corporation which, with respect to any taxable year beginning on or before, and ending after, August 26, 1937, was a foreign personal holding company, and with respect to which a United States group (as defined in section 552 (a) (2)) existed after August 26, 1937, and before January 1, 1938,

then the distribution shall be treated as a distribution in full or part payment in exchange for the stock, and the amount of the gain recognized (determined under section 1002 without regard to this part) resulting from such distribution shall be considered as a gain from the sale or exchange of a capital asset held for not more than 6 months.

(b) SPECIAL RULE FOR CERTAIN LIQUIDATIONS BEFORE 1956.—Subsection (a) shall not apply in the case of a series of distributions in complete liquidation described in subsection (a) if—

(1) the first distribution is made on or after June 22, 1954, and

(2) the final distribution is made before January 1, 1956;

and the amount of the gain recognized (determined under section 1002 without regard to this part) resulting from such distributions shall be considered as a gain from the sale or exchange of a capital asset, or of property which is not a capital asset, as the case may be.

Subpart D—Definition

Sec. 346. Partial liquidation defined.

SEC. 346. PARTIAL LIQUIDATION DEFINED.

(a) IN GENERAL.—For purposes of this subchapter, a distribution shall be treated as in partial liquidation of a corporation if—

(1) the distribution is one of a series of distributions in redemption of all of the stock of the corporation pursuant to a plan; or

(2) the distribution is not essentially equivalent to a dividend, is in redemption of a part of the stock of the corporation pursuant to a plan, and occurs within the taxable year in which the plan is adopted or within the succeeding taxable year, including (but not limited to) a distribution which meets the requirements of subsection (b).

For purposes of section 562 (b) (relating to the dividends paid deduction) and section 6043 (relating to information returns), a partial liquidation includes a redemption of stock to which section 302 applies.

(b) TERMINATION OF A BUSINESS.—A distribution shall be treated as a distribution described in subsection (a) (2) if the requirements of paragraphs (1) and (2) of this subsection are met.

(1) The distribution is attributable to the corporation's ceasing to conduct, or consists of the assets of, a trade or business which has

been actively conducted throughout the 5-year period immediately before the distribution, which trade or business was not acquired by the corporation within such period in a transaction in which gain or loss was recognized in whole or in part.

(2) Immediately after the distribution the liquidating corporation is actively engaged in the conduct of a trade or business, which trade or business was actively conducted throughout the 5-year period ending on the date of the distribution and was not acquired by the corporation within such period in a transaction in which gain or loss was recognized in whole or in part.

Whether or not a distribution meets the requirements of paragraphs (1) and (2) of this subsection shall be determined without regard to whether or not the distribution is pro rata with respect to all of the shareholders of the corporation.

(c) TREATMENT OF CERTAIN REDEMPTIONS.—The fact that, with respect to a shareholder, a distribution qualifies under section 302 (a) (relating to redemptions treated as distributions in part or full payment in exchange for stock) by reason of section 302 (b) shall not be taken into account in determining whether the distribution, with respect to such shareholder, is also a distribution in partial liquidation of the corporation.

PART III—CORPORATE ORGANIZATIONS AND REORGANIZATIONS

Subpart A. Corporate organizations.
Subpart B. Effects on shareholders and security holders.
Subpart C. Effects on corporations.
Subpart D. Special rule; definitions.

Subpart A—Corporate Organizations

Sec. 351. Transfer to corporation controlled by transferor.

SEC. 351. TRANSFER TO CORPORATION CONTROLLED BY TRANSFEROR.

(a) GENERAL RULE.—No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368 (c)) of the corporation. For purposes of this section, stock or securities issued for services shall not be considered as issued in return for property.

(b) RECEIPT OF PROPERTY.—If subsection (a) would apply to an exchange but for the fact that there is received, in addition to the stock or securities permitted to be received under subsection (a), other property or money, then—

(1) gain (if any) to such recipient shall be recognized, but not in excess of—

(A) the amount of money received, plus

(B) the fair market value of such other property received; and

(2) no loss to such recipient shall be recognized.

(c) SPECIAL RULE.—In determining control, for purposes of this section, the fact that any corporate transferor distributes part or all

of the stock which it receives in the exchange to its shareholders shall not be taken into account.

(d) CROSS REFERENCES.—

(1) For special rule where another party to the exchange assumes a liability, or acquires property subject to a liability, see section 357.

(2) For the basis of stock, securities, or property received in an exchange to which this section applies, see sections 358 and 362.

(3) For special rule in the case of an exchange described in this section but which results in a gift, see section 2501 and following.

(4) For special rule in the case of an exchange described in this section but which has the effect of the payment of compensation by the corporation or by a transferor, see section 61 (a) (1).

Subpart B—Effects on Shareholders and Security Holders

SEC. 354. Exchanges of stock and securities in certain reorganizations.
SEC. 355. Distribution of stock and securities of a controlled corporation.
SEC. 356. Receipt of additional consideration.
SEC. 357. Assumption of liability.
SEC. 358. Basis to distributees.

SEC. 354. EXCHANGES OF STOCK AND SECURITIES IN CERTAIN REORGANIZATIONS.

(a) GENERAL RULE.—

(1) IN GENERAL.—No gain or loss shall be recognized if stock or securities in a corporation a party to a reorganization are, in pursuance of the plan of reorganization, exchanged solely for stock or securities in such corporation or in another corporation a party to the reorganization.

(2) LIMITATION.—Paragraph (1) shall not apply if—

(A) the principal amount of any such securities received exceeds the principal amount of any such securities surrendered, or

(B) any such securities are received and no such securities are surrendered.

(3) CROSS REFERENCE.—

For treatment of the exchange if any property is received which is not permitted to be received under this subsection (including an excess principal amount of securities received over securities surrendered), see section 356.

(b) EXCEPTION.—

(1) IN GENERAL.—Subsection (a) shall not apply to an exchange in pursuance of a plan of reorganization within the meaning of section 368 (a) (1) (D), unless—

(A) the corporation to which the assets are transferred acquires substantially all of the assets of the transferor of such assets; and

(B) the stock, securities, and other properties received by such transferor, as well as the other properties of such transferor, are distributed in pursuance of the plan of reorganization.

(2) CROSS REFERENCE.—

For special rules for certain exchanges in pursuance of plans of reorganization within the meaning of section 368 (a) (1) (D), see section 355.

(c) CERTAIN RAILROAD REORGANIZATIONS.—Notwithstanding any other provision of this subchapter, subsection (a) (1) (and so much of

section 356 as relates to this section) shall apply with respect to a plan of reorganization (whether or not a reorganization within the meaning of section 368 (a)) for a railroad approved by the Interstate Commerce Commission under section 77 of the Bankruptcy Act, or under section 20b of the Interstate Commerce Act, as being in the public interest.

SEC. 355. DISTRIBUTION OF STOCK AND SECURITIES OF A CONTROLLED CORPORATION.

(a) EFFECT ON DISTRIBUTEES.—

(1) GENERAL RULE.—If—

(A) a corporation (referred to in this section as the "distributing corporation")—

(i) distributes to a shareholder, with respect to its stock, or

(ii) distributes to a security holder, in exchange for its securities,

solely stock or securities of a corporation (referred to in this section as "controlled corporation") which it controls immediately before the distribution,

(B) the transaction was not used principally as a device for the distribution of the earnings and profits of the distributing corporation or the controlled corporation or both (but the mere fact that subsequent to the distribution stock or securities in one or more of such corporations are sold or exchanged by all or some of the distributees (other than pursuant to an arrangement negotiated or agreed upon prior to such distribution) shall not be construed to mean that the transaction was used principally as such a device),

(C) the requirements of subsection (b) (relating to active businesses) are satisfied, and

(D) as part of the distribution, the distributing corporation distributes—

(i) all of the stock and securities in the controlled corporation held by it immediately before the distribution, or

(ii) an amount of stock in the controlled corporation constituting control within the meaning of section 368 (c), and it is established to the satisfaction of the Secretary or his delegate that the retention by the distributing corporation of stock (or stock and securities) in the controlled corporation was not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income tax,

then no gain or loss shall be recognized to (and no amount shall be includible in the income of) such shareholder or security holder on the receipt of such stock or securities.

(2) NON PRO RATA DISTRIBUTIONS, ETC.—Paragraph (1) shall be applied without regard to the following:

(A) whether or not the distribution is pro rata with respect to all of the shareholders of the distributing corporation,

(B) whether or not the shareholder surrenders stock in the distributing corporation, and

(C) whether or not the distribution is in pursuance of a plan of reorganization (within the meaning of section 368 (a) (1) (D)).

(3) LIMITATION.—Paragraph (1) shall not apply if—

(A) the principal amount of the securities in the controlled corporation which are received exceeds the principal amount of the securities which are surrendered in connection with such distribution, or

(B) securities in the controlled corporation are received and no securities are surrendered in connection with such distribution.

For purposes of this section (other than paragraph (1) (D) of this subsection) and so much of section 356 as relates to this section, stock of a controlled corporation acquired by the distributing corporation by reason of any transaction which occurs within 5 years of the distribution of such stock and in which gain or loss was recognized in whole or in part, shall not be treated as stock of such controlled corporation, but as other property.

(4) CROSS REFERENCE.—

For treatment of the distribution if any property is received which is not permitted to be received under this subsection (including an excess principal amount of securities received over securities surrendered), see section 356.

(b) REQUIREMENTS AS TO ACTIVE BUSINESS.—

(1) IN GENERAL.—Subsection (a) shall apply only if either—

(A) the distributing corporation, and the controlled corporation (or, if stock of more than one controlled corporation is distributed, each of such corporations), is engaged immediately after the distribution in the active conduct of a trade or business, or

(B) immediately before the distribution, the distributing corporation had no assets other than stock or securities in the controlled corporations and each of the controlled corporations is engaged immediately after the distribution in the active conduct of a trade or business.

(2) DEFINITION.—For purposes of paragraph (1), a corporation shall be treated as engaged in the active conduct of a trade or business if and only if—

(A) it is engaged in the active conduct of a trade or business, or substantially all of its assets consist of stock and securities of a corporation controlled by it (immediately after the distribution) which is so engaged,

(B) such trade or business has been actively conducted throughout the 5-year period ending on the date of the distribution,

(C) such trade or business was not acquired within the period described in subparagraph (B) in a transaction in which gain or loss was recognized in whole or in part, and

(D) control of a corporation which (at the time of acquisition of control) was conducting such trade or business—

(i) was not acquired directly (or through one or more corporations) by another corporation within the period described in subparagraph (B), or

(ii) was so acquired by another corporation within such period, but such control was so acquired only by reason of transactions in which gain or loss was not recognized in whole or in part, or only by reason of such transactions combined with acquisitions before the beginning of such period.

SEC. 356. RECEIPT OF ADDITIONAL CONSIDERATION.

(a) GAIN ON EXCHANGES.—

(1) RECOGNITION OF GAIN.—If—

(A) section 354 or 355 would apply to an exchange but for the fact that

(B) the property received in the exchange consists not only of property permitted by section 354 or 355 to be received without the recognition of gain but also of other property or money,

then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property.

(2) TREATMENT AS DIVIDEND.—If an exchange is described in paragraph (1) but has the effect of the distribution of a dividend, then there shall be treated as a dividend to each distributee such an amount of the gain recognized under paragraph (1) as is not in excess of his ratable share of the undistributed earnings and profits of the corporation accumulated after February 28, 1913. The remainder, if any, of the gain recognized under paragraph (1) shall be treated as gain from the exchange of property.

(b) ADDITIONAL CONSIDERATION RECEIVED IN CERTAIN DISTRIBUTIONS.—If—

(1) section 355 would apply to a distribution but for the fact that

(2) the property received in the distribution consists not only of property permitted by section 355 to be received without the recognition of gain, but also of other property or money,

then an amount equal to the sum of such money and the fair market value of such other property shall be treated as a distribution of property to which section 301 applies.

(c) Loss.—If—

(1) section 354 would apply to an exchange, or section 355 would apply to an exchange or distribution, but for the fact that

(2) the property received in the exchange or distribution consists not only of property permitted by section 354 or 355 to be received without the recognition of gain or loss, but also of other property or money,

then no loss from the exchange or distribution shall be recognized.

(d) SECURITIES AS OTHER PROPERTY.—For purposes of this section—

(1) IN GENERAL.—Except as provided in paragraph (2), the term "other property" includes securities.

(2) EXCEPTIONS.—

(A) SECURITIES WITH RESPECT TO WHICH NONRECOGNITION OF GAIN WOULD BE PERMITTED.—The term "other property" does not include securities to the extent that, under section 354 or 355, such securities would be permitted to be received without the recognition of gain.

(B) GREATER PRINCIPAL AMOUNT IN SECTION 354 EXCHANGE.—If—

(i) in an exchange described in section 354 (other than subsection (c) thereof), securities of a corporation a party to the

reorganization are surrendered and securities of any corporation a party to the reorganization are received, and

(ii) the principal amount of such securities received exceeds the principal amount of such securities surrendered,

then, with respect to such securities received, the term "other property" means only the fair market value of such excess. For purposes of this subparagraph and subparagraph (C), if no securities are surrendered, the excess shall be the entire principal amount of the securities received.

(C) GREATER PRINCIPAL AMOUNT IN SECTION 355 TRANSACTION.—If, in an exchange or distribution described in section 355, the principal amount of the securities in the controlled corporation which are received exceeds the principal amount of the securities in the distributing corporation which are surrendered, then, with respect to such securities received, the term "other property" means only the fair market value of such excess.

(e) EXCHANGES FOR SECTION 306 STOCK.—Notwithstanding any other provision of this section, to the extent that any of the other property (or money) is received in exchange for section 306 stock, an amount equal to the fair market value of such other property (or the amount of such money) shall be treated as a distribution of property to which section 301 applies.

(f) TRANSACTIONS INVOLVING GIFT OR COMPENSATION.—

For special rules for a transaction described in section 354, 355, or this section, but which—

(1) results in a gift, see section 2501 and following, or

(2) has the effect of the payment of compensation, see section 61 (a) (1).

SEC. 357. ASSUMPTION OF LIABILITY.

(a) GENERAL RULE.—Except as provided in subsections (b) and (c), if—

(1) the taxpayer receives property which would be permitted to be received under section 351, 361, or 371 without the recognition of gain if it were the sole consideration, and

(2) as part of the consideration, another party to the exchange assumes a liability of the taxpayer, or acquires from the taxpayer property subject to a liability,

then such assumption or acquisition shall not be treated as money or other property, and shall not prevent the exchange from being within the provisions of section 351, 361, or 371, as the case may be.

(b) TAX AVOIDANCE PURPOSE.—

(1) IN GENERAL.—If, taking into consideration the nature of the liability and the circumstances in the light of which the arrangement for the assumption or acquisition was made, it appears that the principal purpose of the taxpayer with respect to the assumption or acquisition described in subsection (a)—

(A) was a purpose to avoid Federal income tax on the exchange, or

(B) if not such purpose, was not a bona fide business purpose,

then such assumption or acquisition (in the total amount of the liability assumed or acquired pursuant to such exchange) shall, for purposes of section 351, 361, or 371 (as the case may be), be considered as money received by the taxpayer on the exchange.

(2) BURDEN OF PROOF.—In any suit or proceeding where the burden is on the taxpayer to prove such assumption or acquisition is not to be treated as money received by the taxpayer, such burden shall not be considered as sustained unless the taxpayer sustains such burden by the clear preponderance of the evidence.

(c) LIABILITIES IN EXCESS OF BASIS.—

(1) IN GENERAL.—In the case of an exchange—

(A) to which section 351 applies, or

(B) to which section 361 applies by reason of a plan of reorganization within the meaning of section 368 (a) (1) (D),

if the sum of the amount of the liabilities assumed, plus the amount of the liabilities to which the property is subject, exceeds the total of the adjusted basis of the property transferred pursuant to such exchange, then such excess shall be considered as a gain from the sale or exchange of a capital asset or of property which is not a capital asset, as the case may be.

(2) EXCEPTIONS.—Paragraph (1) shall not apply to any exchange to which—

(A) subsection (b) (1) of this section applies, or

(B) section 371 applies.

SEC. 358. BASIS TO DISTRIBUTEES.

(a) GENERAL RULE.—In the case of an exchange to which section 351, 354, 355, 356, 361, or 371 (b) applies—

(1) NONRECOGNITION PROPERTY.—The basis of the property permitted to be received under such section without the recognition of gain or loss shall be the same as that of the property exchanged—

(A) decreased by—

(i) the fair market value of any other property (except money) received by the taxpayer, and

(ii) the amount of any money received by the taxpayer, and

(B) increased by—

(i) the amount which was treated as a dividend, and

(ii) the amount of gain to the taxpayer which was recognized on such exchange (not including any portion of such gain which was treated as a dividend).

(2) OTHER PROPERTY.—The basis of any other property (except money) received by the taxpayer shall be its fair market value.

(b) ALLOCATION OF BASIS.—

(1) IN GENERAL.—Under regulations prescribed by the Secretary or his delegate, the basis determined under subsection (a) (1) shall be allocated among the properties permitted to be received without the recognition of gain or loss.

(2) SPECIAL RULE FOR SECTION 355.—In the case of an exchange to which section 355 (or so much of section 356 as relates to section 355) applies, then in making the allocation under paragraph (1) of this subsection, there shall be taken into account not only the property so permitted to be received without the recognition of gain or loss, but also the stock or securities (if any) of the distributing corporation which are retained, and the allocation of basis shall be made among all such properties.

(c) SECTION 355 TRANSACTIONS WHICH ARE NOT EXCHANGES.—For purposes of this section, a distribution to which section 355 (or so

much of section 356 as relates to section 355) applies shall be treated as an exchange, and for such purposes the stock and securities of the distributing corporation which are retained shall be treated as surrendered, and received back, in the exchange.

(d) ASSUMPTION OF LIABILITY.—Where, as part of the consideration to the taxpayer, another party to the exchange assumed a liability of the taxpayer or acquired from the taxpayer property subject to a liability, such assumption or acquisition (in the amount of the liability) shall, for purposes of this section, be treated as money received by the taxpayer on the exchange.

(e) EXCEPTION.—This section shall not apply to property acquired by a corporation by the issuance of its stock or securities as consideration in whole or in part for the transfer of the property to it.

Subpart C—Effects on Corporation

Sec. 361. Nonrecognition of gain or loss to corporations.
Sec. 362. Basis to corporations.
Sec. 363. Effect on earnings and profits.

SEC. 361. NONRECOGNITION OF GAIN OR LOSS TO CORPORATIONS.

(a) GENERAL RULE.—No gain or loss shall be recognized if a corporation a party to a reorganization exchanges property, in pursuance of the plan of reorganization, solely for stock or securities in another corporation a party to the reorganization.

(b) EXCHANGES NOT SOLELY IN KIND.—

(1) GAIN.—If subsection (a) would apply to an exchange but for the fact that the property received in exchange consists not only of stock or securities permitted by subsection (a) to be received without the recognition of gain, but also of other property or money, then—

(A) if the corporation receiving such other property or money distributes it in pursuance of the plan of reorganization, no gain to the corporation shall be recognized from the exchange, but

(B) if the corporation receiving such other property or money does not distribute it in pursuance of the plan of reorganization, the gain, if any, to the corporation shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property so received, which is not so distributed.

(2) Loss.—If subsection (a) would apply to an exchange but for the fact that the property received in exchange consists not only of property permitted by subsection (a) to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

SEC. 362. BASIS TO CORPORATIONS.

(a) PROPERTY ACQUIRED BY ISSUANCE OF STOCK OR AS PAID-IN SURPLUS.—If property was acquired on or after June 22, 1954, by a corporation—

(1) in connection with a transaction to which section 351 (relating to transfer of property to corporation controlled by transferor) applies, or

(2) as paid-in surplus or as a contribution to capital,

then the basis shall be the same as it would be in the hands of the transferor, increased in the amount of gain recognized to the transferor on such transfer.

(b) TRANSFERS TO CORPORATIONS.—If property was acquired by a corporation in connection with a reorganization to which this part applies, then the basis shall be the same as it would be in the hands of the transferor, increased in the amount of gain recognized to the transferor on such transfer. This subsection shall not apply if the property acquired consists of stock or securities in a corporation a party to the reorganization, unless acquired by the issuance of stock or securities of the transferee as the consideration in whole or in part for the transfer.

(c) SPECIAL RULE FOR CERTAIN CONTRIBUTIONS TO CAPITAL.—

(1) PROPERTY OTHER THAN MONEY.—Notwithstanding subsection (a) (2), if property other than money—

(A) is acquired by a corporation, on or after June 22, 1954, as a contribution to capital, and

(B) is not contributed by a shareholder as such,

then the basis of such property shall be zero.

(2) MONEY.—Notwithstanding subsection (a) (2), if money—

(A) is received by a corporation, on or after June 22, 1954, as a contribution to capital, and

(B) is not contributed by a shareholder as such,

then the basis of any property acquired with such money during the 12-month period beginning on the day the contribution is received shall be reduced by the amount of such contribution. The excess (if any) of the amount of such contribution over the amount of the reduction under the preceding sentence shall be applied to the reduction (as of the last day of the period specified in the preceding sentence) of the basis of any other property held by the taxpayer. The particular properties to which the reductions required by this paragraph shall be allocated shall be determined under regulations prescribed by the Secretary or his delegate.

SEC. 363. EFFECT ON EARNINGS AND PROFITS.

For rules relating to the effect on earnings and profits of transactions to which this part applies, see sections 312 and 381.

Subpart D—Special Rule; Definitions

Sec. 367. Foreign corporations.
Sec. 368. Definitions relating to corporate reorganizations.

SEC. 367. FOREIGN CORPORATIONS.

In determining the extent to which gain shall be recognized in the case of any of the exchanges described in section 332, 351, 354, 355, 356, or 361, a foreign corporation shall not be considered as a corporation unless, before such exchange, it has been established to the satisfaction of the Secretary or his delegate that such exchange is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes. For purposes of this section, any distribution described in section 355 (or so much of section 356 as relates to section 355) shall be treated as an exchange whether or not it is an exchange.

SEC. 368. DEFINITIONS RELATING TO CORPORATE REORGANIZATIONS.

(a) REORGANIZATION.—

(1) IN GENERAL.—For purposes of parts I and II and this part, the term "reorganization" means—

(A) a statutory merger or consolidation;

(B) the acquisition by one corporation, in exchange solely for all or a part of its voting stock, of stock of another corporation if, immediately after the acquisition, the acquiring corporation has control of such other corporation (whether or not such acquiring corporation had control immediately before the acquisition);

(C) the acquisition by one corporation, in exchange solely for all or a part of its voting stock (or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation), of substantially all of the properties of another corporation, but in determining whether the exchange is solely for stock the assumption by the acquiring corporation of a liability of the other, or the fact that property acquired is subject to a liability, shall be disregarded;

(D) a transfer by a corporation of all or a part of its assets to another corporation if immediately after the transfer the transferor, or one or more of its shareholders (including persons who were shareholders immediately before the transfer), or any combination thereof, is in control of the corporation to which the assets are transferred; but only if, in pursuance of the plan, stock or securities of the corporation to which the assets are transferred are distributed in a transaction which qualifies under section 354, 355, or 356;

(E) a recapitalization; or

(F) a mere change in identity, form, or place of organization, however effected.

(2) SPECIAL RULES RELATING TO PARAGRAPH (1).—

(A) REORGANIZATIONS DESCRIBED IN BOTH PARAGRAPH (1) (C) AND PARAGRAPH (1) (D).—If a transaction is described in both paragraph (1) (C) and paragraph (1) (D), then, for purposes of this subchapter, such transaction shall be treated as described only in paragraph (1) (D).

(B) ADDITIONAL CONSIDERATION IN CERTAIN PARAGRAPH (1) (C) CASES.—If—

(i) one corporation acquires substantially all of the properties of another corporation,

(ii) the acquisition would qualify under paragraph (1) (C) but for the fact that the acquiring corporation exchanges money or other property in addition to voting stock, and

(iii) the acquiring corporation acquires, solely for voting stock described in paragraph (1) (C), property of the other corporation having a fair market value which is at least 80 percent of the fair market value of all of the property of the other corporation,

then such acquisition shall (subject to subparagraph (A) of this paragraph) be treated as qualifying under paragraph (1) (C). Solely for the purpose of determining whether clause (iii) of the

preceding sentence applies, the amount of any liability assumed by the acquiring corporation, and the amount of any liability to which any property acquired by the acquiring corporation is subject, shall be treated as money paid for the property.

(C) TRANSFERS OF ASSETS TO SUBSIDIARIES IN CERTAIN PARAGRAPH (1) (A) AND (1) (C) CASES.—A transaction otherwise qualifying under paragraph (1) (A) or paragraph (1) (C) shall not be disqualified by reason of the fact that part or all of the assets which were acquired in the transaction are transferred to a corporation controlled by the corporation acquiring such assets.

(b) PARTY TO A REORGANIZATION.—For purposes of this part, the term "a party to a reorganization" includes—

(1) a corporation resulting from a reorganization, and

(2) both corporations, in the case of a reorganization resulting from the acquisition by one corporation of stock or properties of another.

In the case of a reorganization qualifying under paragraph (1) (C) of subsection (a), if the stock exchanged for the properties is stock of a corporation which is in control of the acquiring corporation, the term "a party to a reorganization" includes the corporation so controlling the acquiring corporation. In the case of a reorganization qualifying under paragraph (1) (A) or (1) (C) of subsection (a) by reason of paragraph (2) (C) of subsection (a), the term "a party to a reorganization" includes the corporation controlling the corporation to which the acquired assets are transferred.

(c) CONTROL.—For purposes of part I (other than section 304), part II, and this part, 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.

PART IV—INSOLVENCY REORGANIZATIONS

Sec. 371. Reorganization in certain receivership and bankruptcy proceedings.
Sec. 372. Basis in connection with certain receivership and bankruptcy proceedings.
Sec. 373. Loss not recognized in certain railroad reorganizations.

SEC. 371. REORGANIZATION IN CERTAIN RECEIVERSHIP AND BANKRUPTCY PROCEEDINGS.

(a) EXCHANGES BY CORPORATIONS.—

(1) IN GENERAL.—No gain or loss shall be recognized if property of a corporation (other than a railroad corporation, as defined in section 77 (m) of the Bankruptcy Act (49 Stat. 922; 11 U. S. C. 205)) is transferred in pursuance of an order of the court having jurisdiction of such corporation—

(A) in a receivership, foreclosure, or similar proceeding, or

(B) in a proceeding under chapter X of the Bankruptcy Act (52 Stat. 883–905; 11 U. S. C., chapter 10) or the corresponding provisions of prior law,

to another corporation organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, in exchange solely for stock or securities in such other corporation.

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(2) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of paragraph (1) if it were not for the fact that the property received in exchange consists not only of stock or securities permitted by paragraph (1) to be received without the recognition of gain, but also of other property or money, then—

(A) if the corporation receiving such other property or money distributes it in pursuance of the plan of reorganization, no gain to the corporation shall be recognized from the exchange, but

(B) if the corporation receiving such other property or money does not distribute it in pursuance of the plan of reorganization, the gain, if any, to the corporation shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property so received, which is not so distributed.

(b) EXCHANGES BY SECURITY HOLDERS.—

(1) IN GENERAL.—No gain or loss shall be recognized on an exchange consisting of the relinquishment or extinguishment of stock or securities in a corporation the plan of reorganization of which is approved by the court in a proceeding described in subsection (a), in consideration of the acquisition solely of stock or securities in a corporation organized or made use of to effectuate such plan of reorganization.

(2) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of paragraph (1) if it were not for the fact that the property received in exchange consists not only of property permitted by paragraph (1) to be received without the recognition of gain, but also of other property or money, then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property.

(c) LOSS FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (a) (1) or (b) (1) if it were not for the fact that the property received in exchange consists not only of property permitted by subsection (a) (1) or (b) (1) to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

(d) ASSUMPTION OF LIABILITIES.—In the case of a transaction involving an assumption of a liability or the acquisition of property subject to a liability, the rules provided in section 357 shall apply.

SEC. 372. BASIS IN CONNECTION WITH CERTAIN RECEIVERSHIP AND BANKRUPTCY PROCEEDINGS.

(a) CORPORATION.—If property was acquired by a corporation in a transfer to which—

(1) section 371 (a) applies,

(2) so much of section 371 (c) as relates to section 371 (a) (1) applies, or

(3) the corresponding provisions of prior law apply,

then notwithstanding the provisions of section 270 of the Bankruptcy Act (54 Stat. 709; 11 U. S. C. 670), the basis in the hands of the acquiring corporation shall be the same as it would be in the hands of the corporation whose property was so acquired, increased in the

amount of gain recognized to the corporation whose property was so acquired under the law applicable to the year in which the acquisition occurred, and such basis shall not be adjusted under section 1017 by reason of a discharge of indebtedness in pursuance of the plan of reorganization under which such transfer was made.

(b) STOCK OR SECURITY HOLDER.—

For basis of stock or securities acquired under section 371 (b), see section 358.

SEC. 373. LOSS NOT RECOGNIZED IN CERTAIN RAILROAD REORGANIZATIONS.

(a) NONRECOGNITION OF LOSS.—No loss shall be recognized if property of a railroad corporation, as defined in section 77 (m) of the Bankruptcy Act (49 Stat. 922; 11 U. S. C. 205), is transferred in pursuance of an order of the court having jurisdiction of such corporation—

(1) in a receivership proceeding, or

(2) in a proceeding under section 77 of the Bankruptcy Act,

to a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding.

(b) BASIS.—

(1) RAILROAD CORPORATIONS.—If the property of a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) was acquired after December 31, 1938, in pursuance of an order of the court having jurisdiction of such corporation—

(A) in a receivership proceeding, or

(B) in a proceeding under section 77 of the Bankruptcy Act,

and the acquiring corporation is a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, the basis shall be the same as it would be in the hands of the railroad corporation whose property was so acquired.

(2) PROPERTY ACQUIRED BY STREET, SUBURBAN, OR INTERURBAN ELECTRIC RAILWAY CORPORATION.—If the property of any street, suburban, or interurban electric railway corporation engaged as a common carrier in the transportation of persons or property in interstate commerce was acquired after December 31, 1934, in pursuance of an order of the court having jurisdiction of such corporation in a proceeding under section 77B of the Bankruptcy Act (48 Stat. 912), and the acquiring corporation is a street, suburban, or interurban electric railway engaged as a common carrier in the transportation of persons or property in interstate commerce, organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, then, notwithstanding the provisions of section 270 of the Bankruptcy Act (52 Stat. 904; 11 U. S. C. 670), the basis shall be the same as it would be in the hands of the corporation whose property was so acquired.

PART V—CARRYOVERS

Sec. 381. Carryovers in certain corporate acquisitions.
Sec. 382. Special limitations on net operating loss carryovers.

SEC. 381. CARRYOVERS IN CERTAIN CORPORATE ACQUISITIONS.

(a) GENERAL RULE.—In the case of the acquisition of assets of a corporation by another corporation—

(1) in a distribution to such other corporation to which section 332 (relating to liquidations of subsidiaries) applies, except in a case in which the basis of the assets distributed is determined under section 334 (b) (2); or

(2) in a transfer to which section 361 (relating to nonrecognition of gain or loss to corporations) applies, but only if the transfer is in connection with a reorganization described in subparagraph (A), (C), (D) (but only if the requirements of subparagraphs (A) and (B) of section 354 (b) (1) are met), or (F) of section 368 (a) (1),

the acquiring corporation shall succeed to and take into account, as of the close of the day of distribution or transfer, the items described in subsection (c) of the distributor or transferor corporation, subject to the conditions and limitations specified in subsections (b) and (c).

(b) OPERATING RULES.—Except in the case of an acquisition in connection with a reorganization described in subparagraph (F) of section 368 (a) (1)—

(1) The taxable year of the distributor or transferor corporation shall end on the date of distribution or transfer.

(2) For purposes of this section, the date of distribution or transfer shall be the day on which the distribution or transfer is completed; except that, under regulations prescribed by the Secretary or his delegate, the date when substantially all of the property has been distributed or transferred may be used if the distributor or transferor corporation ceases all operations, other than liquidating activities, after such date.

(3) The corporation acquiring property in a distribution or transfer described in subsection (a) shall not be entitled to carry back a net operating loss for a taxable year ending after the date of distribution or transfer to a taxable year of the distributor or transferor corporation.

(c) ITEMS OF THE DISTRIBUTOR OR TRANSFEROR CORPORATION.—The items referred to in subsection (a) are:

(1) NET OPERATING LOSS CARRYOVERS.—The net operating loss carryovers determined under section 172, subject to the following conditions and limitations:

(A) The taxable year of the acquiring corporation to which the net operating loss carryovers of the distributor or transferor corporation are first carried shall be the first taxable year ending after the date of distribution or transfer.

(B) In determining the net operating loss deduction, the portion of such deduction attributable to the net operating loss carryovers of the distributor or transferor corporation to the first taxable year of the acquiring corporation ending after the date of distribution or transfer shall be limited to an amount which bears the same ratio to the taxable income (determined without

regard to a net operating loss deduction) of the acquiring corporation in such taxable year as the number of days in the taxable year after the date of distribution or transfer bears to the total number of days in the taxable year.

(C) For the purpose of determining the amount of the net operating loss carryovers under section 172 (b) (2), a net operating loss for a taxable year (hereinafter in this subparagraph referred to as the "loss year") of a distributor or transferor corporation which ends on or before the end of a loss year of the acquiring corporation shall be considered to be a net operating loss for a year prior to such loss year of the acquiring corporation. For the same purpose, the taxable income for a "prior taxable year" (as the term is used in section 172 (b) (2)) shall be computed as provided in such section; except that, if the date of distribution or transfer is on a day other than the last day of a taxable year of the acquiring corporation—

(i) such taxable year shall (for the purpose of this subparagraph only) be considered to be 2 taxable years (hereinafter in this subparagraph referred to as the "pre-acquisition part year" and the "post-acquisition part year");

(ii) the pre-acquisition part year shall begin on the same day as such taxable year begins and shall end on the date of distribution or transfer;

(iii) the post-acquisition part year shall begin on the day following the date of distribution or transfer and shall end on the same day as the end of such taxable year;

(iv) the taxable income for such taxable year (computed with the modifications specified in section 172 (b) (2) (A) but without a net operating loss deduction) shall be divided between the pre-acquisition part year and the post-acquisition part year in proportion to the number of days in each;

(v) the net operating loss deduction for the pre-acquisition part year shall be determined as provided in section 172 (b) (2) (B), but without regard to a net operating loss year of the distributor or transferor corporation; and

(vi) the net operating loss deduction for the post-acquisition part year shall be determined as provided in section 172 (b) (2) (B).

(2) EARNINGS AND PROFITS.—In the case of a distribution or transfer described in subsection (a)—

(A) the earnings and profits or deficit in earnings and profits, as the case may be, of the distributor or transferor corporation shall, subject to subparagraph (B), be deemed to have been received or incurred by the acquiring corporation as of the close of the date of the distribution or transfer; and

(B) a deficit in earnings and profits of the distributor, transferor, or acquiring corporation shall be used only to offset earnings and profits accumulated after the date of transfer. For this purpose, the earnings and profits for the taxable year of the acquiring corporation in which the distribution or transfer occurs shall be deemed to have been accumulated after such distribution or transfer in an amount which bears the same ratio

to the undistributed earnings and profits of the acquiring corporation for such taxable year (computed without regard to any earnings and profits received from the distributor or transferor corporation, as described in subparagraph (A) of this paragraph) as the number of days in the taxable year after the date of distribution or transfer bears to the total number of days in the taxable year.

(3) CAPITAL LOSS CARRYOVER.—The capital loss carryover determined under section 1212, subject to the following conditions and limitations:

(A) The taxable year of the acquiring corporation to which the capital loss carryover of the distributor or transferor corporation is first carried shall be the first taxable year ending after the date of distribution or transfer.

(B) The capital loss carryover shall be a short-term capital loss in the taxable year determined under subparagraph (A) but shall be limited to an amount which bears the same ratio to the net capital gain (determined without regard to a short-term capital loss attributable to capital loss carryover), if any, of the acquiring corporation in such taxable year as the number of days in the taxable year after the date of distribution or transfer bears to the total number of days in the taxable year.

(C) For purposes of determining the amount of such capital loss carryover to taxable years following the taxable year determined under subparagraph (A), the net capital gain in the taxable year determined under subparagraph (A) shall be considered to be an amount equal to the amount determined under subparagraph (B).

(4) METHOD OF ACCOUNTING.—The acquiring corporation shall use the method of accounting used by the distributor or transferor corporation on the date of distribution or transfer unless different methods were used by several distributor or transferor corporations or by a distributor or transferor corporation and the acquiring corporation. If different methods were used, the acquiring corporation shall use the method or combination of methods of computing taxable income adopted pursuant to regulations prescribed by the Secretary or his delegate.

(5) INVENTORIES.—In any case in which inventories are received by the acquiring corporation, such inventories shall be taken by such corporation (in determining its income) on the same basis on which such inventories were taken by the distributor or transferor corporation, unless different methods were used by several distributor or transferor corporations or by a distributor or transferor corporation and the acquiring corporation. If different methods were used, the acquiring corporation shall use the method or combination of methods of taking inventory adopted pursuant to regulations prescribed by the Secretary or his delegate.

(6) METHOD OF COMPUTING DEPRECIATION ALLOWANCE.—The acquiring corporation shall be treated as the distributor or transferor corporation for purposes of computing the depreciation allowance under paragraphs (2), (3), and (4) of section 167 (b) on property acquired in a distribution or transfer with respect to that part or

all of the basis in the hands of the acquiring corporation as does not exceed the basis in the hands of the distributor or transferor corporation.

(7) PREPAID INCOME.—If the acquiring corporation assumes the liability described in section 452 (e) (2) with respect to prepaid income of a distributor or transferor corporation which had elected, under section 452 (d), to report such income as provided in section 452, the acquiring corporation shall be treated, for this purpose, as if it were the distributor or transferor corporation, unless the acquiring corporation, after the date of distribution or transfer, uses the cash receipts and disbursements method of accounting. In the latter case, the acquiring corporation shall include in gross income for the first taxable year ending after the date of distribution or transfer, so much of such prepaid income as was not includible in gross income of the distributor or transferor corporation under section 452 for preceding taxable years.

(8) INSTALLMENT METHOD.—If the acquiring corporation acquires installment obligations (the income from which the distributor or transferor corporation has elected, under section 453, to report on the installment basis) the acquiring corporation shall, for purposes of section 453, be treated as if it were the distributor or transferor corporation.

(9) AMORTIZATION OF BOND DISCOUNT OR PREMIUM.—If the acquiring corporation assumes liability for bonds of the distributor or transferor corporation issued at a discount or premium, the acquiring corporation shall be treated as the distributor or transferor corporation after the date of distribution or transfer for purposes of determining the amount of amortization allowable or includible with respect to such discount or premium.

(10) TREATMENT OF CERTAIN EXPENSES DEFERRED BY THE ELECTION OF DISTRIBUTOR OR TRANSFEROR CORPORATION.—The acquiring corporation shall be entitled to deduct, as if it were the distributor or transferor corporation, expenses deferred under sections 615 and 616 (relating to exploration and development expenditures, respectively) if the distributor or transferor corporation has so elected. For the purpose of applying the limitation provided in section 615, if, for any taxable year, the distributor or transferor corporation was allowed the deduction in section 615 (a) or made the election in section 615 (b), the acquiring corporation shall be deemed to have been allowed such deduction or to have made such election, as the case may be.

(11) CONTRIBUTIONS TO PENSION PLANS, EMPLOYEES' ANNUITY PLANS, AND STOCK BONUS AND PROFIT-SHARING PLANS.—The acquiring corporation shall be considered to be the distributor or transferor corporation after the date of distribution or transfer for the purpose of determining the amounts deductible under section 404 with respect to pension plans, employees' annuity plans, and stock bonus and profit-sharing plans.

(12) RECOVERY OF BAD DEBTS, PRIOR TAXES, OR DELINQUENCY AMOUNTS.—If the acquiring corporation is entitled to the recovery of bad debts, prior taxes, or delinquency amounts previously deducted or credited by the distributor or transferor corporation, the

acquiring corporation shall include in its income such amounts as would have been includible by the distributor or transferor corporation in accordance with section 111 (relating to the recovery of bad debts, prior taxes, and delinquency amounts).

(13) INVOLUNTARY CONVERSIONS UNDER SECTION 1033.—The acquiring corporation shall be treated as the distributor or transferor corporation after the date of distribution or transfer for purposes of applying section 1033.

(14) DIVIDEND CARRYOVER TO PERSONAL HOLDING COMPANY.—The dividend carryover (described in section 564) to taxable years ending after the date of distribution or transfer.

(15) INDEBTEDNESS OF CERTAIN PERSONAL HOLDING COMPANIES.—The acquiring corporation shall be considered to be the distributor or transferor corporation for the purpose of determining the applicability of section 545 (b) (7), relating to a deduction for payment of certain indebtedness incurred before January 1, 1934.

(16) CERTAIN OBLIGATIONS OF DISTRIBUTOR OR TRANSFEROR CORPORATION.—If the acquiring corporation—

(A) assumes an obligation of the distributor or transferor corporation which, after the date of the distribution or transfer, gives rise to a liability, and

(B) such liability, if paid or accrued by the distributor or transferor corporation, would have been deductible in computing its taxable income,

the acquiring corporation shall be entitled to deduct such items when paid or accrued, as the case may be, as if such corporation were the distributor or transferor corporation. A corporation which would have been an acquiring corporation under this section if the date of distribution or transfer had occurred on or after the effective date of the provisions of this subchapter applicable to a liquidation or reorganization, as the case may be, shall be entitled, even though the date of distribution or transfer occurred before such effective date, to apply this paragraph with respect to amounts paid or accrued in taxable years beginning after December 31, 1953, on account of such obligations of the distributor or transferor corporation. This paragraph shall not apply if such obligations are reflected in the amount of stock, securities, or property transferred by the acquiring corporation to the transferor corporation for the property of the transferor corporation.

(17) DEFICIENCY DIVIDEND OF PERSONAL HOLDING COMPANY.—If the acquiring corporation pays a deficiency dividend (as defined in section 547 (d)) with respect to the distributor or transferor corporation, such distributor or transferor corporation shall, with respect to such payments, be entitled to the deficiency dividend deduction provided in section 547.

(18) PERCENTAGE DEPLETION ON EXTRACTION OF ORES OR MINERALS FROM THE WASTE OR RESIDUE OF PRIOR MINING.—The acquiring corporation shall be considered to be the distributor or transferor corporation for the purpose of determining the applicability of section 613 (c) (3) (relating to extraction of ores or minerals from the ground).

(19) CHARITABLE CONTRIBUTIONS IN EXCESS OF PRIOR YEARS' LIMITATION.—Contributions made in the taxable year ending on the date of distribution or transfer and the prior taxable year by the distributor or transferor corporation in excess of the amount deductible under section 170 (b) (2) in such taxable years shall be deductible by the acquiring corporation in its first two taxable years which begin after the date of distribution or transfer, subject to the limitations imposed in section 170 (b) (2).

SEC. 382. SPECIAL LIMITATIONS ON NET OPERATING LOSS CARRYOVERS.

(a) PURCHASE OF A CORPORATION AND CHANGE IN ITS TRADE OR BUSINESS.—

(1) IN GENERAL.—If, at the end of a taxable year of a corporation—

(A) any one or more of those persons described in paragraph (2) own a percentage of the total fair market value of the outstanding stock of such corporation which is at least 50 percentage points more than such person or persons owned at—

(i) the beginning of such taxable year, or

(ii) the beginning of the prior taxable year,

(B) the increase in percentage points at the end of such taxable year is attributable to—

(i) a purchase by such person or persons of such stock, the stock of another corporation owning stock in such corporation, or an interest in a partnership or trust owning stock in such corporation, or

(ii) a decrease in the amount of such stock outstanding or the amount of stock outstanding of another corporation owning stock in such corporation, except a decrease resulting from a redemption to pay death taxes to which section 303 applies, and

(C) such corporation has not continued to carry on a trade or business substantially the same as that conducted before any change in the percentage ownership of the fair market value of such stock,

the net operating loss carryovers, if any, from prior taxable years of such corporation to such taxable year and subsequent taxable years shall not be included in the net operating loss deduction for such taxable year and subsequent taxable years.

(2) DESCRIPTION OF PERSON OR PERSONS.—The person or persons referred to in paragraph (1) shall be the 10 persons (or such lesser number as there are persons owning the outstanding stock at the end of such taxable year) who own the greatest percentage of the fair market value of such stock at the end of such taxable year; except that, if any other person owns the same percentage of such stock at such time as is owned by one of the 10 persons, such person shall also be included. If any of the persons are so related that such stock owned by one is attributed to the other under the rules specified in paragraph (3), such persons shall be considered as only one person solely for the purpose of selecting the 10 persons (more or less) who own the greatest percentage of the fair market value of such outstanding stock.

(3) ATTRIBUTION OF OWNERSHIP.—Section 318 (relating to constructive ownership of stock) shall apply in determining the ownership of stock, except that section 318 (a) (2) (C) shall be applied without regard to the 50 percent limitation contained therein.

(4) DEFINITION OF PURCHASE.—For purposes of this subsection, the term "purchase" means the acquisition of stock, the basis of which is determined solely by reference to its cost to the holder thereof, in a transaction from a person or persons other than the person or persons the ownership of whose stock would be attributed to the holder by application of paragraph (3).

(b) CHANGE OF OWNERSHIP AS THE RESULT OF A REORGANIZATION.—

(1) IN GENERAL.—If, in the case of a reorganization specified in paragraph (2) of section 381 (a), the transferor corporation or the acquiring corporation—

(A) has a net operating loss which is a net operating loss carryover to the first taxable year of the acquiring corporation ending after the date of transfer, and

(B) the stockholders (immediately before the reorganization) of such corporation (hereinafter in this subsection referred to as the "loss corporation"), as the result of owning stock of the loss corporation, own (immediately after the reorganization) less than 20 percent of the fair market value of the outstanding stock of the acquiring corporation,

the total net operating loss carryover from prior taxable years of the loss corporation to the first taxable year of the acquiring corporation ending after the date of transfer shall be reduced by the percentage determined under paragraph (2).

(2) REDUCTION OF NET OPERATING LOSS CARRYOVER.—The reduction applicable under paragraph (1) shall be the percentage determined by subtracting from 100 percent—

(A) the percent of the fair market value of the outstanding stock of the acquiring corporation owned (immediately after the reorganization) by the stockholders (immediately before the reorganization) of the loss corporation, as the result of owning stock of the loss corporation, multiplied by

(B) five.

(3) EXCEPTION TO LIMITATION IN THIS SUBSECTION.—The limitation in this subsection shall not apply if the transferor corporation and the acquiring corporation are owned substantially by the same persons in the same proportion.

(4) NET OPERATING LOSS CARRYOVERS TO SUBSEQUENT YEARS.—In computing the net operating loss carryovers to taxable years subsequent to a taxable year in which there was a limitation applicable to a net operating loss carryover by operation of this subsection, the income in such taxable year, as computed under section 172 (b) (2), shall be increased by the amount of the reduction of the total net operating loss carryover determined under paragraph (2).

(5) ATTRIBUTION OF OWNERSHIP.—If the transferor corporation or the acquiring corporation owns (immediately before the reorganization) any of the outstanding stock of the loss corporation, such transferor corporation or acquiring corporation shall, for purposes

of this subsection, be treated as owning (immediately after the reorganization) a percentage of the fair market value of the acquiring corporation's outstanding stock which bears the same ratio to the percentage of the fair market value of the outstanding stock of the loss corporation (immediately before the reorganization) owned by such transferor corporation or acquiring corporation as the fair market value of the total outstanding stock of the loss corporation (immediately before the reorganization) bears to the fair market value of the total outstanding stock of the acquiring corporation (immediately after the reorganization).

(6) STOCK OF CORPORATION CONTROLLING ACQUIRING CORPORATION.—If the stockholders of the loss corporation (immediately before the reorganization) own, as a result of the reorganization, stock in a corporation controlling the acquiring corporation, such stock of the controlling corporation shall, for purposes of this subsection, be treated as stock of the acquiring corporation in an amount valued at an equivalent fair market value.

(c) DEFINITION OF STOCK.—For purposes of this section, "stock" means all shares except nonvoting stock which is limited and preferred as to dividends.

PART VI—EFFECTIVE DATE OF SUBCHAPTER C

Sec. 391. Effective date of part I.
Sec. 392. Effective date of part II.
Sec. 393. Effective dates of parts III and IV.
Sec. 394. Effective date of part V.
Sec. 395. Special rules for application of this subchapter.

SEC. 391. EFFECTIVE DATE OF PART I.

Except as otherwise provided in this subchapter, part I shall take effect on June 22, 1954. Section 306 shall apply only with respect to dispositions (or redemptions) occurring on or after June 22, 1954.

SEC. 392. EFFECTIVE DATE OF PART II.

(a) GENERAL RULE.—Except as otherwise provided in this subchapter, part II shall apply with respect to a plan of liquidation only if the first distribution in pursuance of such plan occurs on or after June 22, 1954. Section 341 shall apply only with respect to sales, exchanges, and distributions on or after June 22, 1954.

(b) SPECIAL RULE FOR CERTAIN SALES DURING 1954.—

(1) NONRECOGNITION OF GAIN OR LOSS.—If—

(A) all of the assets of a corporation (less assets retained to meet claims) are distributed before January 1, 1955, in complete liquidation of such corporation; and

(B) the corporation elects (at such time and in such manner as the Secretary or his delegate may by regulations prescribe) to have this subsection apply,

then no gain or loss shall be recognized to such corporation from the sale or exchange by it of property during the calendar year 1954.

(2) CERTAIN PROVISIONS OF SECTION 337 MADE APPLICABLE.—For purposes of paragraph (1)—

(A) the term "property" has the meaning given to such term by section 337 (b); except that any determination required by

section 337 (b) to be made by reference to the date of the adoption of the plan of liquidation shall be made by reference to January 1, 1954; and

(B) the limitations of section 337 (c) shall apply.

For purposes of section 453 (d) (4) (B) (relating to disposition of installment obligations), nonrecognition of gain or loss under paragraph (1) of this subsection shall be treated as nonrecognition of gain or loss under section 337.

(3) PLANS OF LIQUIDATION ADOPTED AFTER DECEMBER 31, 1953, AND BEFORE JUNE 22, 1954.—If the plan of complete liquidation was adopted after December 31, 1953, and before June 22, 1954, then, at the election of the corporation (made at such time and in such manner as the Secretary or his delegate may by regulations prescribe)—

(A) the 12-month period beginning on the date of the adoption of such plan shall be (i) the period for distribution (in lieu of the requirement in paragraph (1) (A) of this subsection that the assets be distributed before January 1, 1955), and (ii) the period during which, by reason of paragraph (1) of this subsection, gain or loss to the corporation is not recognized (in lieu of nonrecognition of gain or loss during the calendar year 1954); and

(B) notwithstanding paragraph (2) (A) of this subsection, any determination required by section 337 (b) to be made by reference to the date of the adoption of the plan of liquidation shall be made by reference to such date (and not by reference to January 1, 1954).

SEC. 393. EFFECTIVE DATES OF PARTS III AND IV.

(a) GENERAL RULE.—Except as otherwise provided in this subchapter, parts III and IV shall take effect on June 22, 1954.

(b) SPECIAL RULES FOR PLANS OF REORGANIZATION.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), parts III and IV shall apply only in respect of plans of reorganization adopted on or after June 22, 1954. For purposes of this paragraph and paragraphs (2) and (3), a plan to make a transfer to a controlled corporation described in section 351, or a plan to make an exchange or distribution which is described in section 355 (or so much of section 356 as relates to section 355) shall be treated as a plan of reorganization.

(2) ELECTION TO HAVE 1939 CODE APPLY.—If—

(A) a plan of reorganization was submitted to the Secretary or his delegate before June 22, 1954, but such plan was not adopted before such date,

(B) the Secretary or his delegate issues (whether before, on, or after such date) a ruling with respect to such plan, and

(C) the corporations which are parties to the reorganization elect (at such time and in such manner as the Secretary or his delegate may by regulations prescribe) to have this paragraph apply,

then, if such reorganization is completed in accordance with the plan so submitted, the tax treatment of such reorganization (as to the corporations which are parties to the reorganization and as to

their shareholders and security holders) shall be determined under the Internal Revenue Code of 1939 (in accordance with the contents of such ruling) and not under this Code.

(3) ELECTION TO HAVE 1954 CODE APPLY.—If—

(A) a plan of reorganization—

(i) was adopted after March 1, 1954, and before June 22, 1954, or

(ii) was adopted before June 22, 1954, in pursuance of a court order and all distributions under the plan occur after March 1, 1954, and before July 1, 1954, and

(B) the corporations which are parties to the reorganization elect (at such time and in such manner as the Secretary or his delegate may by regulations prescribe) to have this paragraph apply,

then the tax treatment of such reorganization (as to the corporations which are parties to the reorganization and as to their shareholders and security holders) shall be determined under this Code and not under the Internal Revenue Code of 1939.

SEC. 394. EFFECTIVE DATE OF PART V.

(a) SECTION 381.—Except as otherwise provided in this subchapter, section 381 shall apply to liquidations and reorganizations, the tax treatment of which is determined under this Code.

(b) SECTION 382 (a).—For purposes of applying the special limitation on net operating loss carryovers in section 382 (a), the beginning of the taxable years specified in clauses (i) and (ii) of section 382 (a) (1) (A) shall be considered to be the beginning of such taxable years or June 22, 1954, whichever occurs later.

(c) SECTION 382 (b).—Section 382 (b) shall apply to reorganizations, the tax treatment of which is determined under this Code.

SEC. 395. SPECIAL RULES FOR APPLICATION OF THIS SUBCHAPTER.

(a) TAXABLE YEARS AFFECTED.—Any provision of this subchapter the applicability of which is stated in terms of a specific date shall apply with respect to taxable years ending after such date. Each provision shall, in the case of a taxable year subject to the Internal Revenue Code of 1939, be deemed to be included in the Internal Revenue Code of 1939, but shall apply only to taxable years ending after such specific date.

(b) REPEAL AND CONTINUANCE OF INTERNAL REVENUE CODE OF 1939.—To the extent that the provisions of this subchapter supersede the provisions of the Internal Revenue Code of 1939, such provisions of the Internal Revenue Code of 1939 are hereby repealed. The provisions of the Internal Revenue Code of 1939 shall continue to apply with respect to transactions for which rules are provided in this subchapter until such rules take effect.

Subchapter D—Deferred Compensation, Etc.

Part I. Pension, profit-sharing, stock bonus plans, etc.
Part II. Miscellaneous provisions.

PART I—PENSION, PROFIT-SHARING, STOCK BONUS PLANS, ETC.

Sec. 401. Qualified pension, profit-sharing, and stock bonus plans.
Sec. 402. Taxability of beneficiary of employees' trust.
Sec. 403. Taxation of employee annuities.
Sec. 404. Deduction for contributions of an employer to an employees' trust or annuity plan and compensation under a deferred-payment plan.

SEC. 401. QUALIFIED PENSION, PROFIT-SHARING, AND STOCK BONUS PLANS.

(a) REQUIREMENTS FOR QUALIFICATION.—A trust created or organized in the United States and forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of his employees or their beneficiaries shall constitute a qualified trust under this section—

(1) if contributions are made to the trust by such employer, or employees, or both, or by another employer who is entitled to deduct his contributions under section 404 (a) (3) (B) (relating to deduction for contributions to profit-sharing and stock bonus plans), for the purpose of distributing to such employees or their beneficiaries the corpus and income of the fund accumulated by the trust in accordance with such plan;

(2) if under the trust instrument it is impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees or their beneficiaries;

(3) if the trust, or two or more trusts, or the trust or trusts and annuity plan or plans are designated by the employer as constituting parts of a plan intended to qualify under this subsection which benefits either—

(A) 70 percent or more of all the employees, or 80 percent or more of all the employees who are eligible to benefit under the plan if 70 percent or more of all the employees are eligible to benefit under the plan, excluding in each case employees who have been employed not more than a minimum period prescribed by the plan, not exceeding 5 years, employees whose customary employment is for not more than 20 hours in any one week, and employees whose customary employment is for not more than 5 months in any calendar year, or

(B) such employees as qualify under a classification set up by the employer and found by the Secretary or his delegate not to

be discriminatory in favor of employees who are officers, shareholders, persons whose principal duties consist in supervising the work of other employees, or highly compensated employees; and

(4) if the contributions or benefits provided under the plan do not discriminate in favor of employees who are officers, shareholders, persons whose principal duties consist in supervising the work of other employees, or highly compensated employees.

(5) A classification shall not be considered discriminatory within the meaning of paragraph (3) (B) or (4) merely because it excludes employees the whole of whose remuneration constitutes "wages" under section 3121 (a) (1) (relating to the Federal Insurance Contributions Act) or merely because it is limited to salaried or clerical employees. Neither shall a plan be considered discriminatory within the meaning of such provisions merely because the contributions or benefits of or on behalf of the employees under the plan bear a uniform relationship to the total compensation, or the basic or regular rate of compensation, of such employees, or merely because the contributions or benefits based on that part of an employee's remuneration which is excluded from "wages" by section 3121 (a) (1) differ from the contributions or benefits based on employee's remuneration not so excluded, or differ because of any retirement benefits created under State or Federal law.

(6) A plan shall be considered as meeting the requirements of paragraph (3) during the whole of any taxable year of the plan if on one day in each quarter it satisfied such requirements.

(b) CERTAIN RETROACTIVE CHANGES IN PLAN.—A stock bonus, pension, profit-sharing, or annuity plan shall be considered as satisfying the requirements of paragraphs (3), (4), (5), and (6) of subsection (a) for the period beginning with the date on which it was put into effect and ending with the 15th day of the third month following the close of the taxable year of the employer in which the plan was put in effect, if all provisions of the plan which are necessary to satisfy such requirements are in effect by the end of such period and have been made effective for all purposes with respect to the whole of such period.

(c) CROSS REFERENCE.—

For exemption from tax of a trust qualified under this section, see section 501 (a).

SEC. 402. TAXABILITY OF BENEFICIARY OF EMPLOYEES' TRUST.

(a) TAXABILITY OF BENEFICIARY OF EXEMPT TRUST.—

(1) GENERAL RULE.—Except as provided in paragraph (2), the amount actually distributed or made available to any distributee by any employees' trust described in section 401 (a) which is exempt from tax under section 501 (a) shall be taxable to him, in the year in which so distributed or made available, under section 72 (relating to annuities) except that section 72 (e) (3) shall not apply. The amount actually distributed or made available to any distributee shall not include net unrealized appreciation in securities of the employer corporation attributable to the amount contributed by the employee. Such net unrealized appreciation and the resulting adjustments to basis of such securities shall be determined in accordance with regulations prescribed by the Secretary or his delegate.

(2) CAPITAL GAINS TREATMENT FOR CERTAIN DISTRIBUTIONS.—In the case of an employees' trust described in section 401 (a), which is exempt from tax under section 501 (a), if the total distributions payable with respect to any employee are paid to the distributee within 1 taxable year of the distributee on account of the employee's death or other separation from the service, or on account of the death of the employee after his separation from the service, the amount of such distribution, to the extent exceeding the amounts contributed by the employee (determined by applying section 72 (f)), which employee contributions shall be reduced by any amounts theretofore distributed to him which were not includible in gross income, shall be considered a gain from the sale or exchange of a capital asset held for more than 6 months. Where such total distributions include securities of the employer corporation, there shall be excluded from such excess the net unrealized appreciation attributable to that part of the total distributions which consists of the securities of the employer corporation so distributed. The amount of such net unrealized appreciation and the resulting adjustments to basis of the securities of the employer corporation so distributed shall be determined in accordance with regulations prescribed by the Secretary or his delegate.

(3) DEFINITIONS.—For purposes of this subsection—

(A) The term "securities" means only shares of stock and bonds or debentures issued by a corporation with interest coupons or in registered form.

(B) The term "securities of the employer corporation" includes securities of a parent or subsidiary corporation (as defined in section 421 (d) (2) and (3)) of the employer corporation.

(C) The term "total distributions payable" means the balance to the credit of an employee which becomes payable to a distributee on account of the employee's death or other separation from the service, or on account of his death after separation from the service.

(b) TAXABILITY OF BENEFICIARY OF NON-EXEMPT TRUST.—Contributions to an employees' trust made by an employer during a taxable year of the employer which ends within or with a taxable year of the trust for which the trust is not exempt from tax under section 501 (a) shall be included in the gross income of an employee for the taxable year in which the contribution is made to the trust in the case of an employee whose beneficial interest in such contribution is nonforfeitable at the time the contribution is made. The amount actually distributed or made available to any distributee by any such trust shall be taxable to him, in the year in which so distributed or made available, under section 72 (relating to annuities) except that section 72 (e) (3) shall not apply.

(c) TAXABILITY OF BENEFICIARY OF CERTAIN FOREIGN SITUS TRUSTS.—For purposes of subsections (a) and (b), a stock bonus, pension, or profit-sharing trust which would qualify for exemption from tax under section 501 (a) except for the fact that it is a trust created or organized outside the United States shall be treated as if it were a trust exempt from tax under section 501 (a).

(d) CERTAIN EMPLOYEES' ANNUITIES.—Notwithstanding subsection (b) or any other provision of this subtitle, a contribution to a trust by an employer shall not be included in the gross income of the employee in the year in which the contribution is made if—

(1) such contribution is to be applied by the trustee for the purchase of annuity contracts for the benefit of such employee;

(2) such contribution is made to the trustee pursuant to a written agreement entered into prior to October 21, 1942, between the employer and the trustee, or between the employer and the employee; and

(3) under the terms of the trust agreement the employee is not entitled during his lifetime, except with the consent of the trustee, to any payments under annuity contracts purchased by the trustee other than annuity payments.

The employee shall include in his gross income the amounts received under such contracts for the year received as provided in section 72 (relating to annuities) except that section 72 (e) (3) shall not apply. This subsection shall have no application with respect to amounts contributed to a trust after June 1, 1949, if the trust on such date was exempt under section 165 (a) of the Internal Revenue Code of 1939. For purposes of this subsection, amounts paid by an employer for the purchase of annuity contracts which are transferred to the trustee shall be deemed to be contributions made to a trust or trustee and contributions applied by the trustee for the purchase of annuity contracts; the term "annuity contracts purchased by the trustee" shall include annuity contracts so purchased by the employer and transferred to the trustee; and the term "employee" shall include only a person who was in the employ of the employer, and was covered by the agreement referred to in paragraph (2), prior to October 21, 1942.

(e) CERTAIN PLAN TERMINATIONS.—For purposes of subsection (a) (2), distributions made after December 31, 1953, and before January 1, 1955, as a result of the complete termination of a stock bonus, pension, or profit-sharing plan of an employer which is a corporation, if the termination of the plan is incident to the complete liquidation, occurring before the date of enactment of this title, of the corporation, whether or not such liquidation is incident to a reorganization as defined in section 368 (a), shall be considered to be distributions on account of separation from service.

SEC. 403. TAXATION OF EMPLOYEE ANNUITIES.

(a) TAXABILITY OF BENEFICIARY UNDER A QUALIFIED ANNUITY PLAN.—

(1) GENERAL RULE.—Except as provided in paragraph (2), if an annuity contract is purchased by an employer for an employee under a plan with respect to which the employer's contribution is deductible under section 404 (a) (2), or if 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), 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.

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(2) CAPITAL GAINS TREATMENT FOR CERTAIN DISTRIBUTIONS.—

(A) GENERAL RULE.—If—

(i) an annuity contract is purchased by an employer for an employee under a plan which meets the requirements of section 401 (a) (3), (4), (5), and (6);

(ii) such plan requires that refunds of contributions with respect to annuity contracts purchased under such plan be used to reduce subsequent premiums on the contracts under the plan; and

(iii) the total amounts payable by reason of an employee's death or other separation from the service, or by reason of the death of an employee after the employee's separation from the service, are paid to the payee within one taxable year of the payee,

then the amount of such payments, to the extent exceeding the amount contributed by the employee (determined by applying section 72 (f)), which employee contributions shall be reduced by any amounts theretofore paid to him which were not includible in gross income, shall be considered a gain from the sale or exchange of a capital asset held for more than 6 months.

(B) DEFINITION.—For purposes of subparagraph (A), the term "total amounts" means the balance to the credit of an employee which becomes payable to the payee by reason of the employee's death or other separation from the service, or by reason of his death after separation from the service.

(b) TAXABILITY OF BENEFICIARY UNDER A NONQUALIFIED ANNUITY.—If an annuity contract purchased by an employer for an employee is not subject to subsection (a) and the employee's rights under the contract are nonforfeitable, except for failure to pay future premiums, the amount contributed by the employer for such annuity contract on or after such rights become nonforfeitable shall be included in the gross income of the employee in the year in which the amount is contributed. 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.

SEC. 404. DEDUCTION FOR CONTRIBUTIONS OF AN EMPLOYER TO AN EMPLOYEES' TRUST OR ANNUITY PLAN AND COMPENSATION UNDER A DEFERRED-PAYMENT PLAN.

(a) GENERAL RULE.—If contributions are paid by an employer to or under a stock bonus, pension, profit-sharing, or annuity plan, or if compensation is paid or accrued on account of any employee under a plan deferring the receipt of such compensation, such contributions or compensation shall not be deductible under section 162 (relating to trade or business expenses) or section 212 (relating to expenses for the production of income) but if they satisfy the conditions of either of such sections, they shall be deductible under this section, subject, however, to the following limitations as to the amounts deductible in any year:

(1) PENSION TRUSTS.—In the taxable year when paid, if the contributions are paid into a pension trust, and if such taxable year

ends within or with a taxable year of the trust for which the trust is exempt under section 501 (a), in an amount determined as follows:

(A) an amount not in excess of 5 percent of the compensation otherwise paid or accrued during the taxable year to all the employees under the trust, but such amount may be reduced for future years if found by the Secretary or his delegate upon periodical examinations at not less than 5-year intervals to be more than the amount reasonably necessary to provide the remaining unfunded cost of past and current service credits of all employees under the plan, plus

(B) any excess over the amount allowable under subparagraph (A) necessary to provide with respect to all of the employees under the trust the remaining unfunded cost of their past and current service credits distributed as a level amount, or a level percentage of compensation, over the remaining future service of each such employee, as determined under regulations prescribed by the Secretary or his delegate, but if such remaining unfunded cost with respect to any 3 individuals is more than 50 percent of such remaining unfunded cost, the amount of such unfunded cost attributable to such individuals shall be distributed over a period of at least 5 taxable years, or

(C) in lieu of the amounts allowable under subparagraphs (A) and (B) above, an amount equal to the normal cost of the plan, as determined under regulations prescribed by the Secretary or his delegate, plus, if past service or other supplementary pension or annuity credits are provided by the plan, an amount not in excess of 10 percent of the cost which would be required to completely fund or purchase such pension or annuity credits as of the date when they are included in the plan, as determined under regulations prescribed by the Secretary or his delegate, except that in no case shall a deduction be allowed for any amount (other than the normal cost) paid in after such pension or annuity credits are completely funded or purchased.

(D) Any amount paid in a taxable year in excess of the amount deductible in such year under the foregoing limitations shall be deductible in the succeeding taxable years in order of time to the extent of the difference between the amount paid and deductible in each such succeeding year and the maximum amount deductible for such year in accordance with the foregoing limitations.

(2) EMPLOYEES' ANNUITIES.—In the taxable year when paid, in an amount determined in accordance with paragraph (1), if the contributions are paid toward the purchase of retirement annuities and such purchase is a part of a plan which meets the requirements of section 401 (a) (3), (4), (5), and (6), and if refunds of premiums, if any, are applied within the current taxable year or next succeeding taxable year towards the purchase of such retirement annuities.

(3) STOCK BONUS AND PROFIT-SHARING TRUSTS.—

(A) LIMITS ON DEDUCTIBLE CONTRIBUTIONS.—In the taxable year when paid, if the contributions are paid into a stock bonus or profit-sharing trust, and if such taxable year ends within or with a taxable year of the trust with respect to which the trust

is exempt under section 501 (a), in an amount not in excess of 15 percent of the compensation otherwise paid or accrued during the taxable year to all employees under the stock bonus or profit-sharing plan. If in any taxable year there is paid into the trust, or a similar trust then in effect, amounts less than the amounts deductible under the preceding sentence, the excess, or if no amount is paid, the amounts deductible, shall be carried forward and be deductible when paid in the succeeding taxable years in order of time, but the amount so deductible under this sentence in any such succeeding taxable year shall not exceed 15 percent of the compensation otherwise paid or accrued during such succeeding taxable year to the beneficiaries under the plan. In addition, any amount paid into the trust in any taxable year in excess of the amount allowable with respect to such year under the preceding provisions of this subparagraph shall be deductible in the succeeding taxable years in order of time, but the amount so deductible under this sentence in any one such succeeding taxable year together with the amount allowable under the first sentence of this subparagraph shall not exceed 15 percent of the compensation otherwise paid or accrued during such taxable year to the beneficiaries under the plan. The term "stock bonus or profit-sharing trust", as used in this subparagraph, shall not include any trust designed to provide benefits upon retirement and covering a period of years, if under the plan the amounts to be contributed by the employer can be determined actuarially as provided in paragraph (1). If the contributions are made to 2 or more stock bonus or profit-sharing trusts, such trusts shall be considered a single trust for purposes of applying the limitations in this subparagraph.

(B) PROFIT-SHARING PLAN OF AFFILIATED GROUP.—In the case of a profit-sharing plan, or a stock bonus plan in which contributions are determined with reference to profits, of a group of corporations which is an affiliated group within the meaning of section 1504, if any member of such affiliated group is prevented from making a contribution which it would otherwise have made under the plan, by reason of having no current or accumulated earnings or profits or because such earnings or profits are less than the contributions which it would otherwise have made, then so much of the contribution which such member was so prevented from making may be made, for the benefit of the employees of such member, by the other members of the group, to the extent of current or accumulated earnings or profits, except that such contribution by each such other member shall be limited, where the group does not file a consolidated return, to that proportion of its total current and accumulated earnings or profits remaining after adjustment for its contribution deductible without regard to this subparagraph which the total prevented contribution bears to the total current and accumulated earnings or profits of all the members of the group remaining after adjustment for all contributions deductible without regard to this subparagraph. Contributions made under the preceding sentence shall be deductible under subparagraph (A) of this paragraph by the employer making such contribution, and, for the purpose of

determining amounts which may be carried forward and deducted under the second sentence of subparagraph (A) of this paragraph in succeeding taxable years, shall be deemed to have been made by the employer on behalf of whose employees such contributions were made.

(4) TRUSTS CREATED OR ORGANIZED OUTSIDE THE UNITED STATES.—If a stock bonus, pension, or profit-sharing trust would qualify for exemption under section 501 (a) except for the fact that it is a trust created or organized outside the United States, contributions to such a trust by an employer which is a resident, or corporation, or other entity of the United States, shall be deductible under the preceding paragraphs.

(5) OTHER PLANS.—In the taxable year when paid, if the plan is not one included in paragraph (1), (2), or (3), if the employees' rights to or derived from such employer's contribution or such compensation are nonforfeitable at the time the contribution or compensation is paid.

(6) TAXPAYERS ON ACCRUAL BASIS.—For purposes of paragraphs (1), (2), and (3), a taxpayer on the accrual basis shall be deemed to have made a payment on the last day of the year of accrual if the payment is on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof).

(7) LIMIT OF DEDUCTION.—If amounts are deductible under paragraphs (1) and (3), or (2) and (3), or (1), (2), and (3), in connection with 2 or more trusts, or one or more trusts and an annuity plan, the total amount deductible in a taxable year under such trusts and plans shall not exceed 25 percent of the compensation otherwise paid or accrued during the taxable year to the persons who are the beneficiaries of the trusts or plans. In addition, any amount paid into such trust or under such annuity plans in any taxable year in excess of the amount allowable with respect to such year under the preceding provisions of this paragraph shall be deductible in the succeeding taxable years in order of time, but the amount so deductible under this sentence in any one such succeeding taxable year together with the amount allowable under the first sentence of this paragraph shall not exceed 30 percent of the compensation otherwise paid or accrued during such taxable years to the beneficiaries under the trusts or plans. This paragraph shall not have the effect of reducing the amount otherwise deductible under paragraphs (1), (2), and (3), if no employee is a beneficiary under more than one trust, or a trust and an annuity plan.

(b) METHOD OF CONTRIBUTIONS, ETC., HAVING THE EFFECT OF A PLAN.—If there is no plan but a method of employer contributions or compensation has the effect of a stock bonus, pension, profit-sharing, or annuity plan, or similar plan deferring the receipt of compensation, subsection (a) shall apply as if there were such a plan.

(c) CERTAIN NEGOTIATED PLANS.—If contributions are paid by an employer—

(1) under a plan under which such contributions are held in trust for the purpose of paying (either from principal or income or both) for the benefit of employees and their families and dependents

at least medical or hospital care, and pensions on retirement or death of employees; and

(2) such plan was established prior to January 1, 1954, as a result of an agreement between employee representatives and the Government of the United States during a period of Government operation, under seizure powers, of a major part of the productive facilities of the industry in which such employer is engaged,

such contributions shall not be deductible under this section nor be made nondeductible by this section, but the deductibility thereof shall be governed solely by section 162 (relating to trade or business expenses). This subsection shall have no application with respect to amounts contributed to a trust on or after any date on which such trust is qualified for exemption from tax under section 501 (a).

(d) CARRYOVER OF UNUSED DEDUCTIONS.—The amount of any unused deductions or contributions in excess of the deductible amounts for taxable years to which this part does not apply which under section 23 (p) of the Internal Revenue Code of 1939 would be allowable as deductions in later years had such section 23 (p) remained in effect, shall be allowable as deductions in taxable years to which this part applies as if such section 23 (p) were continued in effect for such years. However, the deduction under the preceding sentence shall not exceed an amount which, when added to the deduction allowable under subsection (a) for contributions made in taxable years to which this part applies, is not greater than the amount which would be deductible under subsection (a) if the contributions which give rise to the deduction under the preceding sentence were made in a taxable year to which this part applies.

PART II—MISCELLANEOUS PROVISIONS

Sec. 421. Employee stock options.

SEC. 421. EMPLOYEE STOCK OPTIONS.

(a) TREATMENT OF RESTRICTED STOCK OPTIONS.—If a share of stock is transferred to an individual pursuant to his exercise after 1949 of a restricted stock option, and no disposition of such share is made by him within 2 years from the date of the granting of the option nor within 6 months after the transfer of such share to him—

(1) no income shall result at the time of the transfer of such share to the individual upon his exercise of the option with respect to such share;

(2) no deduction under section 162 (relating to trade or business expenses) shall be allowable at any time to the employer corporation, a parent or subsidiary corporation of such corporation, or a corporation issuing or assuming a stock option in a transaction to which subsection (g) is applicable, with respect to the share so transferred; and

(3) no amount other than the price paid under the option shall be considered as received by any of such corporations for the share so transferred.

This subsection and subsection (b) shall not apply unless (A) the individual, at the time he exercises the restricted stock option, is an employee of either the corporation granting such option, a parent or

subsidiary corporation of such corporation, or a corporation or a parent or subsidiary of such corporation issuing or assuming a stock option in a transaction to which subsection (g) is applicable, or (B) the option is exercised by him within 3 months after the date he ceases to be an employee of such corporations.

(b) SPECIAL RULE WHERE OPTION PRICE IS BETWEEN 85 PERCENT AND 95 PERCENT OF VALUE OF STOCK.—If no disposition of a share of stock acquired by an individual on his exercise after 1949 of a restricted stock option is made by him within 2 years from the date of the granting of the option nor within 6 months after the transfer of such share to him, but, at the time the restricted stock option was granted, the option price (computed under subparagraph (d) (1) (A)) was less than 95 percent of the fair market value at such time of such share, then, in the event of any disposition of such share by him, or in the event of his death (whenever occurring) while owning such share, there shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income, for the taxable year in which falls the date of such disposition or for the taxable year closing with his death, whichever applies—

(1) in the case of a share of stock acquired under an option qualifying under clause (i) of subparagraph (d) (1) (A), an amount equal to the amount (if any) by which the option price is exceeded by the lesser of—

(A) the fair market value of the share at the time of such disposition or death, or

(B) the fair market value of the share at the time the option was granted; or

(2) in the case of stock acquired under an option qualifying under clause (ii) of subparagraph (d) (1) (A), an amount equal to the lesser of—

(A) the excess of the fair market value of the share at the time of such disposition or death over the price paid under the option, or

(B) the excess of the fair market value of the share at the time the option was granted over the option price (computed as if the option had been exercised at such time).

In the case of the disposition of such share by the individual, the basis of the share in his hands at the time of such disposition shall be increased by an amount equal to the amount so includible in his gross income.

(c) ACQUISITION OF NEW STOCK.—If stock is received by an individual in a distribution to which section 305, 354, 355, 356, or 1036, or so much of section 1031 as relates to section 1036, applies and such distribution was made with respect to stock transferred to him upon his exercise of the option, such stock shall be considered as having been transferred to him on his exercise of such option. A similar rule shall be applied in the case of a series of such distributions.

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

(1) RESTRICTED STOCK OPTION.—The term "restricted stock option" means an option granted after February 26, 1945, to an individual, for any reason connected with his employment by a corporation, if granted by the employer corporation or its parent

or subsidiary corporation, to purchase stock of any of such corporations, but only if—

(A) at the time such option is granted—

(i) the option price is at least 85 percent of the fair market value at such time of the stock subject to the option, or

(ii) in case the purchase price of the stock under the option is fixed or determinable under a formula in which the only variable is the value of the stock at any time during a period of 6 months which includes the time the option is exercised, the option price (computed as if the option had been exercised when granted) is at least 85 percent of the value of the stock at the time such option is granted; and

(B) such option by its terms is not transferable by such individual otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him; and

(C) such individual, at the time the option is granted, does not own stock possessing more than 10 percent of the total combined voting power of all classes of stock of the employer corporation or of its parent or subsidiary corporation. This subparagraph shall not apply if at the time such option is granted the option price is at least 110 percent of the fair market value of the stock subject to the option and such option either by its terms is not exercisable after the expiration of 5 years from the date such option is granted or is exercised within one year after the date of enactment of this title. For purposes of this subparagraph—

(i) such individual shall be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

(ii) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries; and

(D) such option by its terms is not exercisable after the expiration of 10 years from the date such option is granted, if such option has been granted on or after June 22, 1954.

(2) PARENT CORPORATION.—The term "parent corporation" means any corporation (other than the employer corporation) in an unbroken chain of corporations ending with the employer corporation if, at the time of the granting of the option, each of the corporations other than the employer corporation owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(3) SUBSIDIARY CORPORATION.—The term "subsidiary corporation" means any corporation (other than the employer corporation) in an unbroken chain of corporations beginning with the employer corporation if, at the time of the granting of the option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(4) DISPOSITION.—

(A) GENERAL RULE.—Except as provided in subparagraph (B), the term "disposition" includes a sale, exchange, gift, or a transfer of legal title, but does not include—

(i) a transfer from a decedent to an estate or a transfer by bequest or inheritance;

(ii) an exchange to which section 354, 355, 356, or 1036 (or so much of section 1031 as relates to section 1036) applies; or

(iii) a mere pledge or hypothecation.

(B) JOINT TENANCY.—The acquisition of a share of stock in the name of the employee and another jointly with the right of survivorship or a subsequent transfer of a share of stock into such joint ownership shall not be deemed a disposition, but a termination of such joint tenancy (except to the extent such employee acquires ownership of such stock) shall be treated as a disposition by him occurring at the time such joint tenancy is terminated.

(5) STOCKHOLDER APPROVAL.—If the grant of an option is subject to approval by stockholders, the date of grant of the option shall be determined as if the option had not been subject to such approval.

(6) EXERCISE BY ESTATE.—

(A) IN GENERAL.—If a restricted stock option is exercised subsequent to the death of the employee by the estate of the decedent, or by a person who acquired the right to exercise such option by bequest or inheritance or by reason of the death of the decedent, the provisions of this section shall apply to the same extent as if the option had been exercised by the decedent, except that—

(i) the holding period and employment requirements of subsection (a) shall not apply, and

(ii) any transfer by the estate of stock acquired shall be considered a disposition of such stock for purposes of subsection (b).

(B) DEDUCTION FOR ESTATE TAX.—If an amount is required to be included under subsection (b) in gross income of the estate of the deceased employee or of a person described in subparagraph (A), there shall be allowed to the estate or such person a deduction with respect to the estate tax attributable to the inclusion in the taxable estate of the deceased employee of the net value for estate tax purposes of the restricted stock option. For this purpose, the deduction shall be determined under section 691 (c) as if the option acquired from the deceased employee were an item of gross income in respect of the decedent under section 691 and as if the amount includible in gross income under subsection (b) of this section were an amount included in gross income under section 691 in respect of such item of gross income.

(e) MODIFICATION, EXTENSION, OR RENEWAL OF OPTION.—

(1) RULES OF APPLICATION.—For purposes of subsection (d), if the terms of any option to purchase stock are modified, extended, or renewed, the following rules shall be applied with respect to transfers of stock made on the exercise of the option after the making of such modification, extension, or renewal—

(A) such modification, extension, or renewal shall be considered as the granting of a new option,

(B) the fair market value of such stock at the time of the granting of such option shall be considered as—

(i) the fair market value of such stock on the date of the original granting of the option,

(ii) the fair market value of such stock on the date of the making of such modification, extension, or renewal, or

(iii) the fair market value of such stock at the time of the making of any intervening modification, extension, or renewal, whichever is the highest.

Subparagraph (B) shall not apply if the aggregate of the monthly average fair market values of the stock subject to the option for the 12 consecutive calendar months before the date of the modification, extension, or renewal, divided by 12, is an amount less than 80 percent of the fair market value of such stock on the date of the original granting of the option or the date of the making of any intervening modification, extension, or renewal, whichever is the highest.

(2) DEFINITION OF MODIFICATION.—The term "modification" means any change in the terms of the option which gives the employee additional benefits under the option, but such term shall not include a change in the terms of the option—

(A) attributable to the issuance or assumption of an option under subsection (g); or

(B) to permit the option to qualify under subsection (d) (1) (B).

If an option is exercisable after the expiration of 10 years from the date such option is granted, subparagraph (B) shall not apply unless the terms of the option are also changed to make it not exercisable after the expiration of such period.

(f) EFFECT OF DISQUALIFYING DISPOSITION.—If a share of stock, acquired by an individual pursuant to his exercise of a restricted stock option, is disposed of by him within 2 years from the date of the granting of the option or within 6 months after the transfer of such share to him, then any increase in the income of such individual or deduction from the income of his employer corporation for the taxable year in which such exercise occurred attributable to such disposition, shall be treated as an increase in income or a deduction from income in the taxable year of such individual or of such employer corporation in which such disposition occurred.

(g) CORPORATE REORGANIZATIONS, LIQUIDATIONS, ETC.—For purposes of this section, the term "issuing or assuming a stock option in a transaction to which subsection (g) is applicable" means a substitution of a new option for the old option, or an assumption of the old option, by an employer corporation, or a parent or subsidiary of such corporation, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization, or liquidation, if—

(1) the excess of the aggregate fair market value of the shares subject to the option immediately after the substitution or assumption over the aggregate option price of such shares is not more than

the excess of the aggregate fair market value of all shares subject to the option immediately before such substitution or assumption over the aggregate option price of such shares, and

(2) the new option or the assumption of the old option does not give the employee additional benefits which he did not have under the old option.

For purposes of this subsection, the parent-subsidiary relationship shall be determined at the time of any such transaction under this subsection.

Subchapter E—Accounting Periods and Methods of Accounting

Part I. Accounting periods.
Part II. Methods of accounting.
Part III. Adjustments.

PART I—ACCOUNTING PERIODS

Sec. 441. Period for computation of taxable income.
Sec. 442. Change of annual accounting period.
Sec. 443. Returns for a period of less than 12 months.

SEC. 441. PERIOD FOR COMPUTATION OF TAXABLE INCOME.

(a) COMPUTATION OF TAXABLE INCOME.—Taxable income shall be computed on the basis of the taxpayer's taxable year.

(b) TAXABLE YEAR.—For purposes of this subtitle, the term "taxable year" means—

(1) the taxpayer's annual accounting period, if it is a calendar year or a fiscal year;

(2) the calendar year, if subsection (g) applies; or

(3) the period for which the return is made, if a return is made for a period of less than 12 months.

(c) ANNUAL ACCOUNTING PERIOD.—For purposes of this subtitle, the term "annual accounting period" means the annual period on the basis of which the taxpayer regularly computes his income in keeping his books.

(d) CALENDAR YEAR.—For purposes of this subtitle, the term "calendar year" means a period of 12 months ending on December 31.

(e) FISCAL YEAR.—For purposes of this subtitle, the term "fiscal year" means a period of 12 months ending on the last day of any month other than December. In the case of any taxpayer who has made the election provided by subsection (f), the term means the annual period (varying from 52 to 53 weeks) so elected.

(f) ELECTION OF YEAR CONSISTING OF 52–53 WEEKS.—

(1) GENERAL RULE.—A taxpayer who, in keeping his books, regularly computes his income on the basis of an annual period which varies from 52 to 53 weeks and ends always on the same day of the week and ends always—

(A) on whatever date such same day of the week last occurs in a calendar month, or

(B) on whatever date such same day of the week falls which is nearest to the last day of a calendar month,

may (in accordance with the regulations prescribed under paragraph (3)) elect to compute his taxable income for purposes of this subtitle on the basis of such annual period. This paragraph shall apply to taxable years ending after the date of the enactment of this title.

(2) SPECIAL RULES FOR 52–53-WEEK YEAR.—

(A) EFFECTIVE DATES.—In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning or ending with reference to a specified date which is the first or last day of a month, a taxable year described in paragraph (1) shall (except for purposes of the computation under section 21) be treated—

(i) as beginning with the first day of the calendar month beginning nearest to the first day of such taxable year, or

(ii) as ending with the last day of the calendar month ending nearest to the last day of such taxable year,

as the case may be.

(B) CHANGE IN ACCOUNTING PERIOD.—In the case of a change from or to a taxable year described in paragraph (1)—

(i) if such change results in a short period (within the meaning of section 443) of 359 days or more, or of less than 7 days, section 443 (b) (relating to alternative tax computation) shall not apply;

(ii) if such change results in a short period of less than 7 days, such short period shall, for purposes of this subtitle, be added to and deemed a part of the following taxable year; and

(iii) if such change results in a short period to which subsection (b) of section 443 applies, the taxable income for such short period shall be placed on an annual basis for purposes of such subsection by multiplying such income by 365 and dividing the result by the number of days in the short period, and the tax shall be the same part of the tax computed on the annual basis as the number of days in the short period is of 365 days.

(3) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as he deems necessary for the application of this subsection.

(g) NO BOOKS KEPT; NO ACCOUNTING PERIOD.—Except as provided in section 443 (relating to returns for periods of less than 12 months), the taxpayer's taxable year shall be the calendar year if—

(1) the taxpayer keeps no books;

(2) the taxpayer does not have an annual accounting period; or

(3) the taxpayer has an annual accounting period, but such period does not qualify as a fiscal year.

SEC. 442. CHANGE OF ANNUAL ACCOUNTING PERIOD.

If a taxpayer changes his annual accounting period, the new accounting period shall become the taxpayer's taxable year only if the change is approved by the Secretary or his delegate. For purposes of this subtitle, if a taxpayer to whom section 441 (g) applies adopts an annual accounting period (as defined in section 441 (c)) other than a calendar year, the taxpayer shall be treated as having changed his annual accounting period.

SEC. 443. RETURNS FOR A PERIOD OF LESS THAN 12 MONTHS.

(a) RETURNS FOR SHORT PERIOD.—A return for a period of less than 12 months (referred to in this section as "short period") shall be made under any of the following circumstances:

(1) CHANGE OF ANNUAL ACCOUNTING PERIOD.—When the taxpayer, with the approval of the Secretary or his delegate, changes his annual accounting period. In such a case, the return shall be made for the short period beginning on the day after the close of the former taxable year and ending at the close of the day before the day designated as the first day of the new taxable year.

(2) TAXPAYER NOT IN EXISTENCE FOR ENTIRE TAXABLE YEAR.—When the taxpayer is in existence during only part of what would otherwise be his taxable year.

(3) TERMINATION OF TAXABLE YEAR FOR JEOPARDY.—When the Secretary or his delegate terminates the taxpayer's taxable year under section 6851 (relating to tax in jeopardy).

(b) COMPUTATION OF TAX ON CHANGE OF ANNUAL ACCOUNTING PERIOD.—

(1) GENERAL RULE.—If a return is made under paragraph (1) of subsection (a), the taxable income for the short period shall be placed on an annual basis by multiplying such income by 12 and dividing the result by the number of months in the short period. The tax shall be the same part of the tax computed on the annual basis as the number of months in the short period is of 12 months.

(2) EXCEPTION.—

(A) COMPUTATION BASED ON 12-MONTH PERIOD.—If the taxpayer applies for the benefits of this paragraph and establishes the amount of his taxable income for the 12-month period described in subparagraph (B), computed as if that period were a taxable year and under the law applicable to that year, then the tax for the short period, computed under paragraph (1), shall be reduced to the greater of the following:

(i) an amount which bears the same ratio to the tax computed on the taxable income for the 12-month period as the taxable income computed on the basis of the short period bears to the taxable income for the 12-month period; or

(ii) the tax computed on the taxable income for the short period without placing the taxable income on an annual basis.

The taxpayer (other than a taxpayer to whom subparagraph (B) (ii) applies) shall compute the tax and file his return without the application of this paragraph.

(B) 12-MONTH PERIOD.—The 12-month period referred to in subparagraph (A) shall be—

(i) the period of 12 months beginning on the first day of the short period, or

(ii) the period of 12 months ending at the close of the last day of the short period, if at the end of the 12 months referred to in clause (i) the taxpayer is not in existence or (if a corporation) has theretofore disposed of substantially all of its assets.

(C) APPLICATION FOR BENEFITS.—Application for the benefits of this paragraph shall be made in such manner and at such time as the regulations prescribed under subparagraph (D) may require; except that the time so prescribed shall not be later than the time (including extensions) for filing the return for the first taxable year which ends on or after the day which is 12

months after the first day of the short period. Such application, in case the return was filed without regard to this paragraph, shall be considered a claim for credit or refund with respect to the amount by which the tax is reduced under this paragraph.

(D) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as he deems necessary for the application of this paragraph.

(c) ADJUSTMENT IN DEDUCTION FOR PERSONAL EXEMPTION.—In the case of a taxpayer other than a corporation, if a return is made for a short period by reason of subsection (a) (1) and if the tax is not computed under subsection (b) (2), then the exemptions allowed as a deduction under section 151 (and any deduction in lieu thereof) shall be reduced to amounts which bear the same ratio to the full exemptions as the number of months in the short period bears to 12.

(d) CROSS REFERENCES.—

For inapplicability of subsection (b) in computing—

(1) Accumulated earnings tax, see section 536.

(2) Personal holding company tax, see section 546.

(3) Undistributed foreign personal holding company income, see section 557.

(4) The taxable income of a regulated investment company, see section 852 (b) (2) (E).

PART II—METHODS OF ACCOUNTING

Subpart A. Methods of accounting in general.
Subpart B. Taxable year for which items of gross income included.
Subpart C. Taxable year for which deductions taken.
Subpart D. Inventories.

Subpart A—Methods of Accounting in General

Sec. 446. General rule for methods of accounting.

SEC. 446. GENERAL RULE FOR METHODS OF ACCOUNTING.

(a) GENERAL RULE.—Taxable income shall be computed under the method of accounting on the basis of which the taxpayer regularly computes his income in keeping his books.

(b) EXCEPTIONS.—If no method of accounting has been regularly used by the taxpayer, or if the method used does not clearly reflect income, the computation of taxable income shall be made under such method as, in the opinion of the Secretary or his delegate, does clearly reflect income.

(c) PERMISSIBLE METHODS.—Subject to the provisions of subsections (a) and (b), a taxpayer may compute taxable income under any of the following methods of accounting—

(1) the cash receipts and disbursements method;

(2) an accrual method;

(3) any other method permitted by this chapter; or

(4) any combination of the foregoing methods permitted under regulations prescribed by the Secretary or his delegate.

(d) TAXPAYER ENGAGED IN MORE THAN ONE BUSINESS.—A taxpayer engaged in more than one trade or business may, in computing taxable income, use a different method of accounting for each trade or business.

(e) REQUIREMENT RESPECTING CHANGE OF ACCOUNTING METHOD.—Except as otherwise expressly provided in this chapter, a taxpayer who changes the method of accounting on the basis of which he regularly computes his income in keeping his books shall, before computing his taxable income under the new method, secure the consent of the Secretary or his delegate.

Subpart B—Taxable Year for Which Items of Gross Income Included

Sec. 451. General rule for taxable year of inclusion.
Sec. 452. Prepaid income.
Sec. 453. Installment method.
Sec. 454. Obligations issued at discount.

SEC. 451. GENERAL RULE FOR TAXABLE YEAR OF INCLUSION.

(a) GENERAL RULE.—The amount of any item of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under the method of accounting used in computing taxable income, such amount is to be properly accounted for as of a different period.

(b) SPECIAL RULE IN CASE OF DEATH.—In the case of the death of a taxpayer whose taxable income is computed under an accrual method of accounting, any amount accrued only by reason of the death of the taxpayer shall not be included in computing taxable income for the period in which falls the date of the taxpayer's death.

SEC. 452. PREPAID INCOME.

(a) PREPAID INCOME TO BE EARNED OVER SHORT OR INDEFINITE PERIOD.—

(1) SHORT PERIOD.—In the case of any prepaid income to which this section applies, if the liability described in subsection (e) (2) is (at the time the income is received) to end before the first day of the sixth taxable year after the taxable year in which such income is received, then such income shall be included in gross income for the taxable year in which received, and for each of the 5 succeeding taxable years, to the extent proper under the method of accounting used under section 446 in computing taxable income for such year. If the liability does not in fact end before the first day of such sixth taxable year, such income shall be included in gross income for the taxable years specified in the preceding sentence except that with the consent of the Secretary or his delegate it shall be included in gross income in such proportions, and for such taxable years, as are specified in such consent.

(2) INDEFINITE PERIOD.—In the case of any prepaid income to which this section applies, if the liability described in subsection (e) (2) is (at the time the income is received) of indefinite duration, then such income shall be included in gross income for the taxable year in which received and for each of the 5 succeeding taxable years, consistently with the principles prescribed in paragraph (1) and subsection (b), under regulations prescribed by the Secretary or his delegate. With the consent of the Secretary or his delegate the prepaid income shall be included in gross income in such proportions, and for such taxable years, as are specified in such consent.

(b) PREPAID INCOME TO BE EARNED OVER LONG PERIOD.—In the case of any prepaid income to which this section applies, if the

liability described in subsection (e) (2) is (at the time the income is received) to end after the close of the fifth taxable year after the taxable year in which such income is received, then—

(1) one-sixth of the prepaid income shall be included in gross income for the taxable year in which received, and one-sixth shall be included in gross income for each of the 5 succeeding taxable years; except that

(2) with the consent of the Secretary or his delegate, the prepaid income shall be included in gross income in such proportions, and for such taxable years, as are specified in such consent.

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

(1) If the liability described in subsection (e) (2) ends, then so much of such income as was not includible in gross income under subsections (a) and (b) 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 subsections (a) and (b) for preceding taxable years shall be included in gross income for the taxable year in which such death, or such cessation of existence, occurs.

(d) PREPAID INCOME TO WHICH THIS SECTION APPLIES.—

(1) ELECTION OF BENEFITS.—This section shall apply to prepaid 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 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 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 income received before the first taxable year for which the election is made.

(3) WHEN ELECTION MAY BE MADE.—

(A) 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, 1953, and ends after the date on which this title is enacted, and (ii) in which he receives prepaid income in the trade or business. Such an election shall be made not later than the time prescribed by this subtitle for filing the return for such year (including extensions thereof).

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

(e) DEFINITIONS.—For purposes of this section—

(1) PREPAID INCOME.—The term "prepaid 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. Such term does not include any income treated as gain from the sale or other disposition of a capital asset.

(2) LIABILITY TO RENDER SERVICES, ETC.—The term "liability" means a liability to render services, furnish goods or other property, or allow the use of property.

(3) RECEIPT OF PREPAID INCOME.—Prepaid 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).

SEC. 453. INSTALLMENT METHOD.

(a) DEALERS IN PERSONAL PROPERTY.—Under regulations prescribed by the Secretary or his delegate, a person who regularly sells or otherwise disposes of personal property on the installment plan may return as income therefrom in any taxable year that proportion of the installment payments actually received in that year which the gross profit, realized or to be realized when payment is completed, bears to the total contract price.

(b) SALES OF REALTY AND CASUAL SALES OF PERSONALTY.—

(1) GENERAL RULE.—Income from—

(A) a sale or other disposition of real property, or

(B) a casual sale or other casual disposition of personal property (other than property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year) for a price exceeding $1,000,

may (under regulations prescribed by the Secretary or his delegate) be returned on the basis and in the manner prescribed in subsection (a).

(2) LIMITATION.—Paragraph (1) shall apply—

(A) In the case of a sale or other disposition during a taxable year beginning after December 31, 1953 (whether or not such taxable year ends after the date of enactment of this title), only if in the taxable year of the sale or other disposition—

(i) there are no payments, or

(ii) the payments (exclusive of evidences of indebtedness of the purchaser) do not exceed 30 percent of the selling price.

(B) In the case of a sale or other disposition during a taxable year beginning before January 1, 1954, only if the income was (by reason of section 44 (b) of the Internal Revenue Code of 1939) returnable on the basis and in the manner prescribed in section 44 (a) of such code.

(c) CHANGE FROM ACCRUAL TO INSTALLMENT BASIS.—

(1) GENERAL RULE.—If a taxpayer entitled to the benefits of subsection (a) elects for any taxable year to report his taxable income on the installment basis, then in computing his taxable income for such year (referred to in this subsection as "year of change") or for any subsequent year—

(A) installment payments actually received during any such year on account of sales or other dispositions of property made

in any taxable year before the year of change shall not be excluded; but

(B) the tax imposed by this chapter for any taxable year (referred to in this subsection as "adjustment year") beginning after December 31, 1953, shall be reduced by the adjustment computed under paragraph (2).

(2) ADJUSTMENT IN TAX FOR AMOUNTS PREVIOUSLY TAXED.—In determining the adjustment referred to in paragraph (1) (B), first determine, for each taxable year before the year of change, the amount which equals the lesser of—

(A) the portion of the tax for such prior taxable year which is attributable to the gross profit which was included in gross income for such prior taxable year, and which by reason of paragraph (1) (A) is includible in gross income for the taxable year, or

(B) the portion of the tax for the adjustment year which is attributable to the gross profit described in subparagraph (A).

The adjustment referred to in paragraph (1) (B) for the adjustment year is the sum of the amounts determined under the preceding sentence.

(3) RULE FOR APPLYING PARAGRAPH (2).—For purposes of paragraph (2), the portion of the tax for a prior taxable year, or for the adjustment year, which is attributable to the gross profit described in such paragraph is that amount which bears the same ratio to the tax imposed by this chapter (or by the corresponding provisions of prior revenue laws) for such taxable year (computed without regard to paragraph (2)) as the gross profit described in such paragraph bears to the gross income for such taxable year. For purposes of the preceding sentence, the provisions of chapter 1 (other than of subchapter D, relating to excess profits tax, and of subchapter E, relating to self-employment income) of the Internal Revenue Code of 1939 shall be treated as the corresponding provisions of the Internal Revenue Code of 1939.

(d) GAIN OR LOSS ON DISPOSITION OF INSTALLMENT OBLIGATIONS.—

(1) GENERAL RULE.—If an installment obligation is satisfied at other than its face value or distributed, transmitted, sold, or otherwise disposed of, gain or loss shall result to the extent of the difference between the basis of the obligation and—

(A) the amount realized, in the case of satisfaction at other than face value or a sale or exchange, or

(B) the fair market value of the obligation at the time of distribution, transmission, or disposition, in the case of the distribution, transmission, or disposition otherwise than by sale or exchange.

Any gain or loss so resulting shall be considered as resulting from the sale or exchange of the property in respect of which the installment obligation was received.

(2) BASIS OF OBLIGATION.—The basis of an installment obligation shall be the excess of the face value of the obligation over an amount equal to the income which would be returnable were the obligation satisfied in full.

(3) SPECIAL RULE FOR TRANSMISSION AT DEATH.—Except as provided in section 691 (relating to recipients of income in respect of

decedents), this subsection shall not apply to the transmission of installment obligations at death.

(4) EFFECT OF DISTRIBUTION IN CERTAIN LIQUIDATIONS.—

(A) LIQUIDATIONS TO WHICH SECTION 332 APPLIES.—If—

(i) an installment obligation is distributed by one corporation to another corporation in the course of a liquidation, and

(ii) under section 332 (relating to complete liquidations of subsidiaries) no gain or loss with respect to the receipt of such obligation is recognized in the case of the recipient corporation,

then no gain or loss with respect to the distribution of such obligation shall be recognized in the case of the distributing corporation.

(B) LIQUIDATIONS TO WHICH SECTION 337 APPLIES.—If—

(i) an installment obligation is distributed by a corporation in the course of a liquidation, and

(ii) under section 337 (relating to gain or loss on sales or exchanges in connection with certain liquidations) no gain or loss would have been recognized to the corporation if the corporation had sold or exchanged such installment obligation on the day of such distribution,

then no gain or loss shall be recognized to such corporation by reason of such distribution.

SEC. 454. OBLIGATIONS ISSUED AT DISCOUNT.

(a) NON-INTEREST-BEARING OBLIGATIONS ISSUED AT A DISCOUNT.—If, in the case of a taxpayer owning any non-interest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals or owning an obligation described in paragraph (2) of subsection (c), the increase in the redemption price of such obligation occurring in the taxable year does not (under the method of accounting used in computing his taxable income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year, treat such increase as income received in such taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless on application by the taxpayer the Secretary or his delegate permits him, subject to such conditions as the Secretary or his delegate deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition (or, in the case of an obligation described in paragraph (2) of subsection (c), the date of acquisition of the series E bond involved) and the first day of such taxable year shall also be treated as income received in such taxable year.

(b) SHORT-TERM OBLIGATIONS ISSUED ON DISCOUNT BASIS.—In the case of any obligation—

(1) of the United States; or

(2) of a State, a Territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia,

which is issued on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year from the date of issue, the amount of discount at which such obligation is originally sold shall not be considered to accrue until the date on which such obligation is paid at maturity, sold, or otherwise disposed of.

(c) MATURED UNITED STATES SAVINGS BONDS.—In the case of a taxpayer who—

(1) holds a series E United States savings bond at the date of maturity, and

(2) pursuant to regulations prescribed under the Second Liberty Bond Act retains his investment in the maturity value of such series E bond in an obligation, other than a current income obligation, which matures not more than 10 years from the date of maturity of such series E bond,

the increase in redemption value (to the extent not previously includible in gross income) in excess of the amount paid for such series E bond shall be includible in gross income in the taxable year in which the obligation is finally redeemed or in the taxable year of final maturity, whichever is earlier. This subsection shall not apply to a corporation, and shall not apply in the case of any taxable year for which the taxpayer's taxable income is computed under an accrual method of accounting or for which an election made by the taxpayer under subsection (a) applies.

Subpart C—Taxable Year for Which Deductions Taken

Sec. 461. General rule for taxable year of deduction.
Sec. 462. Reserves for estimated expenses, etc.

SEC. 461. GENERAL RULE FOR TAXABLE YEAR OF DEDUCTION.

(a) GENERAL RULE.—The amount of any deduction or credit allowed by this subtitle shall be taken for the taxable year which is the proper taxable year under the method of accounting used in computing taxable income.

(b) SPECIAL RULE IN CASE OF DEATH.—In the case of the death of a taxpayer whose taxable income is computed under an accrual method of accounting, any amount accrued as a deduction or credit only by reason of the death of the taxpayer shall not be allowed in computing taxable income for the period in which falls the date of the taxpayer's death.

(c) ACCRUAL OF REAL PROPERTY TAXES.—

(1) IN GENERAL.—If the taxable income is computed under an accrual method of accounting, then, at the election of the taxpayer, any real property tax which is related to a definite period of time shall be accrued ratably over that period.

(2) SPECIAL RULES.—Paragraph (1) shall not apply to any real property tax, to the extent that such tax was allowable as a deduction under the Internal Revenue Code of 1939 for a taxable year which began before January 1, 1954. In the case of any real property tax which would, but for this subsection, be allowable as a deduction for the first taxable year of the taxpayer which begins after December 31, 1953, then, to the extent that such tax is related to any period before the first day of such first taxable year, the tax shall be allowable as a deduction for such first taxable year.

(3) WHEN ELECTION MAY BE MADE.—

(A) WITHOUT CONSENT.—A taxpayer may, without the consent of the Secretary or his delegate, make an election under this subsection for his first taxable year which begins after December 31, 1953, and ends after the date of enactment of this title in which the taxpayer incurs real property taxes. Such an election shall be made not later than the time prescribed by law for filing the return for such year (including extensions thereof).

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

SEC. 462. RESERVES FOR ESTIMATED EXPENSES, ETC.

(a) GENERAL RULE.—In computing taxable income for the taxable year, there shall be taken into account (in the discretion of the Secretary or his delegate) a reasonable addition to each reserve for estimated expenses to which this section applies.

(b) ADJUSTMENTS WHERE RESERVE BECOMES EXCESSIVE.—If it is determined that the amount of any reserve for estimated expenses to which this section applies is (as of the close of the taxable year) excessive, then (under regulations prescribed by the Secretary or his delegate) such excess shall be taken into account in computing taxable income for the taxable year.

(c) ESTIMATED EXPENSES TO WHICH THIS SECTION APPLIES.—

(1) ELECTION OF BENEFITS.—This section shall apply to estimated expenses if and only if the taxpayer makes an election under this section with respect to the trade or business to which such expenses are attributable. 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 estimated expenses attributable to the trade or business.

(3) WHEN ELECTION MAY BE MADE.—

(A) 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, 1953, and ends after the date on which this title is enacted, and (ii) for which there are estimated expenses attributable to the trade or business. Such an election shall be made not later than the time prescribed by law for filing the return for such year (including extensions thereof).

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

(d) ESTIMATED EXPENSE DEFINED.—

(1) GENERAL RULE.—For purposes of this section, the term "estimated expense" means a deduction allowable by this subtitle—

(A) part or all of which would (but for this section) be required to be taken into account for a subsequent taxable year;

(B) which is attributable to the income of the taxable year or prior taxable years for which an election under this section is in effect; and

(C) which the Secretary or his delegate is satisfied can be estimated with reasonable accuracy.

(2) EXCEPTIONS.—The term "estimated expense" does not include—

(A) any deduction attributable to income taken into account in computing taxable income for taxable years preceding the first taxable year for which the election is made;

(B) any deduction attributable to prepaid income to which section 452 applies by reason of an election made under such section by the taxpayer; or

(C) any deduction allowable under section 166 (relating to bad debts).

(e) SPECIAL RULE FOR DEDUCTIONS ATTRIBUTABLE TO PERIOD BEFORE ELECTION.—Any deduction attributable to income taken into account in computing taxable income for taxable years preceding the first taxable year for which the election is made shall be allowable in the same manner and to the same extent as if this section had not been enacted.

Subpart D—Inventories

Sec. 471. General rule for inventories.
Sec. 472. Last-in, first-out inventories.

SEC. 471. GENERAL RULE FOR INVENTORIES.

Whenever in the opinion of the Secretary or his delegate the use of inventories is necessary in order clearly to determine the income of any taxpayer, inventories shall be taken by such taxpayer on such basis as the Secretary or his delegate may prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income.

SEC. 472. LAST-IN, FIRST-OUT INVENTORIES.

(a) AUTHORIZATION.—A taxpayer may use the method provided in subsection (b) (whether or not such method has been prescribed under section 471) in inventorying goods specified in an application to use such method filed at such time and in such manner as the Secretary or his delegate may prescribe. The change to, and the use of, such method shall be in accordance with such regulations as the Secretary or his delegate may prescribe as necessary in order that the use of such method may clearly reflect income.

(b) METHOD APPLICABLE.—In inventorying goods specified in the application described in subsection (a), the taxpayer shall:

(1) Treat those remaining on hand at the close of the taxable year as being: First, those included in the opening inventory of the taxable year (in the order of acquisition) to the extent thereof; and second, those acquired in the taxable year;

(2) Inventory them at cost; and

(3) Treat those included in the opening inventory of the taxable year in which such method is first used as having been acquired at the same time and determine their cost by the average cost method.

(c) CONDITION.—Subsection (a) shall apply only if the taxpayer establishes to the satisfaction of the Secretary or his delegate that the taxpayer has used no procedure other than that specified in paragraphs (1) and (3) of subsection (b) in inventorying such goods to ascertain the income, profit, or loss of the first taxable year for which the method described in subsection (b) is to be used, for the purpose of a report or statement covering such taxable year—

(1) to shareholders, partners, or other proprietors, or to beneficiaries, or

(2) for credit purposes.

(d) PRECEDING CLOSING INVENTORY.—In determining income for the taxable year preceding the taxable year for which the method described in subsection (b) is first used, the closing inventory of such preceding year of the goods specified in the application referred to in subsection (a) shall be at cost.

(e) SUBSEQUENT INVENTORIES.—If a taxpayer, having complied with subsection (a), uses the method described in subsection (b) for any taxable year, then such method shall be used in all subsequent taxable years unless—

(1) with the approval of the Secretary or his delegate a change to a different method is authorized; or,

(2) the Secretary or his delegate determines that the taxpayer has used for any such subsequent taxable year some procedure other than that specified in paragraph (1) of subsection (b) in inventorying the goods specified in the application to ascertain the income, profit, or loss of such subsequent taxable year for the purpose of a report or statement covering such taxable year (A) to shareholders, partners, or other proprietors, or beneficiaries, or (B) for credit purposes; and requires a change to a method different from that prescribed in subsection (b) beginning with such subsequent taxable year or any taxable year thereafter.

If paragraph (1) or (2) of this subsection applies, the change to, and the use of, the different method shall be in accordance with such regulations as the Secretary or his delegate may prescribe as necessary in order that the use of such method may clearly reflect income.

(f) CROSS REFERENCE.—

For provisions relating to involuntary liquidation and replacement of LIFO inventories, see section 1321.

PART III—ADJUSTMENTS

Sec. 481. Adjustments required by changes in method of accounting.
Sec. 482. Allocation of income and deductions among taxpayers.

SEC. 481. ADJUSTMENTS REQUIRED BY CHANGES IN METHOD OF ACCOUNTING.

(a) GENERAL RULE.—In computing the taxpayer's taxable income for any taxable year (referred to in this section as the "year of the change")—

(1) if such computation is under a method of accounting different from the method under which the taxpayer's taxable income for the preceding taxable year was computed, then

(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.

(b) LIMITATION ON TAX WHERE ADJUSTMENTS ARE SUBSTANTIAL.—

(1) THREE YEAR ALLOCATION.—If—

(A) the method of accounting from which the change is made was used by the taxpayer in computing his taxable income for the 2 taxable years preceding the year of the change, and

(B) the increase in taxable income for the year of the change which results solely by reason of the adjustments required by subsection (a) (2) exceeds $3,000,

then the tax under this chapter attributable to such increase in taxable income shall not be greater than the aggregate of the taxes under this chapter (or under the corresponding provisions of prior revenue laws) which would result if one-third of such increase were included in taxable income for the year of the change and one-third of such increase were included for each of the 2 preceding taxable years.

(2) ALLOCATION UNDER NEW METHOD OF ACCOUNTING.—If—

(A) the increase in taxable income for the year of the change which results solely by reason of the adjustments required by subsection (a) (2) exceeds $3,000, and

(B) the taxpayer establishes his taxable income (under the new method of accounting) for one or more taxable years consecutively preceding the taxable year of the change for which the taxpayer in computing taxable income used the method of accounting from which the change is made,

then the tax under this chapter attributable to such increase in taxable income shall not be greater than the net increase in the taxes under this chapter which would result if the adjustments required by subsection (a) (2) were allocated to the taxable year or years specified in subparagraph (B) to which they are properly allocable under the new method of accounting and the balance of the adjustments required by subsection (a) (2) was allocated to the taxable year of the change.

(3) SPECIAL RULES FOR COMPUTATIONS UNDER PARAGRAPHS (1) AND (2).—For purposes of this subsection—

(A) There shall be taken into account the increase or decrease in tax for any taxable year preceding the year of the change to which no adjustment is allocated under paragraph (2) but which is affected by a net operating loss (as defined in section 172) or by a capital loss carryover (as defined in section 1212), determined with reference to taxable years with respect to which adjustments under paragraph (2) are allocated.

(B) The increase or decrease in the tax for any taxable year for which an assessment of any deficiency, or a credit or refund of any overpayment, is prevented by any law or rule of law, shall be determined by reference to the tax previously determined (within the meaning of section 1314 (a)) for such year.

(C) In applying section 7807 (b) (1), the provisions of chapter 1 (other than subchapter E, relating to self-employment income)

and chapter 2 of the Internal Revenue Code of 1939 shall be treated as the corresponding provisions of the Internal Revenue Code of 1939.

(c) ADJUSTMENTS UNDER REGULATIONS.—In the case of any change described in subsection (a), the taxpayer may, in such manner and subject to such conditions as the Secretary or his delegate may by regulations prescribe, take the adjustments required by subsection (a) (2) into account in computing the tax imposed by this chapter for the taxable year or years permitted under such regulations.

(d) EXCEPTION FOR CHANGE TO INSTALLMENT BASIS.—This section shall not apply to a change to which section 453 (relating to change to installment method) applies.

SEC. 482. ALLOCATION OF INCOME AND DEDUCTIONS AMONG TAXPAYERS.

In any case of two or more organizations, trades, or businesses (whether or not incorporated, whether or not organized in the United States, and whether or not affiliated) owned or controlled directly or indirectly by the same interests, the Secretary or his delegate may distribute, apportion, or allocate gross income, deductions, credits, or allowances between or among such organizations, trades, or businesses, if he determines that such distribution, apportionment, or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any of such organizations, trades, or businesses.

Subchapter F—Exempt Organizations

Part I. General rule.
Part II. Taxation of business income of certain exempt organizations.
Part III. Farmers' cooperatives.
Part IV. Shipowners' protection and indemnity associations.

PART I—GENERAL RULE

Sec. 501. Exemption from tax on corporations, certain trusts, etc.
Sec. 502. Feeder organizations.
Sec. 503. Requirements for exemption.
Sec. 504. Denial of exemption.

SEC. 501. EXEMPTION FROM TAX ON CORPORATIONS, CERTAIN TRUSTS, ETC.

(a) EXEMPTION FROM TAXATION.—An organization described in subsection (c) or (d) or section 401 (a) shall be exempt from taxation under this subtitle unless such exemption is denied under section 502, 503, or 504.

(b) TAX ON UNRELATED BUSINESS INCOME.—An organization exempt from taxation under subsection (a) shall be subject to tax to the extent provided in part II of this subchapter (relating to tax on unrelated income), but, notwithstanding part II, shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes.

(c) LIST OF EXEMPT ORGANIZATIONS.—The following organizations are referred to in subsection (a):

(1) Corporations organized under Act of Congress, if such corporations are instrumentalities of the United States and if, under such Act, as amended and supplemented, such corporations are exempt from Federal income taxes.

(2) Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under this section.

(3) Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation, and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

(4) Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular

municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

(5) Labor, agricultural, or horticultural organizations.

(6) Business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

(7) Clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

(8) Fraternal beneficiary societies, orders, or associations—

(A) operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and

(B) providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents.

(9) Voluntary employees' beneficiary associations providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents, if—

(A) no part of their net earnings inures (other than through such payments) to the benefit of any private shareholder or individual, and

(B) 85 percent or more of the income consists of amounts collected from members and amounts contributed to the association by the employer of the members for the sole purpose of making such payments and meeting expenses.

(10) Voluntary employees' beneficiary associations providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents or their designated beneficiaries, if—

(A) admission to membership in such association is limited to individuals who are officers or employees of the United States Government, and

(B) no part of the net earnings of such association inures (other than through such payments) to the benefit of any private shareholder or individual.

(11) Teachers' retirement fund associations of a purely local character, if—

(A) no part of their net earnings inures (other than through payment of retirement benefits) to the benefit of any private shareholder or individual, and

(B) the income consists solely of amounts received from public taxation, amounts received from assessments on the teaching salaries of members, and income in respect of investments.

(12) Benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations; but only if 85 percent or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.

(13) Cemetery companies owned and operated exclusively for the benefit of their members or which are not operated for profit;

and any corporation chartered solely for burial purposes as a cemetery corporation and not permitted by its charter to engage in any business not necessarily incident to that purpose, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

(14) Credit unions without capital stock organized and operated for mutual purposes and without profit; and corporations or associations without capital stock organized before September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in—

(A) domestic building and loan associations,

(B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or

(C) mutual savings banks not having capital stock represented by shares.

(15) Mutual insurance companies or associations other than life or marine (including interinsurers and reciprocal underwriters) if the gross amount received during the taxable year from interest, dividends, rents, and premiums (including deposits and assessments) does not exceed $75,000.

(16) Corporations organized by an association subject to part III of this subchapter or members thereof, for the purpose of financing the ordinary crop operations of such members or other producers, and operated in conjunction with such association. Exemption shall not be denied any such corporation because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 percent per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than nonvoting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the corporation, on dissolution or otherwise, beyond the fixed dividends) is owned by such association, or members thereof; nor shall exemption be denied any such corporation because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose.

(d) RELIGIOUS AND APOSTOLIC ORGANIZATIONS.—The following organizations are referred to in subsection (a): Religious or apostolic associations or corporations, if such associations or corporations have a common treasury or community treasury, even if such associations or corporations engage in business for the common benefit of the members, but only if the members thereof include (at the time of filing their returns) in their gross income their entire pro rata shares, whether distributed or not, of the taxable income of the association or corporation for such year. Any amount so included in the gross income of a member shall be treated as a dividend received.

(e) CROSS REFERENCE.—

For nonexemption of Communist-controlled organizations, see section 11 (b) of the Internal Security Act of 1950 (64 Stat. 997; 50 U. S. C. 790 (b)).

SEC. 502. FEEDER ORGANIZATIONS.

An organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt under section 501 on the ground that all of its profits are payable to one or more organizations exempt under section 501 from taxation. For purposes of this section, the term "trade or business" shall not include the rental by an organization of its real property (including personal property leased with the real property).

SEC. 503. REQUIREMENTS FOR EXEMPTION.

(a) DENIAL OF EXEMPTION TO ORGANIZATIONS ENGAGED IN PROHIBITED TRANSACTIONS.—

(1) GENERAL RULE.—An organization described in section 501 (c) (3) which is subject to the provisions of this section shall not be exempt from taxation under section 501 (a) if it has engaged in a prohibited transaction after July 1, 1950; and an organization described in section 401 (a) which is subject to the provisions of this section shall not be exempt from taxation under section 501 (a) if it has engaged in a prohibited transaction after March 1, 1954.

(2) TAXABLE YEARS AFFECTED.—An organization described in section 501 (c) (3) or section 401 (a) shall be denied exemption from taxation under section 501 (a) by reason of paragraph (1) only for taxable years after the taxable year during which it is notified by the Secretary or his delegate that it has engaged in a prohibited transaction, unless such organization entered into such prohibited transaction with the purpose of diverting corpus or income of the organization from its exempt purposes, and such transaction involved a substantial part of the corpus or income of such organization.

(b) ORGANIZATIONS TO WHICH SECTION APPLIES.—This section shall apply to any organization described in section 501 (c) (3) or section 401 (a) except—

(1) a religious organization (other than a trust);

(2) an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on;

(3) an organization which normally receives a substantial part of its support (exclusive of income received in the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501 (a)) from the United States or any State or political subdivision thereof or from direct or indirect contributions from the general public;

(4) an organization which is operated, supervised, controlled, or principally supported by a religious organization (other than a trust) which is itself not subject to the provisions of this section; and

(5) an organization the principal purposes or functions of which are the providing of medical or hospital care or medical education or medical research or agricultural research.

(c) PROHIBITED TRANSACTIONS.—For purposes of this section, the term "prohibited transaction" means any transaction in which an organization subject to the provisions of this section—

(1) lends any part of its income or corpus, without the receipt of adequate security and a reasonable rate of interest, to;

(2) pays any compensation, in excess of a reasonable allowance for salaries or other compensation for personal services actually rendered, to;

(3) makes any part of its services available on a preferential basis to;

(4) makes any substantial purchase of securities or any other property, for more than adequate consideration in money or money's worth, from;

(5) sells any substantial part of its securities or other property, for less than an adequate consideration in money or money's worth, to; or

(6) engages in any other transaction which results in a substantial diversion of its income or corpus to;

the creator of such organization (if a trust); a person who has made a substantial contribution to such organization; a member of the family (as defined in section 267 (c) (4)) of an individual who is the creator of such trust or who has made a substantial contribution to such organization; or a corporation controlled by such creator or person through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock of the corporation.

(d) FUTURE STATUS OF ORGANIZATIONS DENIED EXEMPTION.—Any organization described in section 501 (c) (3) or section 401 (a) which is denied exemption under section 501 (a) by reason of subsection (a) of this section, with respect to any taxable year following the taxable year in which notice of denial of exemption was received, may, under regulations prescribed by the Secretary or his delegate, file claim for exemption, and if the Secretary or his delegate, pursuant to such regulations, is satisfied that such organization will not knowingly again engage in a prohibited transaction, such organization shall be exempt with respect to taxable years after the year in which such claim is filed.

(e) DISALLOWANCE OF CERTAIN CHARITABLE, ETC., DEDUCTIONS.—No gift or bequest for religious, charitable, scientific, literary, or educational purposes (including the encouragement of art and the prevention of cruelty to children or animals), otherwise allowable as a deduction under section 170, 642 (c), 545 (b) (2), 2055, 2106 (a) (2), or 2522, shall be allowed as a deduction if made to an organization described in section 501 (c) (3) which, in the taxable year of the organization in which the gift or bequest is made, is not exempt under section 501 (a) by reason of this section. With respect to any taxable year of the organization for which the organization is not exempt pursuant to subsection (a) by reason of having engaged in a prohibited transaction with the purpose of diverting the corpus or income of such organization from its exempt purposes and such transaction involved a substantial part of such corpus or income, and which taxable year is the same, or prior to the, taxable year of the organization in which such transaction occurred, such deduction shall be disallowed the donor only if such donor or (if such donor is an individual) any member

of his family (as defined in section 267 (c) (4)) was a party to such prohibited transaction.

(f) DEFINITION.—For purposes of this section, the term "gift or bequest" means any gift, contribution, bequest, devise, legacy, or transfer.

(g) SPECIAL RULE FOR LOANS.—For purposes of the application of subsection (c) (1), in the case of a loan by a trust described in section 401 (a), the following rules shall apply with respect to a loan made before March 1, 1954, which would constitute a prohibited transaction if made on or after March 1, 1954:

(1) If any part of the loan is repayable prior to December 31, 1955, the renewal of such part of the loan for a period not extending beyond December 31, 1955, on the same terms, shall not be considered a prohibited transaction.

(2) If the loan is repayable on demand, the continuation of the loan without the receipt of adequate security and a reasonable rate of interest beyond December 31, 1955, shall be considered a prohibited transaction.

SEC. 504. DENIAL OF EXEMPTION.

(a) GENERAL RULE.—In the case of any organization described in section 501 (c) (3) to which section 503 is applicable, exemption under section 501 shall be denied for the taxable year if the amounts accumulated out of income during the taxable year or any prior taxable year and not actually paid out by the end of the taxable year—

(1) are unreasonable in amount or duration in order to carry out the charitable, educational, or other purpose or function constituting the basis for exemption under section 501 (a) of an organization described in section 501 (c) (3); or

(2) are used to a substantial degree for purposes or functions other than those constituting the basis for exemption under section 501 (a) of an organization described in section 501 (c) (3); or

(3) are invested in such a manner as to jeopardize the carrying out of the charitable, educational, or other purpose or function constituting the basis for exemption under section 501 (a) of an organization described in section 501 (c) (3).

Paragraph (1) shall not apply to income attributable to property of a decedent dying before January 1, 1951, which is transferred under his will to a trust created by such will. In the case of a trust created by the will of a decedent dying on or after January 1, 1951, if income is required to be accumulated pursuant to the mandatory terms of the will creating the trust, paragraph (1) shall apply only to income accumulated during a taxable year of the trust beginning more than 21 years after the date of death of the last life in being designated in the trust instrument.

(b) CROSS REFERENCES.—

For limitation on charitable contributions in case of unreasonable accumulations by certain trusts, see section 681 (c) (2).

PART II—TAXATION OF BUSINESS INCOME OF CERTAIN EXEMPT ORGANIZATIONS

Sec. 511. Imposition of tax on unrelated business income of charitable organizations, etc.
Sec. 512. Unrelated business taxable income.
Sec. 513. Unrelated trade or business.
Sec. 514. Business leases.
Sec. 515. Taxes of foreign countries and possessions of the United States.

SEC. 511. IMPOSITION OF TAX ON UNRELATED BUSINESS INCOME OF CHARITABLE, ETC., ORGANIZATIONS.

(a) CHARITABLE, ETC., ORGANIZATIONS TAXABLE AT CORPORATION RATES.—

(1) IMPOSITION OF TAX.—There is hereby imposed for each taxable year on the unrelated business taxable income (as defined in section 512) of every organization described in paragraph (2) a normal tax and a surtax computed as provided in section 11. In making such computation for purposes of this section, the term "taxable income" as used in section 11 shall be read as "unrelated business taxable income".

(2) ORGANIZATIONS SUBJECT TO TAX.—

(A) ORGANIZATIONS DESCRIBED IN SECTION 501 (c) (2), (3), (5), AND (6), AND SECTION 401 (a).—The taxes imposed by paragraph (1) shall apply in the case of any organization (other than a church, a convention or association of churches, or a trust described in subsection (b)) which is exempt, except as provided in this part, from taxation under this subtitle by reason of section 401 (a) or of paragraph (3), (5), or (6) of section 501 (c). Such taxes shall also apply in the case of a corporation described in section 501 (c) (2) if the income is payable to an organization which itself is subject to the taxes imposed by paragraph (1) or to a church or to a convention or association of churches.

(B) STATE COLLEGES AND UNIVERSITIES.—The taxes imposed by paragraph (1) shall apply in the case of any college or university which is an agency or instrumentality of any government or any political subdivision thereof, or which is owned or operated by a government or any political subdivision thereof, or by any agency or instrumentality of one or more governments or political subdivisions. Such taxes shall also apply in the case of any corporation wholly owned by one or more such colleges or universities.

(b) TAX ON CHARITABLE, ETC., TRUSTS.—

(1) IMPOSITION OF TAX.—There is hereby imposed for each taxable year on the unrelated business taxable income of every trust described in paragraph (2) a tax computed as provided in section 1. In making such computation for purposes of this section, the term "taxable income" as used in section 1 shall be read as "unrelated business taxable income" as defined in section 512.

(2) CHARITABLE, ETC., TRUSTS SUBJECT TO TAX.—The tax imposed by paragraph (1) shall apply in the case of any trust which is exempt, except as provided in this part, from taxation under this subtitle by reason of section 501 (c) (3) or section 401 (a) and which, if it were not for such exemption, would be subject to subchapter J

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(sec. 641 and following, relating to estates, trusts, beneficiaries, and decedents).

(c) EFFECTIVE DATE.—The tax imposed by this section shall apply, in the case of a trust described in section 401 (a), only for taxable years beginning after June 30, 1954.

SEC. 512. UNRELATED BUSINESS TAXABLE INCOME.

(a) DEFINITION.—The term "unrelated business taxable income" means the gross income derived by any organization from any unrelated trade or business (as defined in section 513) regularly carried on by it, less the deductions allowed by this chapter which are directly connected with the carrying on of such trade or business, both computed with the exceptions, additions, and limitations provided in subsection (b). In the case of an organization described in section 511 which is a foreign organization, the unrelated business taxable income shall be its unrelated business taxable income derived from sources within the United States determined under subchapter N (sec. 861 and following, relating to tax based on income from sources within or without the United States).

(b) EXCEPTIONS, ADDITIONS, AND LIMITATIONS.—The exceptions, additions, and limitations applicable in determining unrelated business taxable income are the following:

(1) There shall be excluded all dividends, interest, and annuities, and all deductions directly connected with such income.

(2) There shall be excluded all royalties (including overriding royalties) whether measured by production or by gross or taxable income from the property, and all deductions directly connected with such income.

(3) There shall be excluded all rents from real property (including personal property leased with the real property), and all deductions directly connected with such rents.

(4) Notwithstanding paragraph (3), in the case of a business lease (as defined in section 514) there shall be included, as an item of gross income derived from an unrelated trade or business, the amount ascertained under section 514 (a) (1), and there shall be allowed, as a deduction, the amount ascertained under section 514 (a) (2).

(5) There shall be excluded all gains or losses from the sale, exchange, or other disposition of property other than—

(A) stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the taxable year, or

(B) property held primarily for sale to customers in the ordinary course of the trade or business.

This paragraph shall not apply with respect to the cutting of timber which is considered, on the application of section 631, as a sale or exchange of such timber.

(6) The net operating loss deduction provided in section 172 shall be allowed, except that—

(A) the net operating loss for any taxable year, the amount of the net operating loss carryback or carryover to any taxable year, and the net operating loss deduction for any taxable year shall be determined under section 172 without taking into account

any amount of income or deduction which is excluded under this part in computing the unrelated business taxable income; and

(B) the terms "preceding taxable year" and "preceding taxable years" as used in section 172 shall not include any taxable year for which the organization was not subject to the provisions of this part.

(7) There shall be excluded all income derived from research for (A) the United States, or any of its agencies or instrumentalities, or (B) any State or political subdivision thereof; and there shall be excluded all deductions directly connected with such income.

(8) In the case of a college, university, or hospital, there shall be excluded all income derived from research performed for any person, and all deductions directly connected with such income.

(9) In the case of an organization operated primarily for purposes of carrying on fundamental research the results of which are freely available to the general public, there shall be excluded all income derived from research performed for any person, and all deductions directly connected with such income.

(10) In the case of any organization described in section 511 (a), the deduction allowed by section 170 (relating to charitable etc. contributions and gifts) shall be allowed (whether or not directly connected with the carrying on of the trade or business), but shall not exceed 5 percent of the unrelated business taxable income computed without the benefit of this paragraph.

(11) In the case of any trust described in section 511 (b), the deduction allowed by section 170 (relating to charitable etc. contributions and gifts) shall be allowed (whether or not directly connected with the carrying on of the trade or business), and for such purpose a distribution made by the trust to a beneficiary described in section 170 shall be considered as a gift or contribution. The deduction allowed by this paragraph shall be allowed with the limitations prescribed in section 170 (b) (1) (A) and (B) determined with reference to the unrelated business taxable income computed without the benefit of this paragraph (in lieu of with reference to adjusted gross income).

(12) There shall be allowed a specific deduction of $1,000.

(c) SPECIAL RULES APPLICABLE TO PARTNERSHIPS.—If a trade or business regularly carried on by a partnership of which an organization is a member is an unrelated trade or business with respect to such organization, such organization in computing its unrelated business taxable income shall, subject to the exceptions, additions, and limitations contained in subsection (b), include its share (whether or not distributed) of the gross income of the partnership from such unrelated trade or business and its share of the partnership deductions directly connected with such gross income. If the taxable year of the organization is different from that of the partnership, the amounts to be so included or deducted in computing the unrelated business taxable income shall be based upon the income and deductions of the partnership for any taxable year of the partnership ending within or with the taxable year of the organization.

SEC. 513. UNRELATED TRADE OR BUSINESS.

(a) GENERAL RULE.—The term "unrelated trade or business" means, in the case of any organization subject to the tax imposed by section 511, any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501 (or, in the case of an organization described in section 511 (a) (2) (B), to the exercise or performance of any purpose or function described in section 501 (c) (3)), except that such term does not include any trade or business—

(1) in which substantially all the work in carrying on such trade or business is performed for the organization without compensation; or

(2) which is carried on, in the case of an organization described in section 501 (c) (3) or in the case of a college or university described in section 511 (a) (2) (B), by the organization primarily for the convenience of its members, students, patients, officers, or employees; or

(3) which is the selling of merchandise, substantially all of which has been received by the organization as gifts or contributions.

(b) SPECIAL RULE FOR TRUSTS.—The term "unrelated trade or business" means, in the case of—

(1) a trust computing its unrelated business taxable income under section 512 for purposes of section 681; or

(2) a trust described in section 401 (a) which is exempt from tax under section 501 (a);

any trade or business regularly carried on by such trust or by a partnership of which it is a member.

(c) SPECIAL RULE FOR CERTAIN PUBLISHING BUSINESSES.—If a publishing business carried on by an organization during a taxable year beginning before January 1, 1953, is, without regard to this subsection, an unrelated trade or business, but before the beginning of the third succeeding taxable year the business is carried on by it (or by a successor who acquired such business in a liquidation which would have constituted a tax-free exchange under section 112 (b) (6) of the Internal Revenue Code of 1939) in such manner that the conduct thereof is substantially related to the exercise or performance by such organization (or such successor) of its educational or other purpose or function described in section 501 (c) (3), such publishing business shall not be considered, for the taxable year, as an unrelated trade or business.

SEC. 514. BUSINESS LEASES.

(a) BUSINESS LEASE RENTS AND DEDUCTIONS.—In computing under section 512 the unrelated business taxable income for any taxable year—

(1) PERCENTAGE OF RENTS TAKEN INTO ACCOUNT.—There shall be included with respect to each business lease, as an item of gross income derived from an unrelated trade or business, an amount which is the same percentage (but not in excess of 100 percent) of the total rents derived during the taxable year under such lease

as (A) the business lease indebtedness, at the close of the taxable year, with respect to the premises covered by such lease is of (B) the adjusted basis, at the close of the taxable year, of such premises.

(2) PERCENTAGE OF DEDUCTIONS TAKEN INTO ACCOUNT.—There shall be allowed with respect to each business lease, as a deduction to be taken into account in computing unrelated business taxable income, an amount determined by applying the percentage derived under paragraph (1) to the sum determined under paragraph (3).

(3) DEDUCTIONS ALLOWABLE.—The sum referred to in paragraph (2) is the sum of the following deductions allowable under this chapter:

(A) Taxes and other expenses paid or accrued during the taxable year on or with respect to the real property subject to the business lease.

(B) Interest paid or accrued during the taxable year on the business lease indebtedness.

(C) A reasonable allowance for exhaustion, wear and tear (including a reasonable allowance for obsolescence) of the real property subject to such lease.

Where only a portion of the real property is subject to the business lease, there shall be taken into account under subparagraphs (A), (B), and (C) only those amounts which are properly allocable to the premises covered by such lease.

(b) DEFINITION OF BUSINESS LEASE.—

(1) GENERAL RULE.—For purposes of this section, the term "business lease" means a lease for a term of more than 5 years of real property by an organization (or by a partnership of which it is a member), if at the close of the lessor's taxable year there is a business lease indebtedness (as defined in subsection (c)) with respect to such property.

(2) SPECIAL RULES FOR APPLYING PARAGRAPH (1).—For purposes of paragraph (1)—

(A) In computing the term of a lease which contains an option for renewal or extension, the term of such lease shall be considered as including any period for which such option may be exercised; and the term of any lease made pursuant to an exercise of such option shall include the period during which the prior lease was in effect. If real property is acquired subject to a lease, the term of such lease shall be considered to begin on the date of such acquisition.

(B) If the property has been occupied by the same lessee for a total period of more than 5 years commencing not earlier than the date of acquisition of the property by the organization or trust (whether such occupancy is under one or more leases, renewals, extensions, or continuations thereof), the occupancy of such lessee shall be considered to be under a lease for a term of more than 5 years within the meaning of paragraph (1). However, subsection (a) shall apply in the case of a tenancy described in this subparagraph (and not within subparagraph (A)) only with respect to the sixth and succeeding years of occupancy by the same lessee. For purposes of this subparagraph, the term "same lessee" shall include any lessee of the

property whose relationship with a lessee of the same property is such that losses in respect of sales or exchanges of property between the 2 lessees would be disallowed under section 267 (a).

(3) EXCEPTIONS.—

(A) No lease shall be considered a business lease if—

(i) such lease is entered into primarily for purposes which are substantially related (aside from the need of such organization for income or funds or the use it makes of the rents derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501, or

(ii) the lease is of premises in a building primarily designed for occupancy, and occupied, by the organization.

(B) If a lease for more than 5 years to a tenant is for only a portion of the real property, and space in the real property is rented during the taxable year under a lease for not more than 5 years to any other tenant of the organization, leases of the real property for more than 5 years shall be considered as business leases during the taxable year only if—

(i) the rents derived from the real property during the taxable year under leases for more than 5 years (not including, as a lease for more than 5 years, an occupancy which is considered as such a lease by reason of paragraph (2) (B)) represent 50 percent or more of the total rents derived during the taxable year from the real property; or the area of the premises occupied under leases for more than 5 years (not including, as a lease for more than 5 years, an occupancy which is considered as such a lease by reason of paragraph (2) (B)) represents, at any time during the taxable year, 50 percent or more of the total area of the real property rented at such time; or

(ii) the rent derived from the real property during the taxable year from any tenant under a lease for more than 5 years (including as a lease for more than 5 years an occupancy which is considered as such a lease by reason of paragraph (2) (B)), or from a group of tenants (under such leases) who are either members of an affiliated group (as defined in section 1504) or partners, represents more than 10 percent of the total rents derived during the taxable year from such property; or the area of the premises occupied by any one such tenant, or by any such group of tenants, represents at any time during the taxable year more than 10 percent of the total area of the real property rented at such time.

In the application of clause (i), if during the last half of the term of a lease a new lease is made to take effect after the expiration of such lease, the unexpired portion of such lease on the date the second lease is made shall not be treated as a part of the term of the second lease.

(c) BUSINESS LEASE INDEBTEDNESS.—

(1) GENERAL RULE.—The term "business lease indebtedness" means, with respect to any real property leased for a term of more than 5 years, the unpaid amount of—

(A) the indebtedness incurred by the lessor in acquiring or improving such property;

(B) the indebtedness incurred before the acquisition or improvement of such property if such indebtedness would not have been incurred but for such acquisition or improvement; and

(C) the indebtedness incurred after the acquisition or improvement of such property if such indebtedness would not have been incurred but for such acquisition or improvement and the incurrence of such indebtedness was reasonably foreseeable at the time of such acquisition or improvement.

(2) PROPERTY ACQUIRED SUBJECT TO MORTGAGE, ETC.—Where real property is acquired subject to a mortgage or other similar lien, the amount of the indebtedness secured by such mortgage or lien shall be considered (whether the acquisition was by gift, devise, or purchase) as an indebtedness of the lessor incurred in acquiring such property even though the lessor did not assume or agree to pay such indebtedness, except that where real property was acquired by gift, bequest, or devise before July 1, 1950, subject to a mortgage or other similar lien, the amount of such mortgage or other similar lien shall not be considered as an indebtedness of the lessor incurred in acquiring such property.

(3) CERTAIN PROPERTY ACQUIRED BY GIFT, ETC.—Where real property was acquired by gift, bequest, or devise before July 1, 1950, subject to a lease requiring improvements in such property on the happening of stated contingencies, indebtedness incurred in improving such property in accordance with the terms of such lease shall not be considered as an indebtedness for purposes of this subsection.

(4) CERTAIN CORPORATIONS DESCRIBED IN SECTION 501 (c) (2).—In the case of a corporation described in section 501 (c) (2), all of the stock of which was acquired before July 1, 1950, by an organization described in paragraph (3), (5), or (6) of section 501 (c) (and more than one-third of such stock was acquired by such organization by gift or bequest), any indebtedness incurred by such corporation before July 1, 1950, and any indebtedness incurred by such corporation on or after such date in improving real property in accordance with the terms of a lease entered into before such date, shall not be considered as an indebtedness with respect to such corporation or such organization for purposes of this subsection.

(5) CERTAIN TRUSTS DESCRIBED IN SECTION 401 (a).—In the case of a trust described in section 401 (a), or in the case of a corporation described in section 501 (c) (2) all of the stock of which was acquired prior to March 1, 1954, by a trust described in section 401 (a), any indebtedness incurred by such trust or such corporation before March 1, 1954, in connection with real property which is leased before March 1, 1954, and any indebtedness incurred by such trust or such corporation on or after such date necessary to carry out the terms of such lease, shall not be considered as an indebtedness with respect to such trust or such corporation for purposes of this subsection.

(6) BUSINESS LEASE ON PORTION OF PROPERTY.—In determining the amount of the business lease indebtedness where only a portion

of the real property is subject to a business lease, proper allocation to the premises covered by such lease shall be made of the indebtedness incurred by the lessor with respect to the real property.

(7) SPECIAL RULE APPLICABLE TO TRUSTS DESCRIBED IN SECTION 401 (a).—In the application of paragraph (1), if a trust described in section 401 (a) forming part of a stock bonus, pension, or profit-sharing plan of an employer lends any money to another trust described in section 401 (a) forming part of a stock bonus, pension, or profit-sharing plan of the same employer, such loan shall not be treated as an indebtedness of the borrowing trust, except to the extent that the loaning trust—

(A) incurs any indebtedness in order to make such loan;

(B) incurred indebtedness before the making of such loan which would not have been incurred but for the making of such loan; or

(C) incurred indebtedness after the making of such loan which would not have been incurred but for the making of such loan and which was reasonably foreseeable at the time of making such loan.

(d) PERSONAL PROPERTY LEASED WITH REAL PROPERTY.—For purposes of this section, the term "real property" and the term "premises" include personal property of the lessor leased by it to a lessee of its real estate if the lease of such personal property is made under, or in connection with, the lease of such real estate.

SEC. 515. TAXES OF FOREIGN COUNTRIES AND POSSESSIONS OF THE UNITED STATES.

The amount of taxes imposed by foreign countries and possessions of the United States shall be allowed as a credit against the tax of an organization subject to the tax imposed by section 511 to the extent provided in section 901; and in the case of the tax imposed by section 511, the term "taxable income" as used in section 901 shall be read as "unrelated business taxable income".

PART III—FARMERS' COOPERATIVES

Sec. 521. Exemption of farmers' cooperatives from tax.
Sec. 522. Tax on farmers' cooperatives.

SEC. 521. EXEMPTION OF FARMERS' COOPERATIVES FROM TAX.

(a) EXEMPTION FROM TAX.—A farmers' cooperative organization described in subsection (b) (1) shall be exempt from taxation under this subtitle except as otherwise provided in section 522. Notwithstanding section 522, such an organization shall be considered an organization exempt from income taxes for purposes of any law which refers to organizations exempt from income taxes.

(b) APPLICABLE RULES.—

(1) EXEMPT FARMERS' COOPERATIVES.—The farmers' cooperatives exempt from taxation to the extent provided in subsection (a) are farmers', fruit growers', or like associations organized and operated on a cooperative basis (A) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products

furnished by them, or (B) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses.

(2) ORGANIZATIONS HAVING CAPITAL STOCK.—Exemption shall not be denied any such association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 percent per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than nonvoting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the association, upon dissolution or otherwise, beyond the fixed dividends) is owned by producers who market their products or purchase their supplies and equipment through the association.

(3) ORGANIZATIONS MAINTAINING RESERVE.—Exemption shall not be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose.

(4) TRANSACTIONS WITH NONMEMBERS.—Exemption shall not be denied any such association which markets the products of nonmembers in an amount the value of which does not exceed the value of the products marketed for members, or which purchases supplies and equipment for nonmembers in an amount the value of which does not exceed the value of the supplies and equipment purchased for members, provided the value of the purchases made for persons who are neither members nor producers does not exceed 15 percent of the value of all its purchases.

(5) BUSINESS FOR THE UNITED STATES.—Business done for the United States or any of its agencies shall be disregarded in determining the right to exemption under this section.

SEC. 522. TAX ON FARMERS' COOPERATIVES.

(a) IMPOSITION OF TAX.—An organization exempt from taxation under section 521 shall be subject to the taxes imposed by section 11 or section 1201.

(b) COMPUTATION OF TAXABLE INCOME.—

(1) GENERAL RULE.—In computing the taxable income of such an organization there shall be allowed as deductions from gross income (in addition to other deductions allowable under this chapter)—

(A) amounts paid as dividends during the taxable year on its capital stock, and

(B) amounts allocated during the taxable year to patrons with respect to its income not derived from patronage (whether or not such income was derived during such taxable year) whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated to him. Allocations made after the close of the taxable year and on or before the 15th day of the 9th month following the close of such year shall be considered as made on

the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year.

(2) PATRONAGE DIVIDENDS, ETC.—Patronage dividends, refunds, and rebates to patrons with respect to their patronage in the same or preceding years (whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount of such dividend, refund, or rebate) shall be taken into account in computing taxable income in the same manner as in the case of a cooperative organization not exempt under section 521. Such dividends, refunds, and rebates made after the close of the taxable year and on or before the 15th day of the 9th month following the close of such year shall be considered as made on the last day of such taxable year to the extent the dividends, refunds, or rebates, are attributable to patronage occurring before the close of such year.

PART IV—SHIPOWNERS' PROTECTION AND INDEMNITY ASSOCIATIONS

Sec. 526. Shipowners' protection and indemnity associations.

SEC. 526. SHIPOWNERS' PROTECTION AND INDEMNITY ASSOCIATIONS.

There shall not be included in gross income the receipts of shipowners' mutual protection and indemnity associations not organized for profit, and no part of the net earnings of which inures to the benefit of any private shareholder; but such corporations shall be subject as other persons to the tax on their taxable income from interest, dividends, and rents.

Subchapter G—Corporations Used to Avoid Income Tax on Shareholders

Part I. Corporations improperly accumulating surplus.
Part II. Personal holding companies.
Part III. Foreign personal holding companies.
Part IV. Deduction for dividends paid.

PART I—CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS

Sec. 531. Imposition of accumulated earnings tax.
Sec. 532. Corporations subject to accumulated earnings tax.
Sec. 533. Evidence of purpose to avoid income tax.
Sec. 534. Burden of proof.
Sec. 535. Accumulated taxable income.
Sec. 536. Income not placed on annual basis.
Sec. 537. Reasonable needs of the business.

SEC. 531. IMPOSITION OF ACCUMULATED EARNINGS TAX.

In addition to other taxes imposed by this chapter, there is hereby imposed for each taxable year on the accumulated taxable income (as defined in section 535) of every corporation described in section 532, an accumulated earnings tax equal to the sum of—

(1) 27½ percent of the accumulated taxable income not in excess of $100,000, plus

(2) 38½ percent of the accumulated taxable income in excess of $100,000.

SEC. 532. CORPORATIONS SUBJECT TO ACCUMULATED EARNINGS TAX.

(a) General Rule.—The accumulated earnings tax imposed by section 531 shall apply to every corporation (other than those described in subsection (b)) formed or availed of for the purpose of avoiding the income tax with respect to its shareholders or the shareholders of any other corporation, by permitting earnings and profits to accumulate instead of being divided or distributed.

(b) Exceptions.—The accumulated earnings tax imposed by section 531 shall not apply to—

(1) a personal holding company (as defined in section 542).

(2) a foreign personal holding company (as defined in section 552), or

(3) a corporation exempt from tax under subchapter F (section 501 and following).

SEC. 533. EVIDENCE OF PURPOSE TO AVOID INCOME TAX.

(a) Unreasonable Accumulation Determinative of Purpose.—For purposes of section 532, the fact that the earnings and profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative of the purpose to avoid the income tax with respect to shareholders, unless the corporation by the preponderance of the evidence shall prove to the contrary.

(b) HOLDING OR INVESTMENT COMPANY.—The fact that any corporation is a mere holding or investment company shall be prima facie evidence of the purpose to avoid the income tax with respect to shareholders.

SEC. 534. BURDEN OF PROOF.

(a) GENERAL RULE.—In any proceeding before the Tax Court involving a notice of deficiency based in whole or in part on the allegation that all or any part of the earnings and profits have been permitted to accumulate beyond the reasonable needs of the business, the burden of proof with respect to such allegation shall—

(1) if notification has not been sent in accordance with subsection (b), be on the Secretary or his delegate, or

(2) if the taxpayer has submitted the statement described in subsection (c), be on the Secretary or his delegate with respect to the grounds set forth in such statement in accordance with the provisions of such subsection.

(b) NOTIFICATION BY SECRETARY.—Before mailing the notice of deficiency referred to in subsection (a), the Secretary or his delegate may send by registered mail a notification informing the taxpayer that the proposed notice of deficiency includes an amount with respect to the accumulated earnings tax imposed by section 531.

(c) STATEMENT BY TAXPAYER.—Within such time (but not less than 30 days) after the mailing of the notification described in subsection (b) as the Secretary or his delegate may prescribe by regulations, the taxpayer may submit a statement of the grounds (together with facts sufficient to show the basis thereof) on which the taxpayer relies to establish that all or any part of the earnings and profits have not been permitted to accumulate beyond the reasonable needs of the business.

(d) JEOPARDY ASSESSMENT.—If pursuant to section 6861 (a) a jeopardy assessment is made before the mailing of the notice of deficiency referred to in subsection (a), for purposes of this section such notice of deficiency shall, to the extent that it informs the taxpayer that such deficiency includes the accumulated earnings tax imposed by section 531, constitute the notification described in subsection (b), and in that event the statement described in subsection (c) may be included in the taxpayer's petition to the Tax Court.

(e) EFFECTIVE DATE.—This section shall apply only with respect to a notice of deficiency for a taxable year to which this subchapter applies which is mailed more than 90 days after the date of enactment of this title.

SEC. 535. ACCUMULATED TAXABLE INCOME.

(a) DEFINITION.—For purposes of this subtitle, the term "accumulated taxable income" means the taxable income, adjusted in the manner provided in subsection (b), minus the sum of the dividends paid deduction (as defined in section 561) and the accumulated earnings credit (as defined in subsection (c)).

(b) ADJUSTMENTS TO TAXABLE INCOME.—For purposes of subsection (a), taxable income shall be adjusted as follows:

(1) TAXES.—There shall be allowed as a deduction Federal income and excess profits taxes (other than the excess profits tax imposed by subchapter E of chapter 2 of the Internal Revenue

Code of 1939 for taxable years beginning after December 31, 1940) and income, war profits, and excess profits taxes of foreign countries and possessions of the United States (to the extent not allowable as a deduction under section 164 (b) (6)), accrued during the taxable year, but not including the accumulated earnings tax imposed by section 531, the personal holding company tax imposed by section 541, or the taxes imposed by corresponding sections of a prior income tax law.

(2) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions provided under section 170 shall be allowed without regard to the limitation in section 170 (b) (2).

(3) SPECIAL DEDUCTIONS DISALLOWED.—The special deductions for corporations provided in part VIII (except section 248) of subchapter B (section 241 and following, relating to the deduction for dividends received by corporations, etc.) shall not be allowed.

(4) NET OPERATING LOSS.—The net operating loss deduction provided in section 172 shall not be allowed.

(5) CAPITAL LOSSES.—There shall be allowed as deductions losses from sales or exchanges of capital assets during the taxable year which are disallowed as deductions under section 1211 (a).

(6) LONG-TERM CAPITAL GAINS.—There shall be allowed as a deduction the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year (determined without regard to the capital loss carryover provided in section 1212) minus the taxes imposed by this subtitle attributable to such excess. The taxes attributable to such excess shall be an amount equal to the difference between—

(A) the taxes imposed by this subtitle (except the tax imposed by this part) for such year, and

(B) such taxes computed for such year without including such excess in taxable income.

(7) CAPITAL LOSS CARRYOVER.—No allowance shall be made for the capital loss carryover provided in section 1212.

(8) BANK AFFILIATES.—There shall be allowed the deduction described in section 601 (relating to bank affiliates).

(c) ACCUMULATED EARNINGS CREDIT.—

(1) GENERAL RULE.—For purposes of subsection (a), in the case of a corporation other than a mere holding or investment company the accumulated earnings credit is (A) an amount equal to such part of the earnings and profits for the taxable year as are retained for the reasonable needs of the business, minus (B) the deduction allowed by subsection (b) (6). For purposes of this paragraph, the amount of the earnings and profits for the taxable year which are retained is the amount by which the earnings and profits for the taxable year exceed the dividends paid deduction (as defined in section 561) for such year.

(2) MINIMUM CREDIT.—The credit allowable under paragraph (1) shall in no case be less than the amount by which $60,000 exceeds the accumulated earnings and profits of the corporation at the close of the preceding taxable year.

(3) HOLDING AND INVESTMENT COMPANIES.—In the case of a corporation which is a mere holding or investment company, the

accumulated earnings credit is the amount (if any) by which $60,000 exceeds the accumulated earnings and profits of the corporation at the close of the preceding taxable year.

(4) ACCUMULATED EARNINGS AND PROFITS.—For purposes of paragraphs (2) and (3), the accumulated earnings and profits at the close of the preceding taxable year shall be reduced by the dividends which under section 563 (a) (relating to dividends paid after the close of the taxable year) are considered as paid during such taxable year.

(5) CROSS REFERENCE.—

For denial of credit provided in paragraph (2) or (3) where multiple corporations are formed to avoid tax, see section 1551.

SEC. 536. INCOME NOT PLACED ON ANNUAL BASIS.

Section 443 (b) (relating to computation of tax on change of annual accounting period) shall not apply in the computation of the accumulated earnings tax imposed by section 531.

SEC. 537. REASONABLE NEEDS OF THE BUSINESS.

For purposes of this part, the term "reasonable needs of the business" includes the reasonably anticipated needs of the business.

PART II—PERSONAL HOLDING COMPANIES

Sec. 541. Imposition of personal holding company tax.
Sec. 542. Definition of personal holding company.
Sec. 543. Personal holding company income.
Sec. 544. Rules for determining stock ownership.
Sec. 545. Undistributed personal holding company income.
Sec. 546. Income not placed on annual basis.
Sec. 547. Deduction for deficiency dividends.

SEC. 541. IMPOSITION OF PERSONAL HOLDING COMPANY TAX.

In addition to other taxes imposed by this chapter, there is hereby imposed for each taxable year on the undistributed personal holding company income (as defined in section 545) of every personal holding company (as defined in section 542) a personal holding company tax equal to the sum of—

(1) 75 percent of the undistributed personal holding company income not in excess of $2,000, plus

(2) 85 percent of the undistributed personal holding company income in excess of $2,000.

SEC. 542. DEFINITION OF PERSONAL HOLDING COMPANY.

(a) GENERAL RULE.—For purposes of this subtitle, the term "personal holding company" means any corporation (other than a corporation described in subsection (c)) if—

(1) GROSS INCOME REQUIREMENT.—At least 80 percent of its gross income for the taxable year is personal holding company income as defined in section 543, and

(2) STOCK OWNERSHIP REQUIREMENT.—At any time during the last half of the taxable year more than 50 percent in value of its outstanding stock is owned, directly or indirectly, by or for not more than 5 individuals. For purposes of this paragraph, an organization described in section 503 (b) or a portion of a trust

permanently set aside or to be used exclusively for the purposes described in section 642 (c) or a corresponding provision of a prior income tax law shall be considered an individual.

(b) CORPORATIONS FILING CONSOLIDATED RETURNS.—

(1) GENERAL RULE.—In the case of an affiliated group of corporations filing or required to file a consolidated return under section 1501 for any taxable year, the gross income requirement of subsection (a) (1) of this section shall, except as provided in paragraphs (2) and (3), be applied for such year with respect to the consolidated gross income and the consolidated personal holding company income of the affiliated group. No member of such an affiliated group shall be considered to meet such gross income requirement unless the affiliated group meets such requirement.

(2) INELIGIBLE AFFILIATED GROUP.—Paragraph (1) shall not apply to an affiliated group of corporations, other than an affiliated group of railroad corporations the common parent of which would be eligible to file a consolidated return under section 141 of the Internal Revenue Code of 1939 prior to its amendment by the Revenue Act of 1942, if—

(A) any member of the affiliated group of corporations (including the common parent corporation) derived 10 percent or more of its gross income for the taxable year from sources outside the affiliated group, and

(B) 80 percent or more of the amount described in subparagraph (A) consists of personal holding company income (as defined in section 543).

For purposes of this paragraph, section 543 shall be applied as if the amount described in subparagraph (A) were the gross income of the corporation.

(3) EXCLUDED CORPORATIONS.—Paragraph (1) shall not apply to an affiliated group of corporations if any member of the affiliated group (including the common parent corporation) is a corporation excluded from the definition of personal holding company under subsection (c).

(4) CERTAIN DIVIDEND INCOME RECEIVED BY A COMMON PARENT.—In applying paragraph (2) (A) and (B), personal holding company income and gross income shall not include dividends received by a common parent corporation from another corporation if—

(A) the common parent corporation owns, directly or indirectly, more than 50 percent of the outstanding voting stock of such other corporation, and

(B) such other corporation is not a personal holding company for the taxable year in which the dividends are paid.

(c) EXCEPTIONS.—The term "personal holding company" as defined in subsection (a) does not include—

(1) a corporation exempt from tax under subchapter F (sec. 501 and following);

(2) a bank as defined in section 581;

(3) a life insurance company;

(4) a surety company;

(5) a foreign personal holding company as defined in section 552;

(6) a licensed personal finance company under State supervision, 80 percent or more of the gross income of which is lawful interest received from loans made to individuals in accordance with the provisions of applicable State law if at least 60 percent of such gross income is lawful interest—

(A) received from individuals each of whose indebtedness to such company did not at any time during the taxable year exceed in principal amount the limit prescribed for small loans by such law (or, if there is no such limit, $500), and

(B) not payable in advance or compounded and computed only on unpaid balances, and if the loans to a person, who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by the members of his family as defined in section 544 (a) (2)), outstanding at any time during such year do not exceed $5,000 in principal amount;

(7) a lending company, not otherwise excepted by this subsection, authorized to engage in the small loan business under one or more State statutes providing for the direct regulation of such business, 80 percent or more of the gross income of which is lawful interest, discount or other authorized charges—

(A) received from loans maturing in not more than 36 months made to individuals in accordance with the provisions of applicable State law, and

(B) which do not, in the case of any individual loan, exceed in the aggregate an amount equal to simple interest at the rate of 3 percent per month not payable in advance and computed only on unpaid balances, if at least 60 percent of the gross income is lawful interest, discount or other authorized charges received from individuals each of whose indebtedness to such company did not at any time during the taxable year exceed in principal amount the limit prescribed for small loans by such law (or, if there is no such limit, $500), and if the deductions allowed to such company under section 162 (relating to trade or business expenses), other than for compensation for personal services rendered by shareholders (including members of the shareholder's family as described in section 544 (a) (2)) constitute 15 percent or more of its gross income, and the loans to a person, who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by the members of his family as defined in section 544 (a) (2)), outstanding at any time during such year do not exceed $5,000 in principal amount;

(8) a loan or investment corporation, a substantial part of the business of which consists of receiving funds not subject to check and evidenced by installment or fully paid certificates of indebtedness or investment, and making loans and discounts, and the loans to a person who is a shareholder in such corporation during such taxable year by or for whom 10 percent or more in value

of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by the members of his family as defined in section 544 (a) (2)) outstanding at any time during such year do not exceed $5,000 in principal amount;

(9) a finance company, actively and regularly engaged in the business of purchasing or discounting accounts or notes receivable or installment obligations, or making loans secured by any of the foregoing or by tangible personal property, at least 80 percent of the gross income of which is derived from such business in accordance with the provisions of applicable State law or does not constitute personal holding company income as defined in section 543, if 60 percent of the gross income is derived from one or more of the following classes of transactions—

(A) purchasing or discounting accounts or notes receivable, or installment obligations evidenced or secured by contracts of conditional sale, chattel mortgages, or chattel lease agreements, arising out of the sale of goods or services in the course of the transferor's trade or business;

(B) making loans, maturing in not more than 36 months, to, and for the business purposes of, persons engaged in trade or business, secured by—

(i) accounts or notes receivable, or installment obligations, described in subparagraph (A);

(ii) warehouse receipts, bills of lading, trust receipts, chattel mortgages, bailments, or factor's liens, covering or evidencing the borrower's inventories;

(iii) a chattel mortgage on property used in the borrower's trade or business;

except loans to any single borrower which for more than 90 days in the taxable year of the company exceed 15 percent of the average funds employed by the company during such taxable year;

(C) making loans, in accordance with the provisions of applicable State law, secured by chattel mortgages on tangible personal property, the original amount of each of which is not less than the limit referred to in, or prescribed by, paragraph (6) (A), and the aggregate principal amount of which owing by any one borrower to the company at any time during the taxable year of the company does not exceed $5,000; and

(D) if 30 percent or more of the gross income of the company is derived from one or more of the classes of transactions described in subparagraphs (A), (B), and (C), purchasing, discounting, or lending upon the security of, installment obligations of individuals where the transferor or borrower acquired such obligations either in transactions of the classes described in subparagraphs (A) and (C) or as a result of loans made by such transferor or borrower in accordance with the provisions of subparagraphs (A) and (B) of paragraph (6) or of subparagraphs (A) and (B) of paragraph (7) of this subsection, if the funds so supplied at all times bear an agreed ratio to the unpaid balance of the assigned installment obligations, and documents evidencing such obligations are held by the company;

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provided that the deductions allowable under section 162 (relating to trade or business expenses), other than compensation for personal services rendered by shareholders (including members of the shareholder's family as described in section 544 (a) (2)), constitute 15 percent or more of the gross income, and that loans to a person who is a shareholder in such company during such taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by members of his family as defined in section 544 (a) (2)), outstanding at any time during such year do not exceed $5,000 in principal amount;

(10) a foreign corporation if—

(A) its gross income from sources within the United States for the period specified in section 861 (a) (2) (B) is less than 50 percent of its total gross income from all sources, and

(B) all of its stock outstanding during the last half of the taxable year is owned by nonresident alien individuals, whether directly or indirectly through other foreign corporations.

SEC. 543. PERSONAL HOLDING COMPANY INCOME.

(a) GENERAL RULE.—For purposes of this subtitle, the term "personal holding company income" means the portion of the gross income which consists of:

(1) DIVIDENDS, ETC.—Dividends, interest, royalties (other than mineral, oil, or gas royalties), and annuities. This paragraph shall not apply to interest constituting rent as defined in paragraph (7) or to interest on amounts set aside in a reserve fund under section 511 or 607 of the Merchant Marine Act, 1936.

(2) STOCK AND SECURITIES TRANSACTIONS.—Except in the case of regular dealers in stock or securities, gains from the sale or exchange of stock or securities.

(3) COMMODITIES TRANSACTIONS.—Gains from futures transactions in any commodity on or subject to the rules of a board of trade or commodity exchange. This paragraph shall not apply to gains by a producer, processor, merchant, or handler of the commodity which arise out of bona fide hedging transactions reasonably necessary to the conduct of its business in the manner in which such business is customarily and usually conducted by others.

(4) ESTATES AND TRUSTS.—Amounts includible in computing the taxable income of the corporation under part I of subchapter J (sec. 641 and following, relating to estates, trusts, and beneficiaries); and gains from the sale or other disposition of any interest in an estate or trust.

(5) PERSONAL SERVICE CONTRACTS.—

(A) Amounts received under a contract under which the corporation is to furnish personal services; if some person other than the corporation has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and

(B) amounts received from the sale or other disposition of such a contract.

This paragraph shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for the individual who has performed, is to perform, or may be designated (by name or by description) as the one to perform, such services.

(6) USE OF CORPORATION PROPERTY BY SHAREHOLDER.—Amounts received as compensation (however designated and from whomsoever received) for the use of, or right to use, property of the corporation in any case where, at any time during the taxable year, 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual entitled to the use of the property; whether such right is obtained directly from the corporation or by means of a sublease or other arrangement. This paragraph shall apply only to a corporation which has personal holding company income for the taxable year, computed without regard to this paragraph and paragraph (7), in excess of 10 percent of its gross income.

(7) RENTS.—Rents, unless constituting 50 percent or more of the gross income. For purposes of this paragraph, the term "rents" means compensation, however designated, for the use of, or right to use, property, and the interest on debts owed to the corporation, to the extent such debts represent the price for which real property held primarily for sale to customers in the ordinary course of its trade or business was sold or exchanged by the corporation; but does not include amounts constituting personal holding company income under paragraph (6).

(8) MINERAL, OIL, OR GAS ROYALTIES.—Mineral, oil, or gas royalties, unless—

(A) such royalties constitute 50 percent or more of the gross income, and

(B) the deductions allowable under section 162 (relating to trade or business expenses) other than compensation for personal services rendered by the shareholders, constitute 15 percent or more of the gross income.

(b) LIMITATION ON GROSS INCOME IN CERTAIN TRANSACTIONS.—For purposes of this part—

(1) gross income and personal holding company income determined with respect to transactions described in section 543 (a) (2) (relating to gains from stock and security transactions) shall include only the excess of gains over losses from such transactions, and

(2) gross income and personal holding company income determined with respect to transactions described in section 543 (a) (3) (relating to gains from commodity transactions) shall include only the excess of gains over losses from such transactions.

(c) GROSS INCOME OF INSURANCE COMPANIES OTHER THAN LIFE OR MUTUAL.—In the case of an insurance company other than life or mutual, the term "gross income" as used in this part means the gross income, as defined in section 832 (b) (1), increased by the amount of losses incurred, as defined in section 832 (b) (5), and the amount of expenses incurred, as defined in section 832 (b) (6), and decreased by

the amount deductible under section 832 (c) (7) (relating to tax-free interest).

SEC. 544. RULES FOR DETERMINING STOCK OWNERSHIP.

(a) CONSTRUCTIVE OWNERSHIP.—For purposes of determining whether a corporation is a personal holding company, insofar as such determination is based on stock ownership under section 542 (a) (2), section 543 (a) (5), or section 543 (a) (6)—

(1) STOCK NOT OWNED BY INDIVIDUAL.—Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries.

(2) FAMILY AND PARTNERSHIP OWNERSHIP.—An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family or by or for his partner. For purposes of this paragraph, the family of an individual includes only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants.

(3) OPTIONS.—If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

(4) APPLICATION OF FAMILY-PARTNERSHIP AND OPTION RULES.—Paragraphs (2) and (3) shall be applied—

(A) for purposes of the stock ownership requirement provided in section 542 (a) (2), if, but only if, the effect is to make the corporation a personal holding company;

(B) for purposes of section 543 (a) (5) (relating to personal service contracts), or of section 543 (a) (6) (relating to the use of property by shareholders), if, but only if, the effect is to make the amounts therein referred to includible under such paragraph as personal holding company income.

(5) CONSTRUCTIVE OWNERSHIP AS ACTUAL OWNERSHIP.—Stock constructively owned by a person by reason of the application of paragraph (1) or (3) shall, for purposes of applying paragraph (1) or (2), be treated as actually owned by such person; but stock constructively owned by an individual by reason of the application of paragraph (2) shall not be treated as owned by him for purposes of again applying such paragraph in order to make another the constructive owner of such stock.

(6) OPTION RULE IN LIEU OF FAMILY AND PARTNERSHIP RULE.—If stock may be considered as owned by an individual under either paragraph (2) or (3) it shall be considered as owned by him under paragraph (3).

(b) CONVERTIBLE SECURITIES.—Outstanding securities convertible into stock (whether or not convertible during the taxable year) shall be considered as outstanding stock—

(1) for purposes of the stock ownership requirement provided in section 542 (a) (2), but only if the effect of the inclusion of all such securities is to make the corporation a personal holding company;

(2) for purposes of section 543 (a) (5) (relating to personal service contracts), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such paragraph as personal holding company income; and

(3) for purposes of section 543 (a) (6) (relating to the use of property by shareholders), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such paragraph as personal holding company income.

The requirement in paragraphs (1), (2), and (3) that all convertible securities must be included if any are to be included shall be subject to the exception that, where some of the outstanding securities are convertible only after a later date than in the case of others, the class having the earlier conversion date may be included although the others are not included, but no convertible securities shall be included unless all outstanding securities having a prior conversion date are also included.

SEC. 545. UNDISTRIBUTED PERSONAL HOLDING COMPANY INCOME.

(a) DEFINITION.—For purposes of this part, the term "undistributed personal holding company income" means the taxable income of a personal holding company adjusted in the manner provided in subsection (b), minus the dividends paid deduction as defined in section 561.

(b) ADJUSTMENTS TO TAXABLE INCOME.—For the purposes of subsection (a), the taxable income shall be adjusted as follows:

(1) TAXES.—There shall be allowed as a deduction Federal income and excess profits taxes (other than the excess profits tax imposed by subchapter E of chapter 2 of the Internal Revenue Code of 1939 for taxable years beginning after December 31, 1940) and income, war profits and excess profits taxes of foreign countries and possessions of the United States (to the extent not allowable as a deduction under section 164 (b) (6)), accrued during the taxable year, but not including the accumulated earnings tax imposed by section 531, the personal holding company tax imposed by section 541, or the taxes imposed by corresponding sections of a prior income tax law. A taxpayer which, for each taxable year in which it was subject to the tax imposed by section 500 of the Internal Revenue Code of 1939, deducted Federal income and excess profits taxes when paid for the purpose of computing subchapter A net income under such Code, shall deduct taxes under this paragraph when paid, unless the taxpayer elects, in its return for a taxable year ending after June 30, 1954, to deduct the taxes described in this paragraph when accrued. Such an election shall be irrevocable and shall apply to the taxable year for which the election is made and to all subsequent taxable years.

(2) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions provided under section 170 shall be allowed but with the limitations in section 170 (b) (1) (A) and (B) (in lieu of the limitation in section 170 (b) (2)). 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 provided in section 170 (b) (2) and without the deduction of the amount disallowed under paragraph (8) of this subsection.

(3) SPECIAL DEDUCTIONS DISALLOWED.—The special deductions for corporations provided in part VIII (except section 248) of subchapter B (section 241 and following, relating to the deduction for dividends received by corporations, etc.) shall not be allowed.

(4) NET OPERATING LOSS.—The net operating loss deduction provided in section 172 shall not be allowed, but there shall be allowed as a deduction the amount of the net operating loss (as defined in section 172 (c)) for the preceding taxable year.

(5) LONG-TERM CAPITAL GAINS.—There shall be allowed as a deduction the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, minus the taxes imposed by this subtitle attributable to such excess. The taxes attributable to such excess shall be an amount equal to the difference between—

(A) the taxes imposed by this subtitle (except the tax imposed by this part) for such year, and

(B) such taxes computed for such year without including such excess in taxable income.

(6) BANK AFFILIATES.—There shall be allowed the deduction described in section 601 (relating to bank affiliates).

(7) PAYMENT OF INDEBTEDNESS INCURRED PRIOR TO JANUARY 1, 1934.—There shall be allowed as a deduction amounts used or irrevocably set aside to pay or to retire indebtedness of any kind incurred before January 1, 1934, if such amounts are reasonable with reference to the size and terms of such indebtedness.

(8) EXPENSES AND DEPRECIATION APPLICABLE TO PROPERTY OF THE TAXPAYER.—The aggregate of the deductions allowed under section 162 (relating to trade or business expenses) and section 167 (relating to depreciation), which are allocable to the operation and maintenance of property owned or operated by the corporation, shall be allowed only in an amount equal to the rent or other compensation received for the use of, or the right to use, the property, unless it is established (under regulations prescribed by the Secretary or his delegate) to the satisfaction of the Secretary or his delegate—

(A) that the rent or other compensation received was the highest obtainable, or, if none was received, that none was obtainable;

(B) that the property was held in the course of a business carried on bona fide for profit; and

(C) either that there was reasonable expectation that the operation of the property would result in a profit, or that the property was necessary to the conduct of the business.

(9) AMOUNT OF A LIEN IN FAVOR OF THE UNITED STATES.—There shall be allowed as a deduction the amount, not to exceed the taxable income of the taxpayer, of any lien in favor of the United States (notice of which has been filed as provided in section 6323 (a) (1), (2), or (3)) to which the taxpayer is subject at the close of the taxable year. The sum of the amounts deducted under this paragraph with respect to any lien shall, for the purposes of this section, be added to the taxable income of the taxpayer for

the taxable year in which such lien is satisfied or released. Where an amount is added to the taxable income of a corporation by reason of the preceding sentence of this paragraph, the shareholders of the corporation may, pursuant to regulations prescribed by the Secretary or his delegate, elect to compute the income tax with respect to such dividends as are attributable to such amount as though they were received ratably over the period the lien was in effect.

SEC. 546. INCOME NOT PLACED ON ANNUAL BASIS.

Section 443 (b) (relating to computation of tax on change of annual accounting period) shall not apply in the computation of the personal holding company tax imposed by section 541.

SEC. 547. DEDUCTION FOR DEFICIENCY DIVIDENDS.

(a) GENERAL RULE.—If a determination (as defined in subsection (c)) with respect to a taxpayer establishes liability for personal holding company tax imposed by section 541 (or by a corresponding provision of a prior income tax law) for any taxable year, a deduction shall be allowed to the taxpayer for the amount of deficiency dividends (as defined in subsection (d)) for the purpose of determining the personal holding company tax for such year, but not for the purpose of determining interest, additional amounts, or assessable penalties computed with respect to such personal holding company tax.

(b) RULES FOR APPLICATION OF SECTION.—

(1) ALLOWANCE OF DEDUCTION.—The deficiency dividend deduction shall be allowed as of the date the claim for the deficiency dividend deduction is filed.

(2) CREDIT OR REFUND.—If the allowance of a deficiency dividend deduction results in an overpayment of personal holding company tax for any taxable year, credit or refund with respect to such overpayment shall be made as if on the date of the determination 2 years remained before the expiration of the period of limitation on the filing of claim for refund for the taxable year to which the overpayment relates. No interest shall be allowed on a credit or refund arising from the application of this section.

(c) DETERMINATION.—For purposes of this section, the term "determination" means—

(1) a decision by the Tax Court or a judgment, decree, or other order by any court of competent jurisdiction, which has become final;

(2) a closing agreement made under section 7121; or

(3) under regulations prescribed by the Secretary or his delegate, an agreement signed by the Secretary or his delegate and by, or on behalf of, the taxpayer relating to the liability of such taxpayer for personal holding company tax.

(d) DEFICIENCY DIVIDENDS.—

(1) DEFINITION.—For purposes of this section, the term "deficiency dividends" means the amount of the dividends paid by the corporation on or after the date of the determination and before filing claim under subsection (e), which would have been includible in the computation of the deduction for dividends paid under sec-

tion 561 for the taxable year with respect to which the liability for personal holding company tax exists, if distributed during such taxable year. No dividends shall be considered as deficiency dividends for purposes of subsection (a) unless distributed within 90 days after the determination.

(2) EFFECT ON DIVIDENDS PAID DEDUCTION.—

(A) FOR TAXABLE YEAR IN WHICH PAID.—Deficiency dividends paid in any taxable year (to the extent of the portion thereof taken into account under subsection (a) in determining personal holding company tax) shall not be included in the amount of dividends paid for such year for purposes of computing the dividends paid deduction for such year and succeeding years.

(B) FOR PRIOR TAXABLE YEAR.—Deficiency dividends paid in any taxable year (to the extent of the portion thereof taken into account under subsection (a) in determining personal holding company tax) shall not be allowed for purposes of section 563 (b) in the computation of the dividends paid deduction for the taxable year preceding the taxable year in which paid.

(e) CLAIM REQUIRED.—No deficiency dividend deduction shall be allowed under subsection (a) unless (under regulations prescribed by the Secretary or his delegate) claim therefor is filed within 120 days after the determination.

(f) SUSPENSION OF STATUTE OF LIMITATIONS AND STAY OF COLLECTION.—

(1) SUSPENSION OF RUNNING OF STATUTE.—If the corporation files a claim, as provided in subsection (e), the running of the statute of limitations provided in section 6501 on the making of assessments, and the bringing of distraint or a proceeding in court for collection, in respect of the deficiency and all interest, additional amounts, or assessable penalties, shall be suspended for a period of 2 years after the date of the determination.

(2) STAY OF COLLECTION.—In the case of any deficiency with respect to the tax imposed by section 541 established by a determination under this section—

(A) the collection of the deficiency and all interest, additional amounts, and assessable penalties shall, except in cases of jeopardy, be stayed until the expiration of 120 days after the date of the determination, and

(B) if claim for deficiency dividend deduction is filed under subsection (e), the collection of such part of the deficiency as is not reduced by the deduction for deficiency dividends provided in subsection (a) shall be stayed until the date the claim is disallowed (in whole or in part), and if disallowed in part collection shall be made only with respect to the part disallowed.

No distraint or proceeding in court shall be begun for the collection of an amount the collection of which is stayed under subparagraph (A) or (B) during the period for which the collection of such amount is stayed.

(g) DEDUCTION DENIED IN CASE OF FRAUD, ETC.—No deficiency dividend deduction shall be allowed under subsection (a) if the determination contains a finding that any part of the deficiency is due to

fraud with intent to evade tax, or to wilful failure to file an income tax return within the time prescribed by law or prescribed by the Secretary or his delegate in pursuance of law.

(h) EFFECTIVE DATE.—Subsections (a) through (f), inclusive, shall apply only with respect to determinations made more than 90 days after the date of enactment of this title. If the taxable year with respect to which the deficiency is asserted began before January 1, 1954, the term "deficiency dividend" includes only amounts which would have been includible in the computation under the Internal Revenue Code of 1939 of the basic surtax credit for such taxable year. Subsection (g) shall apply only if the taxable year with respect to which the deficiency is asserted begins after December 31, 1953.

PART III—FOREIGN PERSONAL HOLDING COMPANIES

Sec. 551. Foreign personal holding company income taxed to United States shareholders.
Sec. 552. Definition of foreign personal holding company.
Sec. 553. Foreign personal holding company income.
Sec. 554. Stock ownership.
Sec. 555. Gross income of foreign personal holding companies.
Sec. 556. Undistributed foreign personal holding company income.
Sec. 557. Income not placed on annual basis.

SEC. 551. FOREIGN PERSONAL HOLDING COMPANY INCOME TAXED TO UNITED STATES SHAREHOLDERS.

(a) GENERAL RULE.—The undistributed foreign personal holding company income of a foreign personal holding company shall be included in the gross income of the citizens or residents of the United States, domestic corporations, domestic partnerships, and estates or trusts (other than estates or trusts the gross income of which under this subtitle includes only income from sources within the United States), who are shareholders in such foreign personal holding company (hereinafter called "United States shareholders") in the manner and to the extent set forth in this part.

(b) AMOUNT INCLUDED IN GROSS INCOME.—Each United States shareholder, who was a shareholder on the day in the taxable year of the company which was the last day on which a United States group (as defined in section 552 (a) (2)) existed with respect to the company, shall include in his gross income, as a dividend, for the taxable year in which or with which the taxable year of the company ends, the amount he would have received as a dividend if on such last day there had been distributed by the company, and received by the shareholders, an amount which bears the same ratio to the undistributed foreign personal holding company income of the company for the taxable year as the portion of such taxable year up to and including such last day bears to the entire taxable year.

(c) DEDUCTION FOR OBLIGATIONS OF UNITED STATES AND ITS INSTRUMENTALITIES.—Each United States shareholder shall take into account in determining his income tax his proportionate share of partially tax-exempt interest on obligations described in section 35 or 242 which is included in the gross income of the company otherwise than by the application of the provisions of section 555 (b) (relating to the inclusion in the gross income of a foreign personal holding

company of its distributive share of the undistributed foreign personal holding company income of another foreign personal holding company in which it is a shareholder). If the foreign personal holding company elects under section 171 to amortize the premiums on such obligations, for purposes of the preceding sentence each United States shareholder's proportionate share of such interest received by the foreign personal holding company shall be his proportionate share of such interest (determined without regard to this sentence) reduced by so much of the deduction under section 171 as is attributable to such share.

(d) INFORMATION IN RETURN.—Every United States shareholder who is required under subsection (b) to include in his gross income any amount with respect to the undistributed foreign personal holding company income of a foreign personal holding company and who, on the last day on which a United States group existed with respect to the company, owned 5 percent or more in value of the outstanding stock of such company, shall set forth in his return in complete detail the gross income, deductions and credits, taxable income, foreign personal holding company, and undistributed foreign personal holding company income of such company.

(e) EFFECT ON CAPITAL ACCOUNT OF FOREIGN PERSONAL HOLDING COMPANY.—An amount which bears the same ratio to the undistributed foreign personal holding company income of the foreign personal holding company for its taxable year as the portion of such taxable year up to and including the last day on which a United States group existed with respect to the company bears to the entire taxable year, shall, for the purpose of determining the effect of distributions in subsequent taxable years by the corporation, be considered as paid-in surplus or as a contribution to capital, and the accumulated earnings and profits as of the close of the taxable year shall be correspondingly reduced, if such amount or any portion thereof is required to be included as a dividend, directly or indirectly, in the gross income of United States shareholders.

(f) BASIS OF STOCK IN HANDS OF SHAREHOLDERS.—The amount required to be included in the gross income of a United States shareholder under subsection (b) shall, for the purpose of adjusting the basis of his stock with respect to which the distribution would have been made (if it had been made), be treated as having been reinvested by the shareholder as a contribution to the capital of the corporation; 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 the last determination of the shareholder's tax liability, made before the expiration of 6 years after the date prescribed by law for filing the return.

(g) CROSS REFERENCES.—

(1) For basis of stock or securities in a foreign personal holding company acquired from a decedent, see section 1014 (b) (5).

(2) For period of limitation on assessment and collection without assessment, in case of failure to include in gross income the amount properly includible therein under subsection (b), see section 6501.

(3) For treatment of gain on liquidation of certain foreign personal holding companies, see section 342.

SEC. 552. DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY.

(a) GENERAL RULE.—For purposes of this subtitle, the term "foreign personal holding company" means any foreign corporation if—

(1) GROSS INCOME REQUIREMENT.—At least 60 percent of its gross income (as defined in section 555 (a)) for the taxable year is foreign personal holding company income as defined in section 553; but if the corporation is a foreign personal holding company with respect to any taxable year ending after August 26, 1937, then, for each subsequent taxable year, the minimum percentage shall be 50 percent in lieu of 60 percent, until a taxable year during the whole of which the stock ownership required by paragraph (2) does not exist, or until the expiration of three consecutive taxable years in each of which less than 50 percent of the gross income is foreign personal holding company income. For purposes of this paragraph, there shall be included in the gross income the amount includible therein as a dividend by reason of the application of section 555 (c) (2); and

(2) STOCK OWNERSHIP REQUIREMENT.—At any time during the taxable year more than 50 percent in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals who are citizens or residents of the United States, hereinafter called "United States group".

(b) EXCEPTIONS.—The term "foreign personal holding company" does not include—

(1) a corporation exempt from tax under subchapter F (sec. 501 and following); and

(2) a corporation organized and doing business under the banking and credit laws of a foreign country if it is established (annually or at other periodic intervals) to the satisfaction of the Secretary or his delegate that such corporation is not formed or availed of for the purpose of evading or avoiding United States income taxes which would otherwise be imposed upon its shareholders. If the Secretary or his delegate is satisfied that such corporation is not so formed or availed of, he shall issue to such corporation annually or at other periodic intervals a certification that the corporation is not a foreign personal holding company.

Each United States shareholder of a foreign corporation which would, except for the provisions of paragraph (2), be a foreign personal holding company, shall attach to and file with his income tax return for the taxable year a copy of the certification by the Secretary or his delegate made pursuant to paragraph (2). Such copy shall be filed with the taxpayer's return for the taxable year if he has been a shareholder of such corporation for any part of such year.

SEC. 553. FOREIGN PERSONAL HOLDING COMPANY INCOME.

For purposes of this subtitle, the term "foreign personal holding company income" means the portion of the gross income, determined for purposes of section 552, which consists of personal holding company income, as defined in section 543, except that all interest, whether or not treated as rent, and all royalties, whether or not mineral, oil, or gas royalties, shall constitute "foreign personal holding company income".

SEC. 554. STOCK OWNERSHIP.

For purposes of determining whether a foreign corporation is a foreign personal holding company, insofar as such determination is based on stock ownership, the rules provided in section 544 shall be applicable as if any reference in such section to a personal holding company was a reference to a foreign personal holding company and as if any reference in such section to a provision of part II (relating to personal holding companies) was a reference to the corresponding provision of this part.

SEC. 555. GROSS INCOME OF FOREIGN PERSONAL HOLDING COMPANIES.

(a) GENERAL RULE.—For purposes of this part, the term "gross income" means, with respect to a foreign corporation, gross income computed (without regard to the provisions of subchapter N (sec. 861 and following)) as if the foreign corporation were a domestic corporation which is a personal holding company.

(b) ADDITIONS TO GROSS INCOME.—In the case of a foreign personal holding company (whether or not a United States group, as defined in section 552 (a) (2), existed with respect to such company on the last day of its taxable year) which was a shareholder in another foreign personal holding company on the day in the taxable year of the second company which was the last day on which a United States group existed with respect to the second company, there shall be included, as a dividend, in the gross income of the first company, for the taxable year in which or with which the taxable year of the second company ends, the amount the first company would have received as a dividend if on such last day there had been distributed by the second company, and received by the shareholders, an amount which bears the same ratio to the undistributed foreign personal holding company income of the second company for its taxable year as the portion of such taxable year up to and including such last day bears to the entire taxable year.

(c) APPLICATION OF SUBSECTION (b).—The rule provided in subsection (b)—

(1) shall be applied in the case of a foreign personal holding company for the purpose of determining its undistributed foreign personal holding company income which, or a part of which, is to be included in the gross income of its shareholders, whether United States shareholders or other foreign personal holding companies;

(2) shall be applied in the case of every foreign corporation with respect to which a United States group exists on some day of its taxable year, for the purpose of determining whether such corporation meets the gross income requirements of section 552 (a) (1).

SEC. 556. UNDISTRIBUTED FOREIGN PERSONAL HOLDING COMPANY INCOME.

(a) DEFINITION.—For purposes of this part, the term "undistributed foreign personal holding company income" means the taxable income of a foreign personal holding company adjusted in the manner provided in subsection (b), minus the dividends paid deduction (as defined in section 561).

(b) ADJUSTMENTS TO TAXABLE INCOME.—For the purposes of subsection (a), the taxable income shall be adjusted as follows:

(1) TAXES.—There shall be allowed as a deduction Federal income and excess profits taxes (other than the excess profits tax imposed by subchapter E of chapter 2 of the Internal Revenue Code of 1939 for taxable years beginning after December 31, 1940) and income, war profits, and excess-profits taxes of foreign countries and possessions of the United States (to the extent not allowable as a deduction under section 164 (b) (6)), accrued during the taxable year, but not including the accumulated earnings tax imposed by section 531, the personal holding company tax imposed by section 541, or the taxes imposed by corresponding sections of a prior income tax law. A taxpayer which, for each taxable year in which it was subject to the provisions of supplement P of the Internal Revenue Code of 1939, deducted Federal income and excess profits taxes when paid for the purpose of computing undistributed supplement P net income under such code, shall deduct taxes under this paragraph when paid, unless the corporation elects, under regulations prescribed by the Secretary or his delegate, after the date of enactment of this title to deduct the taxes described in this paragraph when accrued. Such election shall be irrevocable and shall apply to the taxable year for which the election is made and to all subsequent taxable years.

(2) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions provided under section 170 shall be allowed, but with the limitation in section 170 (b) (1) (A) and (B) (in lieu of the limitation in section 170 (b) (2)). 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 provided in section 170 (b) (2) and without the deduction of the amounts disallowed under paragraphs (5) and (6) of this subsection or the inclusion in gross income of the amounts includible therein as dividends by reason of the application of the provisions of section 555 (b) (relating to the inclusion in gross income of a foreign personal holding company of its distributive share of the undistributed foreign personal holding company income of another company in which it is a shareholder).

(3) SPECIAL DEDUCTIONS DISALLOWED.—The special deductions for corporations provided in part VIII (except sections 242 and 248) of subchapter B (section 241 and following, relating to the deduction for dividends received by corporations, etc.) shall not be allowed.

(4) NET OPERATING LOSS.—The net operating loss deduction provided in section 172 shall not be allowed, but there shall be allowed as a deduction the amount of the net operating loss (as defined in section 172 (c)) for the preceding taxable year.

(5) EXPENSES AND DEPRECIATION APPLICABLE TO PROPERTY OF THE TAXPAYER.—The aggregate of the deductions allowed under section 162 (relating to trade or business expenses) and section 167 (relating to depreciation) which are allocable to the operation and maintenance of property owned or operated by the company, shall be allowed only in an amount equal to the rent or other compensation received for the use of, or the right to use, the property, unless it is established (under regulations prescribed by the Secretary or his delegate) to the satisfaction of the Secretary or his delegate—

(A) that the rent or other compensation received was the highest obtainable, or, if none was received, that none was obtainable;

(B) that the property was held in the course of a business carried on bona fide for profit; and

(C) either that there was reasonable expectation that the operation of the property would result in a profit, or that the property was necessary to the conduct of the business.

(6) TAXES AND CONTRIBUTIONS TO PENSION TRUSTS.—The deductions provided in section 164 (e) (relating to taxes of a shareholder paid by the corporation) and in section 404 (relating to pension, etc., trusts) shall not be allowed.

SEC. 557. INCOME NOT PLACED ON ANNUAL BASIS.

Section 443 (b) (relating to computation of tax on change of annual accounting period) shall not apply in the computation of the undistributed foreign personal holding company income under section 556.

PART IV—DEDUCTION FOR DIVIDENDS PAID

Sec. 561. Definition of deduction for dividends paid.
Sec. 562. Rules applicable in determining dividends eligible for dividends paid deduction.
Sec. 563. Rules relating to dividends paid after close of taxable year.
Sec. 564. Dividend carryover.
Sec. 565. Consent dividends.

SEC. 561. DEFINITION OF DEDUCTION FOR DIVIDENDS PAID.

(a) GENERAL RULE.—The deduction for dividends paid shall be the sum of—

(1) the dividends paid during the taxable year,

(2) the consent dividends for the taxable year (determined under section 565), and

(3) in the case of a personal holding company, the dividend carryover described in section 564.

(b) SPECIAL RULES APPLICABLE.—In determining the deduction for dividends paid, the rules provided in section 562 (relating to rules applicable in determining dividends eligible for dividends paid deduction) and section 563 (relating to dividends paid after the close of the taxable year) shall be applicable.

SEC. 562. RULES APPLICABLE IN DETERMINING DIVIDENDS ELIGIBLE FOR DIVIDENDS PAID DEDUCTION.

(a) GENERAL RULE.—For purposes of this part, the term "dividend" shall, except as otherwise provided in this section, include only dividends described in section 316 (relating to definition of dividends for purposes of corporate distributions).

(b) DISTRIBUTIONS IN LIQUIDATION.—In the case of amounts distributed in liquidation, the part of such distribution which is properly chargeable to earnings and profits accumulated after February 28, 1913, shall be treated as a dividend for purposes of computing the dividends paid deduction. In the case of a complete liquidation occurring within 24 months after the adoption of a plan of liquidation, any distribution within such period pursuant to such plan shall, to

the extent of the earnings and profits (computed without regard to capital losses) of the corporation for the taxable year in which such distribution is made, be treated as a dividend for purposes of computing the dividends paid deduction.

(c) PREFERENTIAL DIVIDENDS.—The amount of any distribution shall not be considered as a dividend for purposes of computing the dividends paid deduction, unless such distribution is pro rata, with no preference to any share of stock as compared with other shares of the same class, and with no preference to one class of stock as compared with another class except to the extent that the former is entitled (without reference to waivers of their rights by shareholders) to such preference.

(d) DISTRIBUTIONS BY A MEMBER OF AN AFFILIATED GROUP.—In the case where a corporation which is a member of an affiliated group of corporations filing or required to file a consolidated return for a taxable year is required to file a separate personal holding company schedule for such taxable year, a distribution by such corporation to another member of the affiliated group shall be considered as a dividend for purposes of computing the dividends paid deduction if such distribution would constitute a dividend under the other provisions of this section to a recipient which is not a member of an affiliated group.

SEC. 563. RULES RELATING TO DIVIDENDS PAID AFTER CLOSE OF TAXABLE YEAR.

(a) ACCUMULATED EARNINGS TAX.—In the determination of the dividends paid deduction for purposes of the accumulated earnings tax imposed by section 531, a dividend paid after the close of any taxable year and on or before the 15th day of the third month following the close of such taxable year shall be considered as paid during such taxable year.

(b) PERSONAL HOLDING COMPANY TAX.—In the determination of the dividends paid deduction for purposes of the personal holding company tax imposed by section 541, a dividend paid after the close of any taxable year and on or before the 15th day of the third month following the close of such taxable year shall, to the extent the taxpayer elects in its return for the taxable year, be considered as paid during such taxable year. The amount allowed as a dividend by reason of the application of this subsection with respect to any taxable year shall not exceed either—

(1) The undistributed personal holding company income of the corporation for the taxable year, computed without regard to this subsection, or

(2) 10 percent of the sum of the dividends paid during the taxable year, computed without regard to this subsection.

(c) DIVIDENDS CONSIDERED AS PAID ON LAST DAY OF TAXABLE YEAR.—For the purpose of applying section 562 (a), with respect to distributions under subsection (a) or (b) of this section, a distribution made after the close of a taxable year and on or before the 15th day of the third month following the close of the taxable year shall be considered as made on the last day of such taxable year.

SEC. 564. DIVIDEND CARRYOVER.

(a) GENERAL RULE.—For purposes of computing the dividends paid deduction under section 561, in the case of a personal holding company the dividend carryover for any taxable year shall be the dividend carryover to such taxable year, computed as provided in subsection (b), from the two preceding taxable years.

(b) COMPUTATION OF DIVIDEND CARRYOVER.—The dividend carryover to the taxable year shall be determined as follows:

(1) For each of the 2 preceding taxable years there shall be determined the taxable income computed with the adjustments provided in section 545 (whether or not the taxpayer was a personal holding company for either of such preceding taxable years), and there shall also be determined for each such year the deduction for dividends paid during such year as provided in section 561 (but determined without regard to the dividend carryover to such year).

(2) There shall be determined for each such taxable year whether there is an excess of such taxable income over such deduction for dividends paid or an excess of such deduction for dividends paid over such taxable income, and the amount of each such excess.

(3) If there is an excess of such deductions for dividends paid over such taxable income for the first preceding taxable year, such excess shall be allowed as a dividend carryover to the taxable year.

(4) If there is an excess of such deduction for dividends paid over such taxable income for the second preceding taxable year, such excess shall be reduced by the amount determined in paragraph (5), and the remainder of such excess shall be allowed as a dividend carryover to the taxable year.

(5) The amount of the reduction specified in paragraph (4) shall be the amount of the excess of the taxable income, if any, for the first preceding taxable year over such deduction for dividends paid, if any, for the first preceding taxable year.

(c) DETERMINATION OF DIVIDEND CARRYOVER FROM TAXABLE YEARS TO WHICH THIS SUBTITLE DOES NOT APPLY.—In a case where the first or second preceding taxable year began before the taxpayer's first taxable year under this subtitle, the amount of the dividend carryover to taxable years to which this subtitle applies shall be determined under the provisions of the Internal Revenue Code of 1939.

SEC. 565. CONSENT DIVIDENDS.

(a) GENERAL RULE.—If any person owns consent stock (as defined in subsection (f) (1)) in a corporation on the last day of the taxable year of such corporation, and such person agrees, in a consent filed with the return of such corporation in accordance with regulations prescribed by the Secretary or his delegate, to treat as a dividend the amount specified in such consent, the amount so specified shall, except as provided in subsection (b), constitute a consent dividend for purposes of section 561 (relating to the deduction for dividends paid).

(b) LIMITATIONS.—A consent dividend shall not include—

(1) an amount specified in a consent which, if distributed in money, would constitute, or be part of, a distribution which would be disqualified for purposes of the dividends paid deduction under section 562 (c) (relating to preferential dividends), or

(2) an amount specified in a consent which would not constitute a dividend (as defined in section 316) if the total amounts specified in consents filed by the corporation had been distributed in money to shareholders on the last day of the taxable year of such corporation.

(c) EFFECT OF CONSENT.—The amount of a consent dividend shall be considered, for purposes of this title—

(1) as distributed in money by the corporation to the shareholder on the last day of the taxable year of the corporation, and

(2) as contributed to the capital of the corporation by the shareholder on such day.

(d) CONSENT DIVIDENDS AND OTHER DISTRIBUTIONS.—If a distribution by a corporation consists in part of consent dividends and in part of money or other property, the entire amount specified in the consents and the amount of such money or other property shall be considered together for purposes of applying this title.

(e) NONRESIDENT ALIENS AND FOREIGN CORPORATIONS.—In the case of a consent dividend which, if paid in money would be subject to the provisions of section 1441 (relating to withholding of tax on nonresident aliens) or section 1442 (relating to withholding of tax on foreign corporations), this section shall not apply unless the consent is accompanied by money, or such other medium of payment as the Secretary or his delegate may by regulations authorize, in an amount equal to the amount that would be required to be deducted and withheld under sections 1441 or 1442 if the consent dividend had been, on the last day of the taxable year of the corporation, paid to the shareholder in money as a dividend. The amount accompanying the consent shall be credited against the tax imposed by this subtitle on the shareholder.

(f) DEFINITIONS.—

(1) CONSENT STOCK.—Consent stock, for purposes of this section, means the class or classes of stock entitled, after the payment of preferred dividends, to a share in the distribution (other than in complete or partial liquidation) within the taxable year of all the remaining earnings and profits, which share constitutes the same proportion of such distribution regardless of the amount of such distribution.

(2) PREFERRED DIVIDENDS.—Preferred dividends, for purposes of this section, means a distribution (other than in complete or partial liquidation), limited in amount, which must be made on any class of stock before a further distribution (other than in complete or partial liquidation) of earnings and profits may be made within the taxable year.

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Subchapter H—Banking Institutions

Part I. Rules of general application to banking institutions.
Part II. Mutual savings banks, etc.
Part III. Bank affiliates.

PART I—RULES OF GENERAL APPLICATION TO BANKING INSTITUTIONS

Sec. 581. Definition of bank.
Sec. 582. Bad debt and loss deduction with respect to securities held by banks.
Sec. 583. Deductions of dividends paid on certain preferred stock.
Sec. 584. Common trust funds.

SEC. 581. DEFINITION OF BANK.

For purposes of sections 582 and 584, the term "bank" means a bank or trust company incorporated and doing business under the laws of the United States (including laws relating to the District of Columbia), of any State, or of any Territory, a substantial part of the business of which consists of receiving deposits and making loans and discounts, or of exercising fiduciary powers similar to those permitted to national banks under section 11 (k) of the Federal Reserve Act (38 Stat. 262; 12 U. S. C. 248 (k)), and which is subject by law to supervision and examination by State, Territorial, or Federal authority having supervision over banking institutions. Such term also means a domestic building and loan association.

SEC. 582. BAD DEBT AND LOSS DEDUCTION WITH RESPECT TO SECURITIES HELD BY BANKS.

(a) SECURITIES.—Notwithstanding sections 165 (g) (1) and 166 (e), subsections (a), (b), and (c) of section 166 (relating to allowance of deduction for bad debts) shall apply in the case of a bank to a debt which is evidenced by a security as defined in section 165 (g) (2) (C).

(b) WORTHLESS STOCK IN AFFILIATED BANK.—For purposes of section 165 (g) (1), where the taxpayer is a bank and owns directly at least 80 percent of each class of stock of another bank, stock in such other bank shall not be treated as a capital asset.

(c) BOND, ETC., LOSSES OF BANKS.—For purposes of this subtitle, in the case of a bank, if the losses of the taxable year from sales or exchanges of bonds, debentures, notes, or certificates, or other evidences of indebtedness, issued by any corporation (including one issued by a government or political subdivision thereof), with interest coupons or in registered form, exceed the gains of the taxable year from such sales or exchanges, no such sale or exchange shall be considered a sale or exchange of a capital asset.

SEC. 583. DEDUCTIONS OF DIVIDENDS PAID ON CERTAIN PREFERRED STOCK.

In computing the taxable income of any national banking association, or of any bank or trust company organized under the laws of

any State, Territory, possession of the United States, or the Canal Zone, or of any other banking corporation engaged in the business of industrial banking and under the supervision of a State banking department or of the Comptroller of the Currency, or of any incorporated domestic insurance company, there shall be allowed as a deduction from gross income, in addition to deductions otherwise provided for in this subtitle, any dividend (not including any distribution in liquidation) paid, within the taxable year, to the United States or to any instrumentality thereof exempt from Federal income taxes, on the preferred stock of the corporation owned by the United States or such instrumentality. The amount allowable as a deduction under this section shall reduce the deduction for dividends paid otherwise computed under section 561.

SEC. 584. COMMON TRUST FUNDS.

(a) DEFINITIONS.—For purposes of this subtitle, the term "common trust fund" means a fund maintained by a bank—

(1) exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as a trustee, executor, administrator, or guardian; and

(2) in conformity with the rules and regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System pertaining to the collective investment of trust funds by national banks.

(b) TAXATION OF COMMON TRUST FUNDS.—A common trust fund shall not be subject to taxation under this chapter and for purposes of this chapter shall not be considered a corporation.

(c) INCOME OF PARTICIPANTS IN FUND.—

(1) INCLUSIONS IN TAXABLE INCOME.—Each participant in the common trust fund in computing its taxable income shall include, whether or not distributed and whether or not distributable—

(A) as part of its gains and losses from sales or exchanges of capital assets held for not more than 6 months, its proportionate share of the gains and losses of the common trust fund from sales or exchanges of capital assets held for not more than 6 months;

(B) as part of its gains and losses from sales or exchanges of capital assets held for more than 6 months, its proportionate share of the gains and losses of the common trust fund from sales or exchanges of capital assets held for more than 6 months;

(C) its proportionate share of the ordinary taxable income or the ordinary net loss of the common trust fund, computed as provided in subsection (d).

(2) DIVIDENDS AND PARTIALLY TAX EXEMPT INTEREST.—The proportionate share of each participant in the amount of dividends to which section 34 or section 116 applies, and in the amount of partially tax exempt interest on obligations described in section 35 or section 242, received by the common trust fund shall be considered for purposes of such sections as having been received by such participant. If the common trust fund elects under section 171 (relating to amortizable bond premium) to amortize the premium on such obligations, for purposes of the preceding sentence the proportionate share of the participant of such interest received

by the common trust fund shall be his proportionate share of such interest (determined without regard to this sentence) reduced by so much of the deduction under section 171 as is attributable to such share.

(d) COMPUTATION OF COMMON TRUST FUND INCOME.—The taxable income of a common trust fund shall be computed in the same manner and on the same basis as in the case of an individual, except that—

(1) there shall be segregated the gains and losses from sales or exchanges of capital assets;

(2) after excluding all items of gain and loss from sales or exchanges of capital assets, there shall be computed—

(A) an ordinary taxable income which shall consist of the excess of the gross income over deductions; or

(B) an ordinary net loss which shall consist of the excess of the deductions over the gross income;

(3) the deduction provided by section 170 (relating to charitable, etc., contributions and gifts) shall not be allowed; and

(4) the standard deduction provided in section 141 shall not be allowed.

(e) ADMISSION AND WITHDRAWAL.—No gain or loss shall be realized by the common trust fund by the admission or withdrawal of a participant. The withdrawal of any participating interest by a participant shall be treated as a sale or exchange of such interest by the participant.

(f) DIFFERENT TAXABLE YEARS OF COMMON TRUST FUND AND PARTICIPANT.—If the taxable year of the common trust fund is different from that of a participant, the inclusions with respect to the taxable income of the common trust fund, in computing the taxable income of the participant for its taxable year, shall be based upon the taxable income of the common trust fund for any taxable year of the common trust fund ending within or with the taxable year of the participant.

(g) NET OPERATING LOSS DEDUCTION.—The benefit of the deduction for net operating losses provided by section 172 shall not be allowed to a common trust fund, but shall be allowed to the participants in the common trust fund under regulations prescribed by the Secretary or his delegate.

PART II—MUTUAL SAVINGS BANKS, ETC.

Sec. 591. Deduction for dividends paid on deposits.
Sec. 592. Deduction for repayment of certain loans.
Sec. 593. Additions to reserve for bad debts.
Sec. 594. Alternative tax for mutual savings banks conducting life insurance business.

SEC. 591. DEDUCTION FOR DIVIDENDS PAID ON DEPOSITS.

In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, there shall be allowed as deductions in computing taxable income amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw.

SEC. 592. DEDUCTION FOR REPAYMENT OF CERTAIN LOANS.

In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, or a cooperative bank without capital stock organized and operated for mutual purposes and without profit, there shall be allowed as deductions in computing taxable income amounts paid by the taxpayer during the taxable year in repayment of loans made before September 1, 1951, by (1) the United States or any agency or instrumentality thereof which is wholly owned by the United States, or (2) any mutual fund established under the authority of the laws of any State.

SEC. 593. ADDITIONS TO RESERVE FOR BAD DEBTS.

In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts under section 166 (c) shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951. In the case of a taxpayer described in the preceding sentence, the reasonable addition to a reserve for bad debts for any taxable year shall in no case be less than the amount determined by the taxpayer as the reasonable addition for such year; except that the amount determined by the taxpayer under this sentence shall not be greater than the lesser of—

(1) the amount of its taxable income for the taxable year, computed without regard to this section, or

(2) the amount by which 12 percent of the total deposits or withdrawable accounts of its depositors at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year.

SEC. 594. ALTERNATIVE TAX FOR MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.

(a) ALTERNATIVE TAX.—In the case of a mutual savings bank not having capital stock represented by shares, authorized under State law to engage in the business of issuing life insurance contracts, and which conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be imposed in lieu of the taxes imposed by section 11 or section 1201 (a), a tax consisting of the sum of the partial taxes determined under paragraphs (1) and (2):

(1) A partial tax computed on the taxable income determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department, at the rates and in the manner as if this section had not been enacted; and

(2) a partial tax computed on the taxable income (as defined in section 803) of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in subchapter L (sec. 801 and following) with respect to life insurance companies.

(b) LIMITATIONS OF SECTION.—Subsection (a) shall apply only if the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 801.

PART III—BANK AFFILIATES

Sec. 601. Special deduction for bank affiliates.

SEC. 601. SPECIAL DEDUCTION FOR BANK AFFILIATES.

In the case of a holding company affiliate (as defined in section 2 of the Banking Act of 1933; 12 U. S. C. 221a (c)), there shall be allowed as a deduction, for purposes of section 535 (b) (8) (relating to the computation of accumulated taxable income) and section 545 (b) (6) (relating to the computation of undistributed personal holding company income), the amount of the earnings and profits which the Board of Governors of the Federal Reserve System certifies to the Secretary or to his delegate has been devoted by such affiliate during the taxable year to the acquisition of readily marketable assets other than bank stock in compliance with section 5144 of the Revised Statutes (12 U. S. C. 61). The amount of the deduction under this section for any taxable year shall not exceed the taxable income for such year computed without regard to the special deductions for corporations provided in part VIII (except section 248) of subchapter B (section 241 and following, relating to the deduction for dividends received by corporations, etc.). The aggregate of the deductions allowable under this section and the credits allowable under the corresponding provision of any prior income tax law for all taxable years shall not exceed the amount required to be devoted under such section 5144 to such purposes.

Subchapter I—Natural Resources

Part I. Deductions.
Part II. Exclusions from gross income.
Part III. Sales and exchanges.

PART I—DEDUCTIONS

Sec. 611. Allowance of deduction for depletion.
Sec. 612. Basis for cost depletion.
Sec. 613. Percentage depletion.
Sec. 614. Definition of property.
Sec. 615. Exploration expenditures.
Sec. 616. Development expenditures.

SEC. 611. ALLOWANCE OF DEDUCTION FOR DEPLETION.

(a) GENERAL RULE.—In the case of mines, oil and gas wells, other natural deposits, and timber, there shall be allowed as a deduction in computing taxable income a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case; such reasonable allowance in all cases to be made under regulations prescribed by the Secretary or his delegate. For purposes of this part, the term "mines" includes deposits of waste or residue, the extraction of ores or minerals from which is treated as mining under section 613 (c). In any case in which it is ascertained as a result of operations or of development work that the recoverable units are greater or less than the prior estimate thereof, then such prior estimate (but not the basis for depletion) shall be revised and the allowance under this section for subsequent taxable years shall be based on such revised estimate.

(b) SPECIAL RULES.—

(1) LEASES.—In the case of a lease, the deduction under this section shall be equitably apportioned between the lessor and lessee.

(2) LIFE TENANT AND REMAINDERMAN.—In the case of property held by one person for life with remainder to another person, the deduction under this section shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant.

(3) PROPERTY HELD IN TRUST.—In the case of property held in trust, the deduction under this section shall be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or, in the absence of such provisions, on the basis of the trust income allocable to each.

(4) PROPERTY HELD BY ESTATE.—In the case of an estate, the deduction under this section shall be apportioned between the estate and the heirs, legatees, and devises on the basis of the income of the estate allocable to each.

(c) CROSS REFERENCE.—

For other rules applicable to depreciation of improvements, see section 167.

SEC. 612. BASIS FOR COST DEPLETION.

Except as otherwise provided in this subchapter, the basis on which depletion is to be allowed in respect of any property shall be the adjusted basis provided in section 1011 for the purpose of determining the gain upon the sale or other disposition of such property.

SEC. 613. PERCENTAGE DEPLETION.

(a) GENERAL RULE.—In the case of the mines, wells, and other natural deposits listed in subsection (b), the allowance for depletion under section 611 shall be the percentage, specified in subsection (b), of the gross income from the property excluding from such gross income an amount equal to any rents or royalties paid or incurred by the taxpayer in respect of the property. Such allowance shall not exceed 50 percent of the taxpayer's taxable income from the property (computed without allowance for depletion). In no case shall the allowance for depletion under section 611 be less than it would be if computed without reference to this section.

(b) PERCENTAGE DEPLETION RATES.—The mines, wells, and other natural deposits, and the percentages, referred to in subsection (a) are as follows:

(1) 27½ percent—oil and gas wells.

(2) 23 percent—

(A) sulfur and uranium; and

(B) if from deposits in the United States—anorthosite (to the extent that alumina and aluminum compounds are extracted therefrom), asbestos, bauxite, beryl, celestite, chromite, corundum, fluorspar, graphite, ilmenite, kyanite, mica, olivine, quartz crystals (radio grade), rutile, block steatite talc, and zircon, and ores of the following metals: antimony, bismuth, cadmium, cobalt, columbium, lead, lithium, manganese, mercury, nickel, platinum and platinum group metals, tantalum, thorium, tin, titanium, tungsten, vanadium, and zinc.

(3) 15 percent—ball clay, bentonite, china clay, sagger clay, metal mines (if paragraph (2) (B) does not apply), rock asphalt, and vermiculite.

(4) 10 percent—asbestos (if paragraph (2) (B) does not apply), brucite, coal, lignite, perlite, sodium chloride, and wollastonite.

(5) 5 percent—

(A) brick and tile clay, gravel, mollusk shells (including clam shells and oyster shells), peat, pumice, sand, scoria, shale, and stone, except stone described in paragraph (6); and

(B) if from brine wells—bromine, calcium chloride, and magnesium chloride.

(6) 15 percent—all other minerals (including, but not limited to, aplite, barite, borax, calcium carbonates, refractory and fire clay, diatomaceous earth, dolomite, feldspar, fullers earth, garnet, gilsonite, granite, limestone, magnesite, magnesium carbonates, marble, phosphate rock, potash, quartzite, slate, soapstone, stone (used or sold for use by the mine owner or operator as dimension stone or ornamental stone), thenardite, tripoli, trona, and (if paragraph (2) (B) does not apply) bauxite, beryl, flake graphite, fluorspar, lepidolite, mica, spodumene, and talc, including pyrophyllite), except that, unless sold on bid in direct competition with a bona

fide bid to sell a mineral listed in paragraph (3), the percentage shall be 5 percent for any such other mineral when used, or sold for use, by the mine owner or operator as rip rap, ballast, road material, rubble, concrete aggregates, or for similar purposes. For purposes of this paragraph, the term "all other minerals" does not include—

(A) soil, sod, dirt, turf, water, or mosses; or

(B) minerals from sea water, the air, or similar inexhaustible sources.

(c) DEFINITION OF GROSS INCOME FROM PROPERTY.—For purposes of this section—

(1) GROSS INCOME FROM THE PROPERTY.—The term "gross income from the property" means, in the case of a property other than an oil or gas well, the gross income from mining.

(2) MINING.—The term "mining" includes not merely the extraction of the ores or minerals from the ground but also the ordinary treatment processes normally applied by mine owners or operators in order to obtain the commercially marketable mineral product or products, and so much of the transportation of ores or minerals (whether or not by common carrier) from the point of extraction from the ground to the plants or mills in which the ordinary treatment processes are applied thereto as is not in excess of 50 miles unless the Secretary or his delegate finds that the physical and other requirements are such that the ore or mineral must be transported a greater distance to such plants or mills.

(3) EXTRACTION OF THE ORES OR MINERALS FROM THE GROUND.—The term "extraction of the ores or minerals from the ground" includes the extraction by mine owners or operators of ores or minerals from the waste or residue of prior mining. The preceding sentence shall not apply to any such extraction of the mineral or ore by a purchaser of such waste or residue or of the rights to extract ores or minerals therefrom.

(4) ORDINARY TREATMENT PROCESSES.—The term "ordinary treatment processes" includes the following:

(A) In the case of coal—cleaning, breaking, sizing, dust allaying, treating to prevent freezing, and loading for shipment;

(B) in the case of sulfur recovered by the Frasch process—pumping to vats, cooling, breaking, and loading for shipment;

(C) in the case of iron ore, bauxite, ball and sagger clay, rock asphalt, and minerals which are customarily sold in the form of a crude mineral product—sorting, concentrating, and sintering to bring to shipping grade and form, and loading for shipment;

(D) in the case of lead, zinc, copper, gold, silver, or fluorspar ores, potash, and ores which are not customarily sold in the form of the crude mineral product—crushing, grinding, and beneficiation by concentration (gravity, flotation, amalgamation, electrostatic, or magnetic), cyanidation, leaching, crystallization, precipitation (but not including as an ordinary treatment process electrolytic deposition, roasting, thermal or electric smelting, or refining), or by substantially equivalent processes or combination of processes used in the separation or extraction of the product or products from the ore, including the furnacing of quicksilver ores; and

(E) the pulverization of talc, the burning of magnesite, and the sintering and nodulizing of phosphate rock.

SEC. 614. DEFINITION OF PROPERTY.

(a) GENERAL RULE.—For the purpose of computing the depletion allowance in the case of mines, wells, and other natural deposits, the term "property" means each separate interest owned by the taxpayer in each mineral deposit in each separate tract or parcel of land.

(b) SPECIAL RULE AS TO OPERATING MINERAL INTERESTS.—

(1) ELECTION TO AGGREGATE SEPARATE INTERESTS.—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 one aggregation of, and to treat as one property, any two or more of such interests; and

(B) to treat as a separate property each such interest which he does not elect to include within the aggregation referred to in subparagraph (A).

For purposes of the preceding sentence, 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. A taxpayer may not elect to form more than one aggregation of operating mineral interests within any one operating unit.

(2) MANNER AND SCOPE OF ELECTION.—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 taxable years is the later: The first taxable year beginning after December 31, 1953, or the first taxable year in which any expenditure for exploration, development, or operation in respect of the separate operating mineral interest is made by the taxpayer after the acquisition of such interest. Such an election 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 the interest with respect to which the election has been made.

(3) OPERATING MINERAL INTERESTS DEFINED.—For purposes of this subsection, the term "operating mineral interest" includes only an interest in respect of which the costs of production of the mineral are required to be taken into account by the taxpayer for purposes of computing the 50 percent limitation provided for in section 613, or would be so required if the mine, well, or other natural deposit were in the production stage.

(c) SPECIAL RULE AS TO NONOPERATING MINERAL INTERESTS.—

(1) AGGREGATION OF SEPARATE INTERESTS.—If a taxpayer owns two or more separate nonoperating mineral interests in a single tract or parcel of land, or in two or more contiguous tracts or parcels of land, the Secretary or his delegate may, on showing of undue hardship, permit the taxpayer to treat (for all purposes of this subtitle) all such mineral interests as one property. If such

permission is granted for any taxable year, the taxpayer shall treat such interests as one property for all subsequent taxable years unless the Secretary or his delegate consents to a different treatment.

(2) NONOPERATING MINERAL INTERESTS DEFINED.—For purposes of this subsection, the term "nonoperating mineral interests" includes only interests which are not operating mineral interests within the meaning of subsection (b) (3).

SEC. 615. EXPLORATION EXPENDITURES.

(a) IN GENERAL.—In the case of expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, and paid or incurred before the beginning of the development stage of the mine or deposit, there shall be allowed as a deduction in computing taxable income so much of such expenditures as does not exceed $100,000. This section shall apply only with respect to the amount of such expenditures which, but for this section, would not be allowable as a deduction for the taxable year. This section shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 167, but allowances for depreciation shall be considered, for purposes of this section, as expenditures paid or incurred. In no case shall this section apply with respect to amounts paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of oil or gas.

(b) ELECTION OF TAXPAYER.—If the taxpayer elects, in accordance with regulations prescribed by the Secretary or his delegate, to treat as deferred expenses any portion of the amount deductible for the taxable year under subsection (a), such portion shall not be deductible in the manner provided in subsection (a) but shall be deductible on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. An election made under this subsection for any taxable year shall be binding for such year.

(c) LIMITATION.—This section shall not apply to any amount paid or incurred in any taxable year if in any 4 preceding years a deduction or election under this section, or the corresponding provision of prior laws, has been allowed to, or exercised by—

(1) the taxpayer, or

(2) the individual or corporation who has transferred to the taxpayer any mineral property.

Paragraph (2) shall apply only if (A) the taxpayer was required to take into account under section 23 (ff) (3) of the Internal Revenue Code of 1939 the deduction allowed to or election exercised by such individual or corporation; (B) the taxpayer would be entitled under section 381 (c) (10) to deduct expenses deferred under this section had the distributor or transferor corporation elected to defer such expenses; or (C) the taxpayer acquired any mineral property under circumstances which make section 334 (b), 362 (a) and (b), 372 (a), 373 (b) (1), 723, 732, 1051, or 1082 apply to such transfer.

(d) ADJUSTED BASIS OF MINE OR DEPOSIT.—The amount of expenditures which are treated under subsection (b) as deferred expenses

shall be taken into account in computing the adjusted basis of the mine or deposit, but such amounts, and the adjustments to basis provided in section 1016 (a) (10) shall be disregarded in determining the adjusted basis of the property for the purpose of computing a deduction for depletion under section 611.

SEC. 616. DEVELOPMENT EXPENDITURES.

(a) IN GENERAL.—Except as provided in subsection (b), there shall be allowed as a deduction in computing taxable income all expenditures paid or incurred during the taxable year for the development of a mine or other natural deposit (other than an oil or gas well) if paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed. This section shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 167, but allowances for depreciation shall be considered, for purposes of this section, as expenditures.

(b) ELECTION OF TAXPAYER.—At the election of the taxpayer, made in accordance with regulations prescribed by the Secretary or his delegate, expenditures described in subsection (a) paid or incurred during the taxable year shall be treated as deferred expenses and shall be deductible on a ratable basis as the units of produced ores or minerals benefited by such expenditures are sold. In the case of such expenditures paid or incurred during the development stage of the mine or deposit, the election shall apply only with respect to the excess of such expenditures during the taxable year over the net receipts during the taxable year from the ores or minerals produced from such mine or deposit. The election under this subsection, if made, must be for the total amount of such expenditures, or the total amount of such excess, as the case may be, with respect to the mine or deposit, and shall be binding for such taxable year.

(c) ADJUSTED BASIS OF MINE OR DEPOSIT.—The amount of expenditures which are treated under subsection (b) as deferred expenses shall be taken into account in computing the adjusted basis of the mine or deposit, except that such amount, and the adjustments to basis provided in section 1016 (a) (9), shall be disregarded in determining the adjusted basis of the property for the purpose of computing a deduction for depletion under section 611.

PART II—EXCLUSIONS FROM GROSS INCOME

Sec. 621. Payments to encourage exploration, development, and mining for defense purposes.

SEC. 621. PAYMENTS TO ENCOURAGE EXPLORATION, DEVELOPMENT, AND MINING FOR DEFENSE PURPOSES.

There shall not be included in gross income any amount paid to a taxpayer by the United States (or any agency or instrumentality thereof), whether by grant or loan, and whether or not repayable, for the encouragement of exploration, development, or mining of critical and strategic minerals or metals pursuant to or in connection with any undertaking approved by the United States (or any of its agencies or instrumentalities) and for which an accounting is made or required to be made to an appropriate governmental agency, or any forgiveness

or discharge of any part of such amount. Any expenditures (other than expenditures made after the repayment of such grant or loan) attributable to such grant or loan shall not be deductible by the taxpayer as an expense nor increase the basis of the taxpayer's property either for determining gain or loss on sale, exchange, or other disposition or for computing depletion or depreciation, but on the repayment of any portion of any such grant or loan which has been expended in accordance with the terms thereof such deductions and such increase in basis shall to the extent of such repayment be allowed as if made at the time of such repayment.

PART III—SALES AND EXCHANGES

Sec. 631. Gain or loss in the case of timber or coal.
Sec. 632. Sale of oil or gas properties.

SEC. 631. GAIN OR LOSS IN THE CASE OF TIMBER OR COAL.

(a) ELECTION TO CONSIDER CUTTING AS SALE OR EXCHANGE.—If the taxpayer so elects on his return for a taxable year, the cutting of timber (for sale or for use in the taxpayer's trade or business) during such year by the taxpayer who owns, or has a contract right to cut, such timber (providing he has owned such timber or has held such contract right for a period of more than 6 months before the beginning of such year) shall be considered as a sale or exchange of such timber cut during such year. If such election has been made, gain or loss to the taxpayer shall be recognized in an amount equal to the difference between the fair market value of such timber, and the adjusted basis for depletion of such timber in the hands of the taxpayer. Such fair market value shall be the fair market value as of the first day of the taxable year in which such timber is cut, and shall thereafter be considered as the cost of such cut timber to the taxpayer for all purposes for which such cost is a necessary factor. If a taxpayer makes an election under this subsection, such election shall apply with respect to all timber which is owned by the taxpayer or which the taxpayer has a contract right to cut and shall be binding on the taxpayer for the taxable year for which the election is made and for all subsequent years, unless the Secretary or his delegate, on showing of undue hardship, permits the taxpayer to revoke his election; such revocation, however, shall preclude any further elections under this subsection except with the consent of the Secretary or his delegate. For purposes of this subsection and subsection (b), the term "timber" includes evergreen trees which are more than 6 years old at the time severed from the roots and are sold for ornamental purposes.

(b) DISPOSAL OF TIMBER WITH A RETAINED ECONOMIC INTEREST.—In the case of the disposal of timber held for more than 6 months before such disposal, by the owner thereof under any form or type of contract by virtue of which such owner retains an economic interest in such timber, the difference between the amount realized from the disposal of such timber and the adjusted depletion basis thereof, shall be considered as though it were a gain or loss, as the case may be, on the sale of such timber. In determining the gross income, the adjusted gross income, or the taxable income of the lessee, the deductions allowable

with respect to rents and royalties shall be determined without regard to the provisions of this subsection. The date of disposal of such timber shall be deemed to be the date such timber is cut, but if payment is made to the owner under the contract before such timber is cut the owner may elect to treat the date of such payment as the date of disposal of such timber. For purposes of this subsection, the term "owner" means any person who owns an interest in such timber, including a sublessor and a holder of a contract to cut timber.

(c) DISPOSAL OF COAL WITH A RETAINED ECONOMIC INTEREST.—In the case of the disposal of coal (including lignite), held for more than 6 months before such disposal, by the owner thereof under any form of contract by virtue of which such owner retains an economic interest in such coal, the difference between the amount realized from the disposal of such coal and the adjusted depletion basis thereof plus the deductions disallowed for the taxable year under section 272 shall be considered as though it were a gain or loss, as the case may be, on the sale of such coal. Such owner shall not be entitled to the allowance for percentage depletion provided in section 613 with respect to such coal. This subsection shall not apply to income realized by any owner as a co-adventurer, partner, or principal in the mining of such coal, and the word "owner" means any person who owns an economic interest in coal in place, including a sublessor. The date of disposal of such coal shall be deemed to be the date such coal is mined. In determining the gross income, the adjusted gross income, or the taxable income of the lessee, the deductions allowable with respect to rents and royalties shall be determined without regard to the provisions of this subsection. This subsection shall have no application, for purposes of applying subchapter G, relating to corporations used to avoid income tax on shareholders (including the determinations of the amount of the deductions under section 535 (b) (6) or section 545 (b) (5)).

SEC. 632. SALE OF OIL OR GAS PROPERTIES.

In the case of a bona fide sale of any oil or gas property, or any interest therein, where the principal value of the property has been demonstrated by prospecting or exploration or discovery work done by the taxpayer, the portion of the surtax imposed by section 1 attributable to such sale shall not exceed 30 percent of the selling price of such property or interest.

Subchapter J—Estates, Trusts, Beneficiaries, and Decedents

Part I. Estates, trusts, and beneficiaries.
Part II. Income in respect of decedents.

PART I—ESTATES, TRUSTS, AND BENEFICIARIES

Subpart A. General rules for taxation of estates and trusts.
Subpart B. Trusts which distribute current income only.
Subpart C. Estates and trusts which may accumulate income or which distribute corpus.
Subpart D. Treatment of excess distributions by trusts.
Subpart E. Grantors and others treated as substantial owners.
Subpart F. Miscellaneous.

Subpart A—General Rules for Taxation of Estates and Trusts

Sec. 641. Imposition of tax.
Sec. 642. Special rules for credits and deductions.
Sec. 643. Definitions applicable to subparts A, B, C, and D.

SEC. 641. IMPOSITION OF TAX.

(a) APPLICATION OF TAX.—The taxes imposed by this chapter on individuals shall apply to the taxable income of estates or of any kind of property held in trust, including—

(1) income accumulated in trust for the benefit of unborn or unascertained persons or persons with contingent interests, and income accumulated or held for future distribution under the terms of the will or trust;

(2) income which is to be distributed currently by the fiduciary to the beneficiaries, and income collected by a guardian of an infant which is to be held or distributed as the court may direct;

(3) income received by estates of deceased persons during the period of administration or settlement of the estate; and

(4) income which, in the discretion of the fiduciary, may be either distributed to the beneficiaries or accumulated.

(b) COMPUTATION AND PAYMENT.—The taxable income of an estate or trust shall be computed in the same manner as in the case of an individual, except as otherwise provided in this part. The tax shall be computed on such taxable income and shall be paid by the fiduciary.

SEC. 642. SPECIAL RULES FOR CREDITS AND DEDUCTIONS.

(a) CREDITS AGAINST TAX.—

(1) PARTIALLY TAX-EXEMPT INTEREST.—An estate or trust shall be allowed the credit against tax for partially tax-exempt interest provided by section 35 only in respect of so much of such interest as is not properly allocable to any beneficiary under section 652 or 662. If the estate or trust elects under section 171 to treat as amortizable the premium on bonds with respect to the interest on which the credit is allowable under section 35, such credit (whether

allowable to the estate or trust or to the beneficiary) shall be reduced under section 171 (a) (3).

(2) FOREIGN TAXES.—An estate or trust shall be allowed the credit against tax for taxes imposed by foreign countries and possessions of the United States, to the extent allowed by section 901, only in respect of so much of the taxes described in such section as is not properly allocable under such section to the beneficiaries.

(3) DIVIDENDS RECEIVED BY INDIVIDUALS.—An estate or trust shall be allowed the credit against tax for dividends received provided by section 34 only in respect of so much of such dividends as is not properly allocable to any beneficiary under section 652 or 662. For purposes of determining the time of receipt of dividends under section 34 and section 116, the amount of dividends properly allocable to a beneficiary under section 652 or 662 shall be deemed to have been received by the beneficiary ratably on the same dates that the dividends were received by the estate or trust.

(b) DEDUCTION FOR PERSONAL EXEMPTION.—An estate shall be allowed a deduction of $600. A trust which, under its governing instrument, is required to distribute all of its income currently shall be allowed a deduction of $300. All other trusts shall be allowed a deduction of $100. The deductions allowed by this subsection shall be in lieu of the deductions allowed under section 151 (relating to deduction for personal exemption).

(c) DEDUCTION FOR AMOUNTS PAID OR PERMANENTLY SET ASIDE FOR A CHARITABLE PURPOSE.—In the case of an estate or trust (other than a trust meeting the specifications of subpart B) there shall be allowed as a deduction in computing its taxable income (in lieu of the deductions allowed by section 170 (a), relating to deduction for charitable, etc., contributions and gifts) any amount of the gross income, without limitation, which pursuant to the terms of the governing instrument is, during the taxable year, paid or permanently set aside for a purpose specified in section 170 (c), or is to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, or for the establishment, acquisition, maintenance or operation of a public cemetery not operated for profit. For this purpose, to the extent that such amount consists of gain from the sale or exchange of capital assets held for more than 6 months, proper adjustment of the deduction otherwise allowable under this subsection shall be made for any deduction allowable to the estate or trust under section 1202 (relating to deduction for excess of capital gains over capital losses). In the case of a trust, the deduction allowed by this subsection shall be subject to section 681 (relating to unrelated business income and prohibited transactions).

(d) NET OPERATING LOSS DEDUCTION.—The benefit of the deduction for net operating losses provided by section 172 shall be allowed to estates and trusts under regulations prescribed by the Secretary or his delegate.

(e) DEDUCTION FOR DEPRECIATION AND DEPLETION.—An estate or trust shall be allowed the deduction for depreciation and depletion only to the extent not allowable to beneficiaries under sections 167 (g) and 611 (b).

(f) AMORTIZATION OF EMERGENCY OR GRAIN STORAGE FACILITIES.—The benefit of the deductions for amortization of emergency and grain storage facilities provided by sections 168 and 169 shall be allowed to estates and trusts in the same manner as in the case of an individual. The allowable deduction shall be apportioned between the income beneficiaries and the fiduciary under regulations prescribed by the Secretary or his delegate.

(g) DISALLOWANCE OF DOUBLE DEDUCTIONS.—Amounts allowable under section 2053 or 2054 as a deduction in computing the taxable estate of a decedent shall not be allowed as a deduction in computing the taxable income of the estate, unless there is filed, within the time and in the manner and form prescribed by the Secretary or his delegate, a statement that the amounts have not been allowed as deductions under section 2053 or 2054 and a waiver of the right to have such amounts allowed at any time as deductions under section 2053 or 2054. This subsection shall not apply with respect to deductions allowed under part II (relating to income in respect of decedents).

(h) UNUSED LOSS CARRYOVERS AND EXCESS DEDUCTIONS ON TERMINATION AVAILABLE TO BENEFICIARIES.—If on the termination of an estate or trust, the estate or trust has—

(1) a net operating loss carryover under section 172 or a capital loss carryover under section 1212, or

(2) for the last taxable year of the estate or trust deductions (other than the deductions allowed under subsections (b) or (c)) in excess of gross income for such year,

then such carryover or such excess shall be allowed as a deduction, in accordance with regulations prescribed by the Secretary or his delegate, to the beneficiaries succeeding to the property of the estate or trust.

(i) CROSS REFERENCE.—

For disallowance of standard deduction in case of estates and trusts see section 142 (b) (4).

SEC. 643. DEFINITIONS APPLICABLE TO SUBPARTS A, B, C, AND D.

(a) DISTRIBUTABLE NET INCOME.—For purposes of this part, the term "distributable net income" means, with respect to any taxable year, the taxable income of the estate or trust computed with the following modifications—

(1) DEDUCTION FOR DISTRIBUTIONS.—No deduction shall be taken under sections 651 and 661 (relating to additional deductions).

(2) DEDUCTION FOR PERSONAL EXEMPTION.—No deduction shall be taken under section 642 (b) (relating to deduction for personal exemptions).

(3) CAPITAL GAINS AND LOSSES.—Gains from the sale or exchange of capital assets shall be excluded to the extent that such gains are allocated to corpus and are not (A) paid, credited, or required to be distributed to any beneficiary during the taxable year, or (B) paid, permanently set aside, or to be used for the purposes specified in section 642 (c). Losses from the sale or exchange of capital assets shall be excluded, except to the extent such losses are taken into account in determining the amount of gains from the sale or exchange of capital assets which are paid, credited, or required to be distributed to any beneficiary during the taxable year. The

deduction under section 1202 (relating to deduction for excess of capital gains over capital losses) shall not be taken into account.

(4) EXTRAORDINARY DIVIDENDS AND TAXABLE STOCK DIVIDENDS.—For purposes only of subpart B (relating to trusts which distribute current income only), there shall be excluded those items of gross income constituting extraordinary dividends or taxable stock dividends which the fiduciary, acting in good faith, does not pay or credit to any beneficiary by reason of his determination that such dividends are allocable to corpus under the terms of the governing instrument and applicable local law.

(5) TAX-EXEMPT INTEREST.—There shall be included any tax-exempt interest to which section 103 applies, reduced by any amounts which would be deductible in respect of disbursements allocable to such interest but for the provisions of section 265 (relating to disallowance of certain deductions).

(6) FOREIGN INCOME.—In the case of a foreign trust, there shall be included the amounts of gross income from sources without the United States, reduced by any amounts which would be deductible in respect of disbursements allocable to such income but for the provisions of section 265 (1) (relating to disallowance of certain deductions).

(7) DIVIDENDS.—There shall be included the amount of any dividends excluded from gross income pursuant to section 116 (relating to partial exclusion of dividends received).

If the estate or trust is allowed a deduction under section 642 (c), the amount of the modifications specified in paragraphs (5) and (6) shall be reduced to the extent that the amount of income which is paid, permanently set aside, or to be used for the purposes specified in section 642 (c) is deemed to consist of items specified in those paragraphs. For this purpose, such amount shall (in the absence of specific provisions in the governing instrument) be deemed to consist of the same proportion of each class of items of income of the estate or trust as the total of each class bears to the total of all classes.

(b) INCOME.—For purposes of this subpart and subparts B, C, and D, the term "income", when not preceded by the words "taxable", "distributable net", "undistributed net", or "gross", means the amount of income of the estate or trust for the taxable year determined under the terms of the governing instrument and applicable local law. Items of gross income constituting extraordinary dividends or taxable stock dividends which the fiduciary, acting in good faith, determines to be allocable to corpus under the terms of the governing instrument and applicable local law shall not be considered income.

(c) BENEFICIARY.—For purposes of this part, the term "beneficiary" includes heir, legatee, devisee.

Subpart B—Trusts Which Distribute Current Income Only

Sec. 651. Deduction for trusts distributing current income only.
Sec. 652. Inclusion of amounts in gross income of beneficiaries of trusts distributing current income only.

SEC. 651. DEDUCTION FOR TRUSTS DISTRIBUTING CURRENT INCOME ONLY.

(a) DEDUCTION.—In the case of any trust the terms of which—

(1) provide that all of its income is required to be distributed currently, and

(2) do not provide that any amounts are to be paid, permanently set aside, or used for the purposes specified in section 642 (c) (relating to deduction for charitable, etc., purposes),

there shall be allowed as a deduction in computing the taxable income of the trust the amount of the income for the taxable year which is required to be distributed currently. This section shall not apply in any taxable year in which the trust distributes amounts other than amounts of income described in paragraph (1).

(b) LIMITATION ON DEDUCTION.—If the amount of income required to be distributed currently exceeds the distributable net income of the trust for the taxable year, the deduction shall be limited to the amount of the distributable net income. For this purpose, the computation of distributable net income shall not include items of income which are not included in the gross income of the trust and the deductions allocable thereto.

SEC. 652. INCLUSION OF AMOUNTS IN GROSS INCOME OF BENEFICIARIES OF TRUSTS DISTRIBUTING CURRENT INCOME ONLY.

(a) INCLUSION.—Subject to subsection (b), the amount of income for the taxable year required to be distributed currently by a trust described in section 651 shall be included in the gross income of the beneficiaries to whom the income is required to be distributed, whether distributed or not. If such amount exceeds the distributable net income, there shall be included in the gross income of each beneficiary an amount which bears the same ratio to distributable net income as the amount of income required to be distributed to such beneficiary bears to the amount of income required to be distributed to all beneficiaries.

(b) CHARACTER OF AMOUNTS.—The amounts specified in subsection (a) shall have the same character in the hands of the beneficiary as in the hands of the trust. For this purpose, the amounts shall be treated as consisting of the same proportion of each class of items entering into the computation of distributable net income of the trust as the total of each class bears to the total distributable net income of the trust, unless the terms of the trust specifically allocate different classes of income to different beneficiaries. In the application of the preceding sentence, the items of deduction entering into the computation of distributable net income shall be allocated among the items of distributable net income in accordance with regulations prescribed by the Secretary or his delegate.

(c) DIFFERENT TAXABLE YEARS.—If the taxable year of a beneficiary is different from that of the trust, the amount which the bene-

ficiary is required to include in gross income in accordance with the provisions of this section shall be based upon the amount of income of the trust for any taxable year or years of the trust ending within or with his taxable year.

Subpart C—Estates and Trusts Which May Accumulate Income or Which Distribute Corpus

Sec. 661. Deductions for estates and trusts accumulating income or distributing corpus.
Sec. 662. Inclusion of amounts in gross income of beneficiaries of estates and trusts accumulating income or distributing corpus.
Sec. 663. Special rules applicable to sections 661 and 662.

SEC. 661. DEDUCTION FOR ESTATES AND TRUSTS ACCUMULATING INCOME OR DISTRIBUTING CORPUS.

(a) DEDUCTION.—In any taxable year there shall be allowed as a deduction in computing the taxable income of an estate or trust (other than a trust to which subpart B applies), the sum of—

(1) any amount of income for such taxable year required to be distributed currently (including any amount required to be distributed which may be paid out of income or corpus to the extent such amount is paid out of income for such taxable year); and

(2) any other amounts properly paid or credited or required to be distributed for such taxable year;

but such deduction shall not exceed the distributable net income of the estate or trust.

(b) CHARACTER OF AMOUNTS DISTRIBUTED.—The amount determined under subsection (a) shall be treated as consisting of the same proportion of each class of items entering into the computation of distributable net income of the estate or trust as the total of each class bears to the total distributable net income of the estate or trust in the absence of the allocation of different classes of income under the specific terms of the governing instrument. In the application of the preceding sentence, the items of deduction entering into the computation of distributable net income (including the deduction allowed under section 642 (c)) shall be allocated among the items of distributable net income in accordance with regulations prescribed by the Secretary or his delegate.

(c) LIMITATION ON DEDUCTION.—No deduction shall be allowed under subsection (a) in respect of any portion of the amount allowed as a deduction under that subsection (without regard to this subsection) which is treated under subsection (b) as consisting of any item of distributable net income which is not included in the gross income of the estate or trust.

SEC. 662. INCLUSION OF AMOUNTS IN GROSS INCOME OF BENEFICIARIES OF ESTATES AND TRUSTS ACCUMULATING INCOME OR DISTRIBUTING CORPUS.

(a) INCLUSION.—Subject to subsection (b), there shall be included in the gross income of a beneficiary to whom an amount specified in section 661 (a) is paid, credited, or required to be distributed (by an estate or trust described in section 661), the sum of the following amounts:

(1) AMOUNTS REQUIRED TO BE DISTRIBUTED CURRENTLY.—The amount of income for the taxable year required to be distributed currently to such beneficiary, whether distributed or not. If the amount of income required to be distributed currently to all beneficiaries exceeds the distributable net income (computed without the deduction allowed by section 642 (c), relating to deduction for charitable, etc., purposes) of the estate or trust, then, in lieu of the amount provided in the preceding sentence, there shall be included in the gross income of the beneficiary an amount which bears the same ratio to distributable net income (as so computed) as the amount of income required to be distributed currently to such beneficiary bears to the amount required to be distributed currently to all beneficiaries. For purposes of this section, the phrase "the amount of income for the taxable year required to be distributed currently" includes any amount required to be paid out of income or corpus to the extent such amount is paid out of income for such taxable year.

(2) OTHER AMOUNTS DISTRIBUTED.—All other amounts properly paid, credited, or required to be distributed to such beneficiary for the taxable year. If the sum of—

(A) the amount of income for the taxable year required to be distributed currently to all beneficiaries, and

(B) all other amounts properly paid, credited, or required to be distributed to all beneficiaries

exceeds the distributable net income of the estate or trust, then, in lieu of the amount provided in the preceding sentence, there shall be included in the gross income of the beneficiary an amount which bears the same ratio to distributable net income (reduced by the amounts specified in (A)) as the other amounts properly paid, credited or required to be distributed to the beneficiary bear to the other amounts properly paid, credited, or required to be distributed to all beneficiaries.

(b) CHARACTER OF AMOUNTS.—The amounts determined under subsection (a) shall have the same character in the hands of the beneficiary as in the hands of the estate or trust. For this purpose, the amounts shall be treated as consisting of the same proportion of each class of items entering into the computation of distributable net income as the total of each class bears to the total distributable net income of the estate or trust unless the terms of the governing instrument specifically allocate different classes of income to different beneficiaries. In the application of the preceding sentence, the items of deduction entering into the computation of distributable net income (including the deduction allowed under section 642 (c)) shall be allocated among the items of distributable net income in accordance with regulations prescribed by the Secretary or his delegate. In the application of this subsection to the amount determined under paragraph (1) of subsection (a), distributable net income shall be computed without regard to any portion of the deduction under section 642 (c) which is not attributable to income of the taxable year.

(c) DIFFERENT TAXABLE YEARS.—If the taxable year of a beneficiary is different from that of the estate or trust, the amount to be included in the gross income of the beneficiary shall be based on the

distributable net income of the estate or trust and the amounts properly paid, credited, or required to be distributed to the beneficiary during any taxable year or years of the estate or trust ending within or with his taxable year.

SEC. 663. SPECIAL RULES APPLICABLE TO SECTIONS 661 AND 662.

(a) EXCLUSIONS.—There shall not be included as amounts falling within section 661 (a) or 662 (a)—

(1) GIFTS, BEQUESTS, ETC.—Any amount which, under the terms of the governing instrument, is properly paid or credited as a gift or bequest of a specific sum of money or of specific property and which is paid or credited all at once or in not more than 3 installments. For this purpose an amount which can be paid or credited only from the income of the estate or trust shall not be considered as a gift or bequest of a specific sum of money.

(2) CHARITABLE, ETC., DISTRIBUTIONS.—Any amount paid or permanently set aside or otherwise qualifying for the deduction provided in section 642 (c) (computed without regard to section 681).

(3) DENIAL OF DOUBLE DEDUCTION.—Any amount paid, credited, or distributed in the taxable year, if section 651 or section 661 applied to such amount for a preceding taxable year of an estate or trust because credited or required to be distributed in such preceding taxable year.

(b) DISTRIBUTIONS IN FIRST SIXTY-FIVE DAYS OF TAXABLE YEAR.—

(1) GENERAL RULE.—If within the first 65 days of any taxable year of a trust, an amount is properly paid or credited, such amount shall be considered paid or credited on the last day of the preceding taxable year.

(2) LIMITATION.—This subsection shall apply only to a trust—

(A) which was in existence prior to January 1, 1954,

(B) which, under the terms of its governing instrument, may not distribute in any taxable year amounts in excess of the income of the preceding taxable year, and

(C) on behalf of which the fiduciary elects to have this subsection apply.

The election authorized by subparagraph (C) shall be made for the first taxable year to which this part is applicable in accordance with such regulations as the Secretary or his delegate shall prescribe and shall be made not later than the time prescribed by law for filing the return for such year (including extensions thereof). If such election is made with respect to a taxable year, this subsection shall apply to all amounts properly paid or credited within the first 65 days of all subsequent taxable years of such trust.

(c) SEPARATE SHARES TREATED AS SEPARATE TRUSTS.—For the sole purpose of determining the amount of distributable net income in the application of sections 661 and 662, in the case of a single trust having more than one beneficiary, substantially separate and independent shares of different beneficiaries in the trust shall be treated as separate trusts. The existence of such substantially separate and independent shares and the manner of treatment as separate trusts,

including the application of subpart D, shall be determined in accordance with regulations prescribed by the Secretary or his delegate.

Subpart D—Treatment of Excess Distributions by Trusts

Sec. 665. Definitions applicable to subpart D.
Sec. 666. Accumulation distribution allocated to 5 preceding years.
Sec. 667. Denial of refund to trust.
Sec. 668. Treatment of amounts deemed distributed in preceding years.

SEC. 665. DEFINITIONS APPLICABLE TO SUBPART D.

(a) UNDISTRIBUTED NET INCOME.—For purposes of this subpart, the term "undistributed net income" for any taxable year means the amount by which distributable net income of the trust for such taxable year exceeds the sum of—

(1) the amounts for such taxable year specified in paragraphs (1) and (2) of section 661 (a); and

(2) the amount of taxes imposed on the trust.

(b) ACCUMULATION DISTRIBUTION.—For purposes of this subpart, the term "accumulation distribution" for any taxable year of the trust means the amount (if in excess of $2,000) by which the amounts specified in paragraph (2) of section 661 (a) for such taxable year exceed distributable net income reduced by the amounts specified in paragraph (1) of section 661 (a). For purposes of this subsection, the amount specified in paragraph (2) of section 661 (a) shall be determined without regard to section 666 and shall not include—

(1) amounts paid, credited, or required to be distributed to a beneficiary as income accumulated before the birth of such beneficiary or before such beneficiary attains the age of 21;

(2) amounts properly paid or credited to a beneficiary to meet the emergency needs of such beneficiary;

(3) amounts properly paid or credited to a beneficiary upon such beneficiary's attaining a specified age or ages if—

(A) the total number of such distributions cannot exceed 4 with respect to such beneficiary,

(B) the period between each such distribution to such beneficiary is 4 years or more, and

(C) as of January 1, 1954, such distributions are required by the specific terms of the governing instrument; and

(4) amounts properly paid or credited to a beneficiary as a final distribution of the trust if such final distribution is made more than 9 years after the date of the last transfer to such trust.

(c) TAXES IMPOSED ON THE TRUST.—For purposes of this subpart, the term "taxes imposed on the trust" means the amount of the taxes which are imposed for any taxable year on the trust under this chapter (without regard to this subpart) and which, under regulations prescribed by the Secretary or his delegate, are properly allocable to the undistributed portion of the distributable net income. The amount determined in the preceding sentence shall be reduced by any amount of such taxes allowed, under sections 667 and 668, as a credit to any beneficiary on account of any accumulation distribution determined for any taxable year.

(d) PRECEDING TAXABLE YEAR.—For purposes of this subpart, the term "preceding taxable year" does not include any taxable year of the trust to which this part does not apply. In the case of a preceding taxable year with respect to which a trust qualifies (without regard to this subpart) under the provisions of subpart B, for purposes of the application of this subpart to such trust for such taxable year, such trust shall, in accordance with regulations prescribed by the Secretary or his delegate, be treated as a trust to which subpart C applies.

SEC. 666. ACCUMULATION DISTRIBUTION ALLOCATED TO 5 PRECEDING YEARS.

(a) AMOUNT ALLOCATED.—In the case of a trust which for a taxable year beginning after December 31, 1953, is subject to subpart C, the amount of the accumulation distribution of such trust for such taxable year shall be deemed to be an amount within the meaning of paragraph (2) of section 661 (a) distributed on the last day of each of the 5 preceding taxable years to the extent that such amount exceeds the total of any undistributed net incomes for any taxable years intervening between the taxable year with respect to which the accumulation distribution is determined and such preceding taxable year. The amount deemed to be distributed in any such preceding taxable year under the preceding sentence shall not exceed the undistributed net income of such preceding taxable year. For purposes of this subsection, undistributed net income for each of such 5 preceding taxable years shall be computed without regard to such accumulation distribution and without regard to any accumulation distribution determined for any succeeding taxable year.

(b) TOTAL TAXES DEEMED DISTRIBUTED.—If any portion of an accumulation distribution for any taxable year is deemed under subsection (a) to be an amount within the meaning of paragraph (2) of section 661 (a) distributed on the last day of any preceding taxable year, and such portion of such accumulation distribution is not less than the undistributed net income for such preceding taxable year, the trust shall be deemed to have distributed on the last day of such preceding taxable year an additional amount within the meaning of paragraph (2) of section 661 (a). Such additional amount shall be equal to the taxes imposed on the trust for such preceding taxable year. For purposes of this subsection, the undistributed net income and the taxes imposed on the trust for such preceding taxable year shall be computed without regard to such accumulation distribution and without regard to any accumulation distribution determined for any succeeding taxable year.

(c) PRO RATA PORTION OF TAXES DEEMED DISTRIBUTED.—If any portion of an accumulation distribution for any taxable year is deemed under subsection (a) to be an amount within the meaning of paragraph (2) of section 661 (a) distributed on the last day of any preceding taxable year and such portion of the accumulation distribution is less than the undistributed net income for such preceding taxable year, the trust shall be deemed to have distributed on the last day of such preceding taxable year an additional amount within the meaning of paragraph (2) of section 661 (a). Such additional amount shall be equal to the taxes imposed on the trust for such taxable year

multiplied by the ratio of the portion of the accumulation distribution to the undistributed net income of the trust for such year. For purposes of this subsection, the undistributed net income and the taxes imposed on the trust for such preceding taxable year shall be computed without regard to the accumulation distribution and without regard to any accumulation distribution determined for any succeeding taxable year.

SEC. 667. DENIAL OF REFUND TO TRUSTS.

The amount of taxes imposed on the trust under this chapter, which would not have been payable by the trust for any preceding taxable year had the trust in fact made distributions at the times and in the amounts deemed under section 666, shall not be refunded or credited to the trust, but shall be allowed as a credit under section 668 (b) against the tax of the beneficiaries who are treated as having received the distributions. For purposes of the preceding sentence, the amount of taxes which may not be refunded or credited to the trust shall be an amount equal to the excess of (1) the taxes imposed on the trust for any preceding taxable year (computed without regard to the accumulation distribution for the taxable year) over (2) the amount of taxes for such preceding taxable year imposed on the undistributed portion of distributable net income of the trust for such preceding taxable year after the application of this subpart on account of the accumulation distribution determined for such taxable year.

SEC. 668. TREATMENT OF AMOUNTS DEEMED DISTRIBUTED IN PRECEDING YEARS.

(a) AMOUNTS TREATED AS RECEIVED IN PRIOR TAXABLE YEARS.—The total of the amounts which are treated under section 666 as having been distributed by the trust in a preceding taxable year shall be included in the income of a beneficiary or beneficiaries of the trust when paid, credited, or required to be distributed to the extent that such total would have been included in the income of such beneficiary or beneficiaries under section 662 (a) (2) and (b) if such total had been paid to such beneficiary or beneficiaries on the last day of such preceding taxable year. The portion of such total included under the preceding sentence in the income of any beneficiary shall be based upon the same ratio as determined under the second sentence of section 662 (a) (2) for the taxable year in respect of which the accumulation distribution is determined, except that proper adjustment of such ratio shall be made, in accordance with regulations prescribed by the Secretary or his delegate, for amounts which fall within paragraphs (1) through (4) of section 665 (b). The tax of the beneficiaries attributable to the amounts treated as having been received on the last day of such preceding taxable year of the trust shall not be greater than the aggregate of the taxes attributable to those amounts had they been included in the gross income of the beneficiaries on such day in accordance with section 662 (a) (2) and (b).

(b) CREDIT FOR TAXES PAID BY TRUST.—The tax imposed on beneficiaries under this chapter shall be credited with a pro rata portion of the taxes imposed on the trust under this chapter for such preceding taxable year which would not have been payable by the

trust for such preceding taxable year had the trust in fact made distributions to such beneficiaries at the times and in the amounts specified in section 666.

Subpart E—Grantors and Others Treated as Substantial Owners

Sec. 671. Trust income, deductions, and credits attributable to grantors and others as substantial owners.
Sec. 672. Definitions and rules.
Sec. 673. Reversionary interests.
Sec. 674. Power to control beneficial enjoyment.
Sec. 675. Administrative powers.
Sec. 676. Power to revoke.
Sec. 677. Income for benefit of grantor.
Sec. 678. Person other than grantor treated as substantial owner.

SEC. 671. TRUST INCOME, DEDUCTIONS, AND CREDITS ATTRIBUTABLE TO GRANTORS AND OTHERS AS SUBSTANTIAL OWNERS.

Where it is specified in this subpart that the grantor or another person shall be treated as the owner of any portion of a trust, there shall then be included in computing the taxable income and credits of the grantor or the other person those items of income, deductions, and credits against tax of the trust which are attributable to that portion of the trust to the extent that such items would be taken into account under this chapter in computing taxable income or credits against the tax of an individual. Any remaining portion of the trust shall be subject to subparts A through D. No items of a trust shall be included in computing the taxable income and credits of the grantor or of any other person solely on the grounds of his dominion and control over the trust under section 61 (relating to definition of gross income) or any other provision of this title, except as specified in this subpart.

SEC. 672. DEFINITIONS AND RULES.

(a) ADVERSE PARTY.—For purposes of this subpart, the term "adverse party" means any person having a substantial beneficial interest in the trust which would be adversely affected by the exercise or nonexercise of the power which he possesses respecting the trust. A person having a general power of appointment over the trust property shall be deemed to have a beneficial interest in the trust.

(b) NONADVERSE PARTY.—For purposes of this subpart, the term "nonadverse party" means any person who is not an adverse party.

(c) RELATED OR SUBORDINATE PARTY.—For purposes of this subpart, the term "related or subordinate party" means any nonadverse party who is—

(1) the grantor's spouse if living with the grantor;

(2) any one of the following: The grantor's father, mother, issue, brother or sister; an employee of the grantor; a corporation or any employee of a corporation in which the stock holdings of the grantor and the trust are significant from the viewpoint of voting control; a subordinate employee of a corporation in which the grantor is an executive.

For purposes of sections 674 and 675, a related or subordinate party shall be presumed to be subservient to the grantor in respect of the exercise or nonexercise of the powers conferred on him unless such party is shown not to be subservient by a preponderance of the evidence.

(d) RULE WHERE POWER IS SUBJECT TO CONDITION PRECEDENT.—A person shall be considered to have a power described in this subpart even though the exercise of the power is subject to a precedent giving of notice or takes effect only on the expiration of a certain period after the exercise of the power.

SEC. 673. REVERSIONARY INTERESTS.

(a) GENERAL RULE.—The grantor shall be treated as the owner of any portion of a trust in which he has a reversionary interest in either the corpus or the income therefrom if, as of the inception of that portion of the trust, the interest will or may reasonably be expected to take effect in possession or enjoyment within 10 years commencing with the date of the transfer of that portion of the trust.

(b) EXCEPTION WHERE INCOME IS PAYABLE TO CHARITABLE BENEFICIARIES.—Subsection (a) shall not apply to the extent that the income of a portion of a trust in which the grantor has a reversionary interest is, under the terms of the trust, irrevocably payable for a period of at least 2 years (commencing with the date of the transfer) to a designated beneficiary, which beneficiary is of a type described in section 170 (b) (1) (A) (i), (ii), or (iii).

(c) REVERSIONARY INTEREST TAKING EFFECT AT DEATH OF INCOME BENEFICIARY.—The grantor shall not be treated under subsection (a) as the owner of any portion of a trust where his reversionary interest in such portion is not to take effect in possession or enjoyment until the death of the person or persons to whom the income therefrom is payable.

(d) POSTPONEMENT OF DATE SPECIFIED FOR REACQUISITION.—Any postponement of the date specified for the reacquisition of possession or enjoyment of the reversionary interest shall be treated as a new transfer in trust commencing with the date on which the postponement is effected and terminating with the date prescribed by the postponement. However, income for any period shall not be included in the income of the grantor by reason of the preceding sentence if such income would not be so includible in the absence of such postponement.

SEC. 674. POWER TO CONTROL BENEFICIAL ENJOYMENT.

(a) GENERAL RULE.—The grantor shall be treated as the owner of any portion of a trust in respect of which the beneficial enjoyment of the corpus or the income therefrom is subject to a power of disposition, exercisable by the grantor or a nonadverse party, or both, without the approval or consent of any adverse party.

(b) EXCEPTIONS FOR CERTAIN POWERS.—Subsection (a) shall not apply to the following powers regardless of by whom held:

(1) POWER TO APPLY INCOME TO SUPPORT OF A DEPENDENT.—A power described in section 677 (b) to the extent that the grantor would not be subject to tax under that section.

(2) POWER AFFECTING BENEFICIAL ENJOYMENT ONLY AFTER EXPIRATION OF 10-YEAR PERIOD.—A power, the exercise of which can only affect the beneficial enjoyment of the income for a period commencing after the expiration of a period such that a grantor would not be treated as the owner under section 673 if the power were a reversionary interest; but the grantor may be treated as the

owner after the expiration of the period unless the power is relinquished.

(3) POWER EXERCISABLE ONLY BY WILL.—A power exercisable only by will, other than a power in the grantor to appoint by will the income of the trust where the income is accumulated for such disposition by the grantor or may be so accumulated in the discretion of the grantor or a nonadverse party, or both, without the approval or consent of any adverse party.

(4) POWER TO ALLOCATE AMONG CHARITABLE BENEFICIARIES.—A power to determine the beneficial enjoyment of the corpus or the income therefrom if the corpus or income is irrevocably payable for a purpose specified in section 170 (c) (relating to definition of charitable contributions).

(5) POWER TO DISTRIBUTE CORPUS.—A power to distribute corpus either—

(A) to or for a beneficiary or beneficiaries or to or for a class of beneficiaries (whether or not income beneficiaries) provided that the power is limited by a reasonably definite standard which is set forth in the trust instrument; or

(B) to or for any current income beneficiary, provided that the distribution of corpus must be chargeable against the proportionate share of corpus held in trust for the payment of income to the beneficiary as if the corpus constituted a separate trust.

A power does not fall within the powers described in this paragraph if any person has a power to add to the beneficiary or beneficiaries or to a class of beneficiaries designated to receive the income or corpus, except where such action is to provide for after-born or after-adopted children.

(6) POWER TO WITHHOLD INCOME TEMPORARILY.—A power to distribute or apply income to or for any current income beneficiary or to accumulate the income for him, provided that any accumulated income must ultimately be payable—

(A) to the beneficiary from whom distribution or application is withheld, to his estate, or to his appointees (or persons named as alternate takers in default of appointment) provided that such beneficiary possesses a power of appointment which does not exclude from the class of possible appointees any person other than the beneficiary, his estate, his creditors, or the creditors of his estate, or

(B) on termination of the trust, or in conjunction with a distribution of corpus which is augmented by such accumulated income, to the current income beneficiaries in shares which have been irrevocably specified in the trust instrument.

Accumulated income shall be considered so payable although it is provided that if any beneficiary does not survive a date of distribution which could reasonably have been expected to occur within the beneficiary's lifetime, the share of the deceased beneficiary is to be paid to his appointees or to one or more designated alternate takers (other than the grantor or the grantor's estate) whose shares have been irrevocably specified. A power does not fall within the powers described in this paragraph if any person has a power to add to the beneficiary or beneficiaries or to a class of beneficiaries

designated to receive the income or corpus except where such action is to provide for after-born or after-adopted children.

(7) POWER TO WITHHOLD INCOME DURING DISABILITY OF A BENEFICIARY.—A power exercisable only during—

(A) the existence of a legal disability of any current income beneficiary, or

(B) the period during which any income beneficiary shall be under the age of 21 years,

to distribute or apply income to or for such beneficiary or to accumulate and add the income to corpus. A power does not fall within the powers described in this paragraph if any person has a power to add to the beneficiary or beneficiaries or to a class of beneficiaries designated to receive the income or corpus, except where such action is to provide for after-born or after-adopted children.

(8) POWER TO ALLOCATE BETWEEN CORPUS AND INCOME.—A power to allocate receipts and disbursements as between corpus and income, even though expressed in broad language.

(c) EXCEPTION FOR CERTAIN POWERS OF INDEPENDENT TRUSTEES.—Subsection (a) shall not apply to a power solely exercisable (without the approval or consent of any other person) by a trustee or trustees, none of whom is the grantor, and no more than half of whom are related or subordinate parties who are subservient to the wishes of the grantor—

(1) to distribute, apportion, or accumulate income to or for a beneficiary or beneficiaries, or to, for, or within a class of beneficiaries; or

(2) to pay out corpus to or for a beneficiary or beneficiaries or to or for a class of beneficiaries (whether or not income beneficiaries).

A power does not fall within the powers described in this subsection if any person has a power to add to the beneficiary or beneficiaries or to a class of beneficiaries designated to receive the income or corpus, except where such action is to provide for after-born or after-adopted children.

(d) POWER TO ALLOCATE INCOME IF LIMITED BY A STANDARD.—Subsection (a) shall not apply to a power solely exercisable (without the approval or consent of any other person) by a trustee or trustees, none of whom is the grantor or spouse living with the grantor, to distribute, apportion, or accumulate income to or for a beneficiary or beneficiaries, or to, for, or within a class of beneficiaries, whether or not the conditions of paragraph (6) or (7) of subsection (b) are satisfied, if such power is limited by a reasonably definite external standard which is set forth in the trust instrument. A power does not fall within the powers described in this subsection if any person has a power to add to the beneficiary or beneficiaries or to a class of beneficiaries designated to receive the income or corpus except where such action is to provide for after-born or after-adopted children.

SEC. 675. ADMINISTRATIVE POWERS.

The grantor shall be treated as the owner of any portion of a trust in respect of which—

(1) POWER TO DEAL FOR LESS THAN ADEQUATE AND FULL CONSIDERATION.—A power exercisable by the grantor or a nonadverse

party, or both, without the approval or consent of any adverse party enables the grantor or any person to purchase, exchange, or otherwise deal with or dispose of the corpus or the income therefrom for less than an adequate consideration in money or money's worth.

(2) POWER TO BORROW WITHOUT ADEQUATE INTEREST OR SECURITY.—A power exercisable by the grantor or a nonadverse party, or both, enables the grantor to borrow the corpus or income, directly or indirectly, without adequate interest or without adequate security except where a trustee (other than the grantor) is authorized under a general lending power to make loans to any person without regard to interest or security.

(3) BORROWING OF THE TRUST FUNDS.—The grantor has directly or indirectly borrowed the corpus or income and has not completely repaid the loan, including any interest, before the beginning of the taxable year. The preceding sentence shall not apply to a loan which provides for adequate interest and adequate security, if such loan is made by a trustee other than the grantor and other than a related or subordinate trustee subservient to the grantor.

(4) GENERAL POWERS OF ADMINISTRATION.—A power of administration is exercisable in a nonfiduciary capacity by any person without the approval or consent of any person in a fiduciary capacity. For purposes of this paragraph, the term "power of administration" means any one or more of the following powers: (A) a power to vote or direct the voting of stock or other securities of a corporation in which the holdings of the grantor and the trust are significant from the viewpoint of voting control; (B) a power to control the investment of the trust funds either by directing investments or reinvestments, or by vetoing proposed investments or reinvestments, to the extent that the trust funds consist of stocks or securities of corporations in which the holdings of the grantor and the trust are significant from the viewpoint of voting control; or (C) a power to reacquire the trust corpus by substituting other property of an equivalent value.

SEC. 676. POWER TO REVOKE.

(a) GENERAL RULE.—The grantor shall be treated as the owner of any portion of a trust, whether or not he is treated as such owner under any other provision of this part, where at any time the power to revest in the grantor title to such portion is exercisable by the grantor or a non-adverse party, or both.

(b) POWER AFFECTING BENEFICIAL ENJOYMENT ONLY AFTER EXPIRATION OF 10-YEAR PERIOD.—Subsection (a) shall not apply to a power the exercise of which can only affect the beneficial enjoyment of the income for a period commencing after the expiration of a period such that a grantor would not be treated as the owner under section 673 if the power were a reversionary interest. But the grantor may be treated as the owner after the expiration of such period unless the power is relinquished.

SEC. 677. INCOME FOR BENEFIT OF GRANTOR.

(a) GENERAL RULE.—The grantor shall be treated as the owner of any portion of a trust, whether or not he is treated as such owner under section 674, whose income without the approval or consent of

any adverse party is, or, in the discretion of the grantor or a non-adverse party, or both, may be—

(1) distributed to the grantor;

(2) held or accumulated for future distribution to the grantor; or

(3) applied to the payment of premiums on policies of insurance on the life of the grantor (except policies of insurance irrevocably payable for a purpose specified in section 170 (c) (relating to definition of charitable contributions)).

This subsection shall not apply to a power the exercise of which can only affect the beneficial enjoyment of the income for a period commencing after the expiration of a period such that the grantor would not be treated as the owner under section 673 if the power were a reversionary interest; but the grantor may be treated as the owner after the expiration of the period unless the power is relinquished.

(b) OBLIGATIONS OF SUPPORT.—Income of a trust shall not be considered taxable to the grantor under subsection (a) or any other provision of this chapter merely because such income in the discretion of another person, the trustee, or the grantor acting as trustee or co-trustee, may be applied or distributed for the support or maintenance of a beneficiary whom the grantor is legally obligated to support or maintain, except to the extent that such income is so applied or distributed. In cases where the amounts so applied or distributed are paid out of corpus or out of other than income for the taxable year, such amounts shall be considered to be an amount paid or credited within the meaning of paragraph (2) of section 661 (a) and shall be taxed to the grantor under section 662.

SEC. 678. PERSON OTHER THAN GRANTOR TREATED AS SUBSTANTIAL OWNER.

(a) GENERAL RULE.—A person other than the grantor shall be treated as the owner of any portion of a trust with respect to which:

(1) such person has a power exercisable solely by himself to vest the corpus or the income therefrom in himself, or

(2) such person has previously partially released or otherwise modified such a power and after the release or modification retains such control as would, within the principles of sections 671 to 677, inclusive, subject a grantor of a trust to treatment as the owner thereof.

(b) EXCEPTION WHERE GRANTOR IS TAXABLE.—Subsection (a) shall not apply with respect to a power over income, as originally granted or thereafter modified, if the grantor of the trust is otherwise treated as the owner under sections 671 to 677, inclusive.

(c) OBLIGATIONS OF SUPPORT.—Subsection (a) shall not apply to a power which enables such person, in the capacity of trustee or co-trustee, merely to apply the income of the trust to the support or maintenance of a person whom the holder of the power is obligated to support or maintain except to the extent that such income is so applied. In cases where the amounts so applied or distributed are paid out of corpus or out of other than income of the taxable year, such amounts shall be considered to be an amount paid or credited within the meaning of paragraph (2) of section 661 (a) and shall be taxed to the holder of the power under section 662.

(d) EFFECT OF RENUNCIATION OR DISCLAIMER.—Subsection (a) shall not apply with respect to a power which has been renounced or disclaimed within a reasonable time after the holder of the power first became aware of its existence.

Subpart F—Miscellaneous

Sec. 681. Limitation on charitable deduction.
Sec. 682. Income of an estate or trust in case of divorce, etc.
Sec. 683. Applicability of provisions.

SEC. 681. LIMITATION ON CHARITABLE DEDUCTION.

(a) TRADE OR BUSINESS INCOME.—In computing the deduction allowable under section 642 (c) to a trust, no amount otherwise allowable under section 642 (c) as a deduction shall be allowed as a deduction with respect to income of the taxable year which is allocable to its unrelated business income for such year. For purposes of the preceding sentence, the term "unrelated business income" means an amount equal to the amount which, if such trust were exempt from tax under section 501 (a) by reason of section 501 (c) (3), would be computed as its unrelated business taxable income under section 512 (relating to income derived from certain business activities and from certain leases).

(b) OPERATIONS OF TRUSTS.—

(1) LIMITATION ON CHARITABLE, ETC., DEDUCTION.—The amount otherwise allowable under section 642 (c) as a deduction shall not exceed 20 percent of the taxable income of the trust (computed without the benefit of section 642 (c) but with the benefit of section 170 (b) (1) (A)) if the trust has engaged in a prohibited transaction, as defined in paragraph (2).

(2) PROHIBITED TRANSACTIONS.—For purposes of this subsection, the term "prohibited transaction" means any transaction after July 1, 1950, in which any trust while holding income or corpus which has been permanently set aside or is to be used exclusively for charitable or other purposes described in section 642 (c)—

(A) lends any part of such income or corpus, without receipt of adequate security and a reasonable rate of interest, to;

(B) pays any compensation from such income or corpus, in excess of a reasonable allowance for salaries or other compensation for personal services actually rendered, to;

(C) makes any part of its services available on a preferential basis to;

(D) uses such income or corpus to make any substantial purchase of securities or any other property, for more than an adequate consideration in money or money's worth, from;

(E) sells any substantial part of the securities or other property comprising such income or corpus, for less than an adequate consideration in money or money's worth, to; or

(F) engages in any other transaction which results in a substantial diversion of such income or corpus to;

the creator of such trust; any person who has made a substantial contribution to such trust; a member of a family (as defined in section 267 (c) (4)) of an individual who is the creator of the trust or who has made a substantial contribution to the trust; or a cor-

poration controlled by any such creator or person through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock of the corporation.

(3) TAXABLE YEARS AFFECTED.—The amount otherwise allowable under section 642 (c) as a deduction shall be limited as provided in paragraph (1) only for taxable years after the taxable year during which the trust is notified by the Secretary that it has engaged in such transaction, unless such trust entered into such prohibited transaction with the purpose of diverting such corpus or income from the purposes described in section 642 (c), and such transaction involved a substantial part of such corpus or income.

(4) FUTURE CHARITABLE, ETC., DEDUCTIONS OF TRUSTS DENIED DEDUCTION UNDER PARAGRAPH (3).—If the deduction of any trust under section 642 (c) has been limited as provided in this subsection, such trust, with respect to any taxable year following the taxable year in which notice is received of limitation of deduction under section 642 (c), may, under regulations prescribed by the Secretary or his delegate, file claim for the allowance of the unlimited deduction under section 642 (c), and if the Secretary, pursuant to such regulations, is satisfied that such trust will not knowingly again engage in a prohibited transaction, the limitation provided in paragraph (1) shall not apply with respect to taxable years after the year in which such claim is filed.

(5) DISALLOWANCE OF CERTAIN CHARITABLE, ETC., DEDUCTIONS.—No gift or bequest for religious, charitable, scientific, literary, or educational purposes (including the encouragement of art and the prevention of cruelty to children or animals), otherwise allowable as a deduction under section 170, 545 (b) (2), 642 (c), 2055, 2106 (a) (2), or 2522, shall be allowed as a deduction if made in trust and, in the taxable year of the trust in which the gift or bequest is made, the deduction allowed the trust under section 642 (c) is limited by paragraph (1). With respect to any taxable year of a trust in which such deduction has been so limited by reason of entering into a prohibited transaction with the purpose of diverting such corpus or income from the purposes described in section 642 (c), and such transaction involved a substantial part of such income or corpus, and which taxable year is the same, or before the, taxable year of the trust in which such prohibited transaction occurred, such deduction shall be disallowed the donor only if such donor or (if such donor is an individual) any member of his family (as defined in section 267 (c) (4)) was a party to such prohibited transaction.

(6) DEFINITION.—For purposes of this subsection, the term "gift or bequest" means any gift, contribution, bequest, devise, or legacy, or any transfer without adequate consideration.

(c) ACCUMULATED INCOME.—If the amounts permanently set aside, or to be used exclusively for the charitable and other purposes described in section 642 (c) during the taxable year or any prior taxable year and not actually paid out by the end of the taxable year—

(1) are unreasonable in amount or duration in order to carry out such purposes of the trust;

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(2) are used to a substantial degree for purposes other than those prescribed in section 642 (c); or

(3) are invested in such a manner as to jeopardize the interests of the religious, charitable, scientific, etc., beneficiaries,

the amount otherwise allowable under section 642 (c) as a deduction shall be limited to the amount actually paid out during the taxable year and shall not exceed 20 percent of the taxable income of the trust (computed without the benefit of section 642 (c) but with the benefit of section 170 (b) (1) (A)). Paragraph (1) shall not apply to income attributable to property of a decedent dying before January 1, 1951, which is transferred under his will to a trust created by such will. In the case of a trust created by the will of a decedent dying on or after January 1, 1951, if income is required to be accumulated pursuant to the mandatory terms of the will creating the trust, paragraph (1) shall apply only to income accumulated during a taxable year of the trust beginning more than 21 years after the date of death of the last life in being designated in the trust instrument.

(d) CROSS REFERENCE.—

For disallowance of certain charitable, etc., deductions otherwise allowable under section 642 (c), see section 503 (e).

SEC. 682. INCOME OF AN ESTATE OR TRUST IN CASE OF DIVORCE, ETC.

(a) INCLUSION IN GROSS INCOME OF WIFE.—There shall be included in the gross income of a wife who is divorced or legally separated under a decree of divorce or of separate maintenance (or who is separated from her husband under a written separation agreement) the amount of the income of any trust which such wife is entitled to receive and which, except for this section, would be includible in the gross income of her husband, and such amount shall not, despite any other provision of this subtitle, be includible in the gross income of such husband. This subsection shall not apply to that part of any such income of the trust which the terms of the decree, written separation agreement, or trust instrument fix, in terms of an amount of money or a portion of such income, as a sum which is payable for the support of minor children of such husband. In case such income is less than the amount specified in the decree, agreement, or instrument, for the purpose of applying the preceding sentence, such income, to the extent of such sum payable for such support, shall be considered a payment for such support.

(b) WIFE CONSIDERED A BENEFICIARY.—For purposes of computing the taxable income of the estate or trust and the taxable income of a wife to whom subsection (a) or section 71 applies, such wife shall be considered as the beneficiary specified in this part. A periodic payment under section 71 to any portion of which this part applies shall be included in the gross income of the beneficiary in the taxable year in which under this part such portion is required to be included.

(c) CROSS REFERENCE.—

For definitions of "husband" and "wife", as used in this section, see section 7701 (a) (17).

SEC. 683. APPLICABILITY OF PROVISIONS.

(a) GENERAL RULE.—This part shall apply only to taxable years beginning after December 31, 1953, and ending after the date of the enactment of this title.

(b) EXCEPTIONS.—In the case of any beneficiary of an estate or trust—

(1) this part shall not apply to any amount paid, credited, or to be distributed by the estate or trust in any taxable year of such estate or trust to which this part does not apply, and

(2) the Internal Revenue Code of 1939 shall apply for purposes of determining the amount includible in the gross income of the beneficiary.

To the extent that any amount paid, credited, or to be distributed by an estate or trust in the first taxable year of such estate or trust to which this part applies would be treated, if the Internal Revenue Code of 1939 were applicable, as paid, credited, or to be distributed on the last day of the preceding taxable year, such amount shall not be taken into account for purposes of this part but shall be taken into account as provided in the Internal Revenue Code of 1939.

PART II—INCOME IN RESPECT OF DECEDENTS

Sec. 691. Recipients of income in respect of decedents.
Sec. 692. Income taxes of members of Armed Forces on death.

SEC. 691. RECIPIENTS OF INCOME IN RESPECT OF DECEDENTS.

(a) INCLUSION IN GROSS INCOME.—

(1) GENERAL RULE.—The amount of all items of gross income in respect of a decedent which are not properly includible in respect of the taxable period in which falls the date of his death or a prior period (including the amount of all items of gross income in respect of a prior decedent, if the right to receive such amount was acquired by reason of the death of the prior decedent or by bequest, devise, or inheritance from the prior decedent) shall be included in the gross income, for the taxable year when received, of:

(A) the estate of the decedent, if the right to receive the amount is acquired by the decedent's estate from the decedent;

(B) the person who, by reason of the death of the decedent, acquires the right to receive the amount, if the right to receive the amount is not acquired by the decedent's estate from the decedent; or

(C) the person who acquires from the decedent the right to receive the amount by bequest, devise, or inheritance, if the amount is received after a distribution by the decedent's estate of such right.

(2) INCOME IN CASE OF SALE, ETC.—If a right, described in paragraph (1), to receive an amount is transferred by the estate of the decedent or a person who received such right by reason of the death of the decedent or by bequest, devise, or inheritance from the decedent, there shall be included in the gross income of the estate or such person, as the case may be, for the taxable period in which the transfer occurs, the fair market value of such right at the time of such transfer plus the amount by which any consideration

for the transfer exceeds such fair market value. For purposes of this paragraph, the term "transfer" includes sale, exchange, or other disposition, or the satisfaction of an installment obligation at other than face value, but does not include transmission at death to the estate of the decedent or a transfer to a person pursuant to the right of such person to receive such amount by reason of the death of the decedent or by bequest, devise, or inheritance from the decedent.

(3) CHARACTER OF INCOME DETERMINED BY REFERENCE TO DECEDENT.—The right, described in paragraph (1), to receive an amount shall be treated, in the hands of the estate of the decedent or any person who acquired such right by reason of the death of the decedent, or by bequest, devise, or inheritance from the decedent, as if it had been acquired by the estate or such person in the transaction in which the right to receive the income was originally derived and the amount includible in gross income under paragraph (1) or (2) shall be considered in the hands of the estate or such person to have the character which it would have had in the hands of the decedent if the decedent had lived and received such amount.

(4) INSTALLMENT OBLIGATIONS ACQUIRED FROM DECEDENT.—In the case of an installment obligation received by a decedent on the sale or other disposition of property, the income from which was properly reportable by the decedent on the installment basis under section 453, if such obligation is acquired by the decedent's estate from the decedent or by any person by reason of the death of the decedent or by bequest, devise, or inheritance from the decedent—

(A) an amount equal to the excess of the face amount of such obligation over the basis of the obligation in the hands of the decedent (determined under section 453 (d)) shall, for the purpose of paragraph (1), be considered as an item of gross income in respect of the decedent; and

(B) such obligation shall, for purposes of paragraphs (2) and (3), be considered a right to receive an item of gross income in respect of the decedent, but the amount includible in gross income under paragraph (2) shall be reduced by an amount equal to the basis of the obligation in the hands of the decedent (determined under section 453 (d)).

(b) ALLOWANCE OF DEDUCTIONS AND CREDIT.—The amount of any deduction specified in section 162, 163, 164, 212, or 611 (relating to deductions for expenses, interest, taxes, and depletion) or credit specified in section 33 (relating to foreign tax credit), in respect of a decedent which is not properly allowable to the decedent in respect of the taxable period in which falls the date of his death, or a prior period, shall be allowed:

(1) EXPENSES, INTEREST, AND TAXES.—In the case of a deduction specified in section 162, 163, 164, or 212 and a credit specified in section 33, in the taxable year when paid—

(A) to the estate of the decedent; except that

(B) if the estate of the decedent is not liable to discharge the obligation to which the deduction or credit relates, to the person who, by reason of the death of the decedent or by bequest, devise,

or inheritance acquires, subject to such obligation, from the decedent an interest in property of the decedent.

(2) DEPLETION.—In the case of the deduction specified in section 611, to the person described in subsection (a) (1) (A), (B), or (C) who, in the manner described therein, receives the income to which the deduction relates, in the taxable year when such income is received.

(c) DEDUCTION FOR ESTATE TAX.—

(1) ALLOWANCE OF DEDUCTION.—

(A) GENERAL RULE.—A person who includes an amount in gross income under subsection (a) shall be allowed, for the same taxable year, as a deduction an amount which bears the same ratio to the estate tax attributable to the net value for estate tax purposes of all the items described in subsection (a) (1) as the value for estate tax purposes of the items of gross income or portions thereof in respect of which such person included the amount in gross income (or the amount included in gross income, whichever is lower) bears to the value for estate tax purposes of all the items described in subsection (a) (1).

(B) ESTATES AND TRUSTS.—In the case of an estate or trust, the amount allowed as a deduction under subparagraph (A) shall be computed by excluding from the gross income of the estate or trust the portion (if any) of the items described in subsection (a) (1) which is properly paid, credited, or to be distributed to the beneficiaries during the taxable year. This subparagraph shall apply to the same taxable years, and to the same extent, as is provided in section 683.

(2) METHOD OF COMPUTING DEDUCTION.—For purposes of paragraph (1)—

(A) The term "estate tax" means the tax imposed on the estate of the decedent or any prior decedent under section 2001 or 2101, reduced by the credits against such tax.

(B) The net value for estate tax purposes of all the items described in subsection (a) (1) shall be the excess of the value for estate tax purposes of all the items described in subsection (a) (1) over the deductions from the gross estate in respect of claims which represent the deductions and credit described in subsection (b). Such net value shall be determined with regard to the provisions of section 421 (d) (6) (B), relating to the deduction for estate tax with respect to restricted stock options.

(C) The estate tax attributable to such net value shall be an amount equal to the excess of the estate tax over the estate tax computed without including in the gross estate such net value.

(d) AMOUNTS RECEIVED BY SURVIVING ANNUITANT UNDER JOINT AND SURVIVOR ANNUITY CONTRACT.—

(1) DEDUCTION FOR ESTATE TAX.—For purposes of computing the deduction under subsection (c) (1) (A), amounts received by a surviving annuitant—

(A) as an annuity under a joint and survivor annuity contract where the decedent annuitant died after December 31, 1953, and after the annuity starting date (as defined in section 72 (c) (4)), and

(B) during the surviving annuitant's life expectancy period, shall, to the extent included in gross income under section 72, be considered as amounts included in gross income under subsection (a).

(2) NET VALUE FOR ESTATE TAX PURPOSES.—In determining the net value for estate tax purposes under subsection (c) (2) (B) for purposes of this subsection, the value for estate tax purposes of the items described in paragraph (1) of this subsection shall be computed—

(A) by determining the excess of the value of the annuity at the date of the death of the deceased annuitant over the total amount excludable from the gross income of the surviving annuitant under section 72 during the surviving annuitant's life expectancy period, and

(B) by multiplying the figure so obtained by the ratio which the value of the annuity for estate tax purposes bears to the value of the annuity at the date of the death of the deceased.

(3) DEFINITIONS.—For purposes of this subsection—

(A) The term "life expectancy period" means the period beginning with the first day of the first period for which an amount is received by the surviving annuitant under the contract and ending with the close of the taxable year with or in which falls the termination of the life expectancy of the surviving annuitant. For purposes of this subparagraph, the life expectancy of the surviving annuitant shall be determined, as of the date of the death of the deceased annuitant, with reference to actuarial tables prescribed by the Secretary or his delegate.

(B) The surviving annuitant's expected return under the contract shall be computed, as of the death of the deceased annuitant, with reference to actuarial tables prescribed by the Secretary or his delegate.

(e) CROSS REFERENCE.—

For application of this section to income in respect of a deceased partner, see section 753.

SEC. 692. INCOME TAXES ON MEMBERS OF ARMED FORCES ON DEATH.

In the case of any individual who dies during an induction period (as defined in section 112 (c) (5)) while in active service as a member of the Armed Forces of the United States, if such death occurred while serving in a combat zone (as determined under section 112) or as a result of wounds, disease, or injury incurred while so serving—

(1) any tax imposed by this subtitle shall not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year ending on or after the first day he so served in a combat zone after June 24, 1950; and

(2) any tax under this subtitle and under the corresponding provisions of prior revenue laws for taxable years preceding those specified in paragraph (1) which is unpaid at the date of his death (including interest, additions to the tax, and additional amounts) shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment.

Subchapter K—Partners and Partnerships

Part I. Determination of tax liability.
Part II. Contributions, distributions, and transfers.
Part III. Definitions.
Part IV. Effective date for subchapter.

PART I—DETERMINATION OF TAX LIABILITY

Sec. 701. Partners, not partnership, subject to tax.
Sec. 702. Income and credits of partner.
Sec. 703. Partnership computations.
Sec. 704. Partner's distributive share.
Sec. 705. Determination of basis of partner's interest.
Sec. 706. Taxable years of partner and partnership.
Sec. 707. Transactions between partner and partnership.
Sec. 708. Continuation of partnership.

SEC. 701. PARTNERS, NOT PARTNERSHIP, SUBJECT TO TAX.

A partnership as such shall not be subject to the income tax imposed by this chapter. Persons carrying on business as partners shall be liable for income tax only in their separate or individual capacities.

SEC. 702. INCOME AND CREDITS OF PARTNER.

(a) GENERAL RULE.—In determining his income tax, each partner shall take into account separately his distributive share of the partnership's—

(1) gains and losses from sales or exchanges of capital assets held for not more than 6 months,

(2) gains and losses from sales or exchanges of capital assets held for more than 6 months,

(3) gains and losses from sales or exchanges of property described in section 1231 (relating to certain property used in a trade or business and involuntary conversions),

(4) charitable contributions (as defined in section 170 (c)),

(5) dividends with respect to which there is provided a credit under section 34, an exclusion under section 116, or a deduction under part VIII of subchapter B,

(6) taxes, described in section 901, paid or accrued to foreign countries and to possessions of the United States,

(7) partially tax-exempt interest on obligations of the United States or on obligations of instrumentalities of the United States as described in section 35 or section 242 (but, if the partnership elects to amortize the premiums on bonds as provided in section 171, the amount received on such obligations shall be reduced by the reduction provided under section 171 (a) (3)),

(8) other items of income, gain, loss, deduction, or credit, to the extent provided by regulations prescribed by the Secretary or his delegate, and

(9) taxable income or loss, exclusive of items requiring separate computation under other paragraphs of this subsection.

(b) CHARACTER OF ITEMS CONSTITUTING DISTRIBUTIVE SHARE.—The character of any item of income, gain, loss, deduction, or credit included in a partner's distributive share under paragraphs (1) through (8) of subsection (a) shall be determined as if such item were realized directly from the source from which realized by the partnership, or incurred in the same manner as incurred by the partnership.

(c) GROSS INCOME OF A PARTNER.—In any case where it is necessary to determine the gross income of a partner for purposes of this title, such amount shall include his distributive share of the gross income of the partnership.

SEC. 703. PARTNERSHIP COMPUTATIONS.

(a) INCOME AND DEDUCTIONS.—The taxable income of a partnership shall be computed in the same manner as in the case of an individual except that—

(1) the items described in section 702 (a) shall be separately stated, and

(2) the following deductions shall not be allowed to the partnership:

(A) the standard deduction provided in section 141,

(B) the deductions for personal exemptions provided in section 151,

(C) the deduction for taxes provided in section 164 (a) with respect to taxes, described in section 901, paid or accrued to foreign countries and to possessions of the United States,

(D) the deduction for charitable contributions provided in section 170,

(E) the net operating loss deduction provided in section 172, and

(F) the additional itemized deductions for individuals provided in part VII of subchapter B (sec. 211 and following).

(b) ELECTIONS OF THE PARTNERSHIP.—Any election affecting the computation of taxable income derived from a partnership shall be made by the partnership, except that the election under section 901, relating to taxes of foreign countries and possessions of the United States, shall be made by each partner separately.

SEC. 704. PARTNER'S DISTRIBUTIVE SHARE.

(a) EFFECT OF PARTNERSHIP AGREEMENT.—A partner's distributive share of income, gain, loss, deduction, or credit shall, except as otherwise provided in this section, be determined by the partnership agreement.

(b) DISTRIBUTIVE SHARE DETERMINED BY INCOME OR LOSS RATIO.—A partner's distributive share of any item of income, gain, loss, deduction, or credit shall be determined in accordance with his distributive share of taxable income or loss of the partnership, as described in section 702 (a) (9), for the taxable year, if—

(1) the partnership agreement does not provide as to the partner's distributive share of such item, or

(2) the principal purpose of any provision in the partnership agreement with respect to the partner's distributive share of such item is the avoidance or evasion of any tax imposed by this subtitle.

(c) CONTRIBUTED PROPERTY.—

(1) GENERAL RULE.—In determining a partner's distributive share of items described in section 702 (a), depreciation, depletion, or gain or loss with respect to property contributed to the partnership by a partner shall, except to the extent otherwise provided in paragraph (2) or (3), be allocated among the partners in the same manner as if such property had been purchased by the partnership.

(2) EFFECT OF PARTNERSHIP AGREEMENT.—If the partnership agreement so provides, depreciation, depletion, or gain or loss with respect to property contributed to the partnership by a partner shall, under regulations prescribed by the Secretary or his delegate, be shared among the partners so as to take account of the variation between the basis of the property to the partnership and its fair market value at the time of contribution.

(3) UNDIVIDED INTERESTS.—If the partnership agreement does not provide otherwise, depreciation, depletion, or gain or loss with respect to undivided interests in property contributed to a partnership shall be determined as though such undivided interests had not been contributed to the partnership. This paragraph shall apply only if all the partners had undivided interests in such property prior to contribution and their interests in the capital and profits of the partnership correspond with such undivided interests.

(d) LIMITATION ON ALLOWANCE OF LOSSES.—A partner's distributive share of partnership loss (including capital loss) shall be allowed only to the extent of the adjusted basis of such partner's interest in the partnership at the end of the partnership year in which such loss occurred. Any excess of such loss over such basis shall be allowed as a deduction at the end of the partnership year in which such excess is repaid to the partnership.

(e) FAMILY PARTNERSHIPS.—

(1) RECOGNITION OF INTEREST CREATED BY PURCHASE OR GIFT.—A person shall be recognized as a partner for purposes of this subtitle if he owns a capital interest in a partnership in which capital is a material income-producing factor, whether or not such interest was derived by purchase or gift from any other person.

(2) DISTRIBUTIVE SHARE OF DONEE INCLUDIBLE IN GROSS INCOME.—In the case of any partnership interest created by gift, the distributive share of the donee under the partnership agreement shall be includible in his gross income, except to the extent that such share is determined without allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the portion of such share attributable to donated capital is proportionately greater than the share of the donor attributable to the donor's capital. The distributive share of a partner in the earnings of the partnership shall not be diminished because of absence due to military service.

(3) PURCHASE OF INTEREST BY MEMBER OF FAMILY.—For purposes of this section, an interest purchased by one member of a family from another shall be considered to be created by gift from the seller, and the fair market value of the purchased interest shall be considered to be donated capital. The "family" of any individual shall include only his spouse, ancestors, and lineal descendants, and any trusts for the primary benefit of such persons.

SEC. 705. DETERMINATION OF BASIS OF PARTNER'S INTEREST.

(a) GENERAL RULE.—The adjusted basis of a partner's interest in a partnership shall, except as provided in subsection (b), be the basis of such interest determined under section 722 (relating to contributions to a partnership) or section 742 (relating to transfers of partnership interests)—

(1) increased by the sum of his distributive share for the taxable year and prior taxable years of—

(A) taxable income of the partnership as determined under section 703 (a),

(B) income of the partnership exempt from tax under this title, and

(C) the excess of the deductions for depletion over the basis of the property subject to depletion; and

(2) decreased (but not below zero) by distributions by the partnership as provided in section 733 and by the sum of his distributive share for the taxable year and prior taxable years of—

(A) losses of the partnership, and

(B) expenditures of the partnership not deductible in computing its taxable income and not properly chargeable to capital account.

(b) ALTERNATIVE RULE.—The Secretary or his delegate shall prescribe by regulations the circumstances under which the adjusted basis of a partner's interest in a partnership may be determined by reference to his proportionate share of the adjusted basis of partnership property upon a termination of the partnership.

SEC. 706. TAXABLE YEARS OF PARTNER AND PARTNERSHIP.

(a) YEAR IN WHICH PARTNERSHIP INCOME IS INCLUDIBLE.—In computing the taxable income of a partner for a taxable year, the inclusions required by section 702 and section 707 (c) with respect to a partnership shall be based on the income, gain, loss, deduction, or credit of the partnership for any taxable year of the partnership ending within or with the taxable year of the partner.

(b) ADOPTION OF TAXABLE YEAR.—

(1) PARTNERSHIP'S TAXABLE YEAR.—The taxable year of a partnership shall be determined as though the partnership were a taxpayer. A partnership may not change to, or adopt, a taxable year other than that of all its principal partners unless it establishes, to the satisfaction of the Secretary or his delegate, a business purpose therefor.

(2) PARTNER'S TAXABLE YEAR.—A partner may not change to a taxable year other than that of a partnership in which he is a principal partner unless he establishes, to the satisfaction of the Secretary or his delegate, a business purpose therefor.

(3) PRINCIPAL PARTNER.—For the purpose of this subsection, a principal partner is a partner having an interest of 5 percent or more in partnership profits or capital.

(c) CLOSING OF PARTNERSHIP YEAR.—

(1) GENERAL RULE.—Except in the case of a termination of a partnership and except as provided in paragraph (2) of this subsection, the taxable year of a partnership shall not close as the result of the death of a partner, the entry of a new partner, the

liquidation of a partner's interest in the partnership, or the sale or exchange of a partner's interest in the partnership.

(2) PARTNER WHO RETIRES OR SELLS INTEREST IN PARTNERSHIP.—

(A) DISPOSITION OF ENTIRE INTEREST.—The taxable year of a partnership shall close—

(i) with respect to a partner who sells or exchanges his entire interest in a partnership, and

(ii) with respect to a partner whose interest is liquidated, except that the taxable year of a partnership with respect to a partner who dies shall not close prior to the end of the partnership's taxable year.

Such partner's distributive share of items described in section 702 (a) for such year shall be determined, under regulations prescribed by the Secretary or his delegate, for the period ending with such sale, exchange, or liquidation.

(B) DISPOSITION OF LESS THAN ENTIRE INTEREST.—The taxable year of a partnership shall not close (other than at the end of a partnership's taxable year as determined under subsection (b) (1)) with respect to a partner who sells or exchanges less than his entire interest in the partnership or with respect to a partner whose interest is reduced, but such partner's distributive share of items described in section 702 (a) shall be determined by taking into account his varying interests in the partnership during the taxable year.

SEC. 707. TRANSACTIONS BETWEEN PARTNER AND PARTNERSHIP.

(a) PARTNER NOT ACTING IN CAPACITY AS PARTNER.—If a partner engages in a transaction with a partnership other than in his capacity as a member of such partnership, the transaction shall, except as otherwise provided in this section, be considered as occurring between the partnership and one who is not a partner.

(b) CERTAIN SALES OR EXCHANGES OF PROPERTY WITH RESPECT TO CONTROLLED PARTNERSHIPS.—

(1) LOSSES DISALLOWED.—No deduction shall be allowed in respect of losses from sales or exchanges of property (other than an interest in the partnership), directly or indirectly, between—

(A) a partnership and a partner owning, directly or indirectly, more than 50 percent of the capital interest, or the profits interest, in such partnership, or

(B) two partnerships in which the same persons own, directly or indirectly, more than 50 percent of the capital interests or profits interests.

In the case of a subsequent sale or exchange by a transferee described in this paragraph, section 267 (d) shall be applicable as if the loss were disallowed under section 267 (a) (1).

(2) GAINS TREATED AS ORDINARY INCOME.—In the case of a sale or exchange, directly or indirectly, of property, which in the hands of the transferee, is property other than a capital asset as defined in section 1221—

(A) between a partnership and a partner owning, directly or indirectly, more than 80 percent of the capital interest, or profits interest, in such partnership, or

(B) between two partnerships in which the same persons own, directly or indirectly, more than 80 percent of the capital interests or profits interests,

any gain recognized shall be considered as gain from the sale or exchange of property other than a capital asset.

(3) OWNERSHIP OF A CAPITAL OR PROFITS INTEREST.—For purposes of paragraphs (1) and (2) of this subsection, the ownership of a capital or profits interest in a partnership shall be determined in accordance with the rules for constructive ownership of stock provided in section 267 (c) other than paragraph (3) of such section.

(c) GUARANTEED PAYMENTS.—To the extent determined without regard to the income of the partnership, payments to a partner for services or the use of capital shall be considered as made to one who is not a member of the partnership, but only for the purposes of section 61 (a) (relating to gross income) and section 162 (a) (relating to trade or business expenses).

SEC. 708. CONTINUATION OF PARTNERSHIP.

(a) GENERAL RULE.—For purposes of this subchapter, an existing partnership shall be considered as continuing if it is not terminated.

(b) TERMINATION.—

(1) GENERAL RULE.—For purposes of subsection (a), a partnership shall be considered as terminated only if—

(A) no part of any business, financial operation, or venture of the partnership continues to be carried on by any of its partners in a partnership, or

(B) within a 12-month period there is a sale or exchange of 50 percent or more of the total interest in partnership capital and profits.

(2) SPECIAL RULES.—

(A) MERGER OR CONSOLIDATION.—In the case of the merger or consolidation of two or more partnerships, the resulting partnership shall, for purposes of this section, be considered the continuation of any merging or consolidating partnership whose members own an interest of more than 50 percent in the capital and profits of the resulting partnership.

(B) DIVISION OF A PARTNERSHIP.—In the case of a division of a partnership into two or more partnerships, the resulting partnerships (other than any resulting partnership the members of which had an interest of 50 percent or less in the capital and profits of the prior partnership) shall, for purposes of this section, be considered a continuation of the prior partnership.

PART II—CONTRIBUTIONS, DISTRIBUTIONS, AND TRANSFERS

Subpart A—Contributions to a partnership.
Subpart B—Distributions by a partnership.
Subpart C—Transfers of interests in a partnership.
Subpart D—Provisions common to other subparts.

Subpart A—Contributions to a Partnership

Sec. 721. Nonrecognition of gain or loss on contribution.
Sec. 722. Basis of contributing partner's interest.
Sec. 723. Basis of property contributed to partnership.

SEC. 721. NONRECOGNITION OF GAIN OR LOSS ON CONTRIBUTION.

No gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.

SEC. 722. BASIS OF CONTRIBUTING PARTNER'S INTEREST.

The basis of an interest in a partnership acquired by a contribution of property, including money, to the partnership shall be the amount of such money and the adjusted basis of such property to the contributing partner at the time of the contribution.

SEC. 723. BASIS OF PROPERTY CONTRIBUTED TO PARTNERSHIP.

The basis of property contributed to a partnership by a partner shall be the adjusted basis of such property to the contributing partner at the time of the contribution.

Subpart B—Distributions by a Partnership

Sec. 731. Extent of recognition of gain or loss on distribution.
Sec. 732. Basis of distributed property other than money.
Sec. 733. Basis of distributee partner's interest.
Sec. 734. Optional adjustment to basis of undistributed partnership property.
Sec. 735. Character of gain or loss on disposition of distributed property.
Sec. 736. Payments to a retiring partner or a deceased partner's successor in interest.

SEC. 731. EXTENT OF RECOGNITION OF GAIN OR LOSS ON DISTRIBUTION.

(a) PARTNERS.—In the case of a distribution by a partnership to a partner—

(1) gain shall not be recognized to such partner, except to the extent that any money distributed exceeds the adjusted basis of such partner's interest in the partnership immediately before the distribution, and

(2) loss shall not be recognized to such partner, except that upon a distribution in liquidation of a partner's interest in a partnership where no property other than that described in subparagraph (A) or (B) is distributed to such partner, loss shall be recognized to the extent of the excess of the adjusted basis of such partner's interest in the partnership over the sum of—

(A) any money distributed, and

(B) the basis to the distributee, as determined under section 732, of any unrealized receivables (as defined in section 751 (c)) and inventory (as defined in section 751 (d) (2)).

Any gain or loss recognized under this subsection shall be considered as gain or loss from the sale or exchange of the partnership interest of the distributee partner.

(b) PARTNERSHIPS.—No gain or loss shall be recognized to a partnership on a distribution to a partner of property, including money.

(c) EXCEPTIONS.—This section shall not apply to the extent otherwise provided by section 736 (relating to payments to a retiring partner or a deceased partner's successor in interest) and section 751 (relating to unrealized receivables and inventory items).

SEC. 732. BASIS OF DISTRIBUTED PROPERTY OTHER THAN MONEY.

(a) DISTRIBUTIONS OTHER THAN IN LIQUIDATION OF A PARTNER'S INTEREST.—

(1) GENERAL RULE.—The basis of property (other than money) distributed by a partnership to a partner other than in liquidation of the partner's interest shall, except as provided in paragraph (2), be its adjusted basis to the partnership immediately before such distribution.

(2) LIMITATION.—The basis to the distributee partner of property to which paragraph (1) is applicable shall not exceed the adjusted basis of such partner's interest in the partnership reduced by any money distributed in the same transaction.

(b) DISTRIBUTIONS IN LIQUIDATION.—The basis of property (other than money) distributed by a partnership to a partner in liquidation of the partner's interest shall be an amount equal to the adjusted basis of such partner's interest in the partnership reduced by any money distributed in the same transaction.

(c) ALLOCATION OF BASIS.—The basis of distributed properties to which subsection (a) (2) or subsection (b) is applicable shall be allotated—

(1) first to any unrealized receivables (as defined in section 751 (c)) and inventory items (as defined in section 751 (d) (2)) in an amount equal to the adjusted basis of each such property to the partnership (or if the basis to be allocated is less than the sum of the adjusted bases of such properties to the partnership, in proportion to such bases), and

(2) to the extent of any remaining basis, to any other distributed properties in proportion to their adjusted bases to the partnership.

(d) SPECIAL PARTNERSHIP BASIS TO TRANSFEREE.—For purposes of subsections (a), (b), and (c), a partner who acquired all or a part of his interest by a transfer with respect to which the election provided in section 754 is not in effect, and to whom a distribution of property (other than money) is made with respect to the transferred interest within 2 years after such transfer, may elect, under regulations prescribed by the Secretary or his delegate, to treat as the adjusted partnership basis of such property the adjusted basis such property would have if the adjustment provided in section 743 (b) were in effect with respect to the partnership property. The Secretary or his delegate may by regulations require the application of this subsection in the case of a distribution to a transferee partner, whether or not made within 2 years after the transfer, if at the time of the transfer the fair

market value of the partnership property (other than money) exceeded 110 percent of its adjusted basis to the partnership.

(e) EXCEPTION.—This section shall not apply to the extent that a distribution is treated as a sale or exchange of property under section 751 (b) (relating to unrealized receivables and inventory items).

SEC. 733. BASIS OF DISTRIBUTEE PARTNER'S INTEREST.

In the case of a distribution by a partnership to a partner other than in liquidation of a partner's interest, the adjusted basis to such partner of his interest in the partnership shall be reduced (but not below zero) by—

(1) the amount of any money distributed to such partner, and

(2) the amount of the basis to such partner of distributed property other than money, as determined under section 732.

SEC. 734. OPTIONAL ADJUSTMENT TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY.

(a) GENERAL RULE.—The basis of partnership property shall not be adjusted as the result of a distribution of property to a partner unless the election, provided in section 754 (relating to optional adjustment to basis of partnership property), is in effect with respect to such partnership.

(b) METHOD OF ADJUSTMENT.—In the case of a distribution of property to a partner, a partnership, with respect to which the election provided in section 754 is in effect, shall—

(1) increase the adjusted basis of partnership property by—

(A) the amount of any gain recognized to the distributee partner with respect to such distribution under section 731 (a) (1), and

(B) in the case of distributed property to which section 732 (a) (2) or (b) applies, the excess of the adjusted basis of the distributed property to the partnership immediately before the distribution (as adjusted by section 732 (d)) over the basis of the distributed property to the distributee, as determined under section 732, or

(2) decrease the adjusted basis of partnership property by—

(A) the amount of any loss recognized to the distributee partner with respect to such distribution under section 731 (a) (2), and

(B) in the case of distributed property to which section 732 (b) applies, the excess of the basis of the distributed property to the distributee, as determined under section 732, over the adjusted basis of the distributed property to the partnership immediately before such distribution (as adjusted by section 732 (d)).

(c) ALLOCATION OF BASIS.—The allocation of basis among partnership properties where subsection (b) is applicable shall be made in accordance with the rules provided in section 755.

SEC. 735. CHARACTER OF GAIN OR LOSS ON DISPOSITION OF DISTRIBUTED PROPERTY.

(a) SALE OR EXCHANGE OF CERTAIN DISTRIBUTED PROPERTY.—

(1) UNREALIZED RECEIVABLES.—Gain or loss on the disposition by a distributee partner of unrealized receivables (as defined in section 751 (c)) distributed by a partnership, shall be considered

gain or loss from the sale or exchange of property other than a capital asset.

(2) INVENTORY ITEMS.—Gain or loss on the sale or exchange by a distributee partner of inventory items (as defined in section 751 (d) (2)) distributed by a partnership shall, if sold or exchanged within 5 years from the date of the distribution, be considered gain or loss from the sale or exchange of property other than a capital asset.

(b) HOLDING PERIOD FOR DISTRIBUTED PROPERTY.—In determining the period for which a partner has held property received in a distribution from a partnership (other than for purposes of subsection (a) (2)), there shall be included the holding period of the partnership, as determined under section 1223, with respect to such property.

SEC. 736. PAYMENTS TO A RETIRING PARTNER OR A DECEASED PARTNER'S SUCCESSOR IN INTEREST.

(a) PAYMENTS CONSIDERED AS DISTRIBUTIVE SHARE OR GUARANTEED PAYMENT.—Payments made in liquidation of the interest of a retiring partner or a deceased partner shall, except as provided in subsection (b), be considered—

(1) as a distributive share to the recipient of partnership income if the amount thereof is determined with regard to the income of the partnership, or

(2) as a guaranteed payment described in section 707 (c) if the amount thereof is determined without regard to the income of the partnership.

(b) PAYMENTS FOR INTEREST IN PARTNERSHIP.—

(1) GENERAL RULE.—Payments made in liquidation of the interest of a retiring partner or a deceased partner shall, to the extent such payments (other than payments described in paragraph (2)) are determined, under regulations prescribed by the Secretary or his delegate, to be made in exchange for the interest of such partner in partnership property, be considered as a distribution by the partnership and not as a distributive share or guaranteed payment under subsection (a).

(2) SPECIAL RULES.—For purposes of this subsection, payments in exchange for an interest in partnership property shall not include amounts paid for—

(A) unrealized receivables of the partnership (as defined in section 751 (c)), or

(B) good will of the partnership, except to the extent that the partnership agreement provides for a payment with respect to good will.

Subpart C—Transfers of Interests in a Partnership

Sec. 741. Recognition and character of gain or loss on sale or exchange.
Sec. 742. Basis of transferee partner's interest.
Sec. 743. Optional adjustment to basis of partnership property.

SEC. 741. RECOGNITION AND CHARACTER OF GAIN OR LOSS ON SALE OR EXCHANGE.

In the case of a sale or exchange of an interest in a partnership, gain or loss shall be recognized to the transferor partner. Such gain or

loss shall be considered as gain or loss from the sale or exchange of a capital asset, except as otherwise provided in section 751 (relating to unrealized receivables and inventory items which have appreciated substantially in value).

SEC. 742. BASIS OF TRANSFEREE PARTNER'S INTEREST.

The basis of an interest in a partnership acquired other than by contribution shall be determined under part II of subchapter O (sec. 1011 and following).

SEC. 743. OPTIONAL ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY.

(a) GENERAL RULE.—The basis of partnership property shall not be adjusted as the result of a transfer of an interest in a partnership by sale or exchange or on the death of a partner unless the election provided by section 754 (relating to optional adjustment to basis of partnership property) is in effect with respect to such partnership.

(b) ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY.—In the case of a transfer of an interest in a partnership by sale or exchange or upon the death of a partner, a partnership with respect to which the election provided in section 754 is in effect shall—

(1) increase the adjusted basis of the partnership property by the excess of the basis to the transferee partner of his interest in the partnership over his proportionate share of the adjusted basis of the partnership property, or

(2) decrease the adjusted basis of the partnership property by the excess of the transferee partner's proportionate share of the adjusted basis of the partnership property over the basis of his interest in the partnership.

Under regulations prescribed by the Secretary or his delegate, such increase or decrease shall constitute an adjustment to the basis of partnership property with respect to the transferee partner only. A partner's proportionate share of the adjusted basis of partnership property shall be determined in accordance with his interest in partnership capital and, in the case of an agreement described in section 704 (c) (2) (relating to effect of partnership agreement on contributed property), such share shall be determined by taking such agreement into account. In the case of an adjustment under this subsection to the basis of partnership property subject to depletion, any depletion allowable shall be determined separately for the transferee partner with respect to his interest in such property.

(c) ALLOCATION OF BASIS.—The allocation of basis among partnership properties where subsection (b) is applicable shall be made in accordance with the rules provided in section 755.

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Subpart D—Provisions Common to Other Subparts

Sec. 751. Unrealized receivables and inventory items.
Sec. 752. Treatment of certain liabilities.
Sec. 753. Partner receiving income in respect of decedent.
Sec. 754. Manner of electing optional adjustment to basis of partnership property.
Sec. 755. Rules for allocation of basis.

SEC. 751. UNREALIZED RECEIVABLES AND INVENTORY ITEMS.

(a) SALE OR EXCHANGE OF INTEREST IN PARTNERSHIP.—The amount of any money, or the fair market value of any property, received by a transferor partner in exchange for all or a part of his interest in the partnership attributable to—

(1) unrealized receivables of the partnership, or

(2) inventory items of the partnership which have appreciated substantially in value,

shall be considered as an amount realized from the sale or exchange of property other than a capital asset.

(b) CERTAIN DISTRIBUTIONS TREATED AS SALES OR EXCHANGES.—

(1) GENERAL RULE.—To the extent a partner receives in a distribution—

(A) partnership property described in subsection (a) (1) or (2) in exchange for all or a part of his interest in other partnership property (including money), or

(B) partnership property (including money) other than property described in subsection (a) (1) or (2) in exchange for all or a part of his interest in partnership property described in subsection (a) (1) or (2),

such transactions shall, under regulations prescribed by the Secretary or his delegate, be considered as a sale or exchange of such property between the distributee and the partnership (as constituted after the distribution).

(2) EXCEPTIONS.—Paragraph (1) shall not apply to—

(A) a distribution of property which the distributee contributed to the partnership, or

(B) payments, described in section 736 (a), to a retiring partner or successor in interest of a deceased partner.

(c) UNREALIZED RECEIVABLES.—For purposes of this subchapter, the term "unrealized receivables" includes, to the extent not previously includible in income under the method of accounting used by the partnership, any rights (contractual or otherwise) to payment for—

(1) goods delivered, or to be delivered, to the extent the proceeds therefrom would be treated as amounts received from the sale or exchange of property other than a capital asset, or

(2) services rendered, or to be rendered.

(d) INVENTORY ITEMS WHICH HAVE APPRECIATED SUBSTANTIALLY IN VALUE.—

(1) SUBSTANTIAL APPRECIATION.—Inventory items of the partnership shall be considered to have appreciated substantially in value if their fair market value exceeds—

(A) 120 percent of the adjusted basis to the partnership of such property, and

(B) 10 percent of the fair market value of all partnership property, other than money.

(2) INVENTORY ITEMS.—For purposes of this subchapter the term "inventory items" means—

(A) property of the partnership of the kind described in section 1221 (1),

(B) any other property of the partnership which, on sale or exchange by the partnership, would be considered property other than a capital asset and other than property described in section 1231, and

(C) any other property held by the partnership which, if held by the selling or distributee partner, would be considered property of the type described in subparagraph (A) or (B).

SEC. 752. TREATMENT OF CERTAIN LIABILITIES.

(a) INCREASE IN PARTNER'S LIABILITIES.—Any increase in a partner's share of the liabilities of a partnership, or any increase in a partner's individual liabilities by reason of the assumption by such partner of partnership liabilities, shall be considered as a contribution of money by such partner to the partnership.

(b) DECREASE IN PARTNER'S LIABILITIES.—Any decrease in a partner's share of the liabilities of a partnership, or any decrease in a partner's individual liabilities by reason of the assumption by the partnership of such individual liabilities, shall be considered as a distribution of money to the partner by the partnership.

(c) LIABILITY TO WHICH PROPERTY IS SUBJECT.—For purposes of this section, a liability to which property is subject shall, to the extent of the fair market value of such property, be considered as a liability of the owner of the property.

(d) SALE OR EXCHANGE OF AN INTEREST.—In the case of a sale or exchange of an interest in a partnership, liabilities shall be treated in the same manner as liabilities in connection with the sale or exchange of property not associated with partnerships.

SEC. 753. PARTNER RECEIVING INCOME IN RESPECT OF DECEDENT.

The amount includible in the gross income of a successor in interest of a deceased partner under section 736 (a) shall be considered income in respect of a decedent under section 691.

SEC. 754. MANNER OF ELECTING OPTIONAL ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY.

If a partnership files an election, in accordance with regulations prescribed by the Secretary or his delegate, the basis of partnership property shall be adjusted, in the case of a distribution of property, in the manner provided in section 734 and, in the case of a transfer of a partnership interest, in the manner provided in section 743. Such an election shall apply with respect to all distributions of property by the partnership and to all transfers of interests in the partnership during the taxable year with respect to which such election was filed and all subsequent taxable years. Such election may be revoked by the partnership, subject to such limitations as may be provided by regulations prescribed by the Secretary or his delegate.

SEC. 755. RULES FOR ALLOCATION OF BASIS.

(a) GENERAL RULE.—Any increase or decrease in the adjusted basis of partnership property under section 734 (b) (relating to the optional adjustment to the basis of undistributed partnership property) or section 743 (b) (relating to the optional adjustment to the basis of partnership property in the case of a transfer of an interest in a partnership) shall, except as provided in subsection (b), be allocated—

(1) in a manner which has the effect of reducing the difference between the fair market value and the adjusted basis of partnership properties, or

(2) in any other manner permitted by regulations prescribed by the Secretary or his delegate.

(b) SPECIAL RULE.—In applying the allocation rules provided in subsection (a), increases or decreases in the adjusted basis of partnership property arising from a distribution of, or a transfer of an interest attributable to, property consisting of—

(1) capital assets and property described in section 1231 (b), or

(2) any other property of the partnership,

shall be allocated to partnership property of a like character except that the basis of any such partnership property shall not be reduced below zero. If, in the case of a distribution, the adjustment to basis of property described in paragraph (1) or (2) is prevented by the absence of such property or by insufficient adjusted basis for such property, such adjustment shall be applied to subsequently acquired property of a like character in accordance with regulations prescribed by the Secretary or his delegate.

PART III—DEFINITIONS

Sec. 761. Terms defined.

SEC. 761. TERMS DEFINED.

(a) PARTNERSHIP.—For purposes of this subtitle, the term "partnership" includes a syndicate, group, pool, joint venture, or other unincorporated organization through or by means of which any business, financial operation, or venture is carried on, and which is not, within the meaning of this title, a corporation or a trust or estate. Under regulations the Secretary or his delegate may, at the election of all the members of an unincorporated organization, exclude such organization from the application of all or part of this subchapter, if it is availed of—

(1) for investment purposes only and not for the active conduct of a business, or

(2) for the joint production, extraction, or use of property, but not for the purpose of selling services or property produced or extracted,

if the income of the members of the organization may be adequately determined without the computation of partnership taxable income.

(b) PARTNER.—For purposes of this subtitle, the term "partner" means a member of a partnership.

(c) PARTNERSHIP AGREEMENT.—For purposes of this subchapter, a partnership agreement includes any modifications of the partnership

agreement made prior to, or at, the time prescribed by law for the filing of the partnership return for the taxable year (not including extensions) which are agreed to by all the partners, or which are adopted in such other manner as may be provided by the partnership agreement.

(d) LIQUIDATION OF A PARTNER'S INTEREST.—For purposes of this subchapter, the term "liquidation of a partner's interest" means the termination of a partner's entire interest in a partnership by means of a distribution, or a series of distributions, to the partner by the partnership.

PART IV—EFFECTIVE DATE FOR SUBCHAPTER

Sec. 771. Effective date.

SEC. 771. EFFECTIVE DATE.

(a) GENERAL RULE.—

(1) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1954.—Except as provided in subsection (b), this subchapter shall apply with respect to—

(A) any partnership taxable year beginning after December 31, 1954, and

(B) any part of a partner's taxable year falling within such partnership taxable year.

(2) APPLICATION OF PRIOR PROVISIONS.—Except as provided in subsection (b), sections 113 (a) (13), 181 to 191 (inclusive), and 3797 (a) (2) of the Internal Revenue Code of 1939 shall apply with respect to—

(A) any partnership taxable year beginning before January 1, 1955, and

(B) any part of a partner's taxable year falling within such partnership taxable year.

(b) SPECIAL RULES.—

(1) ADOPTION OF TAXABLE YEAR.—Section 706 (b) (relating to the adoption of a taxable year by a partnership or partner) shall apply to—

(A) any partnership which adopts, or changes to, a taxable year beginning after April 1, 1954, and

(B) any partner who changes to a taxable year beginning after April 1, 1954.

For the purpose of applying this paragraph, section 708 (relating to the continuation of a partnership) shall be effective for taxable years beginning after April 1, 1954.

(2) PROPERTY DISTRIBUTED BY A PARTNERSHIP.—Section 735 (a) (relating to the character of gain or loss on the disposition of property distributed by a partnership) shall apply only to property distributed by a partnership after March 9, 1954.

(3) UNREALIZED RECEIVABLES AND INVENTORY ITEMS.—Section 751 (relating to unrealized receivables and inventory items) shall apply with respect to gain or loss to a seller, distributee, or partnership in the case of a sale, exchange, or distribution occurring after March 9, 1954. For the purpose of applying this paragraph in the case of a taxable year beginning before January 1, 1955, the other

sections of this subchapter shall be applicable to the extent provided by regulations prescribed by the Secretary or his delegate.

(4) PARTNER RECEIVING INCOME IN RESPECT OF DECEDENT.—Section 753 (relating to income in respect of a decedent) shall apply only in the case of payments made with respect to decedents dying after December 31, 1954.

(c) OPTIONAL TREATMENT OF CERTAIN DISTRIBUTIONS.—In the case of a partnership taxable year beginning after December 31, 1953, and before January 1, 1955, a partnership may elect, under regulations prescribed by the Secretary or his delegate, with respect to distributions made during such year to any partner, other than in liquidation of the partner's interest, to apply the rules in sections 731, 732 (a), (c), and (e), 733, 735, and 751 (b), (c), and (d) (and, to the extent applicable, the rules provided in sections 705, 752, and 761 (d)). If a partnership so elects, such rules shall be effective for the partnership and all members of such partnership with respect to such distributions.

Subchapter L—Insurance Companies

Part I. Life insurance companies.
Part II. Mutual insurance companies (other than life or marine or fire insurance companies issuing perpetual policies).
Part III. Other insurance companies.
Part IV. Provisions of general application.

PART I—LIFE INSURANCE COMPANIES

Sec. 801. Definition of life insurance company.
Sec. 802. Imposition of tax.
Sec. 803. Other definitions and rules.
Sec. 804. Reserve and other policy liability deduction.
Sec. 805. 1954 life insurance company taxable income.
Sec. 806. Adjustment for certain reserves.
Sec. 807. Foreign life insurance companies.

SEC. 801. DEFINITION OF LIFE INSURANCE COMPANY.

For purposes of this subtitle, the term "life insurance company" means an insurance company which is engaged in the business of issuing life insurance and annuity contracts (either separately or combined with health and accident insurance), or noncancellable contracts of health and accident insurance, if its life insurance reserves (as defined in section 803 (b)), plus unearned premiums and unpaid losses on noncancellable life, health, or accident policies not included in life insurance reserves, comprise more than 50 percent of its total reserves. For purposes of this section, the term "total reserves" means life insurance reserves, unearned premiums and unpaid losses not included in life insurance reserves, and all other insurance reserves required by law. A burial or funeral benefit insurance company engaged directly in the manufacture of funeral supplies or the performance of funeral services shall not be taxable under section 802 but shall be taxable under section 821 or section 831.

SEC. 802. IMPOSITION OF TAX.

(a) IN GENERAL.—Except as otherwise provided in subsection (b), there shall be imposed for each taxable year on the life insurance company taxable income of every life insurance company a tax consisting of a normal tax and a surtax computed as provided in section 11. For purposes of such tax, the term "life insurance company taxable income" means the taxable income (as defined in section 803 (g)) minus the reserve and other policy liability deduction provided in section 804 and plus the amount of the adjustment for certain reserves provided in section 806. For purposes of the surtax, such taxable income shall be computed without regard to the deduction provided in section 242 for partially tax-exempt interest.

(b) TAXABLE YEARS BEGINNING IN 1954.—In lieu of the tax imposed by subsection (a) there shall be imposed, for taxable years beginning in 1954, on the 1954 life insurance company taxable income

(as defined in section 805) of every life insurance company a tax equal to the sum of the following:

(1) 3¾ percent of the amount thereof not in excess of $200,000, plus

(2) 6½ percent of the amount thereof in excess of $200,000.

SEC. 803. OTHER DEFINITIONS AND RULES.

(a) APPLICATION OF SECTION; GROSS INCOME.—

(1) APPLICATION.—The definitions and rules contained in this section shall apply only in the case of life insurance companies.

(2) GROSS INCOME.—The term "gross income" means the gross amount of income received or accrued during the taxable year from interest, dividends, and rents.

(b) LIFE INSURANCE RESERVES.—The term "life insurance reserves" means amounts which are computed or estimated on the basis of recognized mortality or morbidity tables and assumed rates of interest, and which are set aside to mature or liquidate, either by payment or reinsurance, future unaccrued claims arising from life insurance, annuity, and noncancellable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancellable health and accident insurance) involving, at the time with respect to which the reserve is computed, life, health, or accident contingencies. Such life insurance reserves, except in the case of policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, continuing for life and not subject to cancellation and except as hereinafter provided in the case of assessment life insurance, must also be required by law. In the case of an assessment life insurance company or association, the term "life insurance reserves" includes sums actually deposited by such company or association with State or Territorial officers pursuant to law as guaranty or reserve funds, and any funds maintained, under the charter or articles of incorporation or association (or bylaws approved by a State insurance commissioner) of such company or association, exclusively for the payment of claims arising under certificates of membership or policies issued on the assessment plan and not subject to any other use.

(c) ADJUSTED RESERVES.—The term "adjusted reserves" means life insurance reserves plus 7 percent of that portion of such reserves as are computed on a preliminary term basis.

(d) RESERVE EARNINGS RATE.—The term "reserve earnings rate" means a rate computed by adding 2.1125 percent (65 percent of 3¼ percent) to 35 percent of the average rate of interest assumed in computing life insurance reserves. Such average rate shall be calculated by multiplying each assumed rate of interest by the means of the amounts of the adjusted reserves computed at that rate at the beginning and end of the taxable year and dividing the sum of the products by the mean of the total adjusted reserves at the beginning and end of the taxable year.

(e) RESERVE FOR DEFERRED DIVIDENDS.—The term "reserve for deferred dividends" means sums held at the end of the taxable year as a reserve for dividends (other than dividends payable during the

year following the taxable year) the payment of which is deferred for a period of not less than 5 years from the date of the policy contract.

(f) INTEREST PAID.—The term "interest paid" means—

(1) All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this chapter, and

(2) All amounts in the nature of interest, whether or not guaranteed, paid or accrued within the taxable year on insurance or annuity contracts (or contracts arising out of insurance or annuity contracts) which do not involve, at the time of payment or accrual, life, health, or accident contingencies.

(g) TAXABLE INCOME.—The term "taxable income" means the gross income less the following deductions:

(1) TAX-FREE INTEREST.—The amount of interest received or accrued during the taxable year which under section 103 is excluded from gross income.

(2) INVESTMENT EXPENSES.—Investment expenses paid or incurred during the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this paragraph shall not exceed one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the amount by which taxable income (computed without any deduction for investment expenses allowed by this paragraph, for tax-free interest allowed by paragraph (1), or for partially tax-exempt interest and dividends received allowed by paragraph (5)) exceeds 3¾ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year.

(3) REAL ESTATE EXPENSES.—Taxes and other expenses paid or accrued during the taxable year exclusively on or with respect to the real estate owned by the company, not including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and not including any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property. The deduction allowed by this paragraph shall be allowed in the case of taxes imposed on a shareholder of a company on his interest as shareholder, which are paid or accrued by the company without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes.

(4) DEPRECIATION.—The depreciation deduction allowed by section 167.

(5) SPECIAL DEDUCTIONS.—The special deductions allowed by part VIII of subchapter B (except section 248).

(h) RENTAL VALUE OF REAL ESTATE.—The deduction under subsection (g) (3) and (4) on account of any real estate owned and occupied in whole or in part by a life insurance company shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this subsection) as the rental value of the space not so occupied bears to the rental value of the entire property.

(i) AMORTIZATION OF PREMIUM AND ACCRUAL OF DISCOUNT.—The gross income, the deduction provided in subsection (g) (1), and the deduction allowed by section 242 (relating to partially tax-exempt interest) shall each be decreased to reflect the appropriate amortization of premium and increased to reflect the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a life insurance company. Such amortization and accrual shall be determined—

(1) in accordance with the method regularly employed by such company, if such method is reasonable, and

(2) in all other cases, in accordance with regulations prescribed by the Secretary or his delegate.

(j) DOUBLE DEDUCTIONS.—Nothing in this part shall permit the same item to be deducted more than once.

SEC. 804. RESERVE AND OTHER POLICY LIABILITY DEDUCTION.

(a) IN GENERAL.—For purposes of this subpart, the term "reserve and other policy liability deduction" means an amount computed by multiplying the taxable income by a figure, to be determined and proclaimed by the Secretary or his delegate for each taxable year. This figure shall be based on such data with respect to life insurance companies for the preceding taxable year as the Secretary or his delegate considers representative and shall be computed in accordance with the following formula: The ratio which a numerator comprised of the aggregate of the sums of—

(1) 2 percent of the reserves for deferred dividends,

(2) interest paid, and

(3) the product of—

(A) the mean of the adjusted reserves at the beginning and end of the taxable year and

(B) the reserve earnings rate,

bears to a denominator comprised of the aggregate of the excess of taxable incomes (computed without any deduction for tax-free interest, partially tax-exempt interest, or dividends received) over the adjustment for certain reserves provided in section 806.

(b) SURTAX COMPUTATION.—In determining the life insurance company taxable income for purposes of the surtax, the taxable income to be multiplied by the figure determined and proclaimed under subsection (a) shall be computed without regard to the deduction provided in section 242 for partially tax-exempt interest.

SEC. 805. 1954 LIFE INSURANCE COMPANY TAXABLE INCOME.

(a) DEFINITION.—For purposes of section 802 (b), the term "1954 life insurance company taxable income" means the taxable income (as defined in section 803 (g)), plus 8 times the amount of the adjustment for certain reserves provided in section 806, and minus the reserve interest credit, if any, provided in subsection (b) of this section.

(b) RESERVE INTEREST CREDIT.—For purposes of subsection (a), the reserve interest credit shall be an amount determined as follows:

(1) Divide the amount of the adjusted taxable income (as defined in subsection (c)) by the amount of the required interest (as defined in subsection (d)).

(2) If the quotient obtained in paragraph (1) is 1.05 or more, the reserve interest credit shall be zero.

(3) If the quotient obtained in paragraph (1) is 1.00 or less, the reserve interest credit shall be an amount equal to 50 percent of the taxable income.

(4) If the quotient obtained in paragraph (1) is more than 1.00 but less than 1.05, the reserve interest credit shall be the amount obtained by multiplying the taxable income by 10 times the difference between the figures 1.05 and such quotient.

(c) ADJUSTED TAXABLE INCOME.—For purposes of subsection (b) (1), the term "adjusted taxable income" means the taxable income (computed without the deductions provided in section 803 (g) (1) or (5)) minus 50 percent of the amount of the adjustment for certain reserves provided in section 806.

(d) REQUIRED INTEREST.—For purposes of subsection (b) (1), the term "required interest" means the total of—

(1) the sum of the amounts obtained by multiplying—

(A) each rate of interest assumed in computing the taxpayer's life insurance reserves by

(B) the means of the amounts of the taxpayer's adjusted reserves computed at that rate at the beginning and end of the taxable year,

(2) 2 percent of the reserve for deferred dividends, and

(3) interest paid.

SEC. 806. ADJUSTMENT FOR CERTAIN RESERVES.

In the case of a life insurance company writing contracts other than life insurance or annuity contracts (either separately or combined with noncancellable health and accident insurance), the term "adjustment for certain reserves" means an amount equal to 3¼ percent of the unearned premiums and unpaid losses on such other contracts which are not included in life insurance reserves (as defined in section 803 (b). For purposes of this section, such unearned premiums shall not be considered to be less than 25 percent of the net premiums written during the taxable year on such other contracts.

SEC. 807. FOREIGN LIFE INSURANCE COMPANIES.

(a) CARRYING ON UNITED STATES INSURANCE BUSINESS.—A foreign life insurance company carrying on a life insurance business within the United States, if with respect to its United States business it would qualify as a life insurance company under section 801, shall be taxable in the same manner as a domestic life insurance company; except that the determinations necessary for purposes of this subtitle shall be made on the basis of the income, disbursements, assets, and liabilities reported in the annual statement for the taxable year of the United States business of such company on the form approved for life insurance companies by the National Association of Insurance Commissioners.

(b) NO UNITED STATES INSURANCE BUSINESS.—Foreign life insurance companies not carrying on an insurance business within the United States shall not be taxable under this section but shall be taxable as other foreign corporations.

PART II—MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE OR MARINE OR FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES)

Sec. 821. Tax on mutual insurance companies (other than life or marine or fire insurance companies issuing perpetual policies).
Sec. 822. Determination of mutual insurance company taxable income.
Sec. 823. Other definitions.

SEC. 821. TAX ON MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE OR MARINE OR FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES).

(a) IMPOSITION OF TAX ON MUTUAL COMPANIES OTHER THAN INTERINSURERS.—There shall be imposed for each taxable year on the income of every mutual insurance company (other than a life or a marine insurance company or a fire insurance company subject to the tax imposed by section 831 and other than an interinsurer or reciprocal underwriter) a tax computed under paragraph (1) or paragraph (2), whichever is the greater:

(1) If the mutual insurance company taxable income (computed without regard to the deduction provided in section 242 for partially tax-exempt interest) is over $3,000, a tax computed as follows:

(A) NORMAL TAX.—

(i) TAXABLE YEARS BEGINNING BEFORE APRIL 1, 1955.—In the case of taxable years beginning before April 1, 1955, a normal tax of 30 percent of the mutual insurance company taxable income, or 60 percent of the amount by which such taxable income exceeds $3,000, whichever is the lesser;

(ii) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1955.—In the case of taxable years beginning after March 31, 1955, a normal tax of 25 percent of the mutual insurance company taxable income, or 50 percent of the amount by which such taxable income exceeds $3,000, whichever is the lesser; plus

(B) SURTAX.—A surtax of 22 percent of the mutual insurance company taxable income (computed without regard to the deduction provided in section 242 for partially tax-exempt interest) in excess of $25,000.

(2) If for the taxable year the gross amount of income from interest, dividends, rents, and net premiums, minus dividends to policyholders, minus the interest which under section 103 is excluded from gross income, exceeds $75,000, a tax equal to 1 percent of the amount so computed, or 2 percent of the excess of the amount so computed over $75,000, whichever is the lesser.

(b) IMPOSITION OF TAX ON INTERINSURERS.—In the case of every mutual insurance company which is an interinsurer or reciprocal underwriter (other than a life or a marine insurance company or a fire insurance company subject to the tax imposed by section 831), if the mutual insurance company taxable income (computed as provided in subsection (a) (1)) is over $50,000, there shall be imposed for each taxable year on the mutual insurance company taxable income a tax computed as follows:

(1) NORMAL TAX.—

(A) TAXABLE YEARS BEGINNING BEFORE APRIL 1, 1955.—In the case of taxable years beginning before April 1, 1955, a normal tax of 30 percent of the mutual insurance company taxable income, or 60 percent of the amount by which such taxable income exceeds $50,000, whichever is the lesser;

(B) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1955.—In the case of a taxable year beginning after March 31, 1955, a normal tax of 25 percent of the mutual insurance company taxable income, or 50 percent of the amount by which such taxable income exceeds $50,000, whichever is the lesser; plus

(2) SURTAX.—A surtax of 22 percent of the mutual insurance company taxable income (computed as provided in subsection (a)(1)) in excess of $25,000, or 33 percent of the amount by which such taxable income exceeds $50,000, whichever is the lesser.

(c) GROSS AMOUNT RECEIVED, OVER $75,000 BUT LESS THAN $125,000.—If the gross amount received during the taxable year from interest, dividends, rents, and premiums (including deposits and assessments) is over $75,000 but less than $125,000, the tax imposed by subsection (a) or subsection (b), whichever applies, shall be reduced to an amount which bears the same proportion to the amount of the tax determined under such subsection as the excess over $75,000 of such gross amount received bears to $50,000.

(d) NO UNITED STATES INSURANCE BUSINESS.—Foreign mutual insurance companies (other than a life or marine insurance company or a fire insurance company subject to the tax imposed by section 831) not carrying on an insurance business within the United States shall not be subject to this part but shall be taxable as other foreign corporations.

(e) ALTERNATIVE TAX ON CAPITAL GAINS.—

For alternative tax in case of capital gains, see section 1201 (a).

SEC. 822. DETERMINATION OF MUTUAL INSURANCE COMPANY TAXABLE INCOME.

(a) DEFINITION.—For purposes of section 821, the term "mutual insurance company taxable income" means the gross investment income minus the deductions provided in subsection (c).

(b) GROSS INVESTMENT INCOME.—For purposes of subsection (a), the term "gross investment income" means the gross amount of income during the taxable year from interest, dividends, rents, and gains from sales or exchanges of capital assets to the extent provided in subchapter P (sec. 1201 and following, relating to capital gains and losses).

(c) DEDUCTIONS.—In computing mutual insurance company taxable income, the following deductions shall be allowed:

(1) TAX-FREE INTEREST.—The amount of interest which under section 103 is excluded for the taxable year from gross income.

(2) INVESTMENT EXPENSES.—Investment expenses paid or accrued during the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this paragraph shall not exceed one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the

amount by which mutual insurance company taxable income (computed without any deduction for investment expenses allowed by this paragraph, for tax-free interest allowed by paragraph (1), or for partially tax-exempt interest and dividends received allowed by paragraph (7)), exceeds 3¾ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year.

(3) REAL ESTATE EXPENSES.—Taxes and other expenses paid or accrued during the taxable year exclusively on or with respect to the real estate owned by the company, not including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and not including any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property. The deduction allowed by this paragraph shall be allowed in the case of taxes imposed on a shareholder of a company on his interest as shareholder, which are paid or accrued by the company without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes.

(4) DEPRECIATION.—The depreciation deduction allowed by section 167.

(5) INTEREST PAID OR ACCRUED.—All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest on which is wholly exempt from taxation under this subtitle.

(6) CAPITAL LOSSES.—Capital losses to the extent provided in subchapter P (sec. 1201 and following) plus losses from capital assets sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders. Capital assets shall be considered as sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not greater than the excess, if any, for the taxable year of the sum of dividends and similar distributions paid to policyholders, losses paid, and expenses paid over the sum of interest, dividends, rents, and net premiums received. In the application of section 1211 for purposes of this section, the net capital loss for the taxable year shall be the amount by which losses for such year from sales or exchanges of capital assets exceeds the sum of the gains from such sales or exchanges and whichever of the following amounts is the lesser:

(A) the mutual insurance company taxable income (computed without regard to gains or losses from sales or exchanges of capital assets or to the deduction provided in section 242 for partially tax-exempt interest); or

(B) losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses

and to provide for the payment of dividends and similar distributions to policyholders.

(7) SPECIAL DEDUCTIONS.—The special deductions allowed by part VIII (except section 248) of subchapter B (sec. 241 and following, relating to partially tax-exempt interest and to dividends received).

(d) OTHER APPLICABLE RULES.—

(1) RENTAL VALUE OF REAL ESTATE.—The deduction under subsection (e) (3) or (4) on account of any real estate owned and occupied in whole or in part by a mutual insurance company subject to the tax imposed by section 821 shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this paragraph) as the rental value of the space not so occupied bears to the rental value of the entire property.

(2) AMORTIZATION OF PREMIUM AND ACCRUAL OF DISCOUNT.—The gross amount of income during the taxable year from interest, the deduction provided in subsection (c) (1), and the deduction allowed by section 242 (relating to partially tax-exempt interest) shall each be decreased to reflect the appropriate amortization of premium and increased to reflect the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a mutual insurance company subject to the tax imposed by section 821. Such amortization and accrual shall be determined—

(A) in accordance with the method regularly employed by such company, if such method is reasonable, and

(B) in all other cases, in accordance with regulations prescribed by the Secretary or his delegate.

(3) DOUBLE DEDUCTIONS.—Nothing in this part shall permit the same item to be deducted more than once.

(e) FOREIGN MUTUAL INSURANCE COMPANIES OTHER THAN LIFE OR MARINE.—In the case of a foreign mutual insurance company (other than a life or marine insurance company or a fire insurance company subject to the tax imposed by section 831), the mutual insurance company taxable income shall be the taxable income from sources within the United States (computed without regard to the deductions allowed by subsection (c) (7)), and the gross amount of income from the interest, dividends, rents, and net premiums shall be the amount of such income from sources within the United States. In the case of a company to which the preceding sentence applies, the deductions allowed in this section shall be allowed to the extent provided in subpart B of part II of subchapter N (sec. 881 and following) in the case of a foreign corporation engaged in trade or business within the United States.

SEC. 823. OTHER DEFINITIONS.

For purposes of this part—

(1) NET PREMIUMS.—The term "net premiums" means gross premiums (including deposits and assessments) written or received on insurance contracts during the taxable year less return premiums and premiums paid or incurred for reinsurance. Amounts returned where the amount is not fixed in the insurance contract but depends on the experience of the company or the discretion

of the management shall not be included in return premiums but shall be treated as dividends to policyholders under paragraph (2).

(2) DIVIDENDS TO POLICYHOLDERS.—The term "dividends to policyholders" means dividends and similar distributions paid or declared to policyholders. For purposes of the preceding sentence, the term "paid or declared" shall be construed according to the method regularly employed in keeping the books of the insurance company.

PART III—OTHER INSURANCE COMPANIES

Sec. 831. Tax on insurance companies (other than life or mutual), mutual marine insurance companies, and mutual fire insurance companies issuing perpetual policies.
Sec. 832. Insurance company taxable income.

SEC. 831. TAX ON INSURANCE COMPANIES (OTHER THAN LIFE OR MUTUAL), MUTUAL MARINE INSURANCE COMPANIES, AND MUTUAL FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES.

(a) IMPOSITION OF TAX.—Taxes computed as provided in section 11 shall be imposed for each taxable year on the taxable income of every insurance company (other than a life or mutual insurance company), every mutual marine insurance company, and every mutual fire insurance company exclusively issuing either perpetual policies or policies for which the sole premium charged is a single deposit which (except for such deduction of underwriting costs as may be provided) is refundable on cancellation or expiration of the policy.

(b) NO UNITED STATES INSURANCE BUSINESS.—Foreign insurance companies (other than a life or mutual insurance company), foreign mutual marine insurance companies, and foreign mutual fire insurance companies described in subsection (a), not carrying on an insurance business within the United States, shall not be subject to this part but shall be taxable as other foreign corporations.

(c) ALTERNATIVE TAX ON CAPITAL GAINS.—

For alternative tax in case of capital gains, see section 1201 (a).

SEC. 832. INSURANCE COMPANY TAXABLE INCOME.

(a) DEFINITION OF TAXABLE INCOME.—In the case of an insurance company subject to the tax imposed by section 831, the term "taxable income" means the gross income as defined in subsection (b) (1) less the deductions allowed by subsection (c).

(b) DEFINITIONS.—In the case of an insurance company subject to the tax imposed by section 831—

(1) GROSS INCOME.—The term "gross income" means the sum of—

(A) the combined gross amount earned during the taxable year, from investment income and from underwriting income as provided in this subsection, computed on the basis of the underwriting and investment exhibit of the annual statement approved by the National Convention of Insurance Commissioners,

(B) gain during the taxable year from the sale or other disposition of property, and

(C) all other items constituting gross income under subchapter B, except that, in the case of a mutual fire insurance company

described in section 831 (a), the amount of single deposit premiums paid to such company shall not be included in gross income.

(2) INVESTMENT INCOME.—The term "investment income" means the gross amount of income earned during the taxable year from interest, dividends, and rents, computed as follows: To all interest, dividends, and rents received during the taxable year, add interest, dividends, and rents due and accrued at the end of the taxable year, and deduct all interest, dividends, and rents due and accrued at the end of the preceding taxable year.

(3) UNDERWRITING INCOME.—The term "underwriting income" means the premiums earned on insurance contracts during the taxable year less losses incurred and expenses incurred.

(4) PREMIUMS EARNED.—The term "premiums earned on insurance contracts during the taxable year" means an amount computed as follows:

(A) From the amount of gross premiums written on insurance contracts during the taxable year, deduct return premiums and premiums paid for reinsurance.

(B) To the result so obtained, add unearned premiums on outstanding business at the end of the preceding taxable year and deduct unearned premiums on outstanding business at the end of the taxable year.

For purposes of this subsection, unearned premiums shall include life insurance reserves, as defined in section 806, pertaining to the life, burial, or funeral insurance, or annuity business of an insurance company subject to the tax imposed by section 831 and not qualifying as a life insurance company under section 801.

(5) LOSSES INCURRED.—The term "losses incurred" means losses incurred during the taxable year on insurance contracts, computed as follows:

(A) To losses paid during the taxable year, add salvage and reinsurance recoverable outstanding at the end of the preceding taxable year and deduct salvage and reinsurance recoverable outstanding at the end of the taxable year.

(B) To the result so obtained, add all unpaid losses outstanding at the end of the taxable year and deduct unpaid losses outstanding at the end of the preceding taxable year.

(6) EXPENSES INCURRED.—The term "expenses incurred" means all expenses shown on the annual statement approved by the National Convention of Insurance Commissioners, and shall be computed as follows: To all expenses paid during the taxable year, add expenses unpaid at the end of the taxable year and deduct expenses unpaid at the end of the preceding taxable year. For the purpose of computing the taxable income subject to the tax imposed by section 831, there shall be deducted from expenses incurred (as defined in this paragraph) all expenses incurred which are not allowed as deductions by subsection (c).

(c) DEDUCTIONS ALLOWED.—In computing the taxable income of an insurance company subject to the tax imposed by section 831, there shall be allowed as deductions:

(1) all ordinary and necessary expenses incurred, as provided in section 162 (relating to trade or business expenses);

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(2) all interest, as provided in section 163;

(3) taxes, as provided in section 164;

(4) losses incurred, as defined in subsection (b) (5) of this section;

(5) capital losses to the extent provided in subchapter P (sec. 1201 and following, relating to capital gains and losses) plus losses from capital assets sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders. Capital assets shall be considered as sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not greater than the excess, if any, for the taxable year of the sum of dividends and similar distributions paid to policyholders in their capacity as such, losses paid, and expenses paid over the sum of interest, dividends, rents, and net premiums received. In the application of section 1211 for purposes of this section, the net capital loss for the taxable year shall be the amount by which losses for such year from sales or exchanges of capital assets exceeds the sum of the gains from such sales or exchanges and whichever of the following amounts is the lesser:

(A) the taxable income (computed without regard to gains or losses from sales or exchanges of capital assets or to the deductions provided in section 242 for partially tax-exempt interest); or

(B) losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders;

(6) debts in the nature of agency balances and bills receivable which become worthless within the taxable year;

(7) the amount of interest earned during the taxable year which under section 103 is excluded from gross income;

(8) the depreciation deduction allowed by section 167;

(9) charitable, etc., contributions, as provided in section 170;

(10) deductions (other than those specified in this subsection) as provided in part VI of subchapter B (sec. 161 and following, relating to itemized deductions for individuals and corporations);

(11) dividends and similar distributions paid or declared to policyholders in their capacity as such, except in the case of a mutual fire insurance company described in section 831 (a). For purposes of the preceding sentence, the term "paid or declared" shall be construed according to the method of accounting regularly employed in keeping the books of the insurance company; and

(12) the special deductions allowed by part VIII of subchapter B (sec. 241 and following, relating to partially tax-exempt interest and to dividends received).

(d) TAXABLE INCOME OF FOREIGN INSURANCE COMPANIES OTHER THAN LIFE OR MUTUAL AND FOREIGN MUTUAL MARINE.—In the case of a foreign insurance company (other than a life or mutual insurance company), a foreign mutual marine insurance company, and a foreign

mutual fire insurance company described in section 831 (a), the taxable income shall be the taxable income from sources within the United States. In the case of a company to which the preceding sentence applies, the deductions allowed in this section shall be allowed to the extent provided in subpart B of part II of subchapter N (sec. 881 and following) in the case of a foreign corporation engaged in trade or business within the United States.

(e) DOUBLE DEDUCTIONS.—Nothing in this section shall permit the same item to be deducted more than once.

PART IV—PROVISIONS OF GENERAL APPLICATION

Sec. 841. Credit for foreign taxes.
Sec. 842. Computation of gross income.

SEC. 841. CREDIT FOR FOREIGN TAXES.

The taxes imposed by foreign countries or possessions of the United States shall be allowed as a credit against the tax of a domestic insurance company subject to the tax imposed by section 802, 821, or 831, to the extent provided in the case of a domestic corporation in section 901 (relating to foreign tax credit). For purposes of the preceding sentence, the term "taxable income" as used in section 904 means—

(1) in the case of the tax imposed by section 802, the taxable income (as defined in section 803 (g)),

(2) in the case of the tax imposed by section 831, the taxable income (as defined in section 832 (a)).

SEC. 842. COMPUTATION OF GROSS INCOME.

The gross income of insurance companies subject to the tax imposed by section 802 or 831 shall not be determined in the manner provided in part I of subchapter N (relating to determination of sources of income).

Subchapter M—Regulated Investment Companies

Sec. 851. Definition of regulated investment company.
Sec. 852. Taxation of regulated investment companies and their shareholders.
Sec. 853. Foreign tax credit allowed to shareholders.
Sec. 854. Limitations applicable to dividends received from regulated investment company.
Sec. 855. Dividends paid by regulated investment company after close of taxable year.

SEC. 851. DEFINITION OF REGULATED INVESTMENT COMPANY.

(a) GENERAL RULE.—For purposes of this subtitle, the term "regulated investment company" means any domestic corporation (other than a personal holding company as defined in section 542)—

(1) which, at all times during the taxable year, is registered under the Investment Company Act of 1940, as amended (54 Stat. 789; 15 U. S. C. 80 a–1 to 80 b–2), either as a management company or as a unit investment trust, or

(2) which is a common trust fund or similar fund excluded by section 3 (c) (3) of such Act (15 U. S. C. 80 a–3 (c)) from the definition of "investment company" and is not included in the definition of "common trust fund" by section 584 (a).

(b) LIMITATIONS.—A corporation shall not be considered a regulated investment company for any taxable year unless—

(1) it files with its return for the taxable year an election to be a regulated investment company or has made such election for a previous taxable year which began after December 31, 1941;

(2) at least 90 percent of its gross income is derived from dividends, interest, and gains from the sale or other disposition of stock or securities;

(3) less than 30 percent of its gross income is derived from the sale or other disposition of stock or securities held for less than 3 months; and

(4) at the close of each quarter of the taxable year—

(A) at least 50 percent of the value of its total assets is represented by—

(i) cash and cash items (including receivables), Government securities and securities of other regulated investment companies, and

(ii) other securities for purposes of this calculation limited, except and to the extent provided in subsection (e), in respect of any one issuer to an amount not greater in value than 5 percent of the value of the total assets of the taxpayer and to not more than 10 percent of the outstanding voting securities of such issuer, and

(B) not more than 25 percent of the value of its total assets is invested in the securities (other than Government securities or the securities of other regulated investment companies) of any one issuer, or of two or more issuers which the taxpayer controls and

which are determined, under regulations prescribed by the Secretary or his delegate, to be engaged in the same or similar trades or businesses or related trades or businesses.

(c) RULES APPLICABLE TO SUBSECTION (b) (4).—For purposes of subsection (b) (4) and this subsection—

(1) In ascertaining the value of the taxpayer's investment in the securities of an issuer, for the purposes of subparagraph (B), there shall be included its proper proportion of the investment of any other corporation, a member of a controlled group, in the securities of such issuer, as determined under regulations prescribed by the Secretary or his delegate.

(2) The term "controls" means the ownership in a corporation of 20 percent or more of the total combined voting power of all classes of stock entitled to vote.

(3) The term "controlled group" means one or more chains of corporations connected through stock ownership with the taxpayer if—

(A) 20 percent or more of the total combined voting power of all classes of stock entitled to vote of each of the corporations (except the taxpayer) is owned directly by one or more of the other corporations, and

(B) the taxpayer owns directly 20 percent or more of the total combined voting power of all classes of stock entitled to vote, of at least one of the other corporations.

(4) The term "value" means, with respect to securities (other than those of majority-owned subsidiaries) for which market quotations are readily available, the market value of such securities; and with respect to other securities and assets, fair value as determined in good faith by the board of directors, except that in the case of securities of majority-owned subsidiaries which are investment companies such fair value shall not exceed market value or asset value, whichever is higher.

(5) All other terms shall have the same meaning as when used in the Investment Company Act of 1940, as amended.

(d) DETERMINATION OF STATUS.—A corporation which meets the requirements of subsections (b) (4) and (c) at the close of any quarter shall not lose its status as a regulated investment company because of a discrepancy during a subsequent quarter between the value of its various investments and such requirements unless such discrepancy exists immediately after the acquisition of any security or other property and is wholly or partly the result of such acquisition. A corporation which does not meet such requirements at the close of any quarter by reason of a discrepancy existing immediately after the acquisition of any security or other property which is wholly or partly the result of such acquisition during such quarter shall not lose its status for such quarter as a regulated investment company if such discrepancy is eliminated within 30 days after the close of such quarter and in such cases it shall be considered to have met such requirements at the close of such quarter for purposes of applying the preceding sentence.

(e) INVESTMENT COMPANIES FURNISHING CAPITAL TO DEVELOPMENT CORPORATIONS.—

(1) GENERAL RULE.—If the Securities and Exchange Commission determines, in accordance with regulations issued by it, and certifies to the Secretary or his delegate not less than 60 days prior to the close of the taxable year of a registered management company, that such investment company is principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, such investment company may, in the computation of 50 percent of the value of its assets under subparagraph (A) of subsection (b) (4) for any quarter of such taxable year, include the value of any securities of an issuer, whether or not the investment company owns more than 10 percent of the outstanding voting securities of such issuer, the basis of which, when added to the basis of the investment company for securities of such issuer previously acquired, did not exceed 5 percent of the value of the total assets of the investment company at the time of the subsequent acquisition of securities. The preceding sentence shall not apply to the securities of an issuer if the investment company has continuously held any security of such issuer (or of any predecessor company of such issuer as determined under regulations prescribed by the Secretary or his delegate) for 10 or more years preceding such quarter of such taxable year.

(2) LIMITATION.—The provisions of this subsection shall not apply at the close of any quarter of a taxable year to an investment company if at the close of such quarter more than 25 percent of the value of its total assets is represented by securities of issuers with respect to each of which the investment company holds more than 10 percent of the outstanding voting securities of such issues and in respect of each of which or any predecessor thereof the investment company has continuously held any security for 10 or more years preceding such quarter unless the value of its total assets so represented is reduced to 25 percent or less within 30 days after the close of such quarter.

(3) DETERMINATION OF STATUS.—For purposes of this subsection, unless the Securities and Exchange Commission determines otherwise, a corporation shall be considered to be principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, for at least 10 years after the date of the first acquisition of any security in such corporation or any predecessor thereof by such investment company if at the date of such acquisition the corporation or its predecessor was principally so engaged, and an investment company shall be considered at any date to be furnishing capital to any company whose securities it holds if within 10 years prior to such date it has acquired any of such securities, or any securities surrendered in exchange therefor, from such other company or predecessor thereof. For purposes of the certification under this subsection, the Securities and Exchange Commission shall have authority to issue such rules, regulations and orders, and to

conduct such investigations and hearings, either public or private, as it may deem appropriate.

(4) DEFINITIONS.—The terms used in this subsection shall have the same meaning as in subsections (b) (4) and (c) of this section.

SEC. 852. TAXATION OF REGULATED INVESTMENT COMPANIES AND THEIR SHAREHOLDERS.

(a) REQUIREMENTS APPLICABLE TO REGULATED INVESTMENT COMPANIES.—The provisions of this subchapter shall not be applicable to a regulated investment company for a taxable year unless—

(1) the deduction for dividends paid during the taxable year (as defined in section 561, but without regard to capital gains dividends) equals or exceeds 90 percent of its investment company taxable income for the taxable year (determined without regard to subsection (b) (2) (D)), and

(2) the investment company complies for such year with regulations prescribed by the Secretary or his delegate for the purpose of ascertaining the actual ownership of its outstanding stock.

(b) METHOD OF TAXATION OF COMPANIES AND SHAREHOLDERS.—

(1) IMPOSITION OF NORMAL TAX AND SURTAX ON REGULATED INVESTMENT COMPANIES.—There is hereby imposed for each taxable year upon the investment company taxable income of every regulated investment company a normal tax and surtax computed as provided in section 11, as though the investment company taxable income were the taxable income referred to in section 11. For purposes of computing the normal tax under section 11, the taxable income and the dividends paid deduction of such investment company for the taxable year (computed without regard to capital gains dividends) shall be reduced by the deduction provided by section 242 (relating to partially tax-exempt interest).

(2) INVESTMENT COMPANY TAXABLE INCOME.—The investment company taxable income shall be the taxable income of the regulated investment company adjusted as follows:

(A) There shall be excluded the excess, if any, of the net long-term capital gain over the net short-term capital loss.

(B) The net operating loss deduction provided in section 172 shall not be allowed.

(C) The deductions for corporations provided in part VIII (except section 248) in subchapter B (section 241 and following, relating to the deduction for dividends received, etc.) shall not be allowed.

(D) The deduction for dividends paid (as defined in section 561) shall be allowed, but shall be computed without regard to capital gains dividends.

(E) The taxable income shall be computed without regard to section 443 (b) (relating to computation of tax on change of annual accounting period).

(3) CAPITAL GAINS.—

(A) IMPOSITION OF TAX.—There is hereby imposed for each taxable year in the case of every regulated investment company a tax of 25 percent of the excess, if any, of the net long-term capital gain over the sum of—

(i) the net short-term capital loss, and

(ii) the deduction for dividends paid (as defined in section 561) determined with reference to capital gains dividends only.

(B) TREATMENT OF CAPITAL GAIN DIVIDENDS BY SHAREHOLDERS.—A capital gain dividend shall be treated by the shareholders as a gain from the sale or exchange of a capital asset held for more than 6 months.

(C) DEFINITION OF CAPITAL GAIN DIVIDEND.—A capital gain dividend means any dividend, or part thereof, which is designated by the company as a capital gain dividend in a written notice mailed to its shareholders not later than 30 days after the close of its taxable year. If the aggregate amount so designated with respect to a taxable year of the company (including capital gains dividends paid after the close of the taxable year described in section 855) is greater than the excess of the net long-term capital gain over the net short-term capital loss of the taxable year, the portion of each distribution which shall be a capital gain dividend shall be only that proportion of the amount so designated which such excess of the net long-term capital gain over the net short-term capital loss bears to the aggregate amount so designated.

(c) EARNINGS AND PROFITS.—The earnings and profits of a regulated investment company 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 for such taxable year.

SEC. 853. FOREIGN TAX CREDIT ALLOWED TO SHAREHOLDERS.

(a) GENERAL RULE.—A regulated investment company—

(1) more than 50 percent of the value (as defined in section 851 (c) (4)) of whose total assets at the close of the taxable year consists of stock or securities in foreign corporations, and

(2) which meets the requirements of section 852 (a) for the taxable year,

may, for such taxable year, elect the application of this section with respect to income, war profits, and excess profits taxes described in section 901 (b) (1), which are paid by the investment company during such taxable year to foreign countries and possessions of the United States.

(b) EFFECT OF ELECTION.—If the election provided in subsection (a) is effective for a taxable year—

(1) the regulated investment company—

(A) shall not, with respect to such taxable year, be allowed a deduction under section 164 (a) or a credit under section 901 for taxes to which subsection (a) is applicable, and

(B) shall be allowed as an addition to the dividends paid deduction for such taxable year the amount of such taxes;

(2) each shareholder of such investment company shall—

(A) include in gross income and treat as paid by him his proportionate share of such taxes, and

(B) treat as gross income from sources within the respective foreign countries and possessions of the United States, for purposes of applying subpart A of part III of subchapter N, the sum of his proportionate share of such taxes and the portion of any dividend paid by such investment company which repre-

sents income derived from sources within foreign countries or possessions of the United States.

(c) NOTICE TO SHAREHOLDERS.—The amounts to be treated by the shareholder, for purposes of subsection (b) (2), as his proportionate share of—

(1) taxes paid to any foreign country or possession of the United States, and

(2) gross income derived from sources within any foreign country or possession of the United States,

shall not exceed the amounts so designated by the company in a written notice mailed to its shareholders not later than 30 days after the close of its taxable year.

(d) MANNER OF MAKING ELECTION AND NOTIFYING SHAREHOLDERS.—The election provided in subsection (a) and the notice to shareholders required by subsection (c) shall be made in such manner as the Secretary or his delegate may prescribe by regulations.

(e) CROSS REFERENCES.—

(1) For treatment by shareholders of taxes paid to foreign countries and possessions of the United States, see section 164 (a) and section 901.

(2) For definition of foreign corporation, see section 7701 (a) (5).

SEC. 854. LIMITATIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REGULATED INVESTMENT COMPANY.

(a) CAPITAL GAIN DIVIDEND.—For purposes of section 34 (a) (relating to credit for dividends received by individuals), section 116 (relating to an exclusion for dividends received by individuals), and section 243 (relating to deductions for dividends received by corporations), a capital gain dividend (as defined in section 852 (b) (3)) received from a regulated investment company shall not be considered as a dividend.

(b) OTHER DIVIDENDS.—

(1) GENERAL RULE.—In the case of a dividend received from a regulated investment company (other than a dividend to which subsection (a) applies)—

(A) if such investment company meets the requirements of section 852 (a) for the taxable year during which it paid such dividend; and

(B) the aggregate dividends received by such company during such taxable year are less than 75 percent of its gross income,

then, in computing the credit under section 34 (a), the exclusion under section 116, and the deduction under section 243, there shall be taken into account only that portion of the dividend which bears the same ratio to the amount of such dividend as the aggregate dividends received by such company during such taxable year bear to its gross income for such taxable year.

(2) NOTICE TO SHAREHOLDERS.—The amount of any distribution by a regulated investment company which may be taken into account as a dividend for purposes of the credit under section 34, the exclusion under section 116, and the deduction under section 243 shall not exceed the amount so designated by the company in a written notice to its shareholders mailed not later than 30 days after the close of its taxable year.

(3) DEFINITIONS.—For purposes of this subsection—

(A) The term "gross income" does not include gain from the sale or other disposition of stock or securities.

(B) The term "aggregate dividends received" includes only dividends received from domestic corporations other than dividends described in section 116 (b) (relating to dividends excluded from gross income). In determining the amount of any dividend for purposes of this subparagraph, the rules provided in section 116 (c) (relating to certain distributions) shall apply.

SEC. 855. DIVIDENDS PAID BY REGULATED INVESTMENT COMPANY AFTER CLOSE OF TAXABLE YEAR.

(a) GENERAL RULE.—For purposes of this chapter, if a regulated investment company—

(1) declares a dividend prior to the time prescribed by law for the filing of its return for a taxable year (including the period of any extension of time granted for filing such return), and

(2) distributes the amount of such dividend to shareholders in the 12-month period following the close of such taxable year and not later than the date of the first regular dividend payment made after such declaration,

the amount so declared and distributed shall, to the extent the company elects in such return in accordance with regulations prescribed by the Secretary or his delegate, be considered as having been paid during such taxable year, except as provided in subsections (b), (c) and (d).

(b) RECEIPT BY SHAREHOLDER.—Amounts to which subsection (a) is applicable shall be treated as received by the shareholder in the taxable year in which the distribution is made.

(c) NOTICE TO SHAREHOLDERS.—In the case of amounts to which subsection (a) is applicable, any notice to shareholders required under this subchapter with respect to such amounts shall be made not later than 30 days after the close of the taxable year in which the distribution is made.

(d) FOREIGN TAX ELECTION.—If an investment company to which section 853 is applicable for the taxable year makes a distribution as provided in subsection (a) of this section, the shareholders shall consider the amounts described in section 853 (b) (2) allocable to such distribution as paid or received, as the case may be, in the taxable year in which the distribution is made.

Subchapter N—Tax Based on Income From Sources Within or Without the United States

Part I. Determination of sources of income.
Part II. Nonresident aliens and foreign corporations.
Part III. Income from sources without the United States.

PART I—DETERMINATION OF SOURCES OF INCOME

Sec. 861. Income from sources within the United States.
Sec. 862. Income from sources without the United States.
Sec. 863. Items not specified in section 861 or 862.
Sec. 864. Definitions.

SEC. 861. INCOME FROM SOURCES WITHIN THE UNITED STATES.

(a) GROSS INCOME FROM SOURCES WITHIN UNITED STATES.—The following items of gross income shall be treated as income from sources within the United States:

(1) INTEREST.—Interest from the United States, any Territory, any political subdivision of a Territory, or the District of Columbia, and interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise, not including—

(A) interest on deposits with persons carrying on the banking business paid to persons not engaged in business within the United States,

(B) interest received from a resident alien individual, a resident foreign corporation, or a domestic corporation, when it is shown to the satisfaction of the Secretary or his delegate that less than 20 percent of the gross income of such resident payor or domestic corporation has been derived from sources within the United States, as determined under the provisions of this part, for the 3-year period ending with the close of the taxable year of such payor preceding the payment of such interest, or for such part of such period as may be applicable, and

(C) income derived by a foreign central bank of issue from bankers' acceptances.

(2) DIVIDENDS.—The amount received as dividends—

(A) from a domestic corporation other than a corporation entitled to the benefits of section 931, and other than a corporation less than 20 percent of whose gross income is shown to the satisfaction of the Secretary or his delegate to have been derived from sources within the United States, as determined under the provisions of this part, for the 3-year period ending with the close of the taxable year of such corporation preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence), or

(B) from a foreign corporation unless less than 50 percent of the gross income of such foreign corporation for the 3-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was derived from sources

within the United States as determined under the provisions of this part; but only in an amount which bears the same ratio to such dividends as the gross income of the corporation for such period derived from sources within the United States bears to its gross income from all sources; but dividends from a foreign corporation shall, for purposes of subpart A of part III (relating to foreign tax credit), be treated as income from sources without the United States to the extent exceeding the amount of the deduction allowable under section 245 in respect of such dividends.

(3) PERSONAL SERVICES.—Compensation for labor or personal services performed in the United States; except that compensation for labor or services performed in the United States shall not be deemed to be income from sources within the United States if—

(A) the labor or services are performed by a nonresident alien individual temporarily present in the United States for a period or periods not exceeding a total of 90 days during the taxable year,

(B) such compensation does not exceed $3,000 in the aggregate, and

(C) the compensation is for labor or services performed as an employee of or under a contract with—

(i) a nonresident alien, foreign partnership, or foreign corporation, not engaged in trade or business within the United States, or

(ii) a domestic corporation, if such labor or services are performed for an office or place of business maintained in a foreign country or in a possession of the United States by such corporation.

(4) RENTALS AND ROYALTIES.—Rentals or royalties from property located in the United States or from any interest in such property, including rentals or royalties for the use of or for the privilege of using in the United States patents, copyrights, secret processes and formulas, good will, trade-marks, trade brands, franchises, and other like property.

(5) SALE OF REAL PROPERTY.—Gains, profits, and income from the sale of real property located in the United States.

(6) SALE OF PERSONAL PROPERTY.—Gains, profits, and income derived from the purchase of personal property without the United States (other than within a possession of the United States) and its sale within the United States.

(b) TAXABLE INCOME FROM SOURCES WITHIN UNITED STATES.—From the items of gross income specified in subsection (a) as being income from sources within the United States there shall be deducted the expenses, losses, and other deductions properly apportioned or allocated thereto and a ratable part of any expenses, losses, or other deductions which cannot definitely be allocated to some item or class of gross income. The remainder, if any, shall be included in full as taxable income from sources within the United States.

SEC. 862. INCOME FROM SOURCES WITHOUT THE UNITED STATES.

(a) GROSS INCOME FROM SOURCES WITHOUT UNITED STATES.—The following items of gross income shall be treated as income from sources without the United States:

(1) interest other than that derived from sources within the United States as provided in section 861 (a) (1);

(2) dividends other than those derived from sources within the United States as provided in section 861 (a) (2);

(3) compensation for labor or personal services performed without the United States;

(4) rentals or royalties from property located without the United States or from any interest in such property, including rentals or royalties for the use of or for the privilege of using without the United States patents, copyrights, secret processes and formulas, good will, trade-marks, trade brands, franchises, and other like properties;

(5) gains, profits, and income from the sale of real property located without the United States; and

(6) gains, profits, and income derived from the purchase of personal property within the United States and its sale without the United States.

(b) TAXABLE INCOME FROM SOURCES WITHOUT UNITED STATES.—From the items of gross income specified in subsection (a) there shall be deducted the expenses, losses, and other deductions properly apportioned or allocated thereto, and a ratable part of any expenses, losses, or other deductions which cannot definitely be allocated to some item or class of gross income. The remainder, if any, shall be treated in full as taxable income from sources without the United States.

SEC. 863. ITEMS NOT SPECIFIED IN SECTION 861 OR 862.

(a) ALLOCATION UNDER REGULATIONS.—Items of gross income, expenses, losses, and deductions, other than those specified in sections 861 (a) and 862 (a), shall be allocated or apportioned to sources within or without the United States, under regulations prescribed by the Secretary or his delegate. Where items of gross income are separately allocated to sources within the United States, there shall be deducted (for the purpose of computing the taxable income therefrom) the expenses, losses, and other deductions properly apportioned or allocated thereto and a ratable part of other expenses, losses, or other deductions which cannot definitely be allocated to some item or class of gross income. The remainder, if any, shall be included in full as taxable income from sources within the United States.

(b) INCOME PARTLY FROM WITHIN AND PARTLY FROM WITHOUT THE UNITED STATES.—In the case of gross income derived from sources partly within and partly without the United States, the taxable income may first be computed by deducting the expenses, losses, or other deductions apportioned or allocated thereto and a ratable part of any expenses, losses, or other deductions which cannot definitely be allocated to some item or class of gross income; and the portion of such taxable income attributable to sources within the United States may be determined by processes or formulas of general apportionment prescribed by the Secretary or his delegate. Gains, profits, and income—

(1) from transportation or other services rendered partly within and partly without the United States,

(2) from the sale of personal property produced (in whole or in part) by the taxpayer within and sold without the United States, or produced (in whole or in part) by the taxpayer without and sold within the United States, or

(3) derived from the purchase of personal property within a possession of the United States and its sale within the United States,

shall be treated as derived partly from sources within and partly from sources without the United States.

SEC. 864. DEFINITIONS.

For purposes of this part, the word "sale" includes "exchange"; the word "sold" includes "exchanged"; and the word "produced" includes "created", "fabricated", "manufactured", "extracted", "processed", "cured", or "aged".

PART II—NONRESIDENT ALIENS AND FOREIGN CORPORATIONS

Subpart A. Nonresident alien individuals.
Subpart B. Foreign corporations.
Subpart C. Miscellaneous provisions.

Subpart A—Nonresident Alien Individuals

Sec. 871. Tax on nonresident alien individuals.
Sec. 872. Gross income.
Sec. 873. Deductions.
Sec. 874. Allowance of deductions and credits.
Sec. 875. Partnerships.
Sec. 876. Alien residents of Puerto Rico.
Sec. 877. Foreign educational, charitable, and certain other exempt organizations.

SEC. 871. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

(a) NO UNITED STATES BUSINESS AND GROSS INCOME OF NOT MORE THAN $15,400.—

(1) IMPOSITION OF TAX.—Except as otherwise provided in subsection (b) there is hereby imposed for each taxable year, in lieu of the tax imposed by section 1, on the amount received, by every nonresident alien individual not engaged in trade or business within the United States, from sources within the United States, as interest (except interest on deposits with persons carrying on the banking business), dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income (including amounts described in section 402 (a) (2), section 631 (b) and (c), and section 1235, which are considered to be gains from the sale or exchange of capital assets), a tax of 30 percent of such amount.

(2) CAPITAL GAINS OF ALIENS TEMPORARILY PRESENT IN THE UNITED STATES.—In the case of a nonresident alien individual not engaged in trade or business in the United States, there is hereby imposed for each taxable year, in addition to the tax imposed by paragraph (1)—

(A) if he is present in the United States for a period or periods aggregating less than 90 days during such taxable year—a tax of 30 percent of the amount by which his gains, derived from sources within the United States, from sales or exchanges of capital assets effected during his presence in the United States

exceed his losses, allocable to sources within the United States, from such sales or exchanges effected during such presence; or

(B) if he is present in the United States for a period or periods aggregating 90 days or more during such taxable year—a tax of 30 percent of the amount by which his gains, derived from sources within the United States, from sales or exchanges of capital assets effected at any time during such year exceed his losses, allocable to sources within the United States, from such sales or exchanges effected at any time during such year.

For purposes of this paragraph, gains and losses shall be taken into account only if, and to the extent that, they would be recognized and taken into account if such individual were engaged in trade or business in the United States, except that such gains and losses shall be computed without regard to section 1202 (relating to deduction for capital gains) and such losses shall be determined without the benefits of the capital loss carryover provided in section 1212.

(b) NO UNITED STATES BUSINESS AND GROSS INCOME OF MORE THAN $15,400.—A nonresident alien individual not engaged in trade or business within the United States shall be taxable without regard to subsection (a) if during the taxable year the sum of the aggregate amount received from the sources specified in subsection (a) (1), plus the amount by which gains from sales or exchanges of capital assets exceed losses from such sales or exchanges (determined in accordance with subsection (a) (2)) is more than $15,400, except that—

(1) the gross income shall include only income from the sources specified in subsection (a) (1) plus any gain (to the extent provided in subchapter P; sec. 1201 and following, relating to capital gains and losses) from a sale or exchange of a capital asset if such gain would be taken into account were the tax being determined under subsection (a) (2);

(2) the deductions (other than the deduction for charitable contributions and gifts provided in section 873 (c)) shall be allowed only if and to the extent that they are properly allocable to the gross income from the sources specified in subsection (a), except that any loss from the sale or exchange of a capital asset shall be allowed (to the extent provided in subchapter P without the benefit of the capital loss carryover provided in section 1212) if such loss would be taken into account were the tax being determined under subsection (a) (2);

(3) the taxes imposed by this subtitle (under section 1, or under section 1201 (b)) shall, in no case, be less than 30 percent of the sum of—

(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.

(c) UNITED STATES BUSINESS.—A nonresident alien individual engaged in trade or business within the United States shall be taxable without regard to subsection (a). For purposes of part I, this section, sections 881 and 882, and chapter 3, the term "engaged in trade or business within the United States" includes the performance of

personal services within the United States at any time within the taxable year, but does not include the performance of personal services—

(1) for a nonresident alien individual, foreign partnership, or foreign corporation, not engaged in trade or business within the United States, or

(2) for an office or place of business maintained by a domestic corporation in a foreign country or in a possession of the United States,

by a nonresident alien individual temporarily present in the United States for a period or periods not exceeding a total of 90 days during the taxable year and whose compensation for such services does not exceed in the aggregate $3,000. Such term does not include the effecting, through a resident broker, commission agent, or custodian, of transactions in the United States in stocks or securities, or in commodities (if of a kind customarily dealt in on an organized commodity exchange, if the transaction is of the kind customarily consummated at such place, and if the alien, partnership, or corporation has no office or place of business in the United States at any time during the taxable year through which or by the direction of which such transactions in commodities are effected).

(d) DOUBLING OF TAX.—

For doubling of tax on citizens of certain foreign countries, see section 891.

SEC. 872. GROSS INCOME.

(a) GENERAL RULE.—In the case of a nonresident alien individual gross income includes only the gross income from sources within the United States.

(b) EXCLUSIONS.—The following items shall not be included in gross income of a nonresident alien individual, and shall be exempt from taxation under this subtitle:

(1) SHIPS UNDER FOREIGN FLAG.—Earnings derived from the operation of a ship or ships documented under the laws of a foreign country which grants an equivalent exemption to citizens of the United States and to corporations organized in the United States.

(2) AIRCRAFT OF FOREIGN REGISTRY.—Earnings derived from the operation of aircraft registered under the laws of a foreign country which grants an equivalent exemption to citizens of the United States and to corporations organized in the United States.

SEC. 873. DEDUCTIONS.

(a) GENERAL RULE.—In the case of a nonresident alien individual the deductions shall be allowed only if and to the extent that they are connected with income from sources within the United States; and the proper apportionment and allocation of the deductions with respect to sources of income within and without the United States shall be determined as provided in part I, under regulations prescribed by the Secretary or his delegate.

(b) LOSSES.—

(1) The deduction, for losses not connected with the trade or business if incurred in transactions entered into for profit, allowed by section 165 (c) (2) (relating to losses) shall be allowed whether or not connected with income from sources within the United States,

but only if the profit, if such transaction had resulted in a profit, would be taxable under this subtitle.

(2) The deduction for losses of property not connected with the trade or business if arising from certain casualties or theft, allowed by section 165 (c) (3), shall be allowed whether or not connected with income from sources within the United States, but only if the loss is of property within the United States.

(c) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions and gifts provided by section 170 shall be allowed whether or not connected with income from sources within the United States, but only as to contributions or gifts made to domestic corporations, or to community chests, funds, or foundations, created in the United States.

(d) PERSONAL EXEMPTION.—In the case of a nonresident alien individual who is not a resident of a contiguous country, only one exemption under section 151 shall be allowed as a deduction.

(e) STANDARD DEDUCTION.—

For disallowance of standard deduction, see section 142 (b) (1).

SEC. 874. ALLOWANCE OF DEDUCTIONS AND CREDITS.

(a) RETURN PREREQUISITE TO ALLOWANCE.—A nonresident alien individual shall receive the benefit of the deductions and credits allowed to him in this subtitle only by filing or causing to be filed a true and accurate return of his total income received from all sources in the United States, in the manner prescribed in subtitle F (sec. 6001 and following, relating to procedure and administration), including therein all the information which the Secretary or his delegate may deem necessary for the calculation of such deductions and credits. This subsection shall not be construed to deny the credits provided by sections 31 and 32 for tax withheld at the source.

(b) TAX WITHHELD AT SOURCE.—The benefit of the deduction for exemptions under section 151 may, in the discretion of the Secretary or his delegate, and under regulations prescribed by the Secretary or his delegate, be received by a nonresident alien individual entitled thereto, by filing a claim therefor with the withholding agent.

(c) FOREIGN TAX CREDIT NOT ALLOWED.—A nonresident alien individual shall not be allowed the credits against the tax for taxes of foreign countries and possessions of the United States allowed by section 901.

SEC. 875. PARTNERSHIPS.

For purposes of this subtitle, a nonresident alien individual shall be considered as being engaged in a trade or business within the United States if the partnership of which he is a member is so engaged.

SEC. 876. ALIEN RESIDENTS OF PUERTO RICO.

(a) NO APPLICATION TO CERTAIN ALIEN RESIDENTS OF PUERTO RICO.—This subpart shall not apply to an alien individual who is a bona fide resident of Puerto Rico during the entire taxable year, and such alien shall be subject to the tax imposed by section 1.

(b) CROSS REFERENCE.—

For exclusion from gross income of income derived from sources within Puerto Rico, see section 933.

SEC. 877. FOREIGN EDUCATIONAL, CHARITABLE, AND CERTAIN OTHER EXEMPT ORGANIZATIONS.

For special provisions relating to unrelated business income of foreign educational, charitable, and other exempt trusts, see section 512 (a).

Subpart B—Foreign Corporations

Sec. 881. Tax on foreign corporations not engaged in business in United States.
Sec. 882. Tax on resident foreign corporations.
Sec. 883. Exclusions from gross income.
Sec. 884. Cross references.

SEC. 881. TAX ON FOREIGN CORPORATIONS NOT ENGAGED IN BUSINESS IN UNITED STATES.

(a) IMPOSITION OF TAX.—In the case of every foreign corporation not engaged in trade or business within the United States, there is hereby imposed for each taxable year, in lieu of the taxes imposed by section 11, a tax of 30 percent of the amount received from sources within the United States as interest (except interest on deposits with persons carrying on the banking business), dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income (including amounts described in section 631 (b) and (c) which are considered to be gains from the sale or exchange of capital assets).

(b) DOUBLING OF TAX.—

For doubling of tax on corporations of certain foreign countries, see section 891.

SEC. 882. TAX ON RESIDENT FOREIGN CORPORATIONS.

(a) IMPOSITION OF TAX.—A foreign corporation engaged in trade or business within the United States shall be taxable as provided in section 11.

(b) GROSS INCOME.—In the case of a foreign corporation, gross income includes only the gross income from sources within the United States.

(c) ALLOWANCE OF DEDUCTIONS AND CREDITS.—

(1) DEDUCTIONS ALLOWED ONLY IF RETURN FILED.—A foreign corporation shall receive the benefit of the deductions allowed to it in this subtitle only by filing or causing to be filed with the Secretary or his delegate a true and accurate return of its total income received from all sources in the United States, in the manner prescribed in subtitle F, including therein all the information which the Secretary or his delegate may deem necessary for the calculation of such deductions.

(2) ALLOCATION OF DEDUCTIONS.—In the case of a foreign corporation the deductions shall be allowed only if and to the extent that they are connected with income from sources within the United States; and the proper apportionment and allocation of the deductions with respect to sources within and without the United States shall be determined as provided in part I, under regulations prescribed by the Secretary or his delegate.

(3) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions and gifts provided by section 170 shall be allowed whether or not connected with income from sources within the United States.

(4) FOREIGN TAX CREDIT.—Foreign corporations shall not be allowed the credits against the tax for taxes of foreign countries and possessions of the United States allowed by section 901.

(d) RETURNS OF TAX BY AGENT.—If any foreign corporation has no office or place of business in the United States but has an agent in the United States, the return required under section 6012 shall be made by the agent.

SEC. 883. EXCLUSIONS FROM GROSS INCOME.

The following items shall not be included in gross income of a foreign corporation, and shall be exempt from taxation under this subtitle:

(1) SHIPS UNDER FOREIGN FLAG.—Earnings derived from the operation of a ship or ships documented under the laws of a foreign country which grants an equivalent exemption to citizens of the United States and to corporations organized in the United States.

(2) AIRCRAFT OF FOREIGN REGISTRY.—Earnings derived from the operation of aircraft registered under the laws of a foreign country which grants an equivalent exemption to citizens of the United States and to corporations organized in the United States.

SEC. 884. CROSS REFERENCES.

(1) For withholding at source of tax on income of foreign corporations, see section 1442.

(2) For rules applicable in determining whether any foreign corporation is engaged in trade or business within the United States, see section 871 (c).

(3) For special provisions relating to foreign insurance companies, see subchapter L (sec. 801 and following).

(4) For special provisions relating to unrelated business income of foreign educational, charitable, and certain other exempt organizations, see section 512 (a).

Subpart C—Miscellaneous Provisions

Sec. 891. Doubling of rates of tax on citizens and corporations of certain foreign countries.
Sec. 892. Income of foreign governments and of international organizations.
Sec. 893. Compensation of employees of foreign governments or international organizations.
Sec. 894. Income exempt under treaty.

SEC. 891. DOUBLING OF RATES OF TAX ON CITIZENS AND CORPORATIONS OF CERTAIN FOREIGN COUNTRIES.

Whenever the President finds that, under the laws of any foreign country, citizens or corporations of the United States are being subjected to discriminatory or extraterritorial taxes, the President shall so proclaim and the rates of tax imposed by sections 1, 3, 11, 802, 821, 831, 852, 871, and 881 shall, for the taxable year during which such proclamation is made and for each taxable year thereafter, be doubled in the case of each citizen and corporation of such foreign country; but the tax at such doubled rate shall be considered as imposed by such sections as the case may be. In no case shall this section operate to increase the taxes imposed by such sections (computed without regard to this section) to an amount in excess of 80 percent of the taxable income of the taxpayer (computed without regard to the deductions allowable under section 151 and under part

VIII of subchapter B). Whenever the President finds that the laws of any foreign country with respect to which the President has made a proclamation under the preceding provisions of this section have been modified so that discriminatory and extraterritorial taxes applicable to citizens and corporations of the United States have been removed, he shall so proclaim, and the provisions of this section providing for doubled rates of tax shall not apply to any citizen or corporation of such foreign country with respect to any taxable year beginning after such proclamation is made.

SEC. 892. INCOME OF FOREIGN GOVERNMENTS AND OF INTERNATIONAL ORGANIZATIONS.

The income of foreign governments or international organizations received from investments in the United States in stocks, bonds, or other domestic securities, owned by such foreign governments or by international organizations, or from interest on deposits in banks in the United States of moneys belonging to such foreign governments or international organizations, or from any other source within the United States, shall not be included in gross income and shall be exempt from taxation under this subtitle.

SEC. 893. COMPENSATION OF EMPLOYEES OF FOREIGN GOVERNMENTS OR INTERNATIONAL ORGANIZATIONS.

(a) RULE FOR EXCLUSION.—Wages, fees, or salary of any employee of a foreign government or of an international organization (including a consular or other officer, or a nondiplomatic representative), received as compensation for official services to such government or international organization shall not be included in gross income and shall be exempt from taxation under this subtitle if—

(1) such employee is not a citizen of the United States, or is a citizen of the Republic of the Philippines (whether or not a citizen of the United States); and

(2) in the case of an employee of a foreign government, the services are of a character similar to those performed by employees of the Government of the United States in foreign countries; and

(3) in the case of an employee of a foreign government, the foreign government grants an equivalent exemption to employees of the Government of the United States performing similar services in such foreign country.

(b) CERTIFICATE BY SECRETARY OF STATE.—The Secretary of State shall certify to the Secretary of the Treasury the names of the foreign countries which grant an equivalent exemption to the employees of the Government of the United States performing services in such foreign countries, and the character of the services performed by employees of the Government of the United States in foreign countries.

SEC. 894. INCOME EXEMPT UNDER TREATY.

Income of any kind, to the extent required by any treaty obligation of the United States, shall not be included in gross income and shall be exempt from taxation under this subtitle.

PART III—INCOME FROM SOURCES WITHOUT THE UNITED STATES

Subpart A. Foreign tax credit.
Subpart B. Earned income of citizens of United States.
Subpart C. Western Hemisphere trade corporations.
Subpart D. Possessions of the United States.
Subpart E. China Trade Act corporations.

Subpart A—Foreign Tax Credit

Sec. 901. Taxes of foreign countries and of possessions of United States.
Sec. 902. Credit for corporate stockholder in foreign corporation.
Sec. 903. Credit for taxes in lieu of income, etc., taxes.
Sec. 904. Limitation on credit.
Sec. 905. Applicable rules.

SEC. 901. TAXES OF FOREIGN COUNTRIES AND OF POSSESSIONS OF UNITED STATES.

(a) ALLOWANCE OF CREDIT.—If the taxpayer chooses to have the benefits of this subpart, the tax imposed by this chapter shall, subject to the limitation of section 904, be credited with the amounts provided in the applicable paragraph of subsection (b) plus, in the case of a corporation, the taxes deemed to have been paid under section 902. Such choice may be made or changed at any time prior to the expiration of the period prescribed for making a claim for credit or refund of the tax against which the credit is allowable. The credit shall not be allowed against the tax imposed by section 531 (relating to the tax on accumulated earnings), against the additional tax imposed for the taxable year under section 1333 (relating to war loss recoveries), or against the personal holding company tax imposed by section 541.

(b) AMOUNT ALLOWED.—Subject to the limitation of section 904, the following amounts shall be allowed as the credit under subsection (a):

(1) CITIZENS AND DOMESTIC CORPORATIONS.—In the case of a citizen of the United States and of a domestic corporation, the amount of any income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or to any possession of the United States; and

(2) RESIDENT OF THE UNITED STATES OR PUERTO RICO.—In the case of a resident of the United States and in the case of an individual who is a bona fide resident of Puerto Rico during the entire taxable year, the amount of any such taxes paid or accrued during the taxable year to any possession of the United States; and

(3) ALIEN RESIDENT OF THE UNITED STATES OR PUERTO RICO.—In the case of an alien resident of the United States and in the case of an alien individual who is a bona fide resident of Puerto Rico during the entire taxable year, the amount of any such taxes paid or accrued during the taxable year to any foreign country, if the foreign country of which such alien resident is a citizen or subject, in imposing such taxes, allows a similar credit to citizens of the United States residing in such country; and

(4) PARTNERSHIPS AND ESTATES.—In the case of any individual described in paragraph (1), (2), or (3), who is a member of a partnership or a beneficiary of an estate or trust, the amount of his proportionate share of the taxes (described in such paragraph) of the partnership or the estate or trust paid or accrued during the taxable year to a foreign country or to any possession of the United States, as the case may be.

(c) CORPORATIONS TREATED AS FOREIGN.—For purposes of this subpart, the following corporations shall be treated as foreign corporations:

(1) a corporation entitled to the benefits of section 931, by reason of receiving a large percentage of its gross income from sources within a possession of the United States; and

(2) a corporation organized under the China Trade Act, 1922 (15 U. S. C., chapter 4), and entitled to the deduction provided in section 941.

(d) CROSS REFERENCE.—

(1) For deductions of income, war profits, and excess profits taxes paid to a foreign country or a possession of the United States, see section 164.

(2) For right of each partner to make election under this section, see section 703 (b).

(3) For right of estate or trust to the credit for taxes imposed by foreign countries and possessions of the United States under this section, see section 642 (a) (2).

SEC. 902. CREDIT FOR CORPORATE STOCKHOLDER IN FOREIGN CORPORATION.

(a) TREATMENT OF TAXES PAID BY FOREIGN CORPORATION.—For purposes of this subpart, a domestic corporation which owns at least 10 percent of the voting stock of a foreign corporation from which it receives dividends in any taxable year shall be deemed to have paid the same proportion of any income, war profits, or excess profits taxes paid or deemed to be paid by such foreign corporation to any foreign country or to any possession of the United States, on or with respect to the accumulated profits of such foreign corporation from which such dividends were paid, which the amount of such dividends bears to the amount of such accumulated profits.

(b) FOREIGN SUBSIDIARY OF FOREIGN CORPORATION.—If such foreign corporation owns 50 percent or more of the voting stock of another foreign corporation from which it receives dividends in any taxable year, it shall be deemed to have paid the same proportion of any income, war profits, or excess profits taxes paid by such other foreign corporation to any foreign country or to any possession of the United States, on or with respect to the accumulated profits of the corporation from which such dividends were paid, which the amount of such dividends bears to the amount of such accumulated profits.

(c) APPLICABLE RULES.—

(1) The term "accumulated profits", when used in this section in reference to a foreign corporation, means the amount of its gains, profits, or income in excess of the income, war profits, and excess profits taxes imposed on or with respect to such profits or income; and the Secretary or his delegate shall have full power to determine from the accumulated profits of what year or years such dividends were paid, treating dividends paid in the first 60 days of any year as having been paid from the accumulated profits of the preceding year or years (unless to his satisfaction shown otherwise), and in other respects treating dividends as having been paid from the most recently accumulated gains, profits, or earnings.

(2) In the case of a foreign corporation, the income, war profits, and excess profits taxes of which are determined on the basis of an accounting period of less than 1 year, the word "year" as used in this subsection shall be construed to mean such accounting period.

(d) SPECIAL RULES FOR CERTAIN WHOLLY-OWNED FOREIGN CORPORATIONS.—For purposes of this subtitle, if—

(1) a domestic corporation owns, directly or indirectly, 100 percent of all classes of outstanding stock of a foreign corporation engaged in manufacturing, production, or mining,

(2) such domestic corporation receives property in the form of a royalty or compensation from such foreign corporation pursuant to any form of contractual arrangement under which the domestic corporation agrees to furnish services or property in consideration for the property so received, and

(3) such contractual arrangement provides that the property so received by such domestic corporation shall be accepted by such domestic corporation in lieu of dividends and that such foreign corporation shall neither declare nor pay any dividends of any kind in any calendar year in which such property is paid to such domestic corporation by such foreign corporation,

then the excess of the fair market value of such property so received by such domestic corporation over the cost to such domestic corporation of the property and services so furnished by such domestic corporation shall be treated as a distribution by such foreign corporation to such domestic corporation, and for purposes of section 301, the amount of such distribution shall be such excess, in lieu of any amount otherwise determined under section 301 without regard to this subsection; and the basis of such property so received by such domestic corporation shall be the fair market value of such property, in lieu of the basis otherwise determined under section 301 (d) without regard to this subsection.

SEC. 903. CREDIT FOR TAXES IN LIEU OF INCOME, ETC., TAXES.

For purposes of this subpart and of section 164 (b), the term "income, war profits, and excess profits taxes" shall include a tax paid in lieu of a tax on income, war profits, or excess profits otherwise generally imposed by any foreign country or by any possession of the United States.

SEC. 904. LIMITATION ON CREDIT.

(a) LIMITATION.—The amount of the credit in respect of the tax paid or accrued to any country shall not exceed the same proportion

of the tax against which such credit is taken which the taxpayer's taxable income from sources within such country (but not in excess of the taxpayer's entire taxable income) bears to his entire taxable income for the same taxable year.

(b) TAXABLE INCOME FOR PURPOSE OF COMPUTING LIMITATION.—For purposes of computing the limitation under subsection (a), the taxable income in the case of an individual, estate, or trust shall be computed without any deduction for personal exemptions under section 151 or 642 (b).

SEC. 905. APPLICABLE RULES.

(a) YEAR IN WHICH CREDIT TAKEN.—The credits provided in this subpart may, at the option of the taxpayer and irrespective of the method of accounting employed in keeping his books, be taken in the year in which the taxes of the foreign country or the possession of the United States accrued, subject, however, to the conditions prescribed in subsection (c). If the taxpayer elects to take such credits in the year in which the taxes of the foreign country or the possession of the United States accrued, the credits for all subsequent years shall be taken on the same basis, and no portion of any such taxes shall be allowed as a deduction in the same or any succeeding year.

(b) PROOF OF CREDITS.—The credits provided in this subpart shall be allowed only if the taxpayer establishes to the satisfaction of the Secretary or his delegate—

(1) the total amount of income derived from sources without the United States, determined as provided in part I,

(2) the amount of income derived from each country, the tax paid or accrued to which is claimed as a credit under this subpart, such amount to be determined under regulations prescribed by the Secretary or his delegate, and

(3) all other information necessary for the verification and computation of such credits.

(c) ADJUSTMENTS ON PAYMENT OF ACCRUED TAXES.—If accrued taxes when paid differ from the amounts claimed as credits by the taxpayer, or if any tax paid is refunded in whole or in part, the taxpayer shall notify the Secretary or his delegate, who shall redetermine the amount of the tax for the year or years affected. The amount of tax due on such redetermination, if any, shall be paid by the taxpayer on notice and demand by the Secretary or his delegate, or the amount of tax overpaid, if any, shall be credited or refunded to the taxpayer in accordance with subchapter B of chapter 66 (sec. 6511 and following). In the case of such a tax accrued but not paid, the Secretary or his delegate, as a condition precedent to the allowance of this credit, may require the taxpayer to give a bond, with sureties satisfactory to and to be approved by the Secretary or his delegate, in such sum as the Secretary or his delegate may require, conditioned on the payment by the taxpayer of any amount of tax found due on any such redetermination; and the bond herein prescribed shall contain such further conditions as the Secretary or his delegate may require. In such redetermination by the Secretary or his delegate of the amount of tax due from the taxpayer for the year or years affected by a refund, the amount of the taxes refunded for which credit has been allowed under this section shall be reduced by the amount of any tax described

in section 901 imposed by the foreign country or possession of the United States with respect to such refund; but no credit under this subpart, and no deduction under section 164 (relating to deduction for taxes) shall be allowed for any taxable year with respect to such tax imposed on the refund. No interest shall be assessed or collected on any amount of tax due on any redetermination by the Secretary or his delegate, resulting from a refund to the taxpayer, for any period before the receipt of such refund, except to the extent interest was paid by the foreign country or possession of the United States on such refund for such period.

Subpart B—Earned Income of Citizens of United States

Sec. 911. Earned income from sources without the United States.
Sec. 912. Exemption for certain allowances.

SEC. 911. EARNED INCOME FROM SOURCES WITHOUT THE UNITED STATES.

(a) GENERAL RULE.—The following items shall not be included in gross income and shall be exempt from taxation under this subtitle:

(1) BONA FIDE RESIDENT OF FOREIGN COUNTRY.—In the case of an individual citizen of the United States, who establishes to the satisfaction of the Secretary or his delegate that he has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts constitute earned income (as defined in subsection (b)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions (other than those allowed by section 151, relating to personal exemptions) properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

(2) PRESENCE IN FOREIGN COUNTRY FOR 17 MONTHS.—In the case of an individual citizen of the United States, who during any period of 18 consecutive months is present in a foreign country or countries during at least 510 full days in such period, amounts received from sources without the United States (except amounts paid by the United States or an agency thereof) if such amounts constitute earned income (as defined in subsection (b)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions (other than those allowed by section 151, relating to personal exemptions) properly allocable to or chargeable against amounts excluded from gross income under this paragraph. If the 18-month period includes the entire taxable year, the amount excluded under this paragraph for such taxable year shall not exceed $20,000. If the 18-month period does not include the entire taxable year, the amount excluded under this paragraph for such taxable year shall not exceed an amount which bears the same ratio to $20,000 as the number of days in the part of the taxable year within the 18-month period bears to the total number of days in such year.

(b) DEFINITION OF EARNED INCOME.—For purposes of this section, the term "earned income" means wages, salaries, or professional

fees, and other amounts received as compensation for personal services actually rendered, but does not include that part of the compensation derived by the taxpayer for personal services rendered by him to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered. In the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income-producing factors, under regulations prescribed by the Secretary or his delegate, a reasonable allowance as compensation for the personal services rendered by the taxpayer, not in excess of 30 percent of his share of the net profits of such trade or business, shall be considered as earned income.

SEC. 912. EXEMPTION FOR CERTAIN ALLOWANCES.

The following items shall not be included in gross income, and shall be exempt from taxation under this subtitle:

(1) COST-OF-LIVING ALLOWANCES.—In the case of civilian officers or employees of the Government of the United States stationed outside continental United States, amounts received as cost-of-living allowances in accordance with regulations approved by the President.

(2) FOREIGN SERVICE ALLOWANCES.—In the case of an officer or employee of the Foreign Service of the United States, amounts received by such officer or employee as allowances or otherwise under the terms of title IX of the Foreign Service Act of 1946 (22 U. S. C. 1131–1158).

Subpart C—Western Hemisphere Trade Corporations

Sec. 921. Definition of Western Hemisphere trade corporations.
Sec. 922. Special deduction.

SEC. 921. DEFINITION OF WESTERN HEMISPHERE TRADE CORPORATIONS.

For purposes of this subtitle, the term "Western Hemisphere trade corporation" means a domestic corporation all of whose business (other than incidental purchases) is done in any country or countries in North, Central, or South America, or in the West Indies, and which satisfies the following conditions:

(1) if 95 percent or more of the gross income of such domestic corporation for the 3-year period immediately preceding the close of the taxable year (or for such part of such period during which the corporation was in existence) was derived from sources without the United States; and

(2) if 90 percent or more of its gross income for such period or such part thereof was derived from the active conduct of a trade or business.

For any taxable year beginning prior to January 1, 1954, the determination as to whether any corporation meets the requirements of section 109 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 expressly made applicable with respect to taxable years beginning prior to January 1, 1954.

SEC. 922. SPECIAL DEDUCTION.

In the case of a Western Hemisphere trade corporation there shall be allowed as a deduction in computing taxable income an amount computed as follows—

(1) First determine the taxable income of such corporation computed without regard to this section.

(2) Then multiply the amount determined under paragraph (1) by the fraction—

(A) the numerator of which is 14 percent, and

(B) the denominator of which is that percentage which equals the sum of the normal tax rate and the surtax rate for the taxable year prescribed by section 11.

Subpart D—Possessions of the United States

Sec. 931. Income from sources within possessions of the United States.
Sec. 932. Citizens of possessions of the United States.
Sec. 933. Income from sources within Puerto Rico.

SEC. 931. INCOME FROM SOURCES WITHIN POSSESSIONS OF THE UNITED STATES.

(a) GENERAL RULE.—In the case of citizens of the United States or domestic corporations, gross income means only gross income from sources within the United States if the conditions of both paragraph (1) and paragraph (2) are satisfied:

(1) THREE-YEAR PERIOD.—If 80 percent or more of the gross income of such citizen or domestic corporation (computed without the benefit of this section) for the 3-year period immediately preceding the close of the taxable year (or for such part of such period immediately preceding the close of such taxable year as may be applicable) was derived from sources within a possession of the United States; and

(2) TRADE OR BUSINESS.—If—

(A) in the case of such corporation, 50 percent or more of its gross income (computed without the benefit of this section) for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States; or

(B) in the case of such citizen, 50 percent or more of his gross income (computed without the benefit of this section) for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States either on his own account or as an employee or agent of another.

(b) AMOUNTS RECEIVED IN UNITED STATES.—Notwithstanding subsection (a), there shall be included in gross income all amounts received by such citizens or corporations within the United States, whether derived from sources within or without the United States.

(c) DEFINITION.—For purposes of this section, the term "possession of the United States" does not include the Virgin Islands of the United States, and such term when used with respect to citizens of the United States does not include Puerto Rico.

(d) DEDUCTIONS.—

(1) Citizens of the United States entitled to the benefits of this section shall have the same deductions as are allowed by section 873

in the case of a nonresident alien individual engaged in trade or business within the United States.

(2) Domestic corporations entitled to the benefits of this section shall have the same deductions as are allowed by section 882 (c) in the case of a foreign corporation engaged in trade or business within the United States.

(e) DEDUCTION FOR PERSONAL EXEMPTION.—A citizen of the United States entitled to the benefits of this section shall be allowed a deduction for only one exemption under section 151.

(f) ALLOWANCE OF DEDUCTIONS AND CREDITS.—Persons entitled to the benefits of this section shall receive the benefit of the deductions and credits allowed to them in this subtitle only by filing or causing to be filed with the Secretary or his delegate a true and accurate return of their total income received from all sources in the United States, in the manner prescribed in subtitle F, including therein all the information which the Secretary or his delegate may deem necessary for the calculation of such deductions and credits.

(g) FOREIGN TAX CREDIT.—Persons entitled to the benefits of this section shall not be allowed the credits against the tax for taxes of foreign countries and possessions of the United States allowed by section 901.

(h) INTERNEES.—In the case of a citizen of the United States interned by the enemy while serving as an employee within a possession of the United States—

(1) if such citizen was confined in any place not within a possession of the United States, such place of confinement shall, for purposes of this section, be considered as within a possession of the United States; and

(2) subsection (b) shall not apply to any compensation received within the United States by such citizen attributable to the period of time during which such citizen was interned by the enemy.

(i) EMPLOYEES OF THE UNITED STATES.—For purposes of this section, amounts paid for services performed by a citizen of the United States as an employee of the United States or any agency thereof shall be deemed to be derived from sources within the United States.

SEC. 932. CITIZENS OF POSSESSIONS OF THE UNITED STATES.

(a) GENERAL RULE.—Any individual who is a citizen of any possession of the United States (but not otherwise a citizen of the United States) and who is not a resident of the United States shall be subject to taxation under this subtitle only as to income derived from sources within the United States, and in such case the tax shall be computed and paid in the same manner and subject to the same conditions as in the case of other persons who are taxable only as to income derived from such sources. This section shall have no application in the case of a citizen of Puerto Rico.

(b) VIRGIN ISLANDS.—Nothing in this section shall be construed to alter or amend the Act entitled "An Act making appropriations for the naval service for the fiscal year ending June 30, 1922, and for other purposes", approved July 12, 1921 (48 U. S. C. 1397), relating to the imposition of income taxes in the Virgin Islands of the United States.

(c) GUAM.—

For applicability of United States income tax laws in Guam, see section 31 of the Act of August 1, 1950 (48 U. S. C. 1421i); for disposition of the proceeds of such taxes, see section 30 of such Act (48 U. S. C. 1421h).

SEC. 933. INCOME FROM SOURCES WITHIN PUERTO RICO.

The following items shall not be included in gross income and shall be exempt from taxation under this subtitle:

(1) RESIDENT OF PUERTO RICO FOR ENTIRE TAXABLE YEAR.—In the case of an individual who is a bona fide resident of Puerto Rico during the entire taxable year, income derived from sources within Puerto Rico (except amounts received for services performed as an employee of the United States or any agency thereof); but such individual shall not be allowed as a deduction from his gross income any deductions (other than the deduction under section 151, relating to personal exemptions) properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

(2) TAXABLE YEAR OF CHANGE OF RESIDENCE FROM PUERTO RICO.—In the case of an individual citizen of the United States who has been a bona fide resident of Puerto Rico for a period of at least 2 years before the date on which he changes his residence from Puerto Rico, income derived from sources therein (except amounts received for services performed as an employee of the United States or any agency thereof) which is attributable to that part of such period of Puerto Rican residence before such date; but such individual shall not be allowed as a deduction from his gross income any deductions (other than the deduction for personal exemptions under section 151) properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

Subpart E—China Trade Act Corporations

Sec. 941. Special deduction for China Trade Act corporations.
Sec. 942. Disallowance of foreign tax credit.
Sec. 943. Exclusion of dividends to residents of Formosa or Hong Kong.

SEC. 941. SPECIAL DEDUCTION FOR CHINA TRADE ACT CORPORATIONS.

(a) ALLOWANCE OF DEDUCTION.—For purposes only of the taxes imposed by section 11, there shall be allowed, in the case of a corporation organized under the China Trade Act, 1922 (15 U. S. C. ch. 4, sec. 141 and following), in addition to the deductions from taxable income otherwise allowed such corporation, a special deduction, in computing the taxable income, of an amount equal to the proportion of the taxable income derived from sources within Formosa and Hong Kong (determined without regard to this section and determined in a similar manner to that provided in part I) which the par value of the shares of stock of the corporation owned on the last day of the taxable year by—

(1) persons resident in Formosa, Hong Kong, the United States, or possessions of the United States, and

(2) individual citizens of the United States wherever resident,

bears to the par value of the whole number of shares of stock of the corporation outstanding on such date. In no case shall the diminu-

tion, by reason of such special deduction, of the taxes imposed by section 11 (computed without regard to this section) exceed the amount of the special dividend certified under subsection (b) of this section.

(b) SPECIAL DIVIDEND.—The special deduction provided in subsection (a) shall not be allowed unless the Secretary of Commerce has certified to the Secretary of the Treasury or his delegate—

(1) the amount which, during the year ending on the date fixed by law for filing the return, the corporation has distributed as a special dividend to or for the benefit of such persons as on the last day of the taxable year were resident in Formosa, Hong Kong, the United States, or possessions of the United States, or were individual citizens of the United States, and owned shares of stock of the corporation;

(2) that such special dividend was in addition to all other amounts, payable or to be payable to such persons or for their benefit, by reason of their interest in the corporation; and

(3) that such distribution has been made to or for the benefit of such persons in proportion to the par value of the shares of stock of the corporation owned by each; except that if the corporation has more than one class of stock, the certificates shall contain a statement that the articles of incorporation provide a method for the apportionment of such special dividend among such persons, and that the amount certified has been distributed in accordance with the method so provided.

(c) OWNERSHIP OF STOCK.—For purposes of this section, shares of stock of a corporation shall be considered to be owned by the person in whom the equitable right to the income from such shares is in good faith vested.

SEC. 942. DISALLOWANCE OF FOREIGN TAX CREDIT.

A corporation organized under the China Trade Act, 1922, shall not be allowed the credits against the tax for taxes of foreign countries and possessions of the United States allowed by section 901.

SEC. 943. EXCLUSION OF DIVIDENDS TO RESIDENTS OF FORMOSA OR HONG KONG

Amounts distributed as dividends to or for the benefit of any person by a corporation organized under the China Trade Act, 1922, shall not be included in gross income and shall be exempt from taxation under this subtitle if, at the time of such distribution, such person is a resident of Formosa or Hong Kong, and the equitable right to the income of the shares of stock of the corporation is in good faith vested in him.

Subchapter O—Gain or Loss on Disposition of Property

Part I. Determination of amount of and recognition of gain or loss.
Part II. Basis rules of general application.
Part III. Common nontaxable exchanges.
Part IV. Special rules.
Part V. Changes to effectuate F. C. C. policy.
Part VI. Exchanges in obedience to S. E. C. orders.
Part VII. Wash sales of stock or securities.

PART I—DETERMINATION OF AMOUNT OF AND RECOGNITION OF GAIN OR LOSS

Sec. 1001. Determination of amount of and recognition of gain or loss.
Sec. 1002. Recognition of gain or loss.

SEC. 1001. DETERMINATION OF AMOUNT OF AND RECOGNITION OF GAIN OR LOSS.

(a) COMPUTATION OF GAIN OR LOSS.—The gain from the sale or other disposition of property shall be the excess of the amount realized therefrom over the adjusted basis provided in section 1011 for determining gain, and the loss shall be the excess of the adjusted basis provided in such section for determining loss over the amount realized.

(b) AMOUNT REALIZED.—The amount realized from the sale or other disposition of property shall be the sum of any money received plus the fair market value of the property (other than money) received. In determining the amount realized—

(1) there shall not be taken into account any amount received as reimbursement for real property taxes which are treated under section 164 (d) as imposed on the purchaser, and

(2) there shall be taken into account amounts representing real property taxes which are treated under section 164 (d) as imposed on the taxpayer if such taxes are to be paid by the purchaser.

(c) RECOGNITION OF GAIN OR LOSS.—In the case of a sale or exchange of property, the extent to which the gain or loss determined under this section shall be recognized for purposes of this subtitle shall be determined under section 1002.

(d) INSTALLMENT SALES.—Nothing in this section shall be construed to prevent (in the case of property sold under contract providing for payment in installments) the taxation of that portion of any installment payment representing gain or profit in the year in which such payment is received.

SEC. 1002. RECOGNITION OF GAIN OR LOSS.

Except as otherwise provided in this subtitle, on the sale or exchange of property the entire amount of the gain or loss, determined under section 1001, shall be recognized.

PART II—BASIS RULES OF GENERAL APPLICATION

Sec. 1011. Adjusted basis for determining gain or loss.
Sec. 1012. Basis of property—cost.
Sec. 1013. Basis of property included in inventory.
Sec. 1014. Basis of property acquired from a decedent.
Sec. 1015. Basis of property acquired by gifts and transfers in trust.
Sec. 1016. Adjustments to basis.
Sec. 1017. Discharge of indebtedness.
Sec. 1018. Adjustment of capital structure before September 22, 1938.
Sec. 1019. Property on which lessee has made improvements.
Sec. 1020. Election in respect of depreciation, etc., allowed before 1952.
Sec. 1021. Sale of annuities.
Sec. 1022. Cross references.

SEC. 1011. ADJUSTED BASIS FOR DETERMINING GAIN OR LOSS.

The adjusted basis for determining the gain or loss from the sale or other disposition of property, whenever acquired, shall be the basis (determined under section 1012 or other applicable sections of this subchapter and subchapters C (relating to corporate distributions and adjustments), K (relating to partners and partnerships), and P (relating to capital gains and losses)), adjusted as provided in section 1016.

SEC. 1012. BASIS OF PROPERTY—COST.

The basis of property shall be the cost of such property, except as otherwise provided in this subchapter and subchapters C (relating to corporate distributions and adjustments), K (relating to partners and partnerships), and P (relating to capital gains and losses). The cost of real property shall not include any amount in respect of real property taxes which are treated under section 164 (d) as imposed on the taxpayer.

SEC. 1013. BASIS OF PROPERTY INCLUDED IN INVENTORY.

If the property should have been included in the last inventory, the basis shall be the last inventory value thereof.

SEC. 1014. BASIS OF PROPERTY ACQUIRED FROM A DECEDENT.

(a) In General.—Except as otherwise provided in this section, the basis of property in the hands of a person acquiring the property from a decedent or to whom the property passed from a decedent shall, if not sold, exchanged, or otherwise disposed of before the decedent's death by such person, be the fair market value of the property at the date of the decedent's death, or, in the case of an election under either section 2032 or section 811 (j) of the Internal Revenue Code of 1939 where the decedent died after October 21, 1942, its value at the applicable valuation date prescribed by those sections.

(b) Property Acquired From the Decedent.—For purposes of subsection (a), the following property shall be considered to have been acquired from or to have passed from the decedent:

(1) Property acquired by bequest, devise, or inheritance, or by the decedent's estate from the decedent;

(2) Property transferred by the decedent during his lifetime in trust to pay the income for life to or on the order or direction of the decedent, with the right reserved to the decedent at all times before his death to revoke the trust;

(3) In the case of decedents dying after December 31, 1951, property transferred by the decedent during his lifetime in trust to pay the income for life to or on the order or direction of the decedent with the right reserved to the decedent at all times before his death to make any change in the enjoyment thereof through the exercise of a power to alter, amend, or terminate the trust;

(4) Property passing without full and adequate consideration under a general power of appointment exercised by the decedent by will;

(5) In the case of decedents dying after August 26, 1937, property acquired by bequest, devise, or inheritance or by the decedent's estate from the decedent, if the property consists of stock or securities of a foreign corporation, which with respect to its taxable year next preceding the date of the decedent's death was, under the law applicable to such year, a foreign personal holding company. In such case, the basis shall be the fair market value of such property at the date of the decedent's death or the basis in the hands of the decedent, whichever is lower;

(6) In the case of decedents dying after December 31, 1947, property which represents the surviving spouse's one-half share of community property held by the decedent and the surviving spouse under the community property laws of any State, Territory, or possession of the United States or any foreign country, if at least one-half of the whole of the community interest in such property was includible in determining the value of the decedent's gross estate under chapter 11 of subtitle B (section 2001 and following, relating to estate tax) or section 811 of the Internal Revenue Code of 1939;

(7) In the case of decedents dying after October 21, 1942, and on or before December 31, 1947, such part of any property, representing the surviving spouse's one-half share of property held by a decedent and the surviving spouse under the community property laws of any State, Territory, or possession of the United States or any foreign country, as was included in determining the value of the gross estate of the decedent, if a tax under chapter 3 of the Internal Revenue Code of 1939 was payable on the transfer of the net estate of the decedent. In such case, nothing in this paragraph shall reduce the basis below that which would exist if the Revenue Act of 1948 had not been enacted;

(8) In the case of decedents dying after December 31, 1950, and before January 1, 1954, property which represents the survivor's interest in a joint and survivor's annuity if the value of any part of such interest was required to be included in determining the value of decedent's gross estate under section 811 of the Internal Revenue Code of 1939;

(9) In the case of decedents dying after December 31, 1953, property acquired from the decedent by reason of death, form of ownership, or other conditions (including property acquired through the exercise or non-exercise of a power of appointment), if by reason

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thereof the property is required to be included in determining the value of the decedent's gross estate under chapter 11 of subtitle B or under the Internal Revenue Code of 1939. In such case, if the property is acquired before the death of the decedent, the basis shall be the amount determined under subsection (a) reduced by the amount allowed to the taxpayer as deductions in computing taxable income under this subtitle or prior income tax laws for exhaustion, wear and tear, obsolescence, amortization, and depletion on such property before the death of the decedent. Such basis shall be applicable to the property commencing on the death of the decedent. This paragraph shall not apply to—

(A) annuities described in section 72;

(B) property to which paragraph (5) would apply if the property had been acquired by bequest; and

(C) property described in any other paragraph of this subsection.

(c) PROPERTY REPRESENTING INCOME IN RESPECT OF A DECEDENT.—This section shall not apply to property which constitutes a right to receive an item of income in respect of a decedent under section 691.

(d) EMPLOYEE STOCK OPTIONS.—This section shall not apply to restricted stock options described in section 421 which the employee has not exercised at death.

SEC. 1015. BASIS OF PROPERTY ACQUIRED BY GIFTS AND TRANSFERS IN TRUST.

(a) GIFTS AFTER DECEMBER 31, 1920.—If the property was acquired by gift after December 31, 1920, the basis shall be the same as it would be in the hands of the donor or the last preceding owner by whom it was not acquired by gift, except that if such basis (adjusted for the period before the date of the gift as provided in section 1016) is greater than the fair market value of the property at the time of the gift, then for the purpose of determining loss the basis shall be such fair market value. If the facts necessary to determine the basis in the hands of the donor or the last preceding owner are unknown to the donee, the Secretary or his delegate shall, if possible, obtain such facts from such donor or last preceding owner, or any other person cognizant thereof. If the Secretary or his delegate finds it impossible to obtain such facts, the basis in the hands of such donor or last preceding owner shall be the fair market value of such property as found by the Secretary or his delegate as of the date or approximate date at which, according to the best information that the Secretary or his delegate is able to obtain, such property was acquired by such donor or last preceding owner.

(b) TRANSFER IN TRUST AFTER DECEMBER 31, 1920.—If the property was acquired after December 31, 1920, by a transfer in trust (other than by a transfer in trust by a gift, bequest, or devise), the basis shall be the same as it would be in the hands of the grantor increased in the amount of gain or decreased in the amount of loss recognized to the grantor on such transfer under the law applicable to the year in which the transfer was made.

(c) GIFT OR TRANSFER IN TRUST BEFORE JANUARY 1, 1921.—If the property was acquired by gift or transfer in trust on or before

December 31, 1920, the basis shall be the fair market value of such property at the time of such acquisition.

SEC. 1016. ADJUSTMENTS TO BASIS.

(a) GENERAL RULE.—Proper adjustment in respect of the property shall in all cases be made—

(1) for expenditures, receipts, losses, or other items, properly chargeable to capital account, but no such adjustment shall be made—

(A) for taxes or other carrying charges described in section 266, or

(B) for expenditures described in section 173 (relating to circulation expenditures),

for which deductions have been taken by the taxpayer in determining taxable income for the taxable year or prior taxable years;

(2) in respect of any period since February 28, 1913, for exhaustion, wear and tear, obsolescence, amortization, and depletion, to the extent of the amount—

(A) allowed as deductions in computing taxable income under this subtitle or prior income tax laws, and

(B) resulting (by reason of the deductions so allowed) in a reduction for any taxable year of the taxpayer's taxes under this subtitle (other than chapter 2, relating to tax on self-employment income), or prior income, war-profits, or excess-profits tax laws,

but not less than the amount allowable under this subtitle or prior income tax laws. Where no method has been adopted under section 167 (relating to depreciation deduction), the amount allowable shall be determined under section 167 (b) (1). Subparagraph (B) of this paragraph shall not apply in respect of any period since February 28, 1913, and before January 1, 1952, unless an election has been made under section 1020. Where for any taxable year before the taxable year 1932 the depletion allowance was based on discovery value or a percentage of income, then the adjustment for depletion for such year shall be based on the depletion which would have been allowable for such year if computed without reference to discovery value or a percentage of income;

(3) in respect of any period—

(A) before March 1, 1913, and

(B) since February 28, 1913, during which such property was held by a person or an organization not subject to income taxation under this chapter or prior income tax laws,

for exhaustion, wear and tear, obsolescence, amortization, and depletion, to the extent sustained;

(4) in the case of stock (to the extent not provided for in the foregoing paragraphs) for the amount of distributions previously made which, under the law applicable to the year in which the distribution was made, either were tax-free or were applicable in reduction of basis (not including distributions made by a corporation which was classified as a personal service corporation under the provisions of the Revenue Act of 1918 (40 Stat. 1057), or the Revenue Act of 1921 (42 Stat. 227), out of its earnings or profits which were taxable in accordance with the provisions of section 218 of the Revenue Act of 1918 or 1921);

(5) in the case of any bond (as defined in section 171 (d)) the interest on which is wholly exempt from the tax imposed by this subtitle, to the extent of the amortizable bond premium disallowable as a deduction pursuant to section 171 (a) (2), and in the case of any other bond (as defined in section 171 (d)) to the extent of the deductions allowable pursuant to section 171 (a) (1) with respect thereto;

(6) in the case of any short-term municipal bond (as defined in section 75 (b)), to the extent provided in section 75 (a) (2);

(7) in the case of a residence the acquisition of which resulted, under section 1034, in the nonrecognition of any part of the gain realized on the sale, exchange, or involuntary conversion of another residence, to the extent provided in section 1034 (e);

(8) in the case of property pledged to the Commodity Credit Corporation, to the extent of the amount received as a loan from the Commodity Credit Corporation and treated by the taxpayer as income for the year in which received pursuant to section 77, and to the extent of any deficiency on such loan with respect to which the taxpayer has been relieved from liability;

(9) for amounts allowed as deductions as deferred expenses under section 616 (b) (relating to certain expenditures in the development of mines) and resulting in a reduction of the taxpayer's taxes under this subtitle, but not less than the amounts allowable under such section for the taxable year and prior years;

(10) for amounts allowed as deductions as deferred expenses under section 615 (b) (relating to certain exploration expenditures) and resulting in a reduction of the taxpayer's taxes under this subtitle but not less than the amounts allowable under such section for the taxable year and prior years;

(11) for deductions to the extent disallowed under section 268 (relating to sale of land with unharvested crops), notwithstanding the provisions of any other paragraph of this subsection;

(12) to the extent provided in section 28 (h) of the Internal Revenue Code of 1939 in the case of amounts specified in a shareholder's consent made under section 28 of such code;

(13) to the extent provided in section 551 (f) in the case of the stock of United States shareholders in a foreign personal holding company;

(14) for amounts allowed as deductions as deferred expenses under section 174 (b) (1) (relating to research and experimental expenditures) and resulting in a reduction of the taxpayers' taxes under this subtitle, but not less than the amounts allowable under such section for the taxable year and prior years;

(15) for deductions to the extent disallowed under section 272 (relating to disposal of coal), notwithstanding the provisions of any other paragraph of this subsection.

(b) SUBSTITUTED BASIS.—Whenever it appears that the basis of property in the hands of the taxpayer is a substituted basis, then the adjustments provided in subsection (a) shall be made after first making in respect of such substituted basis proper adjustments of a similar nature in respect of the period during which the property was held by the transferor, donor, or grantor, or during which the other property was held by the person for whom the basis is to be determined. A similar rule shall be applied in the case of a series of substituted bases.

The term "substituted basis" as used in this section means a basis determined under any provision of this subchapter and subchapters C (relating to corporate distributions and adjustments), K (relating to partners and partnerships), and P (relating to capital gains and losses), or under any corresponding provision of a prior income tax law, providing that the basis shall be determined—

(1) by reference to the basis in the hands of a transferor, donor, or grantor, or

(2) by reference to other property held at any time by the person for whom the basis is to be determined.

(c) SEPARATE MINERAL INTERESTS TREATED AS ONE PROPERTY.—

For treatment of separate mineral interests as one property, see section 614.

SEC. 1017. DISCHARGE OF INDEBTEDNESS.

Where any amount is excluded from gross income under section 108 (a) (relating to income from discharge of indebtedness) on account of the discharge of indebtedness the whole or a part of the amount so excluded from gross income shall be applied in reduction of the basis of any property held (whether before or after the time of the discharge) by the taxpayer during any portion of the taxable year in which such discharge occurred. The amount to be so applied (not in excess of the amount so excluded from gross income, reduced by the amount of any deduction disallowed under section 108 (a)) and the particular properties to which the reduction shall be allocated, shall be determined under regulations (prescribed by the Secretary or his delegate) in effect at the time of the filing of the consent by the taxpayer referred to in section 108 (a). The reduction shall be made as of the first day of the taxable year in which the discharge occurred, except in the case of property not held by the taxpayer on such first day, in which case it shall take effect as of the time the holding of the taxpayer began.

SEC. 1018. ADJUSTMENT OF CAPITAL STRUCTURE BEFORE SEPTEMBER 22, 1938.

Where a plan of reorganization of a corporation, approved by the court in a proceeding under section 77B of the National Bankruptcy Act, as amended (48 Stat. 912), is consummated by adjustment of the capital or debt structure of such corporation without the transfer of its assets to another corporation, and a final judgment or decree in such proceeding has been entered before September 22, 1938, then the provisions of section 270 of the Bankruptcy Act, as amended (54 Stat. 709; 11 U. S. C. 670), shall not apply in respect of the property of such corporation. For purposes of this section, the term "reorganization" shall not be limited by the definition of such term in section 112 (g) of the Internal Revenue Code of 1939.

SEC. 1019. PROPERTY ON WHICH LESSEE HAS MADE IMPROVEMENTS.

Neither the basis nor the adjusted basis of any portion of real property shall, in the case of the lessor of such property, be increased or diminished on account of income derived by the lessor in respect of such property and excludable from gross income under section 109 (relating to improvements by lessee on lessor's property). If an amount representing any part of the value of real property attributable to buildings erected or other improvements made by a lessee

in respect of such property was included in gross income of the lessor for any taxable year beginning before January 1, 1942, the basis of each portion of such property shall be properly adjusted for the amount so included in gross income.

SEC. 1020. ELECTION IN RESPECT OF DEPRECIATION, ETC., ALLOWED BEFORE 1952.

Any person may elect to have subparagraph (B) of section 1016 (a) (2) apply in respect of periods since February 28, 1913, and before January 1, 1952. Such an election shall be made in such manner as the Secretary or his delegate may by regulations prescribe and shall be irrevocable when made, except that an election made on or before December 31, 1952, may be revoked at any time before January 1, 1955. A revocation of an election shall be made in such manner as the Secretary or his delegate may by regulations prescribe, and no election may be made by any person after he has so revoked an election. The election shall apply in respect of all property held by the person making the election at any time on or before December 31, 1952, and in respect of all periods since February 28, 1913, and before January 1, 1952, during which such person held such property or for which adjustments must be made under section 1016 (b). An election or a revocation of an election by a transferor, donor, or grantor made after the date of the transfer, gift, or grant of property shall not affect the basis of such property in the hands of the transferee, donee, or grantee. No election may be made under this section after December 31, 1954.

SEC. 1021. SALE OF ANNUITIES.

In case of the sale of an annuity contract, the adjusted basis shall in no case be less than zero.

SEC. 1022. CROSS REFERENCES.

(1) For certain distributions by a corporation which are applied in reduction of basis of stock, see section 301 (c) (2).

(2) For basis of property in case of certain reorganizations and arrangements under the Bankruptcy Act, see sections 270, 396, and 522 of that Act, as amended (11 U. S. C. 670, 796, 922).

(3) For basis in case of construction of new vessels, see section 511 of the Merchant Marine Act, 1936, as amended (46 U. S. C. 1161).

(4) For rules applicable in case of payments in violation of Defense Production Act of 1950, as amended, see section 405 of that Act.

PART III—COMMON NONTAXABLE EXCHANGES

Sec. 1031. Exchange of property held for productive use or investment.
Sec. 1032. Exchange of stock for property.
Sec. 1033. Involuntary conversions.
Sec. 1034. Sale or exchange of residence.
Sec. 1035. Certain exchanges of insurance policies.
Sec. 1036. Stock for stock of same corporation.

SEC. 1031. EXCHANGE OF PROPERTY HELD FOR PRODUCTIVE USE OR INVESTMENT.

(a) NONRECOGNITION OF GAIN OR LOSS FROM EXCHANGES SOLELY IN KIND.—No gain or loss shall be recognized if property held for productive use in trade or business or for investment (not including stock in trade or other property held primarily for sale, nor stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness or interest) is exchanged

solely for property of a like kind to be held either for productive use in trade or business or for investment.

(b) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (a), of section 1035 (a), or of section 1036 (a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain, but also of other property or money, then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property.

(c) LOSS FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (a), of section 1035 (a), or of section 1036 (a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

(d) BASIS.—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 to the taxpayer that was recognized on such exchange. If the property so acquired consisted in part of the type of property permitted by this section, section 1035 (a), or section 1036 (a), to be received without the recognition of gain or loss, and in part of other property, the basis provided in this paragraph shall be allocated between the properties (other than money) received, and for the purpose of the allocation there shall be assigned to such other property an amount equivalent to its fair market value at the date of the exchange. For purposes of this section, section 1035 (a), and section 1036 (a), where as part of the consideration to the taxpayer another party to the exchange assumed a liability of the taxpayer or acquired from the taxpayer property subject to a liability, such assumption or acquisition (in the amount of the liability) shall be considered as money received by the taxpayer on the exchange.

SEC. 1032. EXCHANGE OF STOCK FOR PROPERTY.

(a) NONRECOGNITION OF GAIN OR LOSS.—No gain or loss shall be recognized to a corporation on the receipt of money or other property in exchange for stock (including treasury stock) of such corporation.

(b) BASIS.—

For basis of property acquired by a corporation in certain exchanges for its stock, see section 362.

SEC. 1033. INVOLUNTARY CONVERSIONS.

(a) GENERAL RULE.—If property (as a result of its destruction in whole or in part, theft, seizure, or requisition or condemnation or threat or imminence thereof) is compulsorily or involuntarily converted—

(1) CONVERSION INTO SIMILAR PROPERTY.—Into property similar or related in service or use to the property so converted, no gain shall be recognized.

(2) CONVERSION INTO MONEY WHERE DISPOSITION OCCURRED PRIOR TO 1951.—Into money, and the disposition of the converted property occurred before January 1, 1951, no gain shall be recognized

if such money is forthwith in good faith, under regulations prescribed by the Secretary or his delegate, expended in the acquisition of other property similar or related in service or use to the property so converted, or in the acquisition of control of a corporation owning such other property, or in the establishment of a replacement fund. If any part of the money is not so expended, the gain shall be recognized to the extent of the money which is not so expended (regardless of whether such money is received in one or more taxable years and regardless of whether or not the money which is not so expended constitutes gain). For purposes of this paragraph and paragraph (3), the term "disposition of the converted property" means the destruction, theft, seizure, requisition, or condemnation of the converted property, or the sale or exchange of such property under threat or imminence of requisition or condemnation.

(3) CONVERSION INTO MONEY WHERE DISPOSITION OCCURRED AFTER 1950.—Into money or into property not similar or related in service or use to the converted property, and the disposition of the converted property (as defined in paragraph (2)) occurred after December 31, 1950, the gain (if any) shall be recognized except to the extent hereinafter provided in this paragraph:

(A) NONRECOGNITION OF GAIN.—If the taxpayer during the period specified in subparagraph (B), for the purpose of replacing the property so converted, purchases other property similar or related in service or use to the property so converted, or purchases stock in the acquisition of control of a corporation owning such other property, at the election of the taxpayer the gain shall be recognized only to the extent that the amount realized upon such conversion (regardless of whether such amount is received in one or more taxable years) exceeds the cost of such other property or such stock. Such election shall be made at such time and in such manner as the Secretary or his delegate may by regulations prescribe. For purposes of this paragraph—

(i) no property or stock acquired before the disposition of the converted property shall be considered to have been acquired for the purpose of replacing such converted property unless held by the taxpayer on the date of such disposition; and

(ii) the taxpayer shall be considered to have purchased property or stock only if, but for the provisions of subsection (c) of this section, the unadjusted basis of such property or stock would be its cost within the meaning of section 1012.

(B) PERIOD WITHIN WHICH PROPERTY MUST BE REPLACED.—The period referred to in subparagraph (A) shall be the period beginning with the date of the disposition of the converted property, or the earliest date of the threat or imminence of requisition or condemnation of the converted property, whichever is the earlier, and ending—

(i) one year after the close of the first taxable year in which any part of the gain upon the conversion is realized, or

(ii) subject to such terms and conditions as may be specified by the Secretary or his delegate, at the close of such later date as the Secretary or his delegate may designate on application by the taxpayer. Such application shall be made at such time

and in such manner as the Secretary or his delegate may by regulations prescribe.

(C) TIME FOR ASSESSMENT OF DEFICIENCY ATTRIBUTABLE TO GAIN UPON CONVERSION.—If a taxpayer has made the election provided in subparagraph (A), then—

(i) the statutory period for the assessment of any deficiency, for any taxable year in which any part of the gain on such conversion is realized, attributable to such gain shall not expire prior to the expiration of 3 years from the date the Secretary or his delegate is notified by the taxpayer (in such manner as the Secretary or his delegate may by regulations prescribe) of the replacement of the converted property or of an intention not to replace, and

(ii) such deficiency may be assessed before the expiration of such 3-year period notwithstanding the provisions of section 6212 (c) or the provisions of any other law or rule of law which would otherwise prevent such assessment.

(D) TIME FOR ASSESSMENT OF OTHER DEFICIENCIES ATTRIBUTABLE TO ELECTION.—If the election provided in subparagraph (A) is made by the taxpayer and such other property or such stock was purchased before the beginning of the last taxable year in which any part of the gain upon such conversion is realized, any deficiency, to the extent resulting from such election, for any taxable year ending before such last taxable year may be assessed (notwithstanding the provisions of section 6212 (c) or 6501 or the provisions of any other law or rule of law which would otherwise prevent such assessment) at any time before the expiration of the period within which a deficiency for such last taxable year may be assessed.

(b) RESIDENCE OF TAXPAYER.—Subsection (a) shall not apply, in the case of property used by the taxpayer as his principal residence, if the destruction, theft, seizure, requisition, or condemnation of the residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950, and before January 1, 1954.

(c) BASIS OF PROPERTY ACQUIRED THROUGH INVOLUNTARY CONVERSION.—If the property was acquired, after February 28, 1913, as the result of a compulsory or involuntary conversion described in subsection (a) (1) or (2), the basis shall be the same as in the case of the property so converted, decreased in the amount of any money received by the taxpayer which was not expended in accordance with the provisions of law (applicable to the year in which such conversion was made) determining the taxable status of the gain or loss upon such conversion, and increased in the amount of gain or decreased in the amount of loss to the taxpayer recognized upon such conversion under the law applicable to the year in which such conversion was made. This subsection shall not apply in respect of property acquired as a result of a compulsory or involuntary conversion of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, or condemnation of such residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950, and before January 1, 1954. In the case of property purchased by the taxpayer in a transaction described in

subsection (a) (3) which resulted in the nonrecognition of any part of the gain realized as the result of a compulsory or involuntary conversion, the basis shall be the cost of such property decreased in the amount of the gain not so recognized; and if the property purchased consists of more than one piece of property, the basis determined under this sentence shall be allocated to the purchased properties in proportion to their respective costs.

(d) PROPERTY SOLD PURSUANT TO RECLAMATION LAWS.—For purposes of this subtitle, if property lying within an irrigation project is sold or otherwise disposed of in order to conform to the acreage limitation provisions of Federal reclamation laws, such sale or disposition shall be treated as an involuntary conversion to which this section applies.

(e) LIVESTOCK DESTROYED BY DISEASE.—For purposes of this subtitle, if livestock are destroyed by or on account of disease, or are sold or exchanged because of disease, such destruction or such sale or exchange shall be treated as an involuntary conversion to which this section applies.

(f) CROSS REFERENCES.—

(1) For determination of the period for which the taxpayer has held property involuntarily converted, see section 1223.

(2) For treatment of gains from involuntary conversions as capital gains in certain cases, see section 1231 (a).

SEC. 1034. SALE OR EXCHANGE OF RESIDENCE.

(a) NONRECOGNITION OF GAIN.—If property (in this section called "old residence") used by the taxpayer as his principal residence is sold by him after December 31, 1953, and, within a period beginning 1 year before the date of such sale and ending 1 year after such date, property (in this section called "new residence") is purchased and used by the taxpayer as his principal residence, gain (if any) from such sale shall be recognized only to the extent that the taxpayer's adjusted sales price (as defined in subsection (b)) of the old residence exceeds the taxpayer's cost of purchasing the new residence.

(b) ADJUSTED SALES PRICE DEFINED.—

(1) IN GENERAL.—For purposes of this section, the term "adjusted sales price" means the amount realized, reduced by the aggregate of the expenses for work performed on the old residence in order to assist in its sale.

(2) LIMITATIONS.—The reduction provided in paragraph (1) applies only to expenses—

(A) for work performed during the 90-day period ending on the day on which the contract to sell the old residence is entered into;

(B) which are paid on or before the 30th day after the date of the sale of the old residence; and

(C) which are—

(i) not allowable as deductions in computing taxable income under section 63 (a) (defining taxable income), and

(ii) not taken into account in computing the amount realized from the sale of the old residence.

(3) EFFECTIVE DATE.—The reduction provided in paragraph (1) applies to expenses for work performed in any taxable year (whether beginning before, on, or after January 1, 1954), but only in the case

of a sale or exchange of an old residence which occurs after December 31, 1953.

(c) RULES FOR APPLICATION OF SECTION.—For purposes of this section:

(1) An exchange by the taxpayer of his residence for other property shall be treated as a sale of such residence, and the acquisition of a residence on the exchange of property shall be treated as a purchase of such residence.

(2) A residence any part of which was constructed or reconstructed by the taxpayer shall be treated as purchased by the taxpayer. In determining the taxpayer's cost of purchasing a residence, there shall be included only so much of his cost as is attributable to the acquisition, construction, reconstruction, and improvements made which are properly chargeable to capital account, during the period specified in subsection (a).

(3) If a residence is purchased by the taxpayer before the date of his sale of the old residence, the purchased residence shall not be treated as his new residence if sold or otherwise disposed of by him before the date of the sale of the old residence.

(4) If the taxpayer, during the period described in subsection (a), purchases more than one residence which is used by him as his principal residence at some time within 1 year after the date of the sale of the old residence, only the last of such residences so used by him after the date of such sale shall constitute the new residence.

(5) In the case of a new residence the construction of which was commenced by the taxpayer before the expiration of one year after the date of the sale of the old residence, the period specified in subsection (a), and the 1 year referred to in paragraph (4) of this subsection, shall be treated as including a period of 18 months beginning with the date of the sale of the old residence.

(d) LIMITATION.—Subsection (a) shall not apply with respect to the sale of the taxpayer's residence if within 1 year before the date of such sale the taxpayer sold at a gain other property used by him as his principal residence, and any part of such gain was not recognized by reason of subsection (a) or section 112 (n) of the Internal Revenue Code of 1939.

(e) BASIS OF NEW RESIDENCE.—Where the purchase of a new residence results, under subsection (a) or under section 112 (n) of the Internal Revenue Code of 1939, in the nonrecognition of gain on the sale of an old residence, in determining the adjusted basis of the new residence as of any time following the sale of the old residence, the adjustments to basis shall include a reduction by an amount equal to the amount of the gain not so recognized on the sale of the old residence. For this purpose, the amount of the gain not so recognized on the sale of the old residence includes only so much of such gain as is not recognized by reason of the cost, up to such time, of purchasing the new residence.

(f) TENANT-STOCKHOLDER IN A COOPERATIVE HOUSING CORPORATION.—For purposes of this section, section 1016 (relating to adjustments to basis), and section 1223 (relating to holding period), references to property used by the taxpayer as his principal residence, and references to the residence of a taxpayer, shall include stock held by a tenant-stockholder (as defined in section 216, relating to deduction

for amounts representing taxes and interest paid to a cooperative housing corporation) in a cooperative housing corporation (as defined in such section) if—

(1) in the case of stock sold, the house or apartment which the taxpayer was entitled to occupy as such stockholder was used by him as his principal residence, and

(2) in the case of stock purchased, the taxpayer used as his principal residence the house or apartment which he was entitled to occupy as such stockholder.

(g) HUSBAND AND WIFE.—If the taxpayer and his spouse, in accordance with regulations which shall be prescribed by the Secretary or his delegate pursuant to this subsection, consent to the application of paragraph (2) of this subsection, then—

(1) for purposes of this section—

(A) the taxpayer's adjusted sales price of the old residence is the adjusted sales price (of the taxpayer, or of the taxpayer and his spouse) of the old residence, and

(B) the taxpayer's cost of purchasing the new residence is the cost (to the taxpayer, his spouse, or both) of purchasing the new residence (whether held by the taxpayer, his spouse, or the taxpayer and his spouse); and

(2) so much of the gain on the sale of the old residence as is not recognized solely by reason of this subsection, and so much of the adjustment under subsection (e) to the basis of the new residence as results solely from this subsection shall be allocated between the taxpayer and his spouse as provided in such regulations.

This subsection shall apply only if the old residence and the new residence are each used by the taxpayer and his spouse as their principal residence. In case the taxpayer and his spouse do not consent to the application of paragraph (2) of this subsection then the recognition of gain on the sale of the old residence shall be determined under this section without regard to the rules provided in this subsection.

(h) MEMBERS OF ARMED FORCES.—The running of any period of time specified in subsection (a) or (c) (other than the 1 year referred to in subsection (c) (4)) shall be suspended during any time that the taxpayer (or his spouse if the old residence and the new residence are each used by the taxpayer and his spouse as their principal residence) serves on extended active duty with the Armed Forces of the United States after the date of the sale of the old residence and during an induction period (as defined in section 112 (c) (5)) except that any such period of time as so suspended shall not extend beyond the date 4 years after the date of the sale of the old residence. For purposes of this subsection, the term "extended active duty" means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

(i) SPECIAL RULE FOR INVOLUNTARY CONVERSIONS.—

(1) IN GENERAL.—For purposes of this section, the destruction, theft, seizure, requisition, or condemnation of property, or the sale or exchange of property under threat or imminence thereof—

(A) if occurring after December 31, 1950, and before January 1, 1954, shall be treated as the sale of such property; and

(B) if occurring after December 31, 1953, shall not be treated as the sale of such property.

(2) CROSS REFERENCE.—

For treatment of residences involuntarily converted after December 31, 1953, see section 1033 (relating to involuntary conversions).

(j) STATUTE OF LIMITATIONS.—If after December 31, 1950, the taxpayer during a taxable year sells at a gain property used by him as his principal residence, then—

(1) the statutory period for the assessment of any deficiency attributable to any part of such gain shall not expire before the expiration of 3 years from the date the Secretary or his delegate is notified by the taxpayer (in such manner as the Secretary or his delegate may by regulations prescribe) of—

(A) the taxpayer's cost of purchasing the new residence which the taxpayer claims results in nonrecognition of any part of such gain,

(B) the taxpayer's intention not to purchase a new residence within the period specified in subsection (a), or

(C) a failure to make such purchase within such period; and

(2) such deficiency may be assessed before the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.

SEC. 1035. CERTAIN EXCHANGES OF INSURANCE POLICIES.

(a) GENERAL RULES.—No gain or loss shall be recognized on the exchange of—

(1) a contract of life insurance for another contract of life insurance or for an endowment or annuity contract; or

(2) a contract of endowment insurance (A) for another contract of endowment insurance which provides for regular payments beginning at a date not later than the date payments would have begun under the contract exchanged, or (B) for an annuity contract; or

(3) an annuity contract for an annuity contract.

(b) DEFINITIONS.—For the purpose of this section—

(1) ENDOWMENT CONTRACT.—A contract of endowment insurance is a contract with a life insurance company as defined in section 801 which depends in part on the life expectancy of the insured, but which may be payable in full in a single payment during his life.

(2) ANNUITY CONTRACT.—An annuity contract is a contract to which paragraph (1) applies but which may be payable during the life of the annuitant only in installments.

(3) LIFE INSURANCE CONTRACT.—A contract of life insurance is a contract to which paragraph (1) applies but which is not ordinarily payable in full during the life of the insured.

(c) CROSS REFERENCES.—

(1) For rules relating to recognition of gain or loss where an exchange is not solely in kind, see subsections (b) and (c) of section 1031.

(2) For rules relating to the basis of property acquired in an exchange described in subsection (a), see subsection (d) of section 1031.

SEC. 1036. STOCK FOR STOCK OF SAME CORPORATION.

(a) GENERAL RULE.—No gain or loss shall be recognized if common stock in a corporation is exchanged solely for common stock in the same corporation, or if preferred stock in a corporation is exchanged solely for preferred stock in the same corporation.

(b) CROSS REFERENCES.—

(1) For rules relating to recognition of gain or loss where an exchange is not solely in kind, see subsections (b) and (c) of section 1031.

(2) For rules relating to the basis of property acquired in an exchange described in subsection (a), see subsection (d) of section 1031.

PART IV—SPECIAL RULES

Sec. 1051. Property acquired during affiliation.
Sec. 1052. Basis established by the Revenue Act of 1932 or 1934 or by the Internal Revenue Code of 1939.
Sec. 1053. Property acquired before March 1, 1913.
Sec. 1054. Cross references.

SEC. 1051. PROPERTY ACQUIRED DURING AFFILIATION.

In the case of property acquired by a corporation, during a period of affiliation, from a corporation with which it was affiliated, the basis of such property, after such period of affiliation, shall be determined, in accordance with regulations prescribed by the Secretary or his delegate, without regard to inter-company transactions in respect of which gain or loss was not recognized. For purposes of this section, the term "period of affiliation" means the period during which such corporations were affiliated (determined in accordance with the law applicable thereto) but does not include any taxable year beginning on or after January 1, 1922, unless a consolidated return was made, nor any taxable year after the taxable year 1928. The basis in case of property acquired by a corporation during any period, in the taxable year 1929 or any subsequent taxable year, in respect of which a consolidated return was made by such corporation under chapter 6 of this subtitle (sec. 1501 and following) or under section 141 of the Internal Revenue Code of 1939 or of the Revenue Act of 1938, 1936, 1934, 1932, or 1928 shall be determined in accordance with regulations prescribed under section 1502 or in accordance with regulations prescribed under the appropriate section 141, as the case may be. The basis in the case of property held by a corporation during any period, in the taxable year 1929 or any subsequent taxable year, in respect of which a consolidated return was made by such corporation under chapter 6 of this subtitle or such section 141 shall be adjusted in respect of any items relating to such period, in accordance with regulations prescribed under section 1502 or in accordance with regulations prescribed under the appropriate section 141, as the case may be.

SEC. 1052. BASIS ESTABLISHED BY THE REVENUE ACT OF 1932 OR 1934 OR BY THE INTERNAL REVENUE CODE OF 1939.

(a) REVENUE ACT OF 1932.—If the property was acquired, after February 28, 1913, in any taxable year beginning before January 1, 1934, and the basis thereof, for purposes of the Revenue Act of 1932 was prescribed by section 113 (a) (6), (7), or (9) of such Act (47 Stat. 199), then for purposes of this subtitle the basis shall be the same as the basis therein prescribed in the Revenue Act of 1932.

(b) REVENUE ACT OF 1934.—If the property was acquired, after February 28, 1913, in any taxable year beginning before January 1, 1936, and the basis thereof, for purposes of the Revenue Act of 1934, was prescribed by section 113 (a) (6), (7), or (8) of such Act (48 Stat. 706), then for purposes of this subtitle the basis shall be the same as the basis therein prescribed in the Revenue Act of 1934.

(c) INTERNAL REVENUE CODE OF 1939.—If the property was acquired, after February 28, 1913, in a transaction to which the Internal Revenue Code of 1939 applied, and the basis thereof, for purposes of the Internal Revenue Code of 1939, was prescribed by section 113 (a) (6), (7), (8), (13), (15), (18), (19), or (23) of such code, then for purposes of this subtitle the basis shall be the same as the basis therein prescribed in the Internal Revenue Code of 1939.

SEC. 1053. PROPERTY ACQUIRED BEFORE MARCH 1, 1913.

In the case of property acquired before March 1, 1913, if the basis otherwise determined under this part, adjusted (for the period before March 1, 1913) as provided in section 1016, is less than the fair market value of the property as of March 1, 1913, then the basis for determining gain shall be such fair market value. In determining the fair market value of stock in a corporation as of March 1, 1913, due regard shall be given to the fair market value of the assets of the corporation as of that date.

SEC. 1054. CROSS REFERENCES.

(1) For nonrecognition of gain in connection with the transfer of obsolete vessels to the Maritime Administration under section 510 of the Merchant Marine Act, 1936, see subsection (e) of that section, as amended August 4, 1939 (46 U. S. C. 1160).

(2) For recognition of gain or loss in connection with the construction of new vessels, see section 511 of such Act, as amended (46 U. S. C. 1161).

(3) For nonrecognition of gain in connection with vessels exchanged with the Maritime Administration under section 8 of the Merchant Ship Sales Act of 1946, see subsection (a) of that section (50 U. S. C. App. 1741).

PART V—CHANGES TO EFFECTUATE F. C. C. POLICY

Sec. 1071. Gain from sale or exchange to effectuate policies of F. C. C.

SEC. 1071. GAIN FROM SALE OR EXCHANGE TO EFFECTUATE POLICIES OF F. C. C.

(a) NONRECOGNITION OF GAIN OR LOSS.—If the sale or exchange of property (including stock in a corporation) is certified by the Federal Communications Commission to be necessary or appropriate to effectuate the policies of the Commission with respect to the ownership and control of radio broadcasting stations, such sale or exchange shall, if the taxpayer so elects, be treated as an involuntary conversion of such property within the meaning of section 1033. For purposes of such section as made applicable by the provisions of this section, stock of a corporation operating a radio broadcasting station, whether or not representing control of such corporation, shall be treated as property similar or related in service or use to the property so converted. The part of the gain, if any, on such sale or exchange to which section 1033 is not applied shall nevertheless not be recognized, if the taxpayer so elects, to the extent that it is applied to reduce the basis for determining gain or loss on sale or exchange of property, of a character subject to the allowance for depreciation under section 167, remaining in the hands of the taxpayer immediately after the sale or exchange, or acquired in the same taxable year. The manner and amount of such reduction shall be determined under regulations prescribed by the Secretary or his delegate. Any election made by the

taxpayer under this section shall be made by a statement to that effect in his return for the taxable year in which the sale or exchange takes place, and such election shall be binding for the taxable year and all subsequent taxable years.

(b) BASIS.—

For basis of property acquired on a sale or exchange treated as an involuntary conversion under subsection (a), see section 1033 (c).

PART VI—EXCHANGES IN OBEDIENCE TO S. E. C. ORDERS

Sec. 1081. Nonrecognition of gain or loss on exchanges or distributions in obedience to orders of S. E. C.
Sec. 1082. Basis for determining gain or loss.
Sec. 1083. Definitions.

SEC. 1081. NONRECOGNITION OF GAIN OR LOSS ON EXCHANGES OR DISTRIBUTIONS IN OBEDIENCE TO ORDERS OF S. E. C.

(a) EXCHANGES OF STOCK OR SECURITIES ONLY.—No gain or loss shall be recognized to the transferor if stock or securities in a corporation which is a registered holding company or a majority-owned subsidiary company are transferred to such corporation or to an associate company thereof which is a registered holding company or a majority-owned subsidiary company solely in exchange for stock or securities (other than stock or securities which are nonexempt property), and the exchange is made by the transferee corporation in obedience to an order of the Securities and Exchange Commission.

(b) EXCHANGES AND SALES OF PROPERTY BY CORPORATIONS.—

(1) GENERAL RULE.—No gain shall be recognized to a transferor corporation which is a registered holding company or an associate company of a registered holding company, if such corporation, in obedience to an order of the Securities and Exchange Commission, transfers property in exchange for property, and such order recites that such exchange by the transferor corporation is necessary or appropriate to the integration or simplification of the holding company system of which the transferor corporation is a member. Any gain, to the extent that it cannot be applied in reduction of basis under section 1082 (a) (2), shall be recognized.

(2) NONEXEMPT PROPERTY.—If any such property so received is nonexempt property, gain shall be recognized unless such nonexempt property or an amount equal to the fair market value of such property at the time of the transfer is, within 24 months of the transfer, under regulations prescribed by the Secretary or his delegate, and in accordance with an order of the Securities and Exchange Commission, expended for property other than nonexempt property or is invested as a contribution to the capital, or as paid-in surplus, of another corporation, and such order recites that such expenditure or investment by the transferor corporation is necessary or appropriate to the integration or simplification of the holding company system of which the transferor corporation is a member. If the fair market value of such nonexempt property at the time of the transfer exceeds the amount expended and the amount invested, as required in the preceding sentence, the gain, if any, to the extent of such excess, shall be recognized.

(3) CANCELLATION OR REDEMPTION OF STOCK OR SECURITIES.—For purposes of this subsection, a distribution in cancellation or

redemption (except a distribution having the effect of a dividend) of the whole or a part of the transferor's own stock (not acquired on the transfer) and a payment in complete or partial retirement or cancellation of securities representing indebtedness of the transferor or a complete or partial retirement or cancellation of such securities which is a part of the consideration for the transfer shall be considered an expenditure for property other than nonexempt property, and if, on the transfer, a liability of the transferor is assumed, or property of the transferor is transferred subject to a liability, the amount of such liability shall be considered to be an expenditure by the transferor for property other than nonexempt property.

(4) CONSENTS.—This subsection shall not apply unless the transferor corporation consents, at such time and in such manner as the Secretary or his delegate may by regulations prescribe to the regulations prescribed under section 1082 (a) (2) in effect at the time of filing its return for the taxable year in which the transfer occurs.

(c) DISTRIBUTION OF STOCK OR SECURITIES ONLY.—

(1) IN GENERAL.—If there is distributed, in obedience to an order of the Securities and Exchange Commission, to a shareholder in a corporation which is a registered holding company or a majority-owned subsidiary company, stock or securities (other than stock or securities which are nonexempt property), without the surrender by such shareholder of stock or securities in such corporation, no gain to the distributee from the receipt of the stock or securities so distributed shall be recognized.

(2) SPECIAL RULE.—If—

(A) there is distributed to a shareholder in a corporation rights to acquire common stock in a second corporation without the surrender by such shareholder of stock in the first corporation,

(B) such distribution is in accordance with an arrangement forming a ground for an order of the Securities and Exchange Commission issued pursuant to section 3 of the Public Utility Holding Company Act of 1935 (49 Stat. 810; 15 U. S. C. 79c) that such corporation is exempt from any provision or provisions of such Act, and

(C) before January 1, 1958, the first corporation disposes of all of the common stock in the second corporation which it owns,

then no gain to the distributee from the receipt of the rights so distributed shall be recognized. If the first corporation does not, before January 1, 1958, dispose of all of the common stock which it owns in the second corporation, then the periods of limitation provided in sections 6501 and 6502 on the making of an assessment or the collection by levy or a proceeding in court shall, with respect to any deficiency (including interest and additions to the tax) resulting solely from the receipt of such rights to acquire stock, include one year immediately following the date on which the first corporation notifies the Secretary or his delegate whether or not the requirements of subparagraph (C) of the preceding sentence have been met; and such assessment and collection may be made notwithstanding any provision of law or rule of law which would otherwise prevent such assessment and collection.

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(d) TRANSFERS WITHIN SYSTEM GROUP.—

(1) GENERAL RULE.—No gain or loss shall be recognized to a corporation which is a member of a system group—

(A) if such corporation transfers property to another corporation which is a member of the same system group in exchange for other property, and the exchange by each corporation is made in obedience to an order of the Securities and Exchange Commission, or

(B) if there is distributed to such corporation as a shareholder in a corporation which is a member of the same system group, property, without the surrender by such shareholder of stock or securities in the corporation making the distribution, and the distribution is made and received in obedience to an order of the Securities and Exchange Commission.

If an exchange by or a distribution to a corporation with respect to which no gain or loss is recognized under any of the provisions of this paragraph may also be considered to be within the provisions of subsection (a), (b), or (c), then the provisions of this paragraph only shall apply.

(2) SALES OF STOCK OR SECURITIES.—If the property received on an exchange which is within any of the provisions of paragraph (1) consists in whole or in part of stock or securities issued by the corporation from which such property was received, and if in obedience to an order of the Securities and Exchange Commission such stock or securities (other than stock which is not preferred as to both dividends and assets) are sold and the proceeds derived therefrom are applied in whole or in part in the retirement or cancellation of stock or of securities of the recipient corporation outstanding at the time of such exchange, no gain or loss shall be recognized to the recipient corporation on the sale of the stock or securities with respect to which such order was made; except that if any part of the proceeds derived from the sale of such stock or securities is not so applied, or if the amount of such proceeds is in excess of the fair market value of such stock or securities at the time of such exchange, the gain, if any, shall be recognized, but in an amount not in excess of the proceeds which are not so applied, or in an amount not more than the amount by which the proceeds derived from such sale exceed such fair market value, whichever is the greater.

(e) EXCHANGES NOT SOLELY IN KIND.—

(1) GENERAL RULE.—If an exchange (not within any of the provisions of subsection (d)) would be within the provisions of subsection (a) if it were not for the fact that property received in exchange consists not only of property permitted by such subsection to be received without the recognition of gain or loss, but also of other property or money, then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property, and the loss, if any, to the recipient shall not be recognized.

(2) DISTRIBUTION TREATED AS DIVIDEND.—If an exchange is within the provisions of paragraph (1) and if it includes a distribution which has the effect of the distribution of a taxable dividend, then there shall be taxed as a dividend to each distributee such an

amount of the gain recognized under such paragraph as is not in excess of his ratable share of the undistributed earnings and profits of the corporation accumulated after February 28, 1913. The remainder, if any, of the gain recognized under paragraph (1) shall be taxed as a gain from the exchange of property.

(f) CONDITIONS FOR APPLICATION OF SECTION.—Except in the case of a distribution described in subsection (c) (2), the provisions of this section shall not apply to an exchange, expenditure, investment, distribution, or sale unless—

(1) the order of the Securities and Exchange Commission in obedience to which such exchange, expenditure, investment, distribution, or sale was made recites that such exchange, expenditure, investment, distribution, or sale is necessary or appropriate to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935 (49 Stat. 820; 15 U. S. C. 79k (b)),

(2) such order specifies and itemizes the stock and securities and other property which are ordered to be acquired, transferred, received, or sold on such exchange, acquisition, expenditure, distribution, or sale, and, in the case of an investment, the investment to be made, and

(3) such exchange, acquisition, expenditure, investment, distribution, or sale was made in obedience to such order, and was completed within the time prescribed therefor.

(g) NONAPPLICATION OF OTHER PROVISIONS.—If a distribution described in subsection (c) (2), or an exchange or distribution made in obedience to an order of the Securities and Exchange Commission, is within any of the provisions of this part and may also be considered to be within any of the other provisions of this subchapter or subchapter C (sec. 301 and following, relating to corporate distributions and adjustments), then the provisions of this part only shall apply.

SEC. 1082. BASIS FOR DETERMINING GAIN OR LOSS.

(a) EXCHANGES GENERALLY.—

(1) EXCHANGES SUBJECT TO THE PROVISIONS OF SECTION 1081 (a) OR (e).—If the property was acquired on an exchange subject to the provisions of section 1081 (a) or (e), or the corresponding provisions of prior internal revenue laws, the basis shall be the same as in the case 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 under the law applicable to the year in which the exchange was made. If the property so acquired consisted in part of the type of property permitted by section 1081 (a) to be received without the recognition of gain or loss, and in part of nonexempt property, the basis provided in this subsection shall be allocated between the properties (other than money) received, and for the purpose of the allocation there shall be assigned to such nonexempt property (other than money) an amount equivalent to its fair market value at the date of the exchange. This subsection shall not apply to property acquired by a corporation by the issuance of its stock or securities as the consideration in whole or in part for the transfer of the property to it.

(2) EXCHANGES SUBJECT TO THE PROVISIONS OF SECTION 1081 (b).—The gain not recognized on a transfer by reason of section 1081 (b)

or the corresponding provisions of prior internal revenue laws shall be applied to reduce the basis for determining gain or loss on sale or exchange of the following categories of property in the hands of the transferor immediately after the transfer, and property acquired within 24 months after such transfer by an expenditure or investment to which section 1081 (b) relates on account of the acquisition of which gain is not recognized under such subsection, in the following order:

(A) property of a character subject to the allowance for depreciation under section 167;

(B) property (not described in subparagraph (A)) with respect to which a deduction for amortization is allowable under section 168 or 169;

(C) property with respect to which a deduction for depletion is allowable under section 611 but not allowable under section 613;

(D) stock and securities of corporations not members of the system group of which the transferor is a member (other than stock or securities of a corporation of which the transferor is a subsidiary);

(E) securities (other than stock) of corporations which are members of the system group of which the transferor is a member (other than securities of the transferor or of a corporation of which the transferor is a subsidiary);

(F) stock of corporations which are members of the system group of which the transferor is a member (other than stock of the transferor or of a corporation of which the transferor is a subsidiary);

(G) all other remaining property of the transferor (other than stock or securities of the transferor or of a corporation of which the transferor is a subsidiary).

The manner and amount of the reduction to be applied to particular property within any of the categories described in subparagraphs (A) to (G), inclusive, shall be determined under regulations prescribed by the Secretary or his delegate.

(3) BASIS IN CASE OF PRE-1942 ACQUISITION.—Notwithstanding the provisions of paragraph (1) or (2), if the property was acquired in a taxable year beginning before January 1, 1942, in any manner described in section 372 of the Internal Revenue Code of 1939 before its amendment by the Revenue Act of 1942, the basis shall be that prescribed in such section (before its amendment by such Act) with respect to such property.

(b) TRANSFERS TO CORPORATIONS.—If, in connection with a transfer subject to the provisions of section 1081 (a), (b), or (e) or the corresponding provisions of prior internal revenue laws, the property was acquired by a corporation, either as paid-in surplus or as a contribution to capital, or in consideration for stock or securities issued by the corporation receiving the property (including cases where part of the consideration for the transfer of such property to the corporation consisted of property or money in addition to such stock or securities), then the basis shall be the same as it would be in the hands of the transferor, increased in the amount of gain or decreased in the amount of loss recognized to the transferor on such transfer under the law applicable to the year in which the transfer was made.

(c) DISTRIBUTIONS OF STOCK OR SECURITIES.—If the stock or securities were received in a distribution subject to the provisions of section 1081 (c) or the corresponding provisions of prior internal revenue laws, then the basis in the case of the stock in respect of which the distribution was made shall be apportioned, under regulations prescribed by the Secretary or his delegate, between such stock and the stock or securities distributed.

(d) TRANSFERS WITHIN SYSTEM GROUP.—If the property was acquired by a corporation which is a member of a system group on a transfer or distribution described in section 1081 (d) (1), then the basis shall be the same as it would be in the hands of the transferor; except that if such property is stock or securities issued by the corporation from which such stock or securities were received and they were issued—

(1) as the sole consideration for the property transferred to such corporation, then the basis of such stock or securities shall be either—

(A) the same as in the case of the property transferred therefor, or

(B) the fair market value of such stock or securities at the time of their receipt, whichever is the lower; or

(2) as part consideration for the property transferred to such corporation, then the basis of such stock or securities shall be either—

(A) an amount which bears the same ratio to the basis of the property transferred as the fair market value of such stock or securities at the time of their receipt bears to the total fair market value of the entire consideration received, or

(B) the fair market value of such stock or securities at the time of their receipt, whichever is the lower.

SEC. 1083. DEFINITIONS

(a) ORDER OF SECURITIES AND EXCHANGE COMMISSION.—For purposes of this part, the term "order of the Securities and Exchange Commission" means an order issued after May 28, 1938, by the Securities and Exchange Commission which requires, authorizes, permits, or approves transactions described in such order to effectuate section 11 (b) of the Public Utility Holding Company Act of 1935 (49 Stat. 820; 15 U. S. C. 79k (b)), which has become or becomes final in accordance with law.

(b) REGISTERED HOLDING COMPANY; HOLDING COMPANY SYSTEM; ASSOCIATE COMPANY.—For purposes of this part, the terms "registered holding company", "holding company system", and "associate company" shall have the meanings assigned to them by section 2 of the Public Utility Holding Company Act of 1935 (49 Stat. 804; 15 U. S. C. 79b (a)).

(c) MAJORITY-OWNED SUBSIDIARY COMPANY.—For purposes of this part, the term "majority-owned subsidiary company" of a registered holding company means a corporation, stock of which, representing in the aggregate more than 50 percent of the total combined voting power of all classes of stock of such corporation entitled to vote (not including stock which is entitled to vote only on default or nonpayment of dividends or other special circumstances) is owned wholly by such registered holding company, or partly by such registered holding company and partly by one or more majority-owned subsidiary

companies thereof, or by one or more majority-owned subsidiary companies of such registered holding company.

(d) SYSTEM GROUP.—For purposes of this part, the term "system group" means one or more chains of corporations connected through stock ownership with a common parent corporation if—

(1) at least 90 percent of each class of the stock (other than (A) stock which is preferred as to both dividends and assets, and (B) stock which is limited and preferred as to dividends but which is not preferred as to assets but only if the total value of such stock is less than 1 percent of the aggregate value of all classes of stock which are not preferred as to both dividends and assets) of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and

(2) the common parent corporation owns directly at least 90 percent of each class of the stock (other than stock, which is preferred as to both dividends and assets) of at least one of the other corporations; and

(3) each of the corporations is either a registered holding company or a majority-owned subsidiary company.

(e) NONEXEMPT PROPERTY.—For purposes of this part, the term "nonexempt property" means—

(1) any consideration in the form of evidences of indebtedness owed by the transferor or a cancellation or assumption of debts or other liabilities of the transferor (including a continuance of encumbrances subject to which the property was transferred);

(2) short-term obligations (including notes, drafts, bills of exchange, and bankers' acceptances) having a maturity at the time of issuance of not exceeding 24 months, exclusive of days of grace;

(3) securities issued or guaranteed as to principal or interest by a government or subdivision thereof (including those issued by a corporation which is an instrumentality of a government or subdivision thereof);

(4) stock or securities which were acquired from a registered holding company or an associate company of a registered holding company which acquired such stock or securities after February 28, 1938, unless such stock or securities (other than obligations described as nonexempt property in paragraph (1), (2), or (3)) were acquired in obedience to an order of the Securities and Exchange Commission or were acquired with the authorization or approval of the Securities and Exchange Commission under any section of the Public Utility Holding Company Act of 1935 (49 Stat. 820; 15 U. S. C. 79k (b));

(5) money, and the right to receive money not evidenced by a security other than an obligation described as nonexempt property in paragraph (2) or (3).

(f) STOCK OR SECURITIES.—For purposes of this part, the term "stock or securities" means shares of stock in any corporation, certificates of stock or interest in any corporation, notes, bonds, debentures, and evidences of indebtedness (including any evidence of an interest in or right to subscribe to or purchase any of the foregoing).

PART VII—WASH SALES OF STOCK OR SECURITIES

Sec. 1091. Loss from wash sales of stock or securities.

SEC. 1091. LOSS FROM WASH SALES OF STOCK OR SECURITIES.

(a) DISALLOWANCE OF LOSS DEDUCTION.—In the case of any loss claimed to have been sustained from any sale or other disposition of shares of stock or securities where it appears that, within a period beginning 30 days before the date of such sale or disposition and ending 30 days after such date, the taxpayer has acquired (by purchase or by an exchange on which the entire amount of gain or loss was recognized by law), or has entered into a contract or option so to acquire, substantially identical stock or securities, then no deduction for the loss shall be allowed under section 165 (c) (2); nor shall such deduction be allowed a corporation under section 165 (a) unless it is a dealer in stocks or securities, and the loss is sustained in a transaction made in the ordinary course of its business.

(b) STOCK ACQUIRED LESS THAN STOCK SOLD.—If the amount of stock or securities acquired (or covered by the contract or option to acquire) is less than the amount of stock or securities sold or otherwise disposed of, then the particular shares of stock or securities the loss from the sale or other disposition of which is not deductible shall be determined under regulations prescribed by the Secretary or his delegate.

(c) STOCK ACQUIRED NOT LESS THAN STOCK SOLD.—If the amount of stock or securities acquired (or covered by the contract or option to acquire) is not less than the amount of stock or securities sold or otherwise disposed of, then the particular shares of stock or securities the acquisition of which (or the contract or option to acquire which) resulted in the nondeductibility of the loss shall be determined under regulations prescribed by the Secretary or his delegate.

(d) UNADJUSTED BASIS IN CASE OF WASH SALE OF STOCK.—If the property consists of stock or securities the acquisition of which (or the contract or option to acquire which) resulted in the nondeductibility (under this section or corresponding provisions of prior internal revenue laws) of the loss from the sale or other disposition of substantially identical stock or securities, then the basis shall be the basis of the stock or securities so sold or disposed of, increased or decreased, as the case may be, by the difference, if any, between the price at which the property was acquired and the price at which such substantially identical stock or securities were sold or otherwise disposed of.

Subchapter P—Capital Gains and Losses

Part I. Treatment of capital gains.
Part II. Treatment of capital losses.
Part III. General rules for determining capital gains and losses.
Part IV. Special rules for determining capital gains and losses.

PART I—TREATMENT OF CAPITAL GAINS

Sec. 1201. Alternative tax.
Sec. 1202. Deduction for capital gains.

SEC. 1201. ALTERNATIVE TAX.

(a) CORPORATIONS.—If for any taxable year the net long-term capital gain of any corporation exceeds the net short-term capital loss, then, in lieu of the tax imposed by sections 11, 511, 821 (a) (1) or (b), and 831 (a), there is hereby imposed a tax (if such tax is less than the tax imposed by such sections) which shall consist of the sum of—

(1) a partial tax computed on the taxable income reduced by the amount of such excess, at the rates and in the manner as if this subsection had not been enacted, and

(2) an amount equal to 25 percent of such excess, or, in the case of a taxable year beginning before April 1, 1954, an amount equal to 26 percent of such excess.

In the case of a taxable year beginning before April 1, 1954, the amount under paragraph (2) shall be determined without regard to section 21 (relating to effect of change of tax rates).

(b) OTHER TAXPAYERS.—If for any taxable year the net long-term capital gain of any taxpayer (other than a corporation) exceeds the net short-term capital loss, then, in lieu of the tax imposed by sections 1 and 511, there is hereby imposed a tax (if such tax is less than the tax imposed by such sections) which shall consist of the sum of—

(1) a partial tax computed on the taxable income reduced by an amount equal to 50 percent of such excess, at the rate and in the manner as if this subsection had not been enacted, and

(2) an amount equal to 25 percent of the excess of the net long-term capital gain over the net short-term capital loss.

SEC. 1202. DEDUCTION FOR CAPITAL GAINS.

In the case of a taxpayer other than a corporation, if for any taxable year the net long-term capital gain exceeds the net short-term capital loss, 50 percent of the amount of such excess shall be a deduction from gross income. In the case of an estate or trust, the deduction shall be computed by excluding the portion (if any), of the gains for the taxable year from sales or exchanges of capital assets, which, under sections 652 and 662 (relating to inclusions of amounts in gross income of beneficiaries of trusts), is includible by the income beneficiaries as gain derived from the sale or exchange of capital assets.

PART II—TREATMENT OF CAPITAL LOSSES

Sec. 1211. Limitation on capital losses.
Sec. 1212. Capital loss carryover.

SEC. 1211. LIMITATION ON CAPITAL LOSSES.

(a) CORPORATIONS.—In the case of a corporation, losses from sales or exchanges of capital assets shall be allowed only to the extent of gains from such sales or exchanges.

(b) OTHER TAXPAYERS.—In the case of a taxpayer other than a corporation, losses from sales or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges, plus the taxable income of the taxpayer or $1,000, whichever is smaller. For purposes of this subsection, taxable income shall be computed without regard to gains or losses from sales or exchanges of capital assets and without regard to the deductions provided in section 151 (relating to personal exemptions) or any deduction in lieu thereof. If the taxpayer elects to pay the optional tax imposed by section 3, "taxable income" as used in this subsection shall be read as "adjusted gross income".

SEC. 1212. CAPITAL LOSS CARRYOVER.

If for any taxable year the taxpayer has a net capital loss, the amount thereof shall be a short-term capital loss in each of the 5 succeeding taxable years to the extent that such amount exceeds the total of any net capital gains of any taxable years intervening between the taxable year in which the net capital loss arose and such succeeding taxable year. For purposes of this section, a net capital gain shall be computed without regard to such net capital loss or to any net capital losses arising in any such intervening taxable years, and a net capital loss for a taxable year beginning before October 20, 1951, shall be determined under the applicable law relating to the computation of capital gains and losses in effect before such date.

PART III—GENERAL RULES FOR DETERMINING CAPITAL GAINS AND LOSSES

Sec. 1221. Capital asset defined.
Sec. 1222. Other items relating to capital gains and losses.
Sec. 1223. Holding period of property.

SEC. 1221. CAPITAL ASSET DEFINED.

For purposes of this subtitle, the term "capital asset" means property held by the taxpayer (whether or not connected with his trade or business), but does not include—

(1) stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;

(2) property, used in his trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or real property used in his trade or business;

(3) a copyright, a literary, musical, or artistic composition, or similar property, held by—

(A) a taxpayer whose personal efforts created such property, or

(B) a taxpayer in whose hands the basis of such property is determined, for the purpose of determining gain from a sale or exchange, in whole or in part by reference to the basis of such property in the hands of the person whose personal efforts created such property;

(4) accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in paragraph (1); or

(5) an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue.

SEC. 1222. OTHER TERMS RELATING TO CAPITAL GAINS AND LOSSES.

For purposes of this subtitle—

(1) SHORT-TERM CAPITAL GAIN.—The term "short-term capital gain" means gain from the sale or exchange of a capital asset held for not more than 6 months, if and to the extent such gain is taken into account in computing gross income.

(2) SHORT-TERM CAPITAL LOSS.—The term "short-term capital loss" means loss from the sale or exchange of a capital asset held for not more than 6 months, if and to the extent that such loss is taken into account in computing taxable income.

(3) LONG-TERM CAPITAL GAIN.—The term "long-term capital gain" means gain from the sale or exchange of a capital asset held for more than 6 months, if and to the extent such gain is taken into account in computing gross income.

(4) LONG-TERM CAPITAL LOSS.—The term "long-term capital loss" means loss from the sale or exchange of a capital asset held for more than 6 months, if and to the extent that such loss is taken into account in computing taxable income.

(5) NET SHORT-TERM CAPITAL GAIN.—The term "net short-term capital gain" means the excess of short-term capital gains for the taxable year over the short-term capital losses for such year.

(6) NET SHORT-TERM CAPITAL LOSS.—The term "net short-term capital loss" means the excess of short-term capital losses for the taxable year over the short-term capital gains for such year.

(7) NET LONG-TERM CAPITAL GAIN.—The term "net long-term capital gain" means the excess of long-term capital gains for the taxable year over the long-term capital losses for such year.

(8) NET LONG-TERM CAPITAL LOSS.—The term "net long-term capital loss" means the excess of long-term capital losses for the taxable year over the long-term capital gains for such year.

(9) NET CAPITAL GAIN.—

(A) CORPORATIONS.—In the case of a corporation, the term "net capital gain" means the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges.

(B) OTHER TAXPAYERS.—In the case of a taxpayer other than a corporation, the term "net capital gain" means the excess of—

(i) the sum of the gains from sales or exchanges of capital assets, plus taxable income (computed without regard to the deductions provided by section 151, relating to personal exemptions or any deduction in lieu thereof) of the taxpayer or $1,000, whichever is smaller, over

(ii) the losses from such sales or exchanges.

For purposes of this subparagraph, taxable income shall be computed without regard to gains or losses from sales or exchanges of capital assets. If the taxpayer elects to pay the optional tax under section 3, the term "taxable income" as used in this subparagraph shall be read as "adjusted gross income."

(10) NET CAPITAL LOSS.—The term "net capital loss" means the excess of the losses from sales or exchanges of capital assets over the sum allowed under section 1211. For the purpose of determining losses under this paragraph, amounts which are short-term capital losses under section 1212 shall be excluded.

SEC. 1223. HOLDING PERIOD OF PROPERTY.

For purposes of this subtitle—

(1) In determining the period for which the taxpayer has held property received in an exchange, there shall be included the period for which he held the property exchanged if, under this chapter, the property has, for the purpose of determining gain or loss from a sale or exchange, the same basis in whole or in part in his hands as the property exchanged, and, in the case of such exchanges after March 1, 1954, the property exchanged at the time of such exchange was a capital asset as defined in section 1221 or property described in section 1231. For purposes of this paragraph—

(A) an involuntary conversion described in section 1033 shall be considered an exchange of the property converted for the property acquired, and

(B) a distribution to which section 355 (or so much of section 356 as relates to section 355) applies shall be treated as an exchange.

(2) In determining the period for which the taxpayer has held property however acquired there shall be included the period for which such property was held by any other person, if under this chapter such property has, for the purpose of determining gain or loss from a sale or exchange, the same basis in whole or in part in his hands as it would have in the hands of such other person.

(3) In determining the period for which the taxpayer has held stock or securities received upon a distribution where no gain was recognized to the distributee under section 1081 (c) (or under section 112 (g) of the Revenue Act of 1928, 45 Stat. 818, or the Revenue Act of 1932, 48 Stat. 705), there shall be included the period for which he held the stock or securities in the distributing corporation before the receipt of the stock or securities on such distribution.

(4) In determining the period for which the taxpayer has held stock or securities the acquisition of which (or the contract or option

to acquire which) resulted in the nondeductibility (under section 1091 relating to wash sales) of the loss from the sale or other disposition of substantially identical stock or securities, there shall be included the period for which he held the stock or securities the loss from the sale or other disposition of which was not deductible.

(5) In determining the period for which the taxpayer has held stock or rights to acquire stock received on a distribution, if the basis of such stock or rights is determined under section 307 (or under so much of section 1052 (c) as refers to section 113 (a) (23) of the Internal Revenue Code of 1939), there shall (under regulations prescribed by the Secretary or his delegate) be included the period for which he held the stock in the distributing corporation before the receipt of such stock or rights upon such distribution.

(6) In determining the period for which the taxpayer has held stock or securities acquired from a corporation by the exercise of rights to acquire such stock or securities, there shall be included only the period beginning with the date on which the right to acquire was exercised.

(7) In determining the period for which the taxpayer has held a residence, the acquisition of which resulted under section 1034 in the nonrecognition of any part of the gain realized on the sale or exchange of another residence, there shall be included the period for which such other residence had been held as of the date of such sale or exchange. For purposes of this paragraph, the term "sale or exchange" includes an involuntary conversion occurring after December 31, 1950, and before January 1, 1954.

(8) In determining the period for which the taxpayer has held a commodity acquired in satisfaction of a commodity futures contract there shall be included the period for which he held the commodity futures contract if such commodity futures contract was a capital asset in his hands.

(9) Any reference in this section to a provision of this title shall, where applicable, be deemed a reference to the corresponding provision of the Internal Revenue Code of 1939, or prior internal revenue laws.

(10) CROSS REFERENCE.—

For special holding period provision relating to certain partnership distributions, see section 735 (b).

PART IV—SPECIAL RULES FOR DETERMINING CAPITAL GAINS AND LOSSES

Sec. 1231. Property used in the trade or business and involuntary conversions.
Sec. 1232. Bonds and other evidences of indebtedness.
Sec. 1233. Gains and losses from short sales.
Sec. 1234. Options to buy or sell.
Sec. 1235. Sale or exchange of patents.
Sec. 1236. Dealers in securities.
Sec. 1237. Real property subdivided for sale.
Sec. 1238. Amortization in excess of depreciation.
Sec. 1239. Gain from sale of certain property between spouses or between an individual and a controlled corporation.
Sec. 1240. Taxability to employee of termination payments.
Sec. 1241. Cancellation of lease or distributor's agreement.

SEC. 1231. PROPERTY USED IN THE TRADE OR BUSINESS AND INVOLUNTARY CONVERSIONS.

(a) GENERAL RULE.—If, during the taxable year, the recognized gains on sales or exchanges of property used in the trade or business, plus the recognized gains from the compulsory or involuntary conversion (as a result of destruction in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof) of property used in the trade or business and capital assets held for more than 6 months into other property or money, exceed the recognized losses from such sales, exchanges, and conversions, such gains and losses shall be considered as gains and losses from sales or exchanges of capital assets held for more than 6 months. If such gains do not exceed such losses, such gains and losses shall not be considered as gains and losses from sales or exchanges of capital assets. For purposes of this subsection—

(1) in determining under this subsection whether gains exceed losses, the gains described therein shall be included only if and to the extent taken into account in computing gross income and the losses described therein shall be included only if and to the extent taken into account in computing taxable income, except that section 1211 shall not apply; and

(2) losses upon the destruction, in whole or in part, theft or seizure, or requisition or condemnation of property used in the trade or business or capital assets held for more than 6 months shall be considered losses from a compulsory or involuntary conversion.

(b) DEFINITION OF PROPERTY USED IN THE TRADE OR BUSINESS.—For purposes of this section—

(1) GENERAL RULE.—The term "property used in the trade or business" means property used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 167, held for more than 6 months, and real property used in the trade or business, held for more than 6 months, which is not—

(A) property of a kind which would properly be includible in the inventory of the taxpayer if on hand at the close of the taxable year,

(B) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or

(C) a copyright, a literary, musical, or artistic composition, or similar property, held by a taxpayer described in paragraph (3) of section 1221.

(2) TIMBER OR COAL.—Such term includes timber and coal with respect to which section 631 applies.

(3) LIVESTOCK.—Such term also includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. Such term does not include poultry.

(4) UNHARVESTED CROP.—In the case of an unharvested crop on land used in the trade or business and held for more than 6 months, if the crop and the land are sold or exchanged (or compulsorily or involuntarily converted) at the same time and to the same person, the crop shall be considered as "property used in the trade or business."

SEC. 1232. BONDS AND OTHER EVIDENCES OF INDEBTEDNESS.

(a) GENERAL RULE.—For purposes of this subtitle, in the case of bonds, debentures, notes, or certificates or other evidences of indebtedness, which are capital assets in the hands of the taxpayer, and which are issued by any corporation, or government or political subdivision thereof—

(1) RETIREMENT.—Amounts received by the holder on retirement of such bonds or other evidences of indebtedness shall be considered as amounts received in exchange therefor (except that in the case of bonds or other evidences of indebtedness issued before January 1, 1955, this paragraph shall apply only to those issued with interest coupons or in registered form, or to those in such form on March 1, 1954).

(2) SALE OR EXCHANGE.—

(A) GENERAL RULE.—Except as provided in subparagraph (B), upon sale or exchange of bonds or other evidences of indebtedness issued after December 31, 1954, held by the taxpayer more than 6 months, any gain realized 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, shall be considered as gain from the sale or exchange of property which is not a capital asset. Gain in excess of such amount shall be considered gain from the sale or exchange of a capital asset held more than 6 months.

(B) EXCEPTIONS.—This paragraph shall not apply to—

(i) obligations the interest on which is not includible in gross income under section 103 (relating to certain governmental obligations), or

(ii) any holder who has purchased the bond or other evidence of indebtedness at a premium.

(C) ELECTION AS TO INCLUSION.—In the case of obligations with respect to which the taxpayer has made an election provided by section 454 (a) and (c) (relating to accounting rules for certain obligations issued at a discount), this section shall not require the inclusion of any amount previously includible in gross income.

(b) DEFINITIONS.—

(1) ORIGINAL ISSUE DISCOUNT.—For purposes of subsection (a), the term "original issue discount" means the difference between the issue price and the stated redemption price at maturity. If the original issue discount is less than one-fourth of 1 percent of the redemption price at maturity multiplied by the number of complete years to maturity, then the issue discount shall be considered to be zero. For purposes of this paragraph, the term "stated redemption price at maturity" means the amount fixed by the last modification of the purchase agreement and includes dividends payable at that time.

(2) ISSUE PRICE.—In the case of issues of bonds or other evidences of indebtedness registered with the Securities and Exchange Commission, the term "issue price" means the initial offering price to the public (excluding bond houses and brokers) at which price a substantial amount of such bonds or other evidences of indebtedness were sold. In the case of privately placed issues of bonds or other evidence of indebtedness, the issue price of each such bond or other evidence of indebtedness is the price paid by the first buyer of such bond. For purposes of this paragraph, the terms "initial offering price" and "price paid by the first buyer" include the aggregate payments made by the purchaser under the purchase agreement, including modifications thereof.

(3) ISSUE DATE.—In the case of issues of bonds or other evidences of indebtedness registered with the Securities and Exchange Commission, the term "date of original issue" means the date on which the issue was first sold to the public at the issue price. In the case of privately placed issues of bonds or other evidences of indebtedness, the term "date of original issue" means the date on which each such bond or other evidence of indebtedness was sold by the issuer.

(c) BOND WITH EXCESS NUMBER OF COUPONS DETACHED.—If—

(1) a bond or other evidence of indebtedness issued at any time with interest coupons is purchased after the date of enactment of this title, and

(2) the purchaser does not receive all the coupons which first become payable more than 12 months after the date of the purchase,

then the gain on the sale or other disposition of such evidence of indebtedness by 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 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 retirement of any bond, then subsection (a) (2) (A) shall apply with respect to that part of the gain to which this subsection does not apply.

(d) CROSS REFERENCE.—

For special treatment of face-amount certificates on retirement, see section 72.

SEC. 1233. GAINS AND LOSSES FROM SHORT SALES.

(a) CAPITAL ASSETS.-For purposes of this subtitle, gain or loss from the short sale of property, other than a hedging transaction in commodity futures, shall be considered as gain or loss from the sale or exchange of a capital asset to the extent that the property,

including a commodity future, used to close the short sale constitutes a capital asset in the hands of the taxpayer.

(b) SHORT-TERM GAINS AND HOLDING PERIODS.—If gain or loss from a short sale is considered as gain or loss from the sale or exchange of a capital asset under subsection (a) and if on the date of such short sale substantially identical property has been held by the taxpayer for not more than 6 months (determined without regard to the effect, under paragraph (2) of this subsection, of such short sale on the holding period), or if substantially identical property is acquired by the taxpayer after such short sale and on or before the date of the closing thereof—

(1) any gain on the closing of such short sale shall be considered as a gain on the sale or exchange of a capital asset held for not more than 6 months (notwithstanding the period of time any property used to close such short sale has been held); and

(2) the holding period of such substantially identical property shall be considered to begin (notwithstanding section 1223, relating to the holding period of property) on the date of the closing of the short sale, or on the date of a sale, gift, or other disposition of such property, whichever date occurs first. This paragraph shall apply to such substantially identical property in the order of the dates of the acquisition of such property, but only to so much of such property as does not exceed the quantity sold short.

For purposes of this subsection, the acquisition of an option to sell property at a fixed price shall be considered as a short sale, and the exercise or failure to exercise such option shall be considered as a closing of such short sale.

(c) CERTAIN OPTIONS TO SELL.—Subsection (b) shall not include an option to sell property at a fixed price acquired on the same day on which the property identified as intended to be used in exercising such option is acquired and which, if exercised, is exercised through the sale of the property so identified. If the option is not exercised, the cost of the option shall be added to the basis of the property with which the option is identified. This subsection shall apply only to options acquired after the date of enactment of this title.

(d) LONG-TERM LOSSES.—If on the date of such short sale substantially identical property has been held by the taxpayer for more than 6 months, any loss on the closing of such short sale shall be considered as a loss on the sale or exchange of a capital asset held for more than 6 months (notwithstanding the period of time any property used to close such short sale has been held, and notwithstanding section 1234).

(e) RULES FOR APPLICATION OF SECTION—

(1) Subsection (b) (1) or (d) shall not apply to the gain or loss, respectively, on any quantity of property used to close such short sale which is in excess of the quantity of the substantially identical property referred to in the applicable subsection.

(2) For purposes of subsections (b) and (d)—

(A) the term "property" includes only stocks and securities (including stocks and securities dealt with on a "when issued" basis), and commodity futures, which are capital assets in the hands of the taxpayer;

(B) in the case of futures transactions in any commodity on or subject to the rules of a board of trade or commodity exchange, a commodity future requiring delivery in 1 calendar month shall not be considered as property substantially identical to another commodity future requiring delivery in a different calendar month; and

(C) in the case of a short sale of property by an individual, the term "taxpayer", in the application of this subsection and subsections (b) and (d), shall be read as "taxpayer or his spouse"; but an individual who is legally separated from the taxpayer under a decree of divorce or of separate maintenance shall not be considered as the spouse of the taxpayer.

(3) Where the taxpayer enters into 2 commodity futures transactions on the same day, one requiring delivery by him in one market and the other requiring delivery to him of the same (or substantially identical) commodity in the same calendar month in a different market, and the taxpayer subsequently closes both such transactions on the same day, subsections (b) and (d) shall have no application to so much of the commodity involved in either such transaction as does not exceed in quantity the commodity involved in the other.

SEC. 1234. OPTIONS TO BUY OR SELL.

Gain or loss attributable to the sale or exchange of, or loss on failure to exercise, a privilege or option to buy or sell property which in the hands of the taxpayer constitutes (or if acquired would constitute) a capital asset shall be considered gain or loss from the sale or exchange of a capital asset; and, if the loss is attributable to failure to exercise such privilege or option, the privilege or option shall be deemed to have been sold or exchanged on the day it expired. This section shall not apply to losses on failure to exercise options described in section 1233 (c).

SEC. 1235. SALE OR EXCHANGE OF PATENTS.

(a) GENERAL.—A transfer (other than by gift, inheritance, or devise) of property consisting of all substantial rights to a patent, or an undivided interest therein which includes a part of all such rights, by any holder shall be considered the sale or exchange of a capital asset held for more than 6 months, regardless of whether or not payments in consideration of such transfer are—

(1) payable periodically over a period generally coterminous with the transferee's use of the patent, or

(2) contingent on the productivity, use, or disposition of the property transferred.

(b) "HOLDER" DEFINED.—For purposes of this section, the term "holder" means—

(1) any individual whose efforts created such property, or

(2) any other individual who has acquired his interest in such property in exchange for consideration in money or money's worth paid to such creator prior to actual reduction to practice of the invention covered by the patent, if such individual is neither—

(A) the employer of such creator, nor

(B) related to such creator (within the meaning of subsection (d)).

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(c) EFFECTIVE DATE.—This section shall be applicable with regard to any amounts received, or payments made, pursuant to a transfer described in subsection (a) in any taxable year to which this subtitle applies, regardless of the taxable year in which such transfer occurred.

(d) RELATED PERSONS.—Subsection (a) shall not apply to any sale or exchange between an individual and any other related person (as defined in section 267 (b)), except brothers and sisters, whether by the whole or half blood.

(e) CROSS REFERENCE.—

For special rule relating to nonresident aliens, see section 871 (a).

SEC. 1236. DEALERS IN SECURITIES.

(a) CAPITAL GAINS.—Gain by a dealer in securities from the sale or exchange of any security shall in no event be considered as gain from the sale or exchange of a capital asset unless—

(1) the security was, before the expiration of the 30th day after the date of its acquisition, clearly identified in the dealer's records as a security held for investment or if acquired before October 20, 1951, was so identified before November 20, 1951; and

(2) the security was not, at any time after the expiration of such 30th day, held by such dealer primarily for sale to customers in the ordinary course of his trade or business.

(b) ORDINARY LOSSES.—Loss by a dealer in securities from the sale or exchange of any security shall, except as otherwise provided in section 582 (c), (relating to bond, etc., losses of banks), in no event be considered as loss from the sale or exchange of property which is not a capital asset if at any time after November 19, 1951, the security was clearly identified in the dealer's records as a security held for investment.

(c) DEFINITION OF SECURITY.—For purposes of this section, the term "security" means any share of stock in any corporation, certificate of stock or interest in any corporation, note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to or purchase any of the foregoing.

SEC. 1237. REAL PROPERTY SUBDIVIDED FOR SALE.

(a) GENERAL.—Any lot or parcel which is part of a tract of real property in the hands of a taxpayer other than a corporation shall not be deemed to be held primarily for sale to customers in the ordinary course of trade or business at the time of sale solely because of the taxpayer having subdivided such tract for purposes of sale or because of any activity incident to such subdivision or sale, if—

(1) such tract, or any lot or parcel thereof, had not previously been held by such taxpayer primarily for sale to customers in the ordinary course of trade or business (unless such tract at such previous time would have been covered by this section) or, in the same taxable year in which the sale occurs, such taxpayer does not so hold any other real property; and

(2) no substantial improvement that substantially enhances the value of the lot or parcel sold is made by the taxpayer on such tract while held by the taxpayer or is made pursuant to a contract of sale entered into between the taxpayer and the buyer. For purposes of this paragraph, an improvement shall be deemed to be made by the taxpayer if such improvement was made by—

(A) the taxpayer or members of his family (as defined in section 267 (c) (4)), by a corporation controlled by the taxpayer, or by a partnership which included the taxpayer as a partner; or

(B) a lessee, but only if the improvement constitutes income to the taxpayer; or

(C) Federal, State, or local government, or political subdivision thereof, but only if the improvement constitutes an addition to basis for the taxpayer; and

(3) such lot or parcel, except in the case of real property acquired by inheritance or devise, is held by the taxpayer for a period of 5 years.

(b) SPECIAL RULES FOR APPLICATION OF SECTION.—

(1) GAINS.—If more than 5 lots or parcels contained in the same tract of real property are sold or exchanged, gain from any sale or exchange (which occurs in or after the taxable year in which the sixth lot or parcel is sold or exchanged) of any lot or parcel which comes within the provisions of paragraphs (1), (2) and (3) of subsection (a) of this section shall be deemed to be gain from the sale of property held primarily for sale to customers in the ordinary course of the trade or business to the extent of 5 percent of the selling price.

(2) EXPENDITURES OF SALE.—For the purpose of computing gain under paragraph (1) of this subsection, expenditures incurred in connection with the sale or exchange of any lot or parcel shall neither be allowed as a deduction in computing taxable income, nor treated as reducing the amount realized on such sale or exchange; but so much of such expenditures as does not exceed the portion of gain deemed under paragraph (1) of this subsection to be gain from the sale of property held primarily for sale to customers in the ordinary course of trade or business shall be so allowed as a deduction, and the remainder, if any, shall be treated as reducing the amount realized on such sale or exchange.

(3) NECESSARY IMPROVEMENTS.—No improvement shall be deemed a substantial improvement for purposes of subsection (a) if the lot or parcel is held by the taxpayer for a period of 10 years and if—

(A) such improvement is the building or installation of water or sewer facilities or roads (if such improvement would except for this paragraph constitute a substantial improvement);

(B) it is shown to the satisfaction of the Secretary or his delegate that the lot or parcel, the value of which was substantially enhanced by such improvement, would not have been marketable at the prevailing local price for similar building sites without such improvement; and

(C) the taxpayer elects, in accordance with regulations prescribed by the Secretary or his delegate, to make no adjustment to basis of the lot or parcel, or of any other property owned by the taxpayer, on account of the expenditures for such improvements. Such election shall not make any item deductible which would not otherwise be deductible.

(c) TRACT DEFINED.—For purposes of this section, the term "tract of real property" means a single piece of real property, except that 2 or more pieces of real property shall be considered a tract if at any

time they were contiguous in the hands of the taxpayer or if they would be contiguous except for the interposition of a road, street, railroad, stream, or similar property. If, following the sale or exchange of any lot or parcel from a tract of real property, no further sales or exchanges of any other lots or parcels from the remainder of such tract are made for a period of 5 years, such remainder shall be deemed a tract.

(d) EFFECTIVE DATE.—This section shall apply only with respect to sales of property occurring after December 31, 1953, except that, for purposes of subsection (c) (defining tract of real property) and for determining the number of sales under paragraph (1) of subsection (b), all sales of lots and parcels from any tract of real property during the period of 5 years before December 31, 1953, shall be taken into account, except as provided in subsection (c).

SEC. 1238. AMORTIZATION IN EXCESS OF DEPRECIATION.

Gain from the sale or exchange of property, to the extent that the adjusted basis of such property is less than its adjusted basis determined without regard to section 168 (relating to amortization deduction of emergency facilities), shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231.

SEC. 1239. GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.

(a) TREATMENT OF GAIN AS ORDINARY INCOME.—In the case of a sale or exchange, directly or indirectly, of property described in subsection (b)—

(1) between a husband and wife; or

(2) between an individual and a corporation more than 80 percent in value of the outstanding stock of which is owned by such individual, his spouse, and his minor children and minor grandchildren;

any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231.

(b) SECTION APPLICABLE ONLY TO SALES OR EXCHANGES OF DEPRECIABLE PROPERTY.—This section shall apply only in the case of a sale or exchange by a transferor of property which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 167.

SEC. 1240. TAXABILITY TO EMPLOYEE OF TERMINATION PAYMENTS.

Amounts received from the assignment or release by an employee, after more than 20 years' employment, of all his rights to receive, after termination of his employment and for a period of not less than 5 years (or for a period ending with his death), a percentage of future profits or receipts of his employer shall be considered an amount received from the sale or exchange of a capital asset held for more than 6 months if—

(1) such rights were included in the terms of the employment of such employee for not less than 12 years,

(2) such rights were included in the terms of the employment of such employee before the date of enactment of this title, and

(3) the total of the amounts received for such assignment or release is received in one taxable year and after the termination of such employment.

SEC. 1241. CANCELLATION OF LEASE OR DISTRIBUTOR'S AGREEMENT.

Amounts received by a lessee for the cancellation of a lease, or by a distributor of goods for the cancellation of a distributor's agreement (if the distributor has a substantial capital investment in the distributorship), shall be considered as amounts received in exchange for such lease or agreement.

Subchapter Q—Readjustment of Tax Between Years and Special Limitations

Part I. Income attributable to several taxable years.
Part II. Mitigation of effect of limitations and other provisions.
Part III. Involuntary liquidation and replacement of LIFO inventories.
Part IV. War loss recoveries.
Part V. Claim of right.
Part VI. Other limitations.

PART I—INCOME ATTRIBUTABLE TO SEVERAL TAXABLE YEARS

Sec. 1301. Compensation from an employment.
Sec. 1302. Income from an invention or artistic work.
Sec. 1303. Income from back pay.
Sec. 1304. Rules applicable to this part.

SEC. 1301. COMPENSATION FROM AN EMPLOYMENT.

(a) LIMITATION ON TAX.—If an individual or partnership—

(1) engages in an employment as defined in subsection (b); and

(2) the employment covers a period of 36 months or more (from the beginning to the completion of such employment); and

(3) the gross compensation from the employment received or accrued in the taxable year of the individual or partnership is not less than 80 percent of the total compensation from such employment,

then the tax attributable to any part of the compensation which is included in the gross income of any individual shall not be greater than the aggregate of the taxes attributable to such part had it been included in the gross income of such individual ratably over that part of the period which precedes the date of such receipt or accrual.

(b) DEFINITION OF AN EMPLOYMENT.—For purposes of this section, the term "an employment" means an arrangement or series of arrangements for the performance of personal services by an individual or partnership to effect a particular result, regardless of the number of sources from which compensation therefor is obtained.

(c) RULE WITH RESPECT TO PARTNERS.—An individual who is a member of a partnership receiving or accruing compensation from an employment of the type described in subsection (a) shall be entitled to the benefits of that subsection only if the individual has been a member of the partnership continuously for a period of 36 months or the period of the employment immediately preceding the receipt or accrual. In such a case the tax attributable to the part of the compensation which is includible in the gross income of the individual shall not be greater than the aggregate of the taxes which would have been attributable to that part had it been included in the gross income of the individual ratably over the period in which it was earned or the period during which the individual continuously was a member of the partnership, whichever period is the shorter. For purposes of

this subsection, a member of a partnership shall be deemed to have been a member of the partnership for any period, ending immediately prior to becoming such a member, in which he was an employee of such partnership, if during the taxable year he received or accrued compensation attributable to employment by the partnership during such period.

SEC. 1302. INCOME FROM AN INVENTION OR ARTISTIC WORK.

(a) LIMITATION ON TAX.—If—

(1) an individual includes in gross income amounts in respect of a particular invention or artistic work created by the individual; and

(2) the work on the invention or the artistic work covered a period of 24 months or more (from the beginning to the completion thereof); and

(3) the amounts in respect of the invention or the artistic work includible in gross income for the taxable year are not less than 80 percent of the gross income in respect of such invention or artistic work in the taxable year plus the gross income therefrom in previous taxable years and the 12 months immediately succeeding the close of the taxable year,

then the tax attributable to the part of such gross income of the taxable year which is not taxable as a gain from the sale or exchange of a capital asset held for more than 6 months shall not be greater than the aggregate of the taxes attributable to such part had it been received ratably over, in the case of an invention, that part of the period preceding the close of the taxable year or 60 months, whichever is shorter, or, in the case of an artistic work, that part of the period preceding the close of the taxable year but not more than 36 months.

(b) DEFINITIONS.—For purposes of this section—

(1) INVENTION.—The term "invention" means a patent covering an invention of the individual.

(2) ARTISTIC WORK.—The term "artistic work" means a literary, musical, or artistic composition or a copyright covering a literary, musical, or artistic composition.

SEC. 1303. INCOME FROM BACK PAY.

(a) LIMITATION ON TAX.—If the amount of the back pay received or accrued by an individual during the taxable year exceeds 15 percent of the gross income of the individual for such year, the part of the tax attributable to the inclusion of such back pay in gross income for the taxable year shall not be greater than the aggregate of the increases in the taxes which would have resulted from the inclusion of the respective portions of such back pay in gross income for the taxable years to which such portions are respectively attributable, as determined under regulations prescribed by the Secretary or his delegate.

(b) DEFINITION OF BACK PAY.—For purposes of this section, the term "back pay" means amounts includible in gross income under this subtitle which are one of the following—

(1) Remuneration, including wages, salaries, retirement pay, and other similar compensation, which is received or accrued during the taxable year by an employee for services performed before the taxable year for his employer and which would have been paid before the taxable year except for the intervention of one of the following events:

(A) bankruptcy or receivership of the employer;

(B) dispute as to the liability of the employer to pay such remuneration, which is determined after the commencement of court proceedings;

(C) if the employer is the United States, a State, a Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any of the foregoing, lack of funds appropriated to pay such remuneration; or

(D) any other event determined to be similar in nature under regulations prescribed by the Secretary or his delegate.

(2) Wages or salaries which are received or accrued during the taxable year by an employee for services performed before the taxable year for his employer and which constitute retroactive wage or salary increases ordered, recommended, or approved by any Federal or State agency, and made retroactive to any period before the taxable year.

(3) Payments which are received or accrued during the taxable year as the result of an alleged violation by an employer of any State or Federal law relating to labor standards or practices, and which are determined under regulations prescribed by the Secretary or his delegate to be attributable to a prior taxable year.

SEC. 1304. RULES APPLICABLE TO THIS PART.

(a) FRACTIONAL PARTS OF A MONTH.—For purposes of this part, a fractional part of a month shall be disregarded unless it amounts to more than half a month, in which case it should be considered as a month.

(b) TAX ON SELF-EMPLOYMENT INCOME.—This part shall be applied without regard to, and shall not affect, the tax imposed by chapter 2 relating to self-employment income.

(c) COMPUTATION OF TAX ATTRIBUTABLE TO INCOME ALLOCATED TO PRIOR PERIOD.—For the purpose of computing the tax attributable to the amount of an item of gross income allocable under this part to a particular taxable year, such amount shall be considered income only of the person who would be required to include the item of gross income in a separate return filed for the taxable year in which such item was received or accrued.

(d) EFFECTIVE DATE OF CERTAIN SUBSECTIONS.—Subsection (c) of section 1301 and subsection (c) of this section shall apply only to amounts received or accrued after March 1, 1954. Notwithstanding any other provision of this title, section 107 of the Internal Revenue Code of 1939 shall apply to amounts received or accrued as a partner on or before March 1, 1954, under this section and to the computation of tax on amounts received or accrued on or before March 1, 1954.

PART II—MITIGATION OF EFFECT OF LIMITATIONS AND OTHER PROVISIONS

Sec. 1311. Correction of error.
Sec. 1312. Circumstances of adjustment.
Sec. 1313. Definitions.
Sec. 1314. Amount and method of adjustment.
Sec. 1315. Effective date.

SEC. 1311. CORRECTION OF ERROR.

(a) GENERAL RULE.—If a determination (as defined in section 1313) is described in one or more of the paragraphs of section 1312 and, on the date of the determination, correction of the effect of the error referred to in the applicable paragraph of section 1312 is prevented by the operation of any law or rule of law, other than this part and other than section 7122 (relating to compromises), then the effect of the error shall be corrected by an adjustment made in the amount and in the manner specified in section 1314.

(b) CONDITIONS NECESSARY FOR ADJUSTMENT.—

(1) MAINTENANCE OF AN INCONSISTENT POSITION.—Except in cases described in paragraphs (3) (B) and (4) of section 1312, an adjustment shall be made under this part only if—

(A) in case the amount of the adjustment would be credited or refunded in the same manner as an overpayment under section 1314, there is adopted in the determination a position maintained by the Secretary or his delegate, or

(B) in case the amount of the adjustment would be assessed and collected in the same manner as a deficiency under section 1314, there is adopted in the determination a position maintained by the taxpayer with respect to whom the determination is made,

and the position maintained by the Secretary or his delegate in the case described in subparagraph (A) or maintained by the taxpayer in the case described in subparagraph (B) is inconsistent with the erroneous inclusion, exclusion, omission, allowance, disallowance, recognition, or nonrecognition, as the case may be.

(2) CORRECTION NOT BARRED AT TIME OF ERRONEOUS ACTION.—

(A) DETERMINATION DESCRIBED IN SECTION 1312 (3) (B).—In the case of a determination described in section 1312 (3) (B) (relating to certain exclusions from income), adjustment shall be made under this part only if assessment of a deficiency for the taxable year in which the item is includible or against the related taxpayer was not barred, by any law or rule of law, at the time the Secretary or his delegate first maintained, in a notice of deficiency sent pursuant to section 6212 or before the Tax Court of the United States, that the item described in section 1312 (3) (B) should be included in the gross income of the taxpayer for the taxable year to which the determination relates.

(B) DETERMINATION DESCRIBED IN SECTION 1312 (4).—In the case of a determination described in section 1312 (4) (relating to disallowance of certain deductions and credits), adjustment shall be made under this part only if credit or refund of the overpayment attributable to the deduction or credit described in such section which should have been allowed to the taxpayer or related taxpayer was not barred, by any law or rule of law, at the time the taxpayer first maintained before the Secretary or his delegate or

before the Tax Court of the United States, in writing, that he was entitled to such deduction or credit for the taxable year to which the determination relates.

(3) EXISTENCE OF RELATIONSHIP.—In case the amount of the adjustment would be assessed and collected in the same manner as a deficiency (except for cases described in section 1312 (3) (B)), the adjustment shall not be made with respect to a related taxpayer unless he stands in such relationship to the taxpayer at the time the latter first maintains the inconsistent position in a return, claim for refund, or petition (or amended petition) to the Tax Court of the United States for the taxable year with respect to which the determination is made, or if such position is not so maintained, then at the time of the determination.

SEC. 1312. CIRCUMSTANCES OF ADJUSTMENT.

The circumstances under which the adjustment provided in section 1311 is authorized are as follows:

(1) DOUBLE INCLUSION OF AN ITEM OF GROSS INCOME.—The determination requires the inclusion in gross income of an item which was erroneously included in the gross income of the taxpayer for another taxable year or in the gross income of a related taxpayer.

(2) DOUBLE ALLOWANCE OF A DEDUCTION OR CREDIT.—The determination allows a deduction or credit which was erroneously allowed to the taxpayer for another taxable year or to a related taxpayer.

(3) DOUBLE EXCLUSION OF AN ITEM OF GROSS INCOME.—

(A) ITEMS INCLUDED IN INCOME.—The determination requires the exclusion from gross income of an item included in a return filed by the taxpayer or with respect to which tax was paid and which was erroneously excluded or omitted from the gross income of the taxpayer for another taxable year, or from the gross income of a related taxpayer; or

(B) ITEMS NOT INCLUDED IN INCOME.—The determination requires the exclusion from gross income of an item not included in a return filed by the taxpayer and with respect to which the tax was not paid but which is includible in the gross income of the taxpayer for another taxable year or in the gross income of a related taxpayer.

(4) DOUBLE DISALLOWANCE OF A DEDUCTION OR CREDIT.—The determination disallows a deduction or credit which should have been allowed to, but was not allowed to, the taxpayer for another taxable year, or to a related taxpayer.

(5) CORRELATIVE DEDUCTIONS AND INCLUSIONS FOR TRUSTS OR ESTATES AND LEGATEES, BENEFICIARIES, OR HEIRS.—The determination allows or disallows any of the additional deductions allowable in computing the taxable income of estates or trusts, or requires or denies any of the inclusions in the computation of taxable income of beneficiaries, heirs, or legatees, specified in subparts A to E, inclusive (secs. 641 and following, relating to estates, trusts, and beneficiaries) of part I of subchapter J of this chapter, or corresponding provisions of prior internal revenue laws, and the correlative inclusion or deduction, as the case may be, has been erroneously excluded, omitted, or included, or disallowed, omitted, or allowed, as the case may be, in respect of the related taxpayer.

(6) BASIS OF PROPERTY AFTER ERRONEOUS TREATMENT OF A PRIOR TRANSACTION.—

(A) GENERAL RULE.—The determination determines the basis of property, and in respect of any transaction on which such basis depends, or in respect of any transaction which was erroneously treated as affecting such basis, there occurred, with respect to a taxpayer described in subparagraph (B) of this paragraph, any of the errors described in subparagraph (C) of this paragraph.

(B) TAXPAYERS WITH RESPECT TO WHOM THE ERRONEOUS TREATMENT OCCURRED.—The taxpayer with respect to whom the erroneous treatment occurred must be—

(i) the taxpayer with respect to whom the determination is made,

(ii) a taxpayer who acquired title to the property in the transaction and from whom, mediately or immediately, the taxpayer with respect to whom the determination is made derived title, or

(iii) a taxpayer who had title to the property at the time of the transaction and from whom, mediately or immediately, the taxpayer with respect to whom the determination is made derived title, if the basis of the property in the hands of the taxpayer with respect to whom the determination is made is determined under section 1015 (a) (relating to the basis of property acquired by gift).

(C) PRIOR ERRONEOUS TREATMENT.—With respect to a taxpayer described in subparagraph (B) of this paragraph—

(i) there was an erroneous inclusion in, or omission from, gross income,

(ii) there was an erroneous recognition, or nonrecognition, of gain or loss, or

(iii) there was an erroneous deduction of an item properly chargeable to capital account or an erroneous charge to capital account of an item properly deductible.

SEC. 1313. DEFINITIONS.

(a) DETERMINATION.—For purposes of this part, the term "determination" means—

(1) a decision by the Tax Court or a judgment, decree, or other order by any court of competent jurisdiction, which has become final;

(2) a closing agreement made under section 7121;

(3) a final disposition by the Secretary or his delegate of a claim for refund. For purposes of this part, a claim for refund shall be deemed finally disposed of by the Secretary or his delegate—

(A) as to items with respect to which the claim was allowed, on the date of allowance of refund or credit or on the date of mailing notice of disallowance (by reason of offsetting items) of the claim for refund, and

(B) as to items with respect to which the claim was disallowed, in whole or in part, or as to items applied by the Secretary or his delegate in reduction of the refund or credit, on expiration of the time for instituting suit with respect thereto (unless suit is instituted before the expiration of such time); or

(4) under regulations prescribed by the Secretary or his delegate, an agreement for purposes of this part, signed by the Secretary or his delegate and by any person, relating to the liability of such person (or the person for whom he acts) in respect of a tax under this subtitle for any taxable period.

(b) TAXPAYER.—Notwithstanding section 7701 (a) (14), the term "taxpayer" means any person subject to a tax under the applicable revenue law.

(c) RELATED TAXPAYER.—For purposes of this part, the term "related taxpayer" means a taxpayer who, with the taxpayer with respect to whom a determination is made, stood, in the taxable year with respect to which the erroneous inclusion, exclusion, omission, allowance, or disallowance was made, in one of the following relationships:

(1) husband and wife,
(2) grantor and fiduciary,
(3) grantor and beneficiary,
(4) fiduciary and beneficiary, legatee, or heir,
(5) decedent and decedent's estate,
(6) partner, or
(7) member of an affiliated group of corporations (as defined in section 1504).

SEC. 1314. AMOUNT AND METHOD OF ADJUSTMENT.

(a) ASCERTAINMENT OF AMOUNT OF ADJUSTMENT.—In computing the amount of an adjustment under this part there shall first be ascertained the tax previously determined for the taxable year with respect to which the error was made. The amount of the tax previously determined shall be the excess of—

(1) the sum of—

(A) the amount shown as the tax by the taxpayer on his return (determined as provided in section 6211 (b) (1) and (3), relating to the definition of deficiency), if a return was made by the taxpayer and an amount was shown as the tax by the taxpayer thereon, plus

(B) the amounts previously assessed (or collected without assessment) as a deficiency, over—

(2) the amount of rebates, as defined in section 6211 (b) (2), made.

There shall then be ascertained the increase or decrease in tax previously determined which results solely from the correct treatment of the item which was the subject of the error (with due regard given to the effect of the item in the computation of gross income, taxable income, and other matters under this subtitle). A similar computation shall be made for any other taxable year affected, or treated as affected, by a net operating loss deduction (as defined in section 172) or by a capital loss carryover (as defined in section 1212), determined with reference to the taxable year with respect to which the error was made. The amount so ascertained (together with any amounts wrongfully collected as additions to the tax or interest, as a result of such error) for each taxable year shall be the amount of the adjustment for that taxable year.

(b) METHOD OF ADJUSTMENT.—The adjustment authorized in section 1311 (a) shall be made by assessing and collecting, or refunding or crediting, the amount thereof in the same manner as if it were a

deficiency determined by the Secretary or his delegate with respect to the taxpayer as to whom the error was made or an overpayment claimed by such taxpayer, as the case may be, for the taxable year or years with respect to which an amount is ascertained under subsection (a), and as if on the date of the determination one year remained before the expiration of the periods of limitation upon assessment or filing claim for refund for such taxable year or years. If, as a result of a determination described in section 1313 (a) (4), an adjustment has been made by the assessment and collection of a deficiency or the refund or credit of an overpayment, and subsequently such determination is altered or revoked, the amount of the adjustment ascertained under subsection (a) of this section shall be redetermined on the basis of such alteration or revocation and any overpayment or deficiency resulting from such redetermination shall be refunded or credited, or assessed and collected, as the case may be, as an adjustment under this part. In the case of an adjustment resulting from an increase or decrease in a net operating loss which is carried back to the year of adjustment, interest shall not be collected or paid for any period prior to the close of the taxable year in which the net operating loss arises.

(c) ADJUSTMENT UNAFFECTED BY OTHER ITEMS.—The amount to be assessed and collected in the same manner as a deficiency, or to be refunded or credited in the same manner as an overpayment, under this part, shall not be diminished by any credit or set-off based upon any item other than the one which was the subject of the adjustment. Other than in the case of an adjustment resulting from a determination under section 1313 (a) (4), the amount of the adjustment under this part, if paid, shall not be recovered by a claim or suit for refund or suit for erroneous refund based upon any item other than the one which was the subject of the adjustment.

(d) PERIODS FOR WHICH ADJUSTMENTS MAY BE MADE.—No adjustment shall be made under this part in respect of any taxable year beginning prior to January 1, 1932.

(e) TAXES IMPOSED BY SUBTITLE C.—This part shall not apply to any tax imposed by subtitle C (sec. 3101 and following relating to employment taxes).

SEC. 1315. EFFECTIVE DATE.

(a) IN GENERAL.—This part shall apply only to determinations (as defined in section 1313 (a)) made after the 90th day after the date of enactment of this title.

(b) TRANSITIONAL PROVISION.—Notwithstanding any other provision of this title, section 3801 of the Internal Revenue Code of 1939 shall apply to determinations (as defined in subsection (a) of such section) made on or before such 90th day as if this title had not been enacted.

PART III—INVOLUNTARY LIQUIDATION AND REPLACEMENT OF LIFO INVENTORIES

Sec. 1321. Involuntary liquidation of LIFO inventories.

SEC. 1321. INVOLUNTARY LIQUIDATION OF LIFO INVENTORIES.

(a) ADJUSTMENT OF TAXABLE INCOME AND RESULTING TAX.—If, for any taxable year ending after June 30, 1950, and before January 1, 1955, the closing inventory of a taxpayer inventorying goods under the method provided in section 22 (d) of the Internal Revenue Code of 1939 reflects a decrease from the opening inventory of such goods for such year, and if the taxpayer elects, at such time and in such manner and subject to such regulations as the Secretary or his delegate may prescribe, to have this section apply, and if it is established to the satisfaction of the Secretary or his delegate, in accordance with such regulations, that such decrease is attributable to the involuntary liquidation of such inventory as defined in section 22 (d) (6) (B) of the Internal Revenue Code of 1939 (as modified by subsection (b) of this section), and if the closing inventory of a subsequent taxable year, ending before January 1, 1956, reflects a replacement, in whole or in part, of the goods so previously liquidated, then the taxable income of the taxpayer otherwise determined for the year of such involuntary liquidation shall be increased by an amount equal to the excess, if any, of the aggregate cost of such goods reflected in the opening inventory of the year of involuntary liquidation over the aggregate replacement cost, or decreased by an amount equal to the excess, if any, of the aggregate replacement cost of such goods over the aggregate cost thereof reflected in the opening inventory of the year of the involuntary liquidation. The taxes imposed by this chapter (and by chapters 1 and 2 of the Internal Revenue Code of 1939) for the year of such liquidation, for preceding taxable years, and for all taxable years intervening between the year of liquidation and the year of replacement shall be redetermined, giving effect to such adjustments. Any increase in such taxes resulting from such adjustments shall be assessed and collected as a deficiency but without interest, and any overpayment so resulting shall be credited or refunded to the taxpayer without interest.

(b) DEFINITIONS.—For purposes of this section, the term "involuntary liquidation" shall have the meaning given to it in section 22 (d) (6) (B) of the Internal Revenue Code of 1939 and, in addition, it shall mean a failure, as referred to in that section, on the part of the taxpayer due, directly and exclusively, to disruption of normal trade relations between countries. For purposes of this section, the words "enemy" and "war", as used in such section 22 (d) (6) (B), shall be interpreted, pursuant to regulations prescribed by the Secretary or his delegate, in such a way as to apply to circumstances, occurrences and conditions, lacking a state of war, which are similar, by reason of a state of national preparedness, to those which would exist under a state of war.

(c) SPECIAL RULES.—Subparagraphs (C) and (E) of section 22 (d) (6) of the Internal Revenue Code of 1939, to the extent that they refer to any taxpayer subject to subparagraph (A) of such section or to the adjustments specified in or resulting from the effect of subparagraph (A) of such section, shall apply to a taxpayer subject to this section or to adjustments specified in or resulting from the effect of

this section as though they specifically referred to this section. If, for any taxable year ending after June 30, 1950, and before January 1, 1953, subparagraph (C) of such section 22 (d) (6) applies with respect to involuntary liquidations of goods of the same class subject to both subparagraph (A) of such section and to this section, the involuntary liquidations of such goods subject to this section shall be considered for the purpose of such subparagraph (C) as having occurred before the involuntary liquidations of such goods subject to subparagraph (A) of such section 22 (d) (6). For the purpose of this subsection, and with respect to the taxable years covered by this section, the reference in subparagraph (E) of such section 22 (d) (6) to section 734 (d) shall be taken as a reference to section 452 (d) of the Internal Revenue Code of 1939, and, with respect to any taxable year to which any provision of the Internal Revenue Code of 1939 may not be applicable, references in such subparagraph to such provision shall, where applicable, be deemed a reference to the corresponding provision of the Internal Revenue Code of 1954.

PART IV—WAR LOSS RECOVERIES

Sec. 1331. War loss recoveries.
Sec. 1332. Inclusion in gross income of war loss recoveries.
Sec. 1333. Tax adjustment measured by prior benefits.
Sec. 1334. Restoration of value of investments referable to destroyed or seized property.
Sec. 1335. Election by taxpayer for application of section 1333.
Sec. 1336. Basis of recovered property.
Sec. 1337. Applicable rules.

SEC. 1331. WAR LOSS RECOVERIES.

On the recovery in the taxable year of any money or property in respect of property considered under section 127 (a) of the Internal Revenue Code of 1939, as destroyed or seized, the amount of such recovery shall be included in gross income to the extent provided in section 1332, unless section 1333 applies to the taxable year pursuant to an election made by the taxpayer under section 1335.

SEC. 1332. INCLUSION IN GROSS INCOME OF WAR LOSS RECOVERIES.

(a) AMOUNT OF RECOVERY.—The amount of the recovery of any money or property in respect of property considered under section 127 (a) of the Internal Revenue Code of 1939, as destroyed or seized, shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery.

(b) AMOUNT OF GAIN INCLUDIBLE.—

(1) PORTION EXCLUDED FROM GROSS INCOME.—To the extent that the amount of the recovery plus the aggregate of the amounts of previous such recoveries do not exceed that part of the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in such section 127 (a) which did not result in a reduction of any tax of the taxpayer under chapter 1 or 2 of the Internal Revenue Code of 1939, such amount shall not be includible in gross income and shall not be deemed gain on the involuntary conversion of property as a result of its destruction or seizure.

(2) PORTION TREATED AS ORDINARY INCOME.—To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed that part of the aggregate of such deductions, which did not result in a reduction of any tax of the taxpayer under such chapters and do not exceed that part of the aggregate of such deductions which did result in a reduction of any tax of the taxpayer under such chapters, such amount shall be included in gross income but shall not be deemed a gain on the involuntary conversion of property as a result of its destruction or seizure.

(3) PORTION TREATED AS GAIN ON INVOLUNTARY CONVERSION.—To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in such section 127 (a), such amount shall be considered a gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 1033 (relating to involuntary conversions).

(4) OBLIGATIONS NOT DISCHARGED.—If for any previous taxable year the taxpayer chose under section 127 (b) of the Internal Revenue Code of 1939 to treat any obligations and liabilities as discharged or satisfied out of the property or interest described in such section 127 (a), and if such obligations and liabilities were not so discharged or satisfied, the amount of such obligations and liabilities treated as discharged or satisfied under such section 127 (b) shall be considered for purposes of this part as a deduction by reason of such section 127 (a) which did not result in a reduction of any tax of the taxpayer under such chapters 1 or 2.

(5) ALLOWABLE DEDUCTION NOT ALLOWED.—For purposes of this subsection, an allowable deduction for any taxable year on account of the destruction or seizure of property described in such section 127 (a) shall, to the extent not allowed in computing the tax of the taxpayer for such taxable year, be considered an allowable deduction which did not result in a reduction of any tax of the taxpayer under such chapters 1 or 2.

SEC. 1333. TAX ADJUSTMENT MEASURED BY PRIOR BENEFITS.

If this section applies to the taxable year pursuant to an election made by the taxpayer under section 1335 or section 127 (c) (5) of the Internal Revenue Code of 1939—

(1) AMOUNT OF RECOVERY.—The amount of the recovery in the taxable year of any money or property in respect of property considered under section 127 (a) of the Internal Revenue Code of 1939 as destroyed or seized, shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery. For purposes of this section, in the case of the recovery of the same property or interest considered under such section 127 (a) as destroyed or seized, the fair market value of such property or interest shall, at the option of the taxpayer, be considered an amount equal to the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date such property or interest was considered under such section 127 (a) as destroyed or seized. The amount of the recovery determined under this paragraph shall be reduced for pur-

poses of paragraphs (2) and (3) by the amount of the obligations or liabilities with respect to the property considered under such section 127 (a) as destroyed or seized in respect of which the recovery was received, if the taxpayer for any previous taxable year chose under section 127 (b) (2) of such code to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied before the date of the recovery.

(2) ADJUSTMENT FOR PRIOR TAX BENEFITS.—That part of the amount of the recovery, in respect of any property considered under such section 127 (a) as destroyed or seized, which is not in excess of the allowable deductions in prior taxable years on account of such destruction or seizure of the property (the amount of such allowable deductions being first reduced by the aggregate amount of any prior recoveries in respect of the same property) shall be excluded from gross income for the taxable year of the recovery for purposes of computing the tax under this subtitle; but there shall be added to, and assessed and collected as a part of, the tax under this subtitle for the taxable year of the recovery the total increase in the tax under chapters 1 and 2 of the Internal Revenue Code of 1939 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, such deductions allowable in the prior taxable years with respect to the destruction or seizure of the property. Such increase in the tax for each such year so resulting shall be computed in accordance with regulations prescribed by the Secretary or his delegate. Such regulations shall give effect to previous recoveries of any kind (including recoveries described in section 111, relating to recovery of bad debts, etc.) with respect to any prior year, and shall provide for the case where there was no tax for the prior year, but shall otherwise treat the tax previously determined for any year in accordance with the principles set forth in section 1314 (a) (relating to corrections of errors). All credits allowable against the tax for any year and all carryovers and carrybacks affected by so decreasing the allowable deductions shall be taken into account in computing the increase in the tax, except that the computation of the excess profits credit under chapter 2 E of such code for any taxable year shall not be affected.

(3) GAIN ON RECOVERY.—The amount of any recovery or part thereof, in respect of property considered under such section 127 (a) as destroyed or seized, which is not excluded from gross income under paragraph (2), shall be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 1033.

(4) RECOVERIES TREATED AS GROSS INCOME FOR CERTAIN PURPOSES.—For purposes of section 6012 (relating to persons required to make income tax returns) and section 1312 (relating to circumstances of adjustment), the recovery in the taxable year of any money or property in respect of property considered under such section 127 (a) as destroyed or seized in any prior taxable year shall be deemed to be an item includible in gross income for the taxable year in which the recovery is made.

SEC. 1334. RESTORATION OF VALUE OF INVESTMENTS REFERABLE TO DESTROYED OR SEIZED PROPERTY.

For purposes of this part, the restoration in whole or in part of the value of any interest described in section 127 (a) (3) of the Internal Revenue Code of 1939 by reason of any recovery of money or property in respect of property to which such interest related and which was considered under subsection (a) (1) or (2) of such section 127 as destroyed or seized shall be deemed a recovery of property in respect of property considered under such section 127 (a) as destroyed or seized. In applying section 1333, such restoration shall be treated as the recovery of the same interest considered under such section 127 (a) as destroyed or seized.

SEC. 1335. ELECTION BY TAXPAYER FOR APPLICATION OF SECTION 1333.

If the taxpayer elects to have section 1333 apply to any taxable year in which he recovered any money or property in respect of property considered under section 127 (a) of the Internal Revenue Code of 1939, as destroyed or seized, section 1333 shall apply to all taxable years of the taxpayer beginning after December 31, 1941, and such election, once made, shall be irrevocable. The election shall be made in such manner and at such time as the Secretary or his delegate may by regulations prescribe, except that no election under this section may be made unless the taxpayer recovers money or property (in respect of property considered under such section 127 (a) as destroyed or seized) during the taxable year for which the election is made. If pursuant to such election section 1333 applies to any taxable year—

(1) the period of limitations provided in chapter 66 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall not, with respect to—

(A) the amount to be added to the tax for such taxable year under section 1333, and

(B) any deficiency for such taxable year or for any other taxable year, to the extent attributable to the basis of the recovered property being determined under section 1336 (b),

expire before the expiration of 2 years following the date of the making of such election, and such amount and such deficiency may be assessed at any time before the expiration of such period notwithstanding any law or rule of law which would otherwise prevent such assessment and collection, and

(2) in case refund or credit of any overpayment resulting from the application of section 1333 to such taxable year is prevented on the date of the making of such election, or within one year from such date, by the operation of any law or rule of law (other than section 7122, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within one year from such date.

In the case of any taxable year ending before the date of the making by the taxpayer of an election under this section, no interest shall be paid on any overpayment resulting from the application of section 1333 to such taxable year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in

paragraph (1) for any period before the expiration of 6 months following the date of the making of such election by the taxpayer.

SEC. 1336. BASIS OF RECOVERED PROPERTY.

(a) IN GENERAL.—The unadjusted basis of property recovered in respect of property considered as destroyed or seized under section 127 (a) of the Internal Revenue Code of 1939 shall be determined under this section. Such basis shall be an amount equal to the fair market value of such property, determined as of the date of the recovery, reduced by an amount equal to the excess of the aggregate of such fair market value and the amounts of previous recoveries of money or property in respect of property considered under such section 127 (a) as destroyed or seized over the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in such section 127 (a), and increased by that portion of the amount of the recovery which under section 1332 is treated as a recognized gain from the involuntary conversion of property. On application of the taxpayer, the aggregate of the bases (determined under the preceding sentence) of any properties recovered in respect of properties considered under such section 127 (a) as destroyed or seized may be allocated among the properties so recovered in such manner as the Secretary or his delegate may determine under regulations prescribed by the Secretary or his delegate, and the amounts so allocated to any such property so recovered shall be the unadjusted basis of such property in lieu of the unadjusted basis of such property determined under the preceding sentence.

(b) PROPERTY RECOVERED IN TAXABLE YEAR TO WHICH SECTION 1333 APPLIES.—In the case of a taxpayer who has made an election under section 1335, the basis of property recovered shall be an amount equal to the value at which such property is included in the amount of the recovery under section 1333 (1) (determined without regard to the last sentence thereof), reduced by such part of the gain under section 1333 (3) which is not recognized as provided in section 1033.

SEC. 1337. APPLICABLE RULES.

(a) DETERMINATION OF TAX BENEFITS.—The determination as to whether and to what extent an allowable deduction on account of the destruction or seizure of property described in section 127 (a) of the Internal Revenue Code of 1939 did or did not result in a reduction of any tax of the taxpayer under chapter 1 or 2 of such code shall be made in accordance with regulations prescribed by the Secretary or his delegate.

(b) PARTIAL WORTHLESSNESS OF CERTAIN INVESTMENTS TREATED AS WAR LOSSES UNDER 1939 CODE.—The part of the stock or other interest of the taxpayer treated under subsection (e) of such section 127 as property described in subsection (a) (3) of such section shall be treated in the same manner for purposes of this part.

PART V—CLAIM OF RIGHT

Sec. 1341. Computation of tax where taxpayer restores substantial amount held under claim of right.

SEC. 1341. COMPUTATION OF TAX WHERE TAXPAYER RESTORES SUBSTANTIAL AMOUNT HELD UNDER CLAIM OF RIGHT.

(a) GENERAL RULE.—If—

(1) an item was included in gross income for a prior taxable year (or years) because it appeared that the taxpayer had an unrestricted right to such item;

(2) a deduction is allowable for the taxable year because it was established after the close of such prior taxable year (or years) that the taxpayer did not have an unrestricted right to such item or to a portion of such item; and

(3) the amount of such deduction exceeds $3,000,

then the tax imposed by this chapter for the taxable year shall be the lesser of the following:

(4) the tax for the taxable year computed with such deduction; or

(5) an amount equal to—

(A) the tax for the taxable year computed without such deduction, minus

(B) the decrease in tax under this chapter (or the corresponding provisions of prior revenue laws) for the prior taxable year (or years) which would result solely from the exclusion of such item (or portion thereof) from gross income for such prior taxable year (or years).

For purposes of paragraph (5) (B), the corresponding provisions of the Internal Revenue Code of 1939 shall be chapter 1 of such code (other than subchapter E, relating to self-employment income).

(b) SPECIAL RULES.—

(1) If the decrease in tax ascertained under subsection (a) (5) (B) exceeds the tax imposed by this chapter for the taxable year (computed without the deduction) such excess shall be considered to be a payment of tax on the last day prescribed by law for the payment of tax for the taxable year, and shall be refunded or credited in the same manner as if it were an overpayment for such taxable year.

(2) Subsection (a) does not apply to any deduction allowable with respect to an item which was included in gross income by reason of the sale or other disposition of stock in trade of the taxpayer (or other property of a kind which would properly have been included in the inventory of the taxpayer if on hand at the close of the prior taxable year) or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. This paragraph shall not apply if the deduction arises out of refunds or repayments 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.

PART VI—OTHER LIMITATIONS

Sec. 1346. Recovery of unconstitutional Federal taxes.
Sec. 1347. Claims against United States involving acquisition of property.

SEC. 1346. RECOVERY OF UNCONSTITUTIONAL FEDERAL TAXES.

Income (excluding interest) attributable to the recovery during the taxable year of a tax imposed by the United States which has been held unconstitutional, and in respect of which a deduction was allowed in a prior taxable year, may be excluded from gross income for the taxable year, and the deduction allowed in respect thereof in such prior taxable year treated as not having been allowable, if—

(1) the taxpayer elects in writing (at such time and in such manner as may be prescribed by regulations prescribed by the Secretary or his delegate) to treat such deduction as not having been allowable for such prior taxable year, and

(2) the taxpayer consents in writing to the assessment, within such period as may be agreed on, of any deficiency resulting from such treatment, even though the statutory period for the assessment of any such deficiency had expired before the filing of such consent.

SEC. 1347. CLAIMS AGAINST UNITED STATES INVOLVING ACQUISITION OF PROPERTY.

In the case of amounts (other than interest) received by a taxpayer from the United States with respect to a claim against the United States involving the acquisition of property and remaining unpaid for more than 15 years, the tax imposed by section 1 attributable to such receipt shall not exceed 30 percent of the amount (other than interest) so received.

Subchapter R—Election of Certain Partnerships and Proprietorships as to Taxable Status

Sec. 1361. Unincorporated business enterprises electing to be taxed as domestic corporations.

SEC. 1361. UNINCORPORATED BUSINESS ENTERPRISES ELECTING TO BE TAXED AS DOMESTIC CORPORATIONS.

(a) GENERAL RULE.—Subject to the qualifications in subsection (b), an election may be made, in accordance with regulations prescribed by the Secretary or his delegate, not later than 60 days after the close of any taxable year of a proprietorship or partnership owning an unincorporated business enterprise, by the proprietor or all the partners, owning an interest in such enterprise at any time on or after the first day of the first taxable year to which the election applies or of the year described in subsection (f), to be subject to the taxes described in subsection (h) as a domestic corporation for such year and subsequent years.

(b) QUALIFICATIONS.—The election described in subsection (a) may not be made with respect to an unincorporated business enterprise unless at all times during the period on or after the first day of the first taxable year to which the election applies or of the year described in subsection (f), as the case may be, and on or before the date of election—

(1) such enterprise is owned by an individual, or by a partnership consisting of not more than 50 individual members;

(2) no proprietor or partner having more than a 10 percent interest in profits or capital of such enterprise is a proprietor or a partner having more than a 10 percent interest in profits or capital of any other unincorporated business enterprise taxable as a domestic corporation;

(3) no proprietor or partner of such enterprise is a nonresident alien or a foreign partnership; and

(4) such enterprise is one in which capital is a material income producing factor, or 50 percent or more of the gross income of such enterprise consists of gains, profits, or income derived from trading as a principal or from buying and selling real property, stock, securities, or commodities for the account of others.

(c) CORPORATE PROVISIONS APPLICABLE.—Under regulations prescribed by the Secretary or his delegate, an unincorporated business enterprise as to which an election has been made under subsection (a), shall, except as provided in subsection (m), be considered a corporation for purposes of this subtitle, except chapter 2 thereof, with respect to operation, distributions, sale of an interest, and any other purpose; and each owner of an interest in such enterprise shall be considered a shareholder thereof in proportion to his interest.

(d) LIMITATION.—A partner or proprietor of an unincorporated business enterprise as to which an election has been made under subsection (a) shall not be considered an employee for purposes of section 401 (a) (relating to employees' pension trusts, etc.).

(e) ELECTION IRREVOCABLE.—Except as provided in subsection (f), the election described in subsection (a) shall be irrevocable—

(1) with respect to an enterprise as to which such election has been made and the proprietor or partners of such enterprise; and

(2) any unincorporated successor to the business of such enterprise and the proprietor or partners of such successor.

(f) CHANGE OF OWNERSHIP.—In any year in which the electing proprietor or partners have an interest of 80 percent or less in profits and capital of an enterprise described in subsection (e), such enterprise shall not be considered a domestic corporation for such year or for subsequent years unless the proprietor or partners of such enterprise make a new election in accordance with subsection (a).

(g) CONSTRUCTIVE OWNERSHIP.—For purposes of subsection (f), the ownership of an interest shall be determined in accordance with the rules for constructive ownership of stock provided in section 267 (c) other than paragraph (3) thereof.

(h) IMPOSITION OF TAXES.—The unincorporated business enterprise as to which an election has been made under subsection (a) shall be subject to—

(1) the normal tax and surtax imposed by section 11,

(2) the accumulated earnings tax imposed by section 531, and

(3) the alternative tax for capital gains imposed by section 1201.

(i) PERSONAL HOLDING COMPANY INCOME.—

(1) EXCLUDED FROM INCOME OF ENTERPRISE.—There shall not be included in the gross income of the enterprise as to which an election has been made under subsection (a) any personal holding company income (as defined in section 543), except income earned by such enterprise from buying and selling real property, stock, securities, or commodities for the account of others.

(2) INCOME AND DEDUCTIONS OF OWNERS.—Any personal holding company income not included in the gross income of the enterprise under paragraph (1), and the expenses attributable thereto, shall be treated as the income and deductions of the proprietor or partners (in accordance with their distributive shares of partnership income) of such enterprise.

(3) DISTRIBUTIONS.—If the amount of personal holding company income includible under paragraph (2) in the income of the proprietor or partner is distributed to him during the year earned, such amount shall not be taxed as a corporate distribution. The amount of such income not distributed during such year shall be considered as paid-in surplus or as a contribution to capital as of the close of such year.

(4) RENTS AND ROYALTIES.—For the purpose of determining whether rents, and mineral, oil, or gas royalties constitute personal holding company income under paragraph (1), all income earned by the enterprise in any taxable year shall enter into the determination of its gross income for such year.

(j) COMPUTATION OF TAXABLE INCOME.—In computing the taxable income of an unincorporated business enterprise as to which an election has been made under subsection (a)—

(1) a reasonable deduction shall be allowed for salary or compensation to a proprietor or partner for services actually rendered; and

(2) there shall be allowed as deductions only such items properly allocable to the operation of the business of such enterprise, except deductions allocable to the proprietor or partners under subsection (i) (2).

(k) DISTRIBUTIONS OTHER THAN IN LIQUIDATION.—Except as provided in subsection (l), a distribution with respect to a proprietorship or partnership interest by an enterprise as to which an election has been made under subsection (a), other than a distribution of personal holding company income under subsection (i) (3), shall be treated as a corporate distribution in accordance with part I of subchapter C of this chapter.

(l) DISTRIBUTIONS IN LIQUIDATION.—A distribution in partial or complete liquidation with respect to a proprietorship or partnership interest by an enterprise as to which an election has been made under subsection (a), shall be treated as a corporate liquidation in accordance with part II of subchapter C of this chapter.

(m) ORGANIZATIONS AND REORGANIZATIONS.—An enterprise as to which an election has been made under subsection (a) shall not be considered a corporation, nor shall the proprietor or partners of such enterprise be considered shareholders, for purposes of parts III and IV of subchapter C of this chapter (relating to corporate organizations, and reorganizations, and insolvency reorganizations) except in the case of—

(1) a contribution of property, constituting either paid-in surplus or a contribution to capital, on which gain or loss is recognized; and

(2) the organization of an enterprise as to which the election described in subsection (a) is made for its first taxable year.

CHAPTER 2—TAX ON SELF-EMPLOYMENT INCOME

Sec. 1401. Rate of tax.
Sec. 1402. Definitions.
Sec. 1403. Miscellaneous provisions.

SEC. 1401. RATE OF TAX.

In addition to other taxes, there shall be imposed for each taxable year, on the self-employment income of every individual, a tax as follows:

(1) in the case of any taxable year beginning before January 1, 1960, the tax shall be equal to 3 percent of the amount of the self-employment income for such taxable year;

(2) in the case of any taxable year beginning after December 31, 1959, and before January 1, 1965, the tax shall be equal to 3¾ percent of the amount of the self-employment income for such taxable year;

(3) in the case of any taxable year beginning after December 31, 1964, and before January 1, 1970, the tax shall be equal to 4½ percent of the amount of the self-employment income for such taxable year;

(4) in the case of any taxable year beginning after December 31, 1969, the tax shall be equal to 4⅞ percent of the amount of the self-employment income for such taxable year.

SEC. 1402. DEFINITIONS.

(a) NET EARNINGS FROM SELF-EMPLOYMENT.—The term "net earnings from self-employment" means the gross income derived by an individual from any trade or business carried on by such individual, less the deductions allowed by this subtitle which are attributable to such trade or business, plus his distributive share (whether or not distributed) of income or loss described in section 702 (a) (9) from any trade or business carried on by a partnership of which he is a member; except that in computing such gross income and deductions and such distributive share of partnership ordinary income or loss—

(1) there shall be excluded rentals from real estate (including personal property leased with the real estate) and deductions attributable thereto, unless such rentals are received in the course of a trade or business as a real estate dealer;

(2) there shall be excluded income derived from any trade or business in which, if the trade or business were carried on exclusively by employees, the major portion of the services would constitute agricultural labor as defined in section 3121 (g); and there shall be excluded all deductions attributable to such income;

(3) there shall be excluded dividends on any share of stock, and interest on any bond, debenture, note, or certificate, or other evidence of indebtedness, issued with interest coupons or in registered form by any corporation (including one issued by a government or political subdivision thereof), unless such dividends and

interest (other than interest described in section 35) are received in the course of a trade or business as a dealer in stocks or securities;

(4) there shall be excluded any gain or loss—

(A) which is considered as gain or loss from the sale or exchange of a capital asset,

(B) from the cutting of timber, or the disposal of timber or coal, if section 631 applies to such gain or loss, or

(C) from the sale, exchange, involuntary conversion. or other disposition of property if such property is neither—

(i) stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the taxable year, nor

(ii) property held primarily for sale to customers in the ordinary course of the trade or business;

(5) the deduction for net operating losses provided in section 172 shall not be allowed;

(6) if—

(A) any of the income derived from a trade or business (other than a trade or business carried on by a partnership) is community income under community property laws applicable to such income, all of the gross income and deductions attributable to such trade or business shall be treated as the gross income and deductions of the husband unless the wife exercises substantially all of the management and control of such trade or business, in which case all of such gross income and deductions shall be treated as the gross income and deductions of the wife; and

(B) any portion of a partner's distributive share of the ordinary income or loss from a trade or business carried on by a partnership is community income or loss under the community property laws applicable to such share, all of such distributive share shall be included in computing the net earnings from self-employment of such partner, and no part of such share shall be taken into account in computing the net earnings from self-employment of the spouse of such partner;

(7) a resident of Puerto Rico shall compute his net earnings from self-employment in the same manner as a citizen of the United States but without regard to section 933;

(8) the deduction for personal exemptions provided in section 151 shall not be allowed.

If the taxable year of a partner is different from that of the partnership, the distributive share which he is required to include in computing his net earnings from self-employment shall be based on the ordinary income or loss of the partnership for any taxable year of the partnership ending within or with his taxable year.

(b) SELF-EMPLOYMENT INCOME.—The term "self-employment income" means the net earnings from self-employment derived by an individual (other than a nonresident alien individual) during any taxable year; except that such term shall not include—

(1) that part of the net earnings from self-employment which is in excess of—

(A) $3,600, minus

(B) the amount of the wages paid to such individual during the taxable year; or

(2) the net earnings from self-employment, if such net earnings for the taxable year are less than $400.

For purposes of clause (1), the term "wages" includes such remuneration paid to an employee for services included under an agreement entered into pursuant to the provisions of section 218 of the Social Security Act (relating to coverage of State employees) as would be wages under section 3121 (a) if such services constituted employment under section 3121 (b). An individual who is not a citizen of the United States but who is a resident of the Virgin Islands or a resident of Puerto Rico shall not, for purposes of this chapter be considered to be a nonresident alien individual.

(c) TRADE OR BUSINESS.—The term "trade or business", when used with reference to self-employment income or net earnings from self-employment, shall have the same meaning as when used in section 162 (relating to trade or business expenses), except that such term shall not include—

(1) the performance of the functions of a public office;

(2) the performance of service by an individual as an employee (other than service described in section 3121 (b) (16) (B) performed by an individual who has attained the age of 18);

(3) the performance of service by an individual as an employee or employee representative as defined in section 3231;

(4) the performance of service by a duly ordained, commissioned, or licensed minister of a church in the exercise of his ministry or by a member of a religious order in the exercise of duties required by such order; or

(5) the performance of service by an individual in the exercise of his profession as a physician, lawyer, dentist, osteopath, veterinarian, chiropractor, naturopath, optometrist, Christian Science practitioner, architect, certified public accountant, accountant registered or licensed as an accountant under State or municipal law, full-time practicing public accountant, funeral director, or professional engineer; or the performance of such service by a partnership.

(d) EMPLOYEE AND WAGES.—The term "employee" and the term "wages" shall have the same meaning as when used in chapter 21 (sec. 3101 and following, relating to Federal Insurance Contributions Act).

SEC. 1403. MISCELLANEOUS PROVISIONS.

(a) TITLE OF CHAPTER.—This chapter may be cited as the "Self-Employment Contributions Act of 1954".

(b) CROSS REFERENCES.—

(1) For provisions relating to returns, see section 6017.

(2) For provisions relating to collection of taxes in Virgin Islands and Puerto Rico, see section 7651.

CHAPTER 3—WITHHOLDING OF TAX ON NONRESIDENT ALIENS AND FOREIGN CORPORATIONS AND TAX-FREE COVENANT BONDS

SUBCHAPTER A. Nonresident aliens and foreign corporations.
SUBCHAPTER B. Tax-free covenant bonds.
SUBCHAPTER C. Application of withholding provisions.

Subchapter A—Nonresident Aliens and Foreign Corporations

Sec. 1441. Withholding of tax on nonresident aliens.
Sec. 1442. Withholding of tax on foreign corporations.
Sec. 1443. Foreign tax-exempt organizations.

SEC. 1441. WITHHOLDING OF TAX ON NONRESIDENT ALIENS.

(a) GENERAL RULE.—Except as otherwise provided in subsection (c), all persons, in whatever capacity acting (including lessees or mortgagors of real or personal property, fiduciaries, employers, and all officers and employees of the United States) having the control, receipt, custody, disposal, or payment of any of the items of income specified in subsection (b) (to the extent that any of such items constitutes gross income from sources within the United States), of any nonresident alien individual, or of any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, shall (except in the cases provided for in section 1451 and except as otherwise provided in regulations prescribed by the Secretary or his delegate under section 874) deduct and withhold from such items a tax equal to 30 percent thereof.

(b) INCOME ITEMS.—The items of income referred to in subsection (a) are interest (except interest on deposits with persons carrying on the banking business paid to persons not engaged in business in the United States), dividends, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income, and amounts described in section 402 (a) (2), section 631 (b) and (c), and section 1235, which are considered to be gains from the sale or exchange of capital assets.

(c) EXCEPTIONS.—

(1) DIVIDENDS OF FOREIGN CORPORATIONS.—No deduction or withholding under subsection (a) shall be required in the case of dividends paid by a foreign corporation unless (A) such corporation is engaged in trade or business within the United States, and (B) more than 85 percent of the gross income of such corporation for the 3-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was derived from sources within the United States as determined under part I of subchapter N of chapter 1.

(2) OWNER UNKNOWN.—The Secretary or his delegate may authorize the tax under subsection (a) to be deducted and withheld from the interest upon any securities the owners of which are not known to the withholding agent.

(3) BONDS WITH EXTENDED MATURITY DATES.—The deduction and withholding in the case of interest on bonds, mortgages, or deeds of trust or other similar obligations of a corporation, within subsections (a), (b), and (c) of section 1451 were it not for the fact that the maturity date of such obligations has been extended on or after January 1, 1934, and the liability assumed by the debtor exceeds 27½ percent of the interest, shall not exceed the rate of 27½ percent per annum.

(4) COMPENSATION OF CERTAIN ALIENS.—Under regulations prescribed by the Secretary or his delegate, there may be exempted from deduction and withholding under subsection (a) the compensation for personal services of nonresident alien individuals who enter and leave the United States at frequent intervals.

(5) SPECIAL ITEMS.—In the case of amounts described in section 402 (a) (2), section 631 (b) and (c), and section 1235, which are considered to be gains from the sale or exchange of capital assets, the amount required to be deducted and withheld shall, if the amount of such gain is not known to the withholding agent, be such amount, not exceeding 30 percent of the proceeds from such sale or exchange, as may be necessary to assure that the tax deducted and withheld shall not be less than 30 percent of such gain.

(d) ALIEN RESIDENT OF PUERTO RICO.—For purposes of this section, the term "nonresident alien individual" includes an alien resident of Puerto Rico.

SEC. 1442. WITHHOLDING OF TAX ON FOREIGN CORPORATIONS.

In the case of foreign corporations subject to taxation under this subtitle not engaged in trade or business within the United States, there shall be deducted and withheld at the source in the same manner and on the same items of income as is provided in section 1441 or section 1451 a tax equal to 30 percent thereof; except that, in the case of interest described in section 1451 (relating to tax-free covenant bonds), the deduction and withholding shall be at the rate specified therein.

SEC. 1443. FOREIGN TAX-EXEMPT ORGANIZATIONS.

In the case of income of a foreign organization subject to the tax imposed by section 511, this chapter shall apply to rents includible under section 512 in computing its unrelated business taxable income, but only to the extent and subject to such conditions as may be provided under regulations prescribed by the Secretary or his delegate.

Subchapter B—Tax-Free Covenant Bonds

Sec. 1451. Tax-free covenant bonds.

SEC. 1451. TAX-FREE COVENANT BONDS.

(a) REQUIREMENT OF WITHHOLDING.—In any case where bonds, mortgages, or deeds of trust, or other similar obligations of a corporation, issued before January 1, 1934, contain a contract or provision by which the obligor agrees to pay any portion of the tax imposed by this subtitle on the obligee, or to reimburse the obligee for any portion of the tax, or to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon, or to retain therefrom under any law of the United States, the obligor shall deduct and withhold a tax equal to 2 percent (regardless of whether the liability assumed by the obligor is less than, equal to, or greater than 2 percent) of the interest on such bonds, mortgages, deeds of trust, or other obligations, whether such interest is payable annually or at shorter or longer periods, if payable to—

(1) an individual,

(2) a partnership, or

(3) a foreign corporation not engaged in trade or business within the United States.

(b) PAYMENTS TO FOREIGNERS.—Notwithstanding subsection (a), if the liability assumed by the obligor does not exceed 2 percent of the interest, then the deduction and withholding shall be at the rate of 30 percent in the case of—

(1) a nonresident alien individual,

(2) any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, and

(3) a foreign corporation not engaged in trade or business within the United States.

(c) OWNER UNKNOWN.—If the owners of such obligations are not known to the withholding agent, the Secretary or his delegate may authorize such deduction and withholding to be at the rate of 2 percent, or, if the liability assumed by the obligor does not exceed 2 percent of the interest, then at the rate of 30 percent.

(d) BENEFIT OF PERSONAL EXEMPTIONS.—Deduction and withholding under this section shall not be required in the case of a citizen or resident entitled to receive such interest, if he files with the withholding agent on or before February 1 a signed notice in writing claiming the benefit of the deduction for personal exemptions provided in section 151; nor in the case of a nonresident alien individual if so provided for in regulations prescribed by the Secretary or his delegate under section 874.

(e) ALIEN RESIDENTS OF PUERTO RICO.—For purposes of this section, the term "nonresident alien individual" includes an alien resident of Puerto Rico.

(f) INCOME OF OBLIGOR AND OBLIGEE.—The obligor shall not be allowed a deduction for the payment of the tax imposed by this subtitle, or any other tax paid pursuant to the tax-free covenant clause, nor shall such tax be included in the gross income of the obligee.

Subchapter C—Application of Withholding Provisions

Sec. 1461. Return and payment of withheld tax.
Sec. 1462. Withheld tax as credit to recipient of income.
Sec. 1463. Tax paid by recipient of income.
Sec. 1464. Refunds and credits with respect to withheld tax.
Sec. 1465. Definition of withholding agent.

SEC. 1461. RETURN AND PAYMENT OF WITHHELD TAX.

Every person required to deduct and withhold any tax under this chapter shall, on or before March 15 of each year, make return thereof and pay the tax to the officer designated in section 6151. Every such person is hereby made liable for such tax and is hereby indemnified against the claims and demands of any person for the amount of any payments made in accordance with the provisions of this chapter.

SEC. 1462. WITHHELD TAX AS CREDIT TO RECIPIENT OF INCOME.

Income on which any tax is required to be withheld at the source under this chapter shall be included in the return of the recipient of such income, but any amount of tax so withheld shall be credited against the amount of income tax as computed in such return.

SEC. 1463. TAX PAID BY RECIPIENT OF INCOME.

If any tax required under this chapter to be deducted and withheld is paid by the recipient of the income, it shall not be re-collected from the withholding agent; nor in cases in which the tax is so paid shall any penalty be imposed on or collected from the recipient of the income or the withholding agent for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

SEC. 1464. REFUNDS AND CREDITS WITH RESPECT TO WITHHELD TAX.

Where there has been an overpayment of tax under this chapter, any refund or credit made under chapter 65 shall be made to the withholding agent unless the amount of such tax was actually withheld by the withholding agent.

SEC. 1465. DEFINITION OF WITHHOLDING AGENT.

The term "withholding agent" means any person required to deduct and withhold any tax under this chapter.

CHAPTER 4—RULES APPLICABLE TO RECOVERY OF EXCESSIVE PROFITS ON GOVERNMENT CONTRACTS

SUBCHAPTER A. Recovery of excessive profits on government contracts.
SUBCHAPTER B. Mitigation of effect of renegotiation of government contracts.

Subchapter A—Recovery of Excessive Profits on Government Contracts

Sec. 1471. Recovery of excessive profits on Government contracts.

SEC. 1471. RECOVERY OF EXCESSIVE PROFITS ON GOVERNMENT CONTRACTS.

(a) METHOD OF COLLECTION.—If the amount of profit required to be paid into the Treasury under section 3 of the Act of March 27, 1934, as amended (34 U. S. C. 496), with respect to contracts completed within taxable years subject to this code is not voluntarily paid, the Secretary or his delegate shall collect the same under the methods employed to collect taxes under this subtitle.

(b) LAWS APPLICABLE.—All provisions of law (including penalties) applicable with respect to the taxes imposed by this subtitle and not inconsistent with section 3 of the Act of March 27, 1934, as amended, shall apply with respect to the assessment, collection, or payment of excess profits to the Treasury as provided by subsection (a), and to refunds by the Treasury of overpayments of excess profits into the Treasury.

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Subchapter B—Mitigation of Effect of Renegotiation of Government Contracts

Sec. 1481. Mitigation of effect of renegotiation of government contracts.

SEC. 1481. MITIGATION OF EFFECT OF RENEGOTIATION OF GOVERNMENT CONTRACTS.

(a) REDUCTION FOR PRIOR TAXABLE YEAR.—

(1) EXCESSIVE PROFITS ELIMINATED FOR PRIOR TAXABLE YEAR.—In the case of a contract with the United States or any agency thereof, or any subcontract thereunder, which is made by the taxpayer, if a renegotiation is made in respect of such contract or subcontract and an amount of excessive profits received or accrued under such contract or subcontract for a taxable year (referred to in this section as "prior taxable year") is eliminated and, the taxpayer is required to pay or repay to the United States or any agency thereof the amount of excessive profits eliminated or the amount of excessive profits eliminated is applied as an offset against other amounts due the taxpayer, the part of the contract or subcontract price which was received or was accrued for the prior taxable year shall be reduced by the amount of excessive profits eliminated. For purposes of this section—

(A) The term "renegotiation" includes any transaction which is a renegotiation within the meaning of the Federal renegotiation act applicable to such transaction, any modification of one or more contracts with the United States or any agency thereof, and any agreement with the United States or any agency thereof in respect of one or more such contracts or subcontracts thereunder.

(B) The term "excessive profits" includes any amount which constitutes excessive profits within the meaning assigned to such term by the applicable Federal renegotiation act, any part of the contract price of a contract with the United States or any agency thereof, any part of the subcontract price of a subcontract under such a contract, and any profits derived from one or more such contracts or subcontracts.

(C) The term "subcontract" includes any purchase order or agreement which is a subcontract within the meaning assigned to such term by the applicable Federal renegotiation act.

(D) The term "Federal renegotiation act" includes section 403 of the Sixth Supplemental National Defense Appropriation Act (Public Law 528, 77th Cong., 2d Sess.), as amended or supplemented, the Renegotiation Act of 1948, as amended or supplemented, and the Renegotiation Act of 1951, as amended or supplemented.

(2) REDUCTION OF REIMBURSEMENT FOR PRIOR TAXABLE YEAR.—In the case of a cost-plus-a-fixed-fee contract between the United States or any agency thereof and the taxpayer, if an item for which the taxpayer has been reimbursed is disallowed as an item

of cost chargeable to such contract and the taxpayer is required to repay the United States or any agency thereof the amount disallowed or the amount disallowed is applied as an offset against other amounts due the taxpayer, the amount of the reimbursement of the taxpayer under the contract for the taxable year in which the reimbursement for such item was received or was accrued shall be reduced by the amount disallowed.

(3) DEDUCTION DISALLOWED.—The amount of the payment, repayment, or offset described in paragraph (1) or paragraph (2) shall not constitute a deduction for the year in which paid or incurred.

(4) EXCEPTION.—The foregoing provisions of this subsection shall not apply in respect of any contract if the taxpayer shows to the satisfaction of the Secretary or his delegate that a different method of accounting for the amount of the payment, repayment, or disallowance clearly reflects income, and in such case the payment, repayment, or disallowance shall be accounted for with respect to the taxable year provided for under such method, which for the purposes of subsections (b) and (c) shall be considered a prior taxable year.

(b) CREDIT AGAINST REPAYMENT ON ACCOUNT OF RENEGOTIATION OR ALLOWANCE.—

(1) GENERAL RULE.—There shall be credited against the amount of excessive profits eliminated the amount by which the tax for the prior taxable year under this subtitle is decreased by reason of the application of paragraph (1) of subsection (a); and there shall be credited against the amount disallowed the amount by which the tax for the prior taxable year under this subtitle is decreased by reason of the application of paragraph (2) of subsection (a).

(2) CREDIT FOR BARRED YEAR.—If at the time of the payment, repayment, or offset described in paragraph (1) or paragraph (2) of subsection (a), refund or credit of tax under this subtitle for the prior taxable year is prevented (except for the provisions of section 1311) by any provision of the internal revenue laws other than section 7122, or by rule of law, the amount by which the tax for such year under this subtitle is decreased by the application of paragraph (1) or paragraph (2) of subsection (a) shall be computed under this paragraph. There shall first be ascertained the tax previously determined for the prior taxable year. The amount of the tax previously determined shall be the excess of—

(A) the sum of—

(i) the amount shown as the tax by the taxpayer on his return (determined as provided in section 6211 (b) (1) and (3)), if a return was made by the taxpayer and an amount was shown as the tax by the taxpayer thereon, plus

(ii) the amounts previously assessed (or collected without assessment) as a deficiency, over—

(B) the amount of rebates, as defined in section 6211 (b) (2), made.

There shall then be ascertained the decrease in tax previously determined which results solely from the application of paragraph (1) or paragraph (2) of subsection (a) to the prior taxable year. The amount so ascertained, together with any amounts collected

as additions to the tax or interest, as a result of paragraph (1) or paragraph (2) of subsection (a) not having been applied to the prior taxable year, shall be the amount by which such tax is decreased.

(3) INTEREST.—In determining the amount of the credit under this subsection no interest shall be allowed with respect to the amount ascertained under paragraph (1); except that if interest is charged by the United States or the agency thereof on account of the disallowance for any period before the date of the payment, repayment, or offset, the credit shall be increased by an amount equal to interest on the amount ascertained under such paragraph at the same rate and for the period (prior to the date of the payment, repayment, or offset) as interest is so charged.

(c) CREDIT IN LIEU OF OTHER CREDIT OR REFUND.—If a credit is allowed under subsection (b) with respect to a prior taxable year no other credit or refund under the internal-revenue laws founded on the application of subsection (a) shall be made on account of the amount allowed with respect to such taxable year. If the amount allowable as a credit under subsection (b) exceeds the amount allowed under such subsection, the excess shall, for purposes of the internal revenue laws relating to credit or refund of tax, be treated as an overpayment for the prior taxable year which was made at the time the payment, repayment, or offset was made.

(d) RENEGOTIATION OF GOVERNMENT CONTRACTS AFFECTING TAXABLE YEARS PRIOR TO 1954.—If a recovery of excessive profits through renegotiation as described in this section relates to profits of a taxable year subject to the Internal Revenue Code of 1939, the adjustments in respect of such renegotiation shall be made under section 3806 of such code.

CHAPTER 5—TAX ON TRANSFERS TO AVOID INCOME TAX

Sec. 1491. Imposition of tax.
Sec. 1492. Nontaxable transfers.
Sec. 1493. Definition of foreign trust.
Sec. 1494. Payment and collection.

SEC. 1491. IMPOSITION OF TAX.

There is hereby imposed on the transfer of stock or securities by a citizen or resident of the United States, or by a domestic corporation or partnership, or by a trust which is not a foreign trust, to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust, or to a foreign partnership, an excise tax equal to 27½ percent of the excess of—

(1) the value of the stock or securities so transferred, over

(2) its adjusted basis (for determining gain) in the hands of the transferor.

SEC. 1492. NONTAXABLE TRANSFERS.

The tax imposed by section 1491 shall not apply—

(1) If the transferee is an organization exempt from income tax under part I of subchapter F of chapter 1 (other than an organization described in section 401 (a)); or

(2) If before the transfer it has been established to the satisfaction of the Secretary or his delegate that such transfer is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes.

SEC. 1493. DEFINITION OF FOREIGN TRUST.

A trust shall be considered a foreign trust within the meaning of this chapter if, assuming a subsequent sale by the trustee, outside the United States and for cash, of the property so transferred, the profit, if any, from such sale would not be included in the gross income of the trust under this subtitle.

SEC. 1494. PAYMENT AND COLLECTION.

(a) TIME FOR PAYMENT.—The tax imposed by section 1491 shall, without assessment or notice and demand, be due and payable by the transferor at the time of the transfer, and shall be assessed, collected, and paid under regulations prescribed by the Secretary or his delegate.

(b) ABATEMENT OR REFUND.—Under regulations prescribed by the Secretary or his delegate, the tax may be abated, remitted, or refunded if after the transfer it has been established to the satisfaction of the Secretary or his delegate that such transfer was not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes.

CHAPTER 5—TAX ON TRANSFERS TO AVOID INCOME TAX

Sec. 1491. Imposition of tax.
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SEC. 1491. IMPOSITION OF TAX.

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(1) the value of the stock or securities so transferred, over

(2) its adjusted basis (for determining gain) in the hands of the transferor.

SEC. 1492. NONTAXABLE TRANSFERS.

The tax imposed by section 1491 shall not apply—

(1) If the transferee is an organization exempt from income tax under part I of subchapter F of chapter 1 (other than an organization described in section 501 (a)); or

(2) If before the transfer it has been established to the satisfaction of the Secretary or his delegate that such transfer is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes.

SEC. 1493. DEFINITION OF FOREIGN TRUST.

A trust shall be considered a foreign trust within the meaning of this chapter if, assuming a subsequent sale by the trustee, outside the United States and for cash, of the property so transferred, the profit, if any, from such sale would not be included in the gross income of the trust under this subtitle.

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(a) TIME FOR PAYMENT.—The tax imposed by section 1491 shall, without assessment or notice and demand, be due and payable by the transferor at the time of the transfer, and shall be assessed, collected, and paid under regulations prescribed by the Secretary or his delegate.

(b) ADVANCE OR REFUND.—Under regulations prescribed by the Secretary or his delegate, the tax may be abated, remitted, or refunded if after the transfer it has been established to the satisfaction of the Secretary or his delegate that such transfer was not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes.

CHAPTER 6—CONSOLIDATED RETURNS

SUBCHAPTER A. Returns and payment of tax.
SUBCHAPTER B. Related rules.

Subchapter A—Returns and Payment of Tax

Sec. 1501. Privilege to file consolidated returns.
Sec. 1502. Regulations.
Sec. 1503. Computation and payment of tax.
Sec. 1504. Definitions.
Sec. 1505. Cross references.

SEC. 1501. PRIVILEGE TO FILE CONSOLIDATED RETURNS.

An affiliated group of corporations shall, subject to the provisions of this chapter, have the privilege of making a consolidated return with respect to the income tax imposed by chapter 1 for the taxable year in lieu of separate returns. The making of a consolidated return shall be upon the condition that all corporations which at any time during the taxable year have been members of the affiliated group consent to all the consolidated return regulations prescribed under section 1502 prior to the last day prescribed by law for the filing of such return. The making of a consolidated return shall be considered as such consent. In the case of a corporation which is a member of the affiliated group for a fractional part of the year, the consolidated return shall include the income of such corporation for such part of the year as it is a member of the affiliated group.

SEC. 1502. REGULATIONS.

The Secretary or his delegate shall prescribe such regulations as he may deem necessary in order that the tax liability of any affiliated group of corporations making a consolidated return and of each corporation in the group, both during and after the period of affiliation, may be returned, determined, computed, assessed, collected, and adjusted, in such manner as clearly to reflect the income-tax liability and the various factors necessary for the determination of such liability, and in order to prevent avoidance of such tax liability.

SEC. 1503. COMPUTATION AND PAYMENT OF TAX.

(a) GENERAL RULE.—In any case in which a consolidated return is made or is required to be made, the tax shall be determined, computed, assessed, collected, and adjusted in accordance with the regulations under section 1502 prescribed prior to the last day prescribed by law for the filing of such return; except that the tax imposed under section 11 (c) or section 831 shall be increased for any taxable year by 2 percent of the consolidated taxable income of the affiliated group of includible corporations. For purposes of this section, the term "consolidated taxable income" means the consolidated taxable income computed without regard to the deduction provided by section 242 for partially tax-exempt interest.

(b) LIMITATION.—If the affiliated group includes one or more Western Hemisphere trade corporations (as defined in section 921) or one or more regulated public utilities (as defined in subsection (c)), the increase of 2 percent provided in subsection (a) shall be applied only on the amount by which the consolidated taxable income of the affiliated group exceeds the portion (if any) of the consolidated taxable income attributable to the Western Hemisphere trade corporations and regulated public utilities included in such group.

(c) REGULATED PUBLIC UTILITY DEFINED.—

(1) IN GENERAL.—For purposes of subsection (b), the term "regulated public utility" means—

(A) A corporation engaged in the furnishing or sale of—

(i) electric energy, gas, water, or sewerage disposal services, or

(ii) transportation (not included in subparagraph (C)) on an intrastate, suburban, municipal, or interurban electric railroad, on an intrastate, municipal, or suburban trackless trolley system, or on a municipal or suburban bus system, or

(iii) transportation (not included in clause (ii)) by motor vehicle—

if the rates for such furnishing or sale, as the case may be, have been established or approved by a State or political subdivision thereof, by an agency or instrumentality of the United States, by a public service or public utility commission or other similar body of the District of Columbia or of any State or political subdivision thereof, or by a foreign country or an agency or instrumentality or political subdivision thereof.

(B) A corporation engaged as a common carrier in the furnishing or sale of transportation of gas by pipeline, if subject to the jurisdiction of the Federal Power Commission.

(C) A corporation engaged as a common carrier (i) in the furnishing or sale of transportation by railroad, if subject to the jurisdiction of the Interstate Commerce Commission, or (ii) in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipe line, if subject to the jurisdiction of the Interstate Commerce Commission or if the rates for such furnishing or sale are subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State.

(D) A corporation engaged in the furnishing or sale of telephone or telegraph service, if the rates for such furnishing or sale meet the requirements of subparagraph (A).

(E) A corporation engaged in the furnishing or sale of transportation as a common carrier by air, subject to the jurisdiction of the Civil Aeronautics Board.

(F) A corporation engaged in the furnishing or sale of transportation by common carrier by water, subject to the jurisdiction of the Interstate Commerce Commission under part III of the Interstate Commerce Act, or subject to the jurisdiction of the Federal Maritime Board under the Intercoastal Shipping Act, 1933.

(2) LIMITATION.—For purposes of subsection (b), the term "regulated public utility" does not (except as provided in paragraph (3))

include a corporation described in paragraph (1) unless 80 percent or more of its gross income (computed without regard to dividends and capital gains and losses) for the taxable year is derived from sources described in paragraph (1). If the taxpayer establishes to the satisfaction of the Secretary or his delegate that—

(A) its revenue from regulated rates described in paragraph (1) (A) or (D) and its revenue derived from unregulated rates are derived from its operation of a single interconnected and coordinated system or from the operation of more than one such system, and

(B) the unregulated rates have been and are substantially as favorable to users and consumers as are the regulated rates,

such revenue from such unregulated rates shall be considered, for purposes of this paragraph, as income derived from sources described in paragraph (1) (A) or (D).

(3) CERTAIN RAILROAD CORPORATIONS.—

(A) LESSOR CORPORATION.—For purposes of subsection (b), the term "regulated public utility" shall also include a railroad corporation subject to part I of the Interstate Commerce Act, if (i) substantially all of its railroad properties have been leased to another such railroad corporation or corporations by an agreement or agreements entered into prior to January 1, 1954, (ii) each lease is for a term of more than 20 years, and (iii) at least 80 percent or more of its gross income (computed without regard to dividends and capital gains and losses) for the taxable year is derived from such leases and from sources described in paragraph (1). For purposes of the preceding sentence, an agreement for lease of railroad properties entered into prior to January 1, 1954, shall be considered to be a lease including such term as the total number of years of such agreement may, unless sooner terminated, be renewed or continued under the terms of the agreement, and any such renewal or continuance under such agreement shall be considered part of the lease entered into prior to January 1, 1954.

(B) COMMON PARENT CORPORATION.—For purposes of subsection (b), the term "regulated public utility" also includes a common parent corporation which is a common carrier by railroad subject to part I of the Interstate Commerce Act if at least 80 percent of its gross income (computed without regard to capital gains or losses) is derived directly or indirectly from sources described in paragraph (1). For purposes of the preceding sentence, dividends and interest, and income from leases described in subparagraph (A), received from a regulated public utility shall be considered as derived from sources described in paragraph (1) if the regulated public utility is a member of an affiliated group (as defined in section 1504) which includes the common parent corporation.

SEC. 1504. DEFINITIONS.

(a) DEFINITION OF "AFFILIATED GROUP".—As used in this chapter, the term "affiliated group" means one or more chains of includible corporations connected through stock ownership with a common parent corporation which is an includible corporation if—

(1) Stock possessing at least 80 percent of the voting power of all classes of stock and at least 80 percent of each class of the nonvoting stock of each of the includible corporations (except the common parent corporation) is owned directly by one or more of the other includible corporations; and

(2) The common parent corporation owns directly stock possessing at least 80 percent of the voting power of all classes of stock and at least 80 percent of each class of the nonvoting stock of at least one of the other includible corporations.

As used in this subsection, the term "stock" does not include nonvoting stock which is limited and preferred as to dividends.

(b) DEFINITION OF "INCLUDIBLE CORPORATION".—As used in this chapter, the term "includible corporation" means any corporation except—

(1) Corporations exempt from taxation under section 501.

(2) Insurance companies subject to taxation under section 802 or 821.

(3) Foreign corporations.

(4) Corporations entitled to the benefits of section 931, by reason of receiving a large percentage of their income from sources within possessions of the United States.

(5) Corporations organized under the China Trade Act, 1922.

(6) Regulated investment companies subject to tax under subchapter M of chapter 1.

(7) Unincorporated business enterprises subject to tax as corporations under section 1361.

(c) INCLUDIBLE INSURANCE COMPANIES.—Despite the provisions of paragraph (2) of subsection (b), two or more domestic insurance companies each of which is subject to taxation under the same section of this subtitle shall be considered as includible corporations for the purpose of the application of subsection (a) to such insurance companies alone.

(d) SUBSIDIARY FORMED TO COMPLY WITH FOREIGN LAW.—In the case of a domestic corporation owning or controlling, directly or indirectly, 100 percent of the capital stock (exclusive of directors' qualifying shares) of a corporation organized under the laws of a contiguous foreign country and maintained solely for the purpose of complying with the laws of such country as to title and operation of property, such foreign corporation may, at the option of the domestic corporation, be treated for the purpose of this subtitle as a domestic corporation.

SEC. 1505. CROSS REFERENCES.

(1) For suspension of running of statute of limitations when notice in respect of a deficiency is mailed to one corporation, see section 6503 (a) (1).

(2) For allocation of income and deductions of related trades or businesses, see section 482.

Subchapter B—Related Rules

Sec. 1551. Disallowance of surtax exemption and accumulated earnings credit.
Sec. 1552. Earnings and profits.

SEC. 1551. DISALLOWANCE OF SURTAX EXEMPTION AND ACCUMULATED EARNINGS CREDIT.

If any corporation transfers, on or after January 1, 1951, all or part of its property (other than money) to another corporation which was created for the purpose of acquiring such property or which was not actively engaged in business at the time of such acquisition, and if after such transfer the transferor corporation or its stockholders, or both, are in control of such transferee corporation during any part of the taxable year of such transferee corporation, then such transferee corporation shall not for such taxable year (except as may be otherwise determined under section 269 (b)) be allowed either the $25,000 exemption from surtax provided in section 11 (c) or the $60,000 accumulated earnings credit provided in paragraph (2) or (3) of section 535 (c), unless such transferee corporation shall establish by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer. For purposes of this section, 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 or at least 80 percent of the total value of shares of all classes of stock of the corporation. In determining the ownership of stock for the purpose of this section, the ownership of stock shall be determined in accordance with the provisions of section 544, except that constructive ownership under section 544 (a) (2) shall be determined only with respect to the individual's spouse and minor children. The provisions of section 269 (b), and the authority of the Secretary under such section, shall, to the extent not inconsistent with the provisions of this section, be applicable to this section.

SEC. 1552. EARNINGS AND PROFITS.

(a) General Rule.—Pursuant to regulations prescribed by the Secretary or his delegate the earnings and profits of each member of an affiliated group required to be included in a consolidated return for such group filed for a taxable year beginning after December 31, 1953, and ending after the date of enactment of this title, shall be determined by allocating the tax liability of the group for such year among the members of the group in accord with whichever of the following methods the group shall elect in its first consolidated return filed for such a taxable year:

(1) The tax liability shall be apportioned among the members of the group in accordance with the ratio which that portion of the consolidated taxable income attributable to each member of the group having taxable income bears to the consolidated taxable income.

(2) The tax liability of the group shall be allocated to the several members of the group on the basis of the percentage of the total tax which the tax of such member if computed on a separate return would bear to the total amount of the taxes for all members of the group so computed.

(3) The tax liability of the group (excluding the tax increases arising from the consolidation) shall be allocated on the basis of the contribution of each member of the group to the consolidated taxable income of the group. Any tax increases arising from the consolidation shall be distributed to the several members in direct proportion to the reduction in tax liability resulting to such members from the filing of the consolidated return as measured by the difference between their tax liabilities determined on a separate return basis and their tax liabilities (determined without regard to the 2 percent increase provided by section 1503 (a)) based on their contributions to the consolidated taxable income.

(4) The tax liability of the group shall be allocated in accord with any other method selected by the group with the approval of the Secretary or his delegate.

(b) FAILURE TO ELECT.—If no election is made in such first return, the tax liability shall be allocated among the several members of the group pursuant to the method prescribed in subsection (a) (1).

Subtitle B—Estate and Gift Taxes

CHAPTER 11. Estate tax.
CHAPTER 12. Gift tax.

CHAPTER 11—ESTATE TAX

SUBCHAPTER A. Estates of citizens or residents.
SUBCHAPTER B. Estates of nonresidents not citizens.
SUBCHAPTER C. Miscellaneous.

Subchapter A—Estates of Citizens or Residents

Part I. Tax imposed.
Part II. Credits against tax.
Part III. Gross estate.
Part IV. Taxable estate.

PART I—TAX IMPOSED

Sec. 2001. Rate of tax.
Sec. 2002. Liability for payment.

SEC. 2001. RATE OF TAX.

A tax computed in accordance with the following table is hereby imposed on the transfer of the taxable estate, determined as provided in section 2051, of every decedent, citizen or resident of the United States dying after the date of enactment of this title:

If the taxable estate is:	The tax shall be:
Not over $5,000	3% of the taxable estate.
Over $5,000 but not over $10,000	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000	$500, plus 11% of excess over $10,000.
Over $20,000 but not over $30,000	$1,600, plus 14% of excess over $20,000.
Over $30,000 but not over $40,000	$3,000, plus 18% of excess over $30,000.
Over $40,000 but not over $50,000	$4,800, plus 22% of excess over $40,000.
Over $50,000 but not over $60,000	$7,000, plus 25% of excess over $50,000.
Over $60,000 but not over $100,000	$9,500, plus 28% of excess over $60,000.
Over $100,000 but not over $250,000	$20,700, plus 30% of excess over $100,000.
Over $250,000 but not over $500,000	$65,700, plus 32% of excess over $250,000.
Over $500,000 but not over $750,000	$145,700, plus 35% of excess over $500,000.
Over $750,000 but not over $1,000,000	$233,200, plus 37% of excess over $750,000.
Over $1,000,000 but not over $1,250,000	$325,700, plus 39% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000	$423,200, plus 42% of excess over $1,250,000.

If the taxable estate is:	The tax shall be:
Over $1,500,000 but not over $2,000,000	$528,200, plus 45% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000	$753,200, plus 49% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000	$998,200, plus 53% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000	$1,263,200, plus 56% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000	$1,543,200, plus 59% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000	$1,838,200, plus 63% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000	$2,468,200, plus 67% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000	$3,138,200, plus 70% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000	$3,838,200, plus 73% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000	$4,568,200, plus 76% of excess over $8,000,000.
Over $10,000,000	$6,088,200, plus 77% of excess over $10,000,000.

SEC. 2002. LIABILITY FOR PAYMENT.

The tax imposed by this chapter shall be paid by the executor.

PART II—CREDITS AGAINST TAX

Sec. 2011. Credit for State death taxes.
Sec. 2012. Credit for gift tax.
Sec. 2013. Credit for tax on prior transfers.
Sec. 2014. Credit for foreign death taxes.
Sec. 2015. Credit for death taxes on remainders.
Sec. 2016. Recovery of taxes claimed as credit.

SEC. 2011. CREDIT FOR STATE DEATH TAXES.

(a) IN GENERAL.—The tax imposed by section 2001 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any State or Territory or the District of Columbia, or any possession of the United States, in respect of any property included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent).

(b) AMOUNT OF CREDIT.—The credit allowed by this section shall not exceed the appropriate amount stated in the following table:

If the taxable estate is:	The maximum tax credit shall be:
Not over $90,000	8/10ths of 1% of the amount by which the taxable estate exceeds $40,000.
Over $90,000 but not over $140,000	$400 plus 1.6% of the excess over $90,000.
Over $140,000 but not over $240,000	$1,200 plus 2.4% of the excess over $140,000.
Over $240,000 but not over $440,000	$3,600 plus 3.2% of the excess over $240,000.
Over $440,000 but not over $640,000	$10,000 plus 4% of the excess over $440,000.
Over $640,000 but not over $840,000	$18,000 plus 4.8% of the excess over $640,000.
Over $840,000 but not over $1,040,000	$27,600 plus 5.6% of the excess over $840,000.
Over $1,040,000 but not over $1,540,000	$38,800 plus 6.4% of the excess over $1,040,000.

If the taxable estate is:	The maximum tax credit shall be:
Over $1,540,000 but not over $2,040,000	$70,800 plus 7.2% of the excess over $1,540,000.
Over $2,040,000 but not over $2,540,000	$106,800 plus 8% of the excess over $2,040,000.
Over $2,540,000 but not over $3,040,000	$146,800 plus 8.8% of the excess over $2,540,000.
Over $3,040,000 but not over $3,540,000	$190,800 plus 9.6% of the excess over $3,040,000.
Over $3,540,000 but not over $4,040,000	$238,800 plus 10.4% of the excess over $3,540,000.
Over $4,040,000 but not over $5,040,000	$290,800 plus 11.2% of the excess over $4,040,000.
Over $5,040,000 but not over $6,040,000	$402,800 plus 12% of the excess over $5,040,000.
Over $6,040,000 but not over $7,040,000	$522,800 plus 12.8% of the excess over $6,040,000.
Over $7,040,000 but not over $8,040,000	$650,800 plus 13.6% of the excess over $7,040,000.
Over $8,040,000 but not over $9,040,000	$786,800 plus 14.4% of the excess over $8,040,000.
Over $9,040,000 but not over $10,040,000	$930,800 plus 15.2% of the excess over $9,040,000.
Over $10,040,000	$1,082,800 plus 16% of the excess over $10,040,000.

(c) PERIOD OF LIMITATIONS ON CREDIT.—The credit allowed by this section shall include only such taxes as were actually paid and credit therefor claimed within 4 years after the filing of the return required by section 6018, except that—

(1) If a petition for redetermination of a deficiency has been filed with the Tax Court within the time prescribed in section 6213 (a), then within such 4-year period or before the expiration of 60 days after the decision of the Tax Court becomes final.

(2) If, under section 6161, an extension of time has been granted for payment of the tax shown on the return, or of a deficiency, then within such 4-year period or before the date of the expiration of the period of the extension.

Refund based on the credit may (despite the provisions of sections 6511 and 6512) be made if claim therefor is filed within the period above provided. Any such refund shall be made without interest.

(d) BASIC ESTATE TAX.—The basic estate tax and the estate tax imposed by the Revenue Act of 1926 shall be 125 percent of the amount determined to be the maximum credit provided by subsection (b). The additional estate tax shall be the difference between the tax imposed by section 2001 or 2101 and the basic estate tax.

SEC. 2012. CREDIT FOR GIFT TAX.

(a) IN GENERAL.—If a tax on a gift has been paid under chapter 12 (sec. 2501 and following), or under corresponding provisions of prior laws, and thereafter on the death of the donor any amount in respect of such gift is required to be included in the value of the gross estate of the decedent for purposes of this chapter, then there shall be credited against the tax imposed by section 2001 the amount of the tax paid on a gift under chapter 12, or under corresponding provisions of prior laws, with respect to so much of the property which constituted the gift as is included in the gross estate, except that the amount of such credit shall not exceed an amount which bears the same ratio to the tax imposed by section 2001 (after deducting from such tax the credit

for State death taxes provided by section 2011) as the value (at the time of the gift or at the time of the death, whichever is lower) of so much of the property which constituted the gift as is included in the gross estate bears to the value of the entire gross estate reduced by the aggregate amount of the charitable and marital deductions allowed under sections 2055, 2056, and 2106 (a) (2).

(b) In applying, with respect to any gift, the ratio stated in subsection (a), the value at the time of the gift or at the time of the death, referred to in such ratio, shall be reduced—

(1) by such amount as will properly reflect the amount of such gift which was excluded in determining (for purposes of section 2503 (a)), or of corresponding provisions of prior laws, the total amount of gifts made during the year in which the gift was made;

(2) if a deduction with respect to such gift is allowed under section 2056 (a) (relating to marital deduction)—then by an amount which bears the same ratio to such value (reduced as provided in paragraph (1) of this subsection) as the aggregate amount of the marital deductions allowed under section 2056 (a) bears to the aggregate amount of such marital deductions computed without regard to subsection (c) thereof; and

(3) if a deduction with respect to such gift is allowed under sections 2055 or 2106 (a) (2) (relating to charitable deduction)—then by the amount of such value, reduced as provided in paragraph (1) of this subsection.

(c) Where the decedent was the donor of the gift but, under the provisions of section 2513, or corresponding provisions of prior laws, the gift was considered as made one-half by his spouse—

(1) the term "the amount of the tax paid on a gift under chapter 12", as used in subsection (a), includes the amounts paid with respect to each half of such gift, the amount paid with respect to each being computed in the manner provided in subsection (d); and

(2) in applying, with respect to such gift, the ratio stated in subsection (a), the value at the time of the gift or at the time of the death, referred to in such ratio, includes such value with respect to each half of such gift, each such value being reduced as provided in paragraph (1) of subsection (b).

(d) (1) For purposes of subsection (a), the amount of tax paid on a gift under chapter 12, or under corresponding provisions of prior laws, with respect to any gift shall be an amount which bears the same ratio to the total tax paid for the year in which the gift was made as the amount of such gift bears to the total amount of taxable gifts (computed without deduction of the specific exemption) for such year.

(2) For purposes of paragraph (1), the "amount of such gift" shall be the amount included with respect to such gift in determining (for the purposes of section 2503 (a), or of corresponding provisions of prior laws) the total amount of gifts made during such year, reduced by the amount of any deduction allowed with respect to such gift under section 2522, or under corresponding provisions of prior laws (relating to charitable deduction), or under section 2523 (relating to marital deduction).

SEC. 2013. CREDIT FOR TAX ON PRIOR TRANSFERS.

(a) GENERAL RULE.—The tax imposed by section 2001 shall be credited with all or a part of the amount of the Federal estate tax paid with respect to the transfer of property (including property passing as a result of the exercise or non-exercise of a power of appointment) to the decedent by or from a person (herein designated as a "transferor") who died within 10 years before, or within 2 years after, the decedent's death. If the transferor died within 2 years of the death of the decedent, the credit shall be the amount determined under subsections (b) and (c). If the transferor predeceased the decedent by more than 2 years, the credit shall be the following percentage of the amount so determined—

(1) 80 percent, if within the third or fourth years preceding the decedent's death;

(2) 60 percent, if within the fifth or sixth years preceding the decedent's death;

(3) 40 percent, if within the seventh or eighth years preceding the decedent's death; and

(4) 20 percent, if within the ninth or tenth years preceding the decedent's death.

(b) COMPUTATION OF CREDIT.—Subject to the limitation prescribed in subsection (c), the credit provided by this section shall be an amount which bears the same ratio to the estate tax paid (adjusted as indicated hereinafter) with respect to the estate of the transferor as the value of the property transferred bears to the taxable estate of the transferor (determined for purposes of the estate tax) decreased by any death taxes paid with respect to such estate and increased by the exemption provided for by section 2052 or section 2106 (a) (3), or the corresponding provisions of prior laws, in determining the taxable estate of the transferor for purposes of the estate tax. For purposes of the preceding sentence, the estate tax paid shall be the Federal estate tax paid increased by any credits allowed against such estate tax under section 2012, or corresponding provisions of prior laws, on account of gift tax, and for any credits allowed against such estate tax under this section on account of prior transfers where the transferor acquired property from a person who died within 10 years before the death of the decedent.

(c) LIMITATION ON CREDIT.—

(1) IN GENERAL.—The credit provided in this section shall not exceed the amount by which—

(A) the estate tax imposed by section 2001 or section 2101 (after deducting the credits for State death taxes, gift tax, and foreign death taxes provided for in sections 2011, 2012, and 2014) computed without regard to this section, exceeds

(B) such tax computed by excluding from the decedent's gross estate the value of such property transferred and, if applicable, by making the adjustment hereinafter indicated.

If any deduction is otherwise allowable under section 2055 or section 2106 (a) (2) (relating to charitable deduction) then, for the purpose of the computation indicated in subparagraph (B), the amount of such deduction shall be reduced by that part of such deduction which the value of such property transferred bears to the decedent's entire gross estate reduced by the deductions allowed under sections

2053 and 2054, or section 2106 (a) (1) (relating to deduction for expenses, losses, etc.). For purposes of this section, the value of such property transferred shall be the value as provided for in subsection (d) of this section.

(2) TWO OR MORE TRANSFERORS.—If the credit provided in this section relates to property received from 2 or more transferors, the limitation provided in paragraph (1) of this subsection shall be computed by aggregating the value of the property so transferred to the decedent. The aggregate limitation so determined shall be apportioned in accordance with the value of the property transferred to the decedent by each transferor.

(d) VALUATION OF PROPERTY TRANSFERRED.—The value of property transferred to the decedent shall be the value used for the purpose of determining the Federal estate tax liability of the estate of the transferor but—

(1) there shall be taken into account the effect of the tax imposed by section 2001 or 2101, or any estate, succession, legacy, or inheritance tax, on the net value to the decedent of such property;

(2) where such property is encumbered in any manner, or where the decedent incurs any obligation imposed by the transferor with respect to such property, such encumbrance or obligation shall be taken into account in the same manner as if the amount of a gift to the decedent of such property was being determined; and

(3) if the decedent was the spouse of the transferor at the time of the transferor's death, the net value of the property transferred to the decedent shall be reduced by the amount allowed under section 2056 (relating to marital deductions), or the corresponding provision of prior law, as a deduction from the gross estate of the transferor.

(e) PROPERTY DEFINED.—For purposes of this section, the term "property" includes any beneficial interest in property, including a general power of appointment (as defined in section 2041).

SEC. 2014. CREDIT FOR FOREIGN DEATH TAXES.

(a) IN GENERAL.—The tax imposed by section 2001 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent). If the decedent at the time of his death was not a citizen of the United States, credit shall not be allowed under this section unless the foreign country of which such decedent was a citizen or subject, in imposing such taxes, allows a similar credit in the case of a citizen of the United States resident in such country. The determination of the country within which property is situated shall be made in accordance with the rules applicable under subchapter B (sec. 2101 and following) in determining whether property is situated within or without the United States.

(b) LIMITATIONS ON CREDIT.—The credit provided in this section with respect to such taxes paid to any foreign country—

(1) shall not, with respect to any such tax, exceed an amount which bears the same ratio to the amount of such tax actually paid to such foreign country as the value of property which is—

(A) situated within such foreign country,

(B) subjected to such tax, and

(C) included in the gross estate

bears to the value of all property subjected to such tax; and

(2) shall not, with respect to all such taxes, exceed an amount which bears the same ratio to the tax imposed by section 2001 (after deducting from such tax the credits provided by sections 2011 and 2012) as the value of property which is—

(A) situated within such foreign country,

(B) subjected to the taxes of such foreign country, and

(C) included in the gross estate

bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under sections 2055 and 2056.

(c) VALUATION OF PROPERTY.—

(1) The values referred to in the ratio stated in subsection (b) (1) are the values determined for purposes of the tax imposed by such foreign country.

(2) The values referred to in the ratio stated in subsection (b) (2) are the values determined under this chapter; but, in applying such ratio, the value of any property described in subparagraphs (A), (B), and (C) thereof shall be reduced by such amount as will properly reflect, in accordance with regulations prescribed by the Secretary or his delegate, the deductions allowed in respect of such property under sections 2055 and 2056 (relating to charitable and marital deductions).

(d) PROOF OF CREDIT.—The credit provided in this section shall be allowed only if the taxpayer establishes to the satisfaction of the Secretary or his delegate—

(1) the amount of taxes actually paid to the foreign country,

(2) the amount and date of each payment thereof,

(3) the description and value of the property in respect of which such taxes are imposed, and

(4) all other information necessary for the verification and computation of the credit.

(e) PERIOD OF LIMITATION.—The credit provided in this section shall be allowed only for such taxes as were actually paid and credit therefor claimed within 4 years after the filing of the return required by section 6018, except that—

(1) If a petition for redetermination of a deficiency has been filed with the Tax Court within the time prescribed in section 6213 (a), then within such 4-year period or before the expiration of 60 days after the decision of the Tax Court becomes final.

(2) If, under section 6161, an extension of time has been granted for payment of the tax shown on the return, or of a deficiency, then within such 4-year period or before the date of the expiration of the period of the extension.

Refund based on such credit may (despite the provisions of sections 6511 and 6512) be made if claim therefor is filed within the period above provided. Any such refund shall be made without interest.

SEC. 2015. CREDIT FOR DEATH TAXES ON REMAINDERS.

Where an election is made under section 6163 (a) to postpone payment of the tax imposed by section 2001 or 2101, such part of any estate, inheritance, legacy, or succession taxes allowable as a credit

under section 2011 or 2014, as is attributable to a reversionary or remainder interest may be allowed as a credit against the tax attributable to such interest, subject to the limitations on the amount of the credit contained in such sections, if such part is paid, and credit therefor claimed, at any time before the expiration of 60 days after the termination of the precedent interest or interests in the property.

SEC. 2016. RECOVERY OF TAXES CLAIMED AS CREDIT.

If any tax claimed as a credit under section 2011 or 2014 is recovered from any foreign country, any State, any Territory or possession of the United States, or the District of Columbia, the executor, or any other person or persons recovering such amount, shall give notice of such recovery to the Secretary or his delegate at such time and in such manner as may be required by regulations prescribed by him, and the Secretary or his delegate shall (despite the provisions of section 6501) redetermine the amount of the tax under this chapter and the amount, if any, of the tax due on such redetermination, shall be paid by the executor or such person or persons, as the case may be, on notice and demand. No interest shall be assessed or collected on any amount of tax due on any redetermination by the Secretary or his delegate, resulting from a refund to the executor of tax claimed as a credit under section 2014, for any period before the receipt of such refund, except to the extent interest was paid by the foreign country on such refund.

PART III—GROSS ESTATE

Sec. 2031. Definition of gross estate.
Sec. 2032. Alternate valuation.
Sec. 2033. Property in which the decedent had an interest.
Sec. 2034. Dower or curtesy interests.
Sec. 2035. Transactions in contemplation of death.
Sec. 2036. Transfers with retained life estate.
Sec. 2037. Transfers taking effect at death.
Sec. 2038. Revocable transfers.
Sec. 2039. Annuities.
Sec. 2040. Joint interests.
Sec. 2041. Powers of appointment.
Sec. 2042. Proceeds of life insurance.
Sec. 2043. Transfers for insufficient consideration.
Sec. 2044. Prior interests.

SEC. 2031. DEFINITION OF GROSS ESTATE.

(a) GENERAL.—The value of the gross estate of the decedent shall be determined by including to the extent provided for in this part, the value at the time of his death of all property, real or personal, tangible or intangible, wherever situated, except real property situated outside of the United States.

(b) VALUATION OF UNLISTED STOCK AND SECURITIES.—In the case of stock and securities of a corporation the value of which, by reason of their not being listed on an exchange and by reason of the absence of sales thereof, cannot be determined with reference to bid and asked prices or with reference to sales prices, the value thereof shall be determined by taking into consideration, in addition to all other factors, the value of stock or securities of corporations engaged in the same or a similar line of business which are listed on an exchange.

SEC. 2032. ALTERNATE VALUATION.

(a) GENERAL.—The value of the gross estate may be determined, if the executor so elects, by valuing all the property included in the gross estate as follows:

(1) In the case of property distributed, sold, exchanged, or otherwise disposed of, within 1 year after the decedent's death such property shall be valued as of the date of distribution, sale, exchange, or other disposition.

(2) In the case of property not distributed, sold, exchanged, or otherwise disposed of, within 1 year after the decedent's death such property shall be valued as of the date 1 year after the decedent's death.

(3) Any interest or estate which is affected by mere lapse of time shall be included at its value as of the time of death (instead of the later date) with adjustment for any difference in its value as of the later date not due to mere lapse of time.

(b) SPECIAL RULES.—No deduction under this chapter of any item shall be allowed if allowance for such item is in effect given by the alternate valuation provided by this section. Wherever in any other subsection or section of this chapter reference is made to the value of property at the time of the decedent's death, such reference shall be deemed to refer to the value of such property used in determining the value of the gross estate. In case of an election made by the executor under this section, then—

(1) for purposes of the charitable deduction under section 2055 or 2106 (a) (2), any bequest, legacy, devise, or transfer enumerated therein, and

(2) for the purpose of the marital deduction under section 2056, any interest in property passing to the surviving spouse, shall be valued as of the date of the decedent's death with adjustment for any difference in value (not due to mere lapse of time or the occurrence or nonoccurrence of a contingency) of the property as of the date 1 year after the decedent's death (substituting, in the case of property distributed by the executor or trustee, or sold, exchanged, or otherwise disposed of, during such 1-year period, the date thereof).

(c) TIME OF ELECTION.—The election provided for in this section shall be exercised by the executor on his return if filed within the time prescribed by law or before the expiration of any extension of time granted pursuant to law for the filing of the return.

SEC. 2033. PROPERTY IN WHICH THE DECEDENT HAD AN INTEREST.

The value of the gross estate shall include the value of all property (except real property situated outside of the United States) to the extent of the interest therein of the decedent at the time of his death.

SEC. 2034. DOWER OR CURTESY INTERESTS.

The value of the gross estate shall include the value of all property (except real property situated outside of the United States) to the extent of any interest therein of the surviving spouse, existing at the time of the decedent's death as dower or curtesy, or by virtue of a statute creating an estate in lieu of dower or curtesy.

SEC. 2035. TRANSACTIONS IN CONTEMPLATION OF DEATH.

(a) GENERAL RULE.—The value of the gross estate shall include the value of all property (except real property situated outside of the

United States) to the extent of any interest therein of which the decedent has at any time made a transfer (except in case of a bona fide sale for an adequate and full consideration in money or money's worth), by trust or otherwise, in contemplation of his death.

(b) APPLICATION OF GENERAL RULE.—If the decedent within a period of 3 years ending with the date of his death (except in case of a bona fide sale for an adequate and full consideration in money or money's worth) transferred an interest in property, relinquished a power, or exercised or released a general power of appointment, such transfer, relinquishment, exercise, or release shall, unless shown to the contrary, be deemed to have been made in contemplation of death within the meaning of this section and sections 2038 and 2041 (relating to revocable transfers and powers of appointment); but no such transfer, relinquishment, exercise, or release made before such 3-year period shall be treated as having been made in contemplation of death.

SEC. 2036. TRANSFERS WITH RETAINED LIFE ESTATE.

(a) GENERAL RULE.—The value of the gross estate shall include the value of all property (except real property situated outside of the United States) to the extent of any interest therein of which the decedent has at any time made a transfer (except in case of a bona fide sale for an adequate and full consideration in money or money's worth), by trust or otherwise, under which he has retained for his life or for any period not ascertainable without reference to his death or for any period which does not in fact end before his death—

(1) the possession or enjoyment of, or the right to the income from, the property, or

(2) the right, either alone or in conjunction with any person, to designate the persons who shall possess or enjoy the property or the income therefrom.

(b) LIMITATION ON APPLICATION OF GENERAL RULE.—This section shall not apply to a transfer made before March 4, 1931; nor to a transfer made after March 3, 1931, and before June 7, 1932, unless the property transferred would have been includible in the decedent's gross estate by reason of the amendatory language of the joint resolution of March 3, 1931 (46 Stat. 1516).

SEC. 2037. TRANSFERS TAKING EFFECT AT DEATH.

(a) GENERAL RULE.—The value of the gross estate shall include the value of all property (except real property situated outside of the United States) to the extent of any interest therein of which the decedent has at any time after September 7, 1916, made a transfer (except in case of a bona fide sale for an adequate and full consideration in money or money's worth), by trust or otherwise, if—

(1) possession or enjoyment of the property can, through ownership of such interest, be obtained only by surviving the decedent, and

(2) the decedent has retained a reversionary interest in the property (but in the case of a transfer made before October 8, 1949, only if such reversionary interest arose by the express terms of the instrument of transfer), and the value of such reversionary interest immediately before the death of the decedent exceeds 5 percent of the value of such property.

(b) SPECIAL RULES.—For purposes of this section, the term "reversionary interest" includes a possibility that property transferred by the decedent—

(1) may return to him or his estate, or

(2) may be subject to a power of disposition by him,

but such term does not include a possibility that the income alone from such property may return to him or become subject to a power of disposition by him. The value of a reversionary interest immediately before the death of the decedent shall be determined (without regard to the fact of the decedent's death) by usual methods of valuation, including the use of tables of mortality and actuarial principles, under regulations prescribed by the Secretary or his delegate. In determining the value of a possibility that property may be subject to a power of disposition by the decedent, such possibility shall be valued as if it were a possibility that such property may return to the decedent or his estate. Notwithstanding the foregoing, an interest so transferred shall not be included in the decedent's gross estate under this section if possession or enjoyment of the property could have been obtained by any beneficiary during the decedent's life through the exercise of a general power of appointment (as defined in section 2041) which in fact was exercisable immediately before the decedent's death.

SEC. 2038. REVOCABLE TRANSFERS.

(a) IN GENERAL.—The value of the gross estate shall include the value of all property (except real property situated outside of the United States)—

(1) TRANSFERS AFTER JUNE 22, 1936.—To the extent of any interest therein of which the decedent has at any time made a transfer (except in case of a bona fide sale for an adequate and full consideration in money or money's worth), by trust or otherwise, where the enjoyment thereof was subject at the date of his death to any change through the exercise of a power (in whatever capacity exercisable) by the decedent alone or by the decedent in conjunction with any other person (without regard to when or from what source the decedent acquired such power), to alter, amend, revoke, or terminate, or where any such power is relinquished in contemplation of decedent's death.

(2) TRANSFERS ON OR BEFORE JUNE 22, 1936.—To the extent of any interest therein of which the decedent has at any time made a transfer (except in case of a bona fide sale for an adequate and full consideration in money or money's worth), by trust or otherwise, where the enjoyment thereof was subject at the date of his death to any change through the exercise of a power, either by the decedent alone or in conjunction with any person, to alter, amend, or revoke, or where the decedent relinquished any such power in contemplation of his death. Except in the case of transfers made after June 22, 1936, no interest of the decedent of which he has made a transfer shall be included in the gross estate under paragraph (1) unless it is includible under this paragraph.

(b) DATE OF EXISTENCE OF POWER.—For purposes of this section, the power to alter, amend, revoke, or terminate shall be considered to exist on the date of the decedent's death even though the exercise of the power is subject to a precedent giving of notice or even though

the alteration, amendment, revocation, or termination takes effect only on the expiration of a stated period after the exercise of the power, whether or not on or before the date of the decedent's death notice has been given or the power has been exercised. In such cases proper adjustment shall be made representing the interests which would have been excluded from the power if the decedent had lived, and for such purpose, if the notice has not been given or the power has not been exercised on or before the date of his death, such notice shall be considered to have been given, or the power exercised, on the date of his death.

SEC. 2039. ANNUITIES.

(a) GENERAL.—The gross estate shall include the value of an annuity or other payment receivable by any beneficiary by reason of surviving the decedent under any form of contract or agreement entered into after March 3, 1931 (other than as insurance under policies on the life of the decedent), if, under such contract or agreement, an annuity or other payment was payable to the decedent, or the decedent possessed the right to receive such annuity or payment, either alone or in conjunction with another for his life or for any period not ascertainable without reference to his death or for any period which does not in fact end before his death.

(b) AMOUNT INCLUDIBLE.—Subsection (a) shall apply to only such part of the value of the annuity or other payment receivable under such contract or agreement as is proportionate to that part of the purchase price therefor contributed by the decedent. For purposes of this section, any contribution by the decedent's employer or former employer to the purchase price of such contract or agreement (whether or not to an employee's trust or fund forming part of a pension, annuity, retirement, bonus or profit sharing plan) shall be considered to be contributed by the decedent if made by reason of his employment.

(c) EXEMPTION OF ANNUITIES UNDER CERTAIN TRUSTS AND PLANS.—Notwithstanding the provisions of this section or of any provision of law, there shall be excluded from the gross estate the value of an annuity or other payment receivable by any beneficiary (other than the executor) 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 the decedent's separation from employment (whether by death or otherwise), or at the time of termination of the plan if earlier, met the requirements of section 401 (a); or

(2) a retirement annuity contract purchased by an employer (and not by an employees' trust) pursuant to a plan which, at the time of decedent's separation from employment (by death or otherwise), or at the time of termination of the plan if earlier, met the requirements of section 401 (a) (3).

If such amounts payable after the death of the decedent under a plan described in paragraph (1) or (2) are attributable to any extent to payments or contributions made by the decedent, no exclusion shall be allowed for that part of the value of such amounts in the proportion that the total payments or contributions made by the decedent bears to the total payments or contributions made. For purposes of

this subsection, contributions or payments made by the decedent's employer or former employer under a trust or plan described in this subsection shall not be considered to be contributed by the decedent. This subsection shall apply to all decedents dying after December 31, 1953.

SEC. 2040. JOINT INTERESTS.

The value of the gross estate shall include the value of all property (except real property situated outside of the United States) to the extent of the interest therein held as joint tenants by the decedent and any other person, or as tenants by the entirety by the decedent and spouse, or deposited, with any person carrying on the banking business, in their joint names and payable to either or the survivor, except such part thereof as may be shown to have originally belonged to such other person and never to have been received or acquired by the latter from the decedent for less than an adequate and full consideration in money or money's worth: *Provided*, That where such property or any part thereof, or part of the consideration with which such property was acquired, is shown to have been at any time acquired by such other person from the decedent for less than an adequate and full consideration in money or money's worth, there shall be excepted only such part of the value of such property as is proportionate to the consideration furnished by such other person: *Provided further*, That where any property has been acquired by gift, bequest, devise, or inheritance, as a tenancy by the entirety by the decedent and spouse, then to the extent of one-half of the value thereof, or, where so acquired by the decedent and any other person as joint tenants and their interests are not otherwise specified or fixed by law, then to the extent of the value of a fractional part to be determined by dividing the value of the property by the number of joint tenants.

SEC. 2041. POWERS OF APPOINTMENT.

(a) IN GENERAL.—The value of the gross estate shall include the value of all property (except real property situated outside of the United States)—

(1) POWERS OF APPOINTMENT CREATED ON OR BEFORE OCTOBER 21, 1942.—To the extent of any property with respect to which a general power of appointment created on or before October 21, 1942, is exercised by the decedent—

(A) by will, or

(B) by a disposition which is of such nature that if it were a transfer of property owned by the decedent, such property would be includible in the decedent's gross estate under sections 2035 to 2038, inclusive;

but the failure to exercise such a power or the complete release of such a power shall not be deemed an exercise thereof. If a general power of appointment created on or before October 21, 1942, has been partially released so that it is no longer a general power of appointment, the exercise of such power shall not be deemed to be the exercise of a general power of appointment if—

(i) such partial release occurred before November 1, 1951, or

(ii) the donee of such power was under a legal disability to release such power on October 21, 1942, and such partial

release occurred not later than 6 months after the termination of such legal disability.

(2) POWERS CREATED AFTER OCTOBER 21, 1942.—To the extent of any property with respect to which the decedent has at the time of his death a general power of appointment created after October 21, 1942, or with respect to which the decedent has at any time exercised or released such a power of appointment by a disposition which is of such nature that if it were a transfer of property owned by the decedent, such property would be includible in the decedent's gross estate under sections 2035 to 2038, inclusive. A disclaimer or renunciation of such a power of appointment shall not be deemed a release of such power. For purposes of this paragraph (2), the power of appointment shall be considered to exist on the date of the decedent's death even though the exercise of the power is subject to a precedent giving of notice or even though the exercise of the power takes effect only on the expiration of a stated period after its exercise, whether or not on or before the date of the decedent's death notice has been given or the power has been exercised.

(3) CREATION OF ANOTHER POWER IN CERTAIN CASES.—To the extent of any property with respect to which the decedent—

(A) by will, or

(B) by a disposition which is of such nature that if it were a transfer of property owned by the decedent such property would be includible in the decedent's gross estate under section 2035, 2036, or 2037,

exercises a power of appointment created after October 21, 1942, by creating another power of appointment which under the applicable local law can be validly exercised so as to postpone the vesting of any estate or interest in such property, or suspend the absolute ownership or power of alienation of such property, for a period ascertainable without regard to the date of the creation of the first power.

(b) DEFINITIONS.—For purposes of subsection (a)—

(1) GENERAL POWER OF APPOINTMENT.—The term "general power of appointment" means a power which is exercisable in favor of the decedent, his estate, his creditors, or the creditors of his estate; except that—

(A) A power to consume, invade, or appropriate property for the benefit of the decedent which is limited by an ascertainable standard relating to the health, education, support, or maintenance of the decedent shall not be deemed a general power of appointment.

(B) A power of appointment created on or before October 21, 1942, which is exercisable by the decedent only in conjunction with another person shall not be deemed a general power of appointment.

(C) In the case of a power of appointment created after October 21, 1942, which is exercisable by the decedent only in conjunction with another person—

(i) If the power is not exercisable by the decedent except in conjunction with the creator of the power—such power shall not be deemed a general power of appointment.

(ii) If the power is not exercisable by the decedent except in conjunction with a person having a substantial interest in the property, subject to the power, which is adverse to exercise of the power in favor of the decedent—such power shall not be deemed a general power of appointment. For the purposes of this clause a person who, after the death of the decedent, may be possessed of a power of appointment (with respect to the property subject to the decedent's power) which he may exercise in his own favor shall be deemed as having an interest in the property and such interest shall be deemed adverse to such exercise of the decedent's power.

(iii) If (after the application of clauses (i) and (ii)) the power is a general power of appointment and is exercisable in favor of such other person—such power shall be deemed a general power of appointment only in respect of a fractional part of the property subject to such power, such part to be determined by dividing the value of such property by the number of such persons (including the decedent) in favor of whom such power is exercisable.

For purposes of clauses (ii) and (iii), a power shall be deemed to be exercisable in favor of a person if it is exercisable in favor of such person, his estate, his creditors, or the creditors of his estate.

(2) LAPSE OF POWER.—The lapse of a power of appointment created after October 21, 1942, during the life of the individual possessing the power shall be considered a release of such power. The preceding sentence shall apply with respect to the lapse of powers during any calendar year only to the extent that the property, which could have been appointed by exercise of such lapsed powers, exceeded in value, at the time of such lapse, the greater of the following amounts:

(A) $5,000, or

(B) 5 percent of the aggregate value, at the time of such lapse, of the assets out of which, or the proceeds of which, the exercise of the lapsed powers could have been satisfied.

(3) DATE OF CREATION OF POWER.—For purposes of this section, a power of appointment created by a will executed on or before October 21, 1942, shall be considered a power created on or before such date if the person executing such will dies before July 1, 1949, without having republished such will, by codicil or otherwise, after October 21, 1942.

SEC. 2042. PROCEEDS OF LIFE INSURANCE.

The value of the gross estate shall include the value of all property—

(1) RECEIVABLE BY THE EXECUTOR.—To the extent of the amount receivable by the executor as insurance under policies on the life of the decedent.

(2) RECEIVABLE BY OTHER BENEFICIARIES.—To the extent of the amount receivable by all other beneficiaries as insurance under policies on the life of the decedent with respect to which the decedent possessed at his death any of the incidents of ownership, exercisable either alone or in conjunction with any other person. For purposes of the preceding sentence, the term "incident of ownership" includes a reversionary interest (whether arising by the

express terms of the policy or other instrument or by operation of law) only if the value of such reversionary interest exceeded 5 percent of the value of the policy immediately before the death of the decedent. As used in this paragraph, the term "reversionary interest" includes a possibility that the policy, or the proceeds of the policy, may return to the decedent or his estate, or may be subject to a power of disposition by him. The value of a reversionary interest at any time shall be determined (without regard to the fact of the decedent's death) by usual methods of valuation, including the use of tables of mortality and actuarial principles, pursuant to regulations prescribed by the Secretary or his delegate. In determining the value of a possibility that the policy or proceeds thereof may be subject to a power of disposition by the decedent, such possibility shall be valued as if it were a possibility that such policy or proceeds may return to the decedent or his estate.

SEC. 2043. TRANSFERS FOR INSUFFICIENT CONSIDERATION.

(a) IN GENERAL.—If any one of the transfers, trusts, interests, rights, or powers enumerated and described in sections 2035 to 2038, inclusive, and section 2041 is made, created, exercised, or relinquished for a consideration in money or money's worth, but is not a bona fide sale for an adequate and full consideration in money or money's worth, there shall be included in the gross estate only the excess of the fair market value at the time of death of the property otherwise to be included on account of such transaction, over the value of the consideration received therefor by the decedent.

(b) MARITAL RIGHTS NOT TREATED AS CONSIDERATION.—For purposes of this chapter, a relinquishment or promised relinquishment of dower or curtesy, or of a statutory estate created in lieu of dower or curtesy, or of other marital rights in the decedent's property or estate, shall not be considered to any extent a consideration "in money or money's worth."

SEC. 2044. PRIOR INTERESTS.

Except as otherwise specifically provided therein, sections 2034 to 2042, inclusive, shall apply to the transfers, trusts, estates, interests, rights, powers, and relinquishment of powers, as severally enumerated and described therein, whenever made, created, arising, existing, exercised, or relinquished.

PART IV—TAXABLE ESTATE

Sec. 2051. Definition of taxable estate.
Sec. 2052. Exemption.
Sec. 2053. Expenses, indebtedness, and taxes.
Sec. 2054. Losses.
Sec. 2055. Transfers for public, charitable, and religious uses.
Sec. 2056. Bequests, etc., to surviving spouse.

SEC. 2051. DEFINITION OF TAXABLE ESTATE.

For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate the exemption and deductions provided for in this part.

SEC. 2052. EXEMPTION.

For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate an exemption of $60,000.

SEC. 2053. EXPENSES, INDEBTEDNESS, AND TAXES.

(a) GENERAL RULE.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate such amounts—

(1) for funeral expenses,

(2) for administration expenses,

(3) for claims against the estate, and

(4) for unpaid mortgages on, or any indebtedness in respect of, property where the value of the decedent's interest therein, undiminished by such mortgage or indebtedness, is included in the value of the gross estate,

as are allowable by the laws of the jurisdiction, whether within or without the United States, under which the estate is being administered.

(b) OTHER ADMINISTRATION EXPENSES.—Subject to the limitations in paragraph (1) of subsection (c), there shall be deducted in determining the taxable estate amounts representing expenses incurred in administering property not subject to claims which is included in the gross estate to the same extent such amounts would be allowable as a deduction under subsection (a) if such property were subject to claims, and such amounts are paid before the expiration of the period of limitation for assessment provided in section 6501.

(c) LIMITATIONS.—

(1) LIMITATIONS APPLICABLE TO SUBSECTIONS (a) AND (b).—

(A) CONSIDERATION FOR CLAIMS.—The deduction allowed by this section in the case of claims against the estate, unpaid mortgages, or any indebtedness shall, when founded on a promise or agreement, be limited to the extent that they were contracted bona fide and for an adequate and full consideration in money or money's worth; except that in any case in which any such claim is founded on a promise or agreement of the decedent to make a contribution or gift to or for the use of any donee described in section 2055 for the purposes specified therein, the deduction for such claims shall not be so limited, but shall be limited to the extent that it would be allowable as a deduction under section 2055 if such promise or agreement constituted a bequest.

(B) CERTAIN TAXES.—Any income taxes on income received after the death of the decedent, or property taxes not accrued before his death, or any estate, succession, legacy, or inheritance taxes, shall not be deductible under this section.

(2) LIMITATIONS APPLICABLE ONLY TO SUBSECTION (a).—In the case of the amounts described in subsection (a), there shall be disallowed the amount by which the deductions specified therein exceed the value, at the time of the decedent's death, of property subject to claims, except to the extent that such deductions represent amounts paid before the date prescribed for the filing of the estate tax return. For purposes of this section, the term "property subject to claims" means property includible in the gross estate of the decedent which, or the avails of which, would under the applicable

law, bear the burden of the payment of such deductions in the final adjustment and settlement of the estate, except that the value of the property shall be reduced by the amount of the deduction under section 2054 attributable to such property.

(d) MARITAL RIGHTS.—

For provisions that relinquishment of marital rights shall not be deemed a consideration "in money or money's worth," see section 2043 (b).

SEC. 2054. LOSSES.

For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate losses incurred during the settlement of estates arising from fires, storms, shipwrecks, or other casualties, or from theft, when such losses are not compensated for by insurance or otherwise.

SEC. 2055. TRANSFERS FOR PUBLIC, CHARITABLE, AND RELIGIOUS USES.

(a) IN GENERAL.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate the amount of all bequests, legacies, devises, or transfers (including the interest which falls into any such bequest, legacy, devise, or transfer as a result of an irrevocable disclaimer of a bequest, legacy, devise, transfer, or power, if the disclaimer is made before the date prescribed for the filing of the estate tax return)—

(1) to or for the use of the United States, any State, Territory, any political subdivision thereof, or the District of Columbia, for exclusively public purposes;

(2) to or for the use of any corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation;

(3) to a trustee or trustees, or a fraternal society, order, or association operating under the lodge system, but only if such contributions or gifts are to be used by such trustee or trustees, or by such fraternal society, order, or association, exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, and no substantial part of the activities of such trustee or trustees, or of such fraternal society, order, or association, is carrying on propaganda, or otherwise attempting, to influence legislation; or

(4) to or for the use of any veterans' organization incorporated by Act of Congress, or of its departments or local chapters or posts, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

For purposes of this subsection, the complete termination before the date prescribed for the filing of the estate tax return of a power to consume, invade, or appropriate property for the benefit of an individual before such power has been exercised by reason of the death of such individual or for any other reason shall be considered and

deemed to be an irrevocable disclaimer with the same full force and effect as though he had filed such irrevocable disclaimer.

(b) POWERS OF APPOINTMENT.—Property includible in the decedent's gross estate under section 2041 (relating to powers of appointment) received by a donee described in this section shall, for purposes of this section, be considered a bequest of such decedent.

(c) DEATH TAXES PAYABLE OUT OF BEQUESTS.—If the tax imposed by section 2001, or any estate, succession, legacy, or inheritance taxes, are, either by the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests, legacies, or devises otherwise deductible under this section, then the amount deductible under this section shall be the amount of such bequests, legacies, or devises reduced by the amount of such taxes.

(d) LIMITATION ON DEDUCTION.—The amount of the deduction under this section for any transfer shall not exceed the value of the transferred property required to be included in the gross estate.

(e) DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.—

For disallowance of certain charitable, etc., deductions otherwise allowable under this section, see sections 504 and 681.

(f) OTHER CROSS REFERENCES.—

(1) For option as to time for valuation for purpose of deduction under this section, see section 2032.

(2) For exemption of bequests to or for benefit of Library of Congress, see section 5 of the Act of March 3, 1925, as amended (56 Stat. 765; 2 U. S. C. 161).

(3) For construction of bequests for benefit of the library of the Post Office Department as bequests to or for the use of the United States, see section 2 of the Act of August 8, 1946 (60 Stat. 924; 5 U. S. C. 393).

(4) For exemption of bequests for benefit of Office of Naval Records and Library, Navy Department, see section 2 of the Act of March 4, 1937 (50 Stat. 25; 5 U. S. C. 419b).

(5) For exemption of bequests to or for benefit of National Park Service, see section 5 of the Act of July 10, 1935 (49 Stat. 478; 16 U. S. C. 19c).

(6) For construction of devises or bequests accepted by the Secretary of State under the Foreign Service Act of 1946 as devises or bequests to or for the use of the United States, see section 1021 (e) of that Act (60 Stat. 1032; 22 U. S. C. 809).

(7) For construction of gifts or bequests of money accepted by the Attorney General for credit to "Commissary Funds, Federal Prisons" as gifts or bequests to or for the use of the United States, see section 2 of the Act of May 15, 1952, 66 Stat. 73, as amended by the Act of July 9, 1952, 66 Stat. 479 (31 U. S. C. 725s–4).

(8) For payment of tax on bequests of United States obligations to the United States, see section 24 of the Second Liberty Bond Act, as amended (59 Stat. 48, § 4; 31 U. S. C. 757e).

(9) For construction of bequests for benefit of or use in connection with the Naval Academy as bequests to or for the use of the United States, see section 3 of the Act of March 31, 1944 (58 Stat. 135; 34 U. S. C. 1115b).

(10) For exemption of bequests for benefit of Naval Academy Museum, see section 4 of the Act of March 26, 1938 (52 Stat. 119; 34 U. S. C. 1119).

(11) For exemption of bequests received by National Archives Trust Fund Board, see section 7 of the National Archives Trust Fund Board Act (55 Stat. 582; 44 U. S. C. 300gg).

SEC. 2056. BEQUESTS, ETC., TO SURVIVING SPOUSE.

(a) ALLOWANCE OF MARITAL DEDUCTION.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall, except as limited by subsections (b), (c), and (d), be determined by deducting from the value of the gross estate an amount equal to the value of any interest in property which passes or has passed from the decedent to his surviving spouse, but only to the extent that such interest is included in determining the value of the gross estate.

(b) LIMITATION IN THE CASE OF LIFE ESTATE OR OTHER TERMINABLE INTEREST.—

(1) GENERAL RULE.—Where, on the lapse of time, on the occurrence of an event or contingency, or on the failure of an event or contingency to occur, an interest passing to the surviving spouse will terminate or fail, no deduction shall be allowed under this section with respect to such interest—

(A) if an interest in such property passes or has passed (for less than an adequate and full consideration in money or money's worth) from the decedent to any person other than such surviving spouse (or the estate of such spouse); and

(B) if by reason of such passing such person (or his heirs or assigns) may possess or enjoy any part of such property after such termination or failure of the interest so passing to the surviving spouse;

and no deduction shall be allowed with respect to such interest (even if such deduction is not disallowed under subparagraphs (A) and (B))—

(C) if such interest is to be acquired for the surviving spouse, pursuant to directions of the decedent, by his executor or by the trustee of a trust.

For purposes of this paragraph, an interest shall not be considered as an interest which will terminate or fail merely because it is the ownership of a bond, note, or similar contractual obligation, the discharge of which would not have the effect of an annuity for life or for a term.

(2) INTEREST IN UNIDENTIFIED ASSETS.—Where the assets (included in the decedent's gross estate) out of which, or the proceeds of which, an interest passing to the surviving spouse may be satisfied include a particular asset or assets with respect to which no deduction would be allowed if such asset or assets passed from the decedent to such spouse, then the value of such interest passing to such spouse shall, for purposes of subsection (a), be reduced by the aggregate value of such particular assets.

(3) INTEREST OF SPOUSE CONDITIONAL ON SURVIVAL FOR LIMITED PERIOD.—For purposes of this subsection, an interest passing to the surviving spouse shall not be considered as an interest which will terminate or fail on the death of such spouse if—

(A) such death will cause a termination or failure of such interest only if it occurs within a period not exceeding 6 months after the decedent's death, or only if it occurs as a result of a common disaster resulting in the death of the decedent and the surviving spouse, or only if it occurs in the case of either such event; and

(B) such termination or failure does not in fact occur.

(4) VALUATION OF INTEREST PASSING TO SURVIVING SPOUSE.—In determining for purposes of subsection (a) the value of any interest in property passing to the surviving spouse for which a deduction is allowed by this section—

(A) there shall be taken into account the effect which the tax imposed by section 2001, or any estate, succession, legacy, or inheritance tax, has on the net value to the surviving spouse of such interest; and

(B) where such interest or property is encumbered in any manner, or where the surviving spouse incurs any obligation imposed by the decedent with respect to the passing of such interest, such encumbrance or obligation shall be taken into account in the same manner as if the amount of a gift to such spouse of such interest were being determined.

(5) 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—

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

(B) no part of the interest so passing shall, for purposes of paragraph (1) (A), be considered as passing to any person other than the surviving spouse.

This paragraph 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.

(6) LIFE INSURANCE OR ANNUITY PAYMENTS WITH POWER OF APPOINTMENT IN SURVIVING SPOUSE.—In the case of an interest in property passing from the decedent consisting of proceeds under a life insurance, endowment, or annuity contract, if under the terms of the contract such proceeds are payable in installments or are held by the insurer subject to an agreement to pay interest thereon (whether the proceeds, on the termination of any interest payments, are payable in a lump sum or in annual or more frequent installments), and such installment or interest payments are payable annually or at more frequent intervals, commencing not later than 13 months after the decedent's death, and all amounts, or a specific portion of all such amounts, payable during the life of the surviving spouse are payable only to such spouse, and such spouse has the power to appoint all amounts, or such specific portion, payable under such contract (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), with no power in any other person to appoint such amounts to any person other than the surviving spouse—

(A) such amounts shall, for purposes of subsection (a), be considered as passing to the surviving spouse, and

(B) no part of such amounts shall, for purposes of paragraph (1) (A), be considered as passing to any person other than the surviving spouse.

This paragraph shall apply only if, under the terms of the contract, such power in the surviving spouse to appoint such amounts, whether exercisable by will or during life, is exercisable by such spouse alone and in all events.

(c) LIMITATION ON AGGREGATE OF DEDUCTIONS.—

(1) GENERAL RULE.—The aggregate amount of the deductions allowed under this section (computed without regard to this subsection) shall not exceed 50 percent of the value of the adjusted gross estate, as defined in paragraph (2).

(2) COMPUTATION OF ADJUSTED GROSS ESTATE.—

(A) GENERAL RULE.—Except as provided in subparagraph (B) of this paragraph, the adjusted gross estate shall, for purposes of subsection (c) (1), be computed by subtracting from the entire value of the gross estate the aggregate amount of the deductions allowed by sections 2053 and 2054.

(B) SPECIAL RULE IN CASES INVOLVING COMMUNITY PROPERTY.—If the decedent and his surviving spouse at any time, held property as community property under the law of any State, Territory, or possession of the United States, or of any foreign country, then the adjusted gross estate shall, for purposes of subsection (c) (1), be determined by subtracting from the entire value of the gross estate the sum of—

(i) the value of property which is at the time of the death of the decedent held as such community property; and

(ii) the value of property transferred by the decedent during his life, if at the time of such transfer the property was held as such community property; and

(iii) the amount receivable as insurance under policies on the life of the decedent, to the extent purchased with premiums or other consideration paid out of property held as such community property; and

(iv) an amount which bears the same ratio to the aggregate of the deductions allowed under sections 2053 and 2054 which the value of the property included in the gross estate, diminished by the amount subtracted under clauses (i), (ii), and (iii) of this subparagraph, bears to the entire value of the gross estate.

For purposes of clauses (i), (ii), and (iii), community property (except property which is considered as community property solely by reason of the provisions of subparagraph (C) of this paragraph) shall be considered as not "held as such community property" as of any moment of time, if, in case of the death of the decedent at such moment, such property (and not merely one-half thereof) would be or would have been includible in determining the value of his gross estate without regard to the provisions of section 402 (b) of the Revenue Act of 1942.

The amount to be subtracted under clauses (i), (ii), or (iii) shall not exceed the value of the interest in the property described therein which is included in determining the value of the gross estate.

(C) COMMUNITY PROPERTY—CONVERSION INTO SEPARATE PROPERTY.—

(i) AFTER DECEMBER 31, 1941.—If after December 31, 1941, property held as such community property (unless considered by reason of subparagraph (B) of this paragraph as not so held) was by the decedent and the surviving spouse converted, by one transaction or a series of transactions, into separate property of the decedent and his spouse (including any form of coownership by them), the separate property so acquired by the decedent and any property acquired at any time by the decedent in exchange therefor (by one exchange or a series of exchanges) shall, for the purposes of clauses (i), (ii), and (iii) of subparagraph (B), be considered as "held as such community property."

(ii) LIMITATION.—Where the value (at the time of such conversion) of the separate property so acquired by the decedent exceeded the value (at such time) of the separate property so acquired by the decedent's spouse, the rule in clause (i) shall be applied only with respect to the same portion of such separate property of the decedent as the portion which the value (as of such time) of such separate property so acquired by the decedent's spouse is of the value (as of such time) of the separate property so acquired by the decedent.

(d) DISCLAIMERS.—

(1) BY SURVIVING SPOUSE.—If under this section an interest would, in the absence of a disclaimer by the surviving spouse, be considered as passing from the decedent to such spouse, and if a disclaimer of such interest is made by such spouse, then such interest shall, for the purposes of this section, be considered as passing to the person or persons entitled to receive such interest as a result of the disclaimer.

(2) BY ANY OTHER PERSON.—If under this section an interest would, in the absence of a disclaimer by any person other than the surviving spouse, be considered as passing from the decedent to such person, and if a disclaimer of such interest is made by such person and as a result of such disclaimer the surviving spouse is entitled to receive such interest, then such interest shall, for purposes of this section, be considered as passing, not to the surviving spouse, but to the person who made the disclaimer, in the same manner as if the disclaimer had not been made.

(e) DEFINITION.—For purposes of this section, an interest in property shall be considered as passing from the decedent to any person if and only if—

(1) such interest is bequeathed or devised to such person by the decedent;

(2) such interest is inherited by such person from the decedent;

(3) such interest is the dower or curtesy interest (or statutory interest in lieu thereof) of such person as surviving spouse of the decedent;

(4) such interest has been transferred to such person by the decedent at any time;

(5) such interest was, at the time of the decedent's death, held by such person and the decedent (or by them and any other person) in joint ownership with right of survivorship;

(6) the decedent had a power (either alone or in conjunction with any person) to appoint such interest and if he appoints or has appointed such interest to such person, or if such person takes such interest in default on the release or nonexercise of such power; or

(7) such interest consists of proceeds of insurance on the life of the decedent receivable by such person.

Except as provided in paragraph (5) or (6) of subsection (b), where at the time of the decedent's death it is not possible to ascertain the particular person or persons to whom an interest in property may pass from the decedent, such interest shall, for purposes of subparagraphs (A) and (B) of subsection (b) (1), be considered as passing from the decedent to a person other than the surviving spouse.

Subchapter B—Estates of Nonresidents Not Citizens

Sec. 2101. Tax imposed.
Sec. 2102. Credits against tax.
Sec. 2103. Definition of gross estate.
Sec. 2104. Property within the United States.
Sec. 2105. Property without the United States.
Sec. 2106. Taxable estate.

SEC. 2101. TAX IMPOSED.

(a) IN GENERAL.—A tax computed in accordance with the table contained in section 2001 is hereby imposed on the transfer of the taxable estate, determined as provided in section 2106, of every decedent nonresident not a citizen of the United States dying after the date of enactment of this title.

(b) PROPERTY HELD BY ALIEN PROPERTY CUSTODIAN.—

For taxes in connection with property or interests transferred to or vested in the Alien Property Custodian, see section 36 of the Trading with the Enemy Act, as added by the act of August 8, 1946 (60 Stat. 929; 50 U. S. C. App. 36.)

SEC. 2102. CREDITS AGAINST TAX.

The tax imposed by section 2101 shall be credited with the amounts determined in accordance with sections 2011 to 2013, inclusive (relating to State death taxes, gift tax, and tax on prior transfers).

SEC. 2103. DEFINITION OF GROSS ESTATE.

For the purpose of the tax imposed by section 2101, the value of the gross estate of every decedent nonresident not a citizen of the United States shall be that part of his gross estate (determined as provided in section 2031) which at the time of his death is situated in the United States.

SEC. 2104. PROPERTY WITHIN THE UNITED STATES.

(a) STOCK IN CORPORATION.—For purposes of this subchapter shares of stock owned and held by a nonresident not a citizen of the United States shall be deemed property within the United States only if issued by a domestic corporation.

(b) REVOCABLE TRANSFERS AND TRANSFERS IN CONTEMPLATION OF DEATH.—For purposes of this subchapter, any property of which the decedent has made a transfer, by trust or otherwise, within the meaning of sections 2035 to 2038, inclusive, shall be deemed to be situated in the United States, if so situated either at the time of the transfer or at the time of the decedent's death.

SEC. 2105. PROPERTY WITHOUT THE UNITED STATES.

(a) PROCEEDS OF LIFE INSURANCE.—For purposes of this subchapter, the amount receivable as insurance on the life of a nonresident not a citizen of the United States shall not be deemed property within the United States.

(b) BANK DEPOSITS.—For purposes of this subchapter, any moneys deposited with any person carrying on the banking business, by or for a nonresident not a citizen of the United States who was not

engaged in business in the United States at the time of his death shall not be deemed property within the United States.

(c) WORKS OF ART ON LOAN FOR EXHIBITION.—For purposes of this subchapter, works of art owned by a nonresident not a citizen of the United States shall not be deemed property within the United States if such works of art are—

(1) imported into the United States solely for exhibition purposes,

(2) loaned for such purposes, to a public gallery or museum, no part of the net earnings of which inures to the benefit of any private stockholder or individual, and

(3) at the time of the death of the owner, on exhibition, or en route to or from exhibition, in such a public gallery or museum.

SEC. 2106. TAXABLE ESTATE.

(a) DEFINITION OF TAXABLE ESTATE.—For purposes of the tax imposed by section 2101, the value of the taxable estate of every decedent nonresident not a citizen of the United States shall be determined by deducting from the value of that part of his gross estate which at the time of his death is situated in the United States—

(1) EXPENSES, LOSSES, INDEBTEDNESS, AND TAXES.—That proportion of the deductions specified in sections 2053 and 2054 (other than the deductions described in the following sentence) which the value of such part bears to the value of his entire gross estate, wherever situated. Any deduction allowable under section 2053 in the case of a claim against the estate which was founded on a promise or agreement but was not contracted for an adequate and full consideration in money or money's worth shall be allowable under this paragraph to the extent that it would be allowable as a deduction under paragraph (2) if such promise or agreement constituted a bequest.

(2) TRANSFERS FOR PUBLIC, CHARITABLE, AND RELIGIOUS USES.—

(A) IN GENERAL.—The amount of all bequests, legacies, devises, or transfers (including the interest which falls into any such bequest, legacy, devise, or transfer as a result of an irrevocable disclaimer of a bequest, legacy, devise, transfer, or power, if the disclaimer is made before the date prescribed for the filing of the estate tax return)—

(i) to or for the use of the United States, any State, Territory, any political subdivision thereof, or the District of Columbia, for exclusively public purposes;

(ii) to or for the use of any domestic corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation; or

(iii) to a trustee or trustees, or a fraternal society, order, or association operating under the lodge system, but only if such contributions or gifts are to be used within the United States by such trustee or trustees, or by such fraternal society, order, or association, exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention

of cruelty to children or animals, and no substantial part of the activities of such trustee or trustees, or of such fraternal society, order, or association, is carrying on propaganda, or otherwise attempting, to influence legislation.

(B) POWERS OF APPOINTMENT.—Property includible in the decedent's gross estate under section 2041 (relating to powers of appointment) received by a donee described in this paragraph shall, for purposes of this paragraph, be considered a bequest of such decedent.

(C) DEATH TAXES PAYABLE OUT OF BEQUESTS.—If the tax imposed by section 2101, or any estate, succession, legacy, or inheritance taxes, are, either by the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests, legacies, or devises otherwise deductible under this paragraph, then the amount deductible under this paragraph shall be the amount of such bequests, legacies, or devises reduced by the amount of such taxes.

(D) LIMITATION ON DEDUCTION.—The amount of the deduction under this paragraph for any transfer shall not exceed the value of the transferred property required to be included in the gross estate.

(E) DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.—

For disallowance of certain charitable, etc., deductions otherwise allowable under this paragraph, see sections 504 and 681.

(F) OTHER CROSS REFERENCES.—

(1) For option as to time for valuation for purpose of deduction under this paragraph, see section 2032.

(2) For exemption of bequests to or for benefit of Library of Congress, see section 5 of the Act of March 3, 1925, as amended (56 Stat. 765; 2 U. S. C. 161).

(3) For construction of bequests for benefit of the library of the Post Office Department as bequests to or for the use of the United States, see section 2 of the Act of August 8, 1946 (60 Stat. 924; 5 U. S. C. 393).

(4) For exemption of bequests for benefit of Office of Naval Records and Library, Navy Department, see section 2 of the Act of March 4, 1937 (50 Stat. 25; 5 U. S. C. 419b).

(5) For exemption of bequests to or for benefit of National Park Service, see section 5 of the Act of July 10, 1935 (49 Stat. 478; 16 U. S. C. 19c).

(6) For construction of devises or bequests accepted by the Secretary of State under the Foreign Service Act of 1946 as devises or bequests to or for the use of the United States, see section 1021 (e) of that Act (60 Stat. 1032; 22 U. S. C. 809).

(7) For construction of gifts or bequests of money accepted by the Attorney General for credit to "Commissary Funds, Federal Prisons" as gifts or bequests to or for the use of the United States, see section 2 of the Act of May 15, 1952, 66 Stat. 73, as amended by the Act of July 9, 1952, 66 Stat. 479 (31 U. S. C. 725s–4).

(8) For payment of tax on bequests of United States obligations to the United States, see section 24 of the Second Liberty Bond Act, as amended (59 Stat. 48, § 4; 31 U. S. C. 757e).

(9) For construction of bequests for benefit of or use in connection with the Naval Academy as bequests to or for the use of the United States, see section 3 of the Act of March 31, 1944 (58 Stat. 135; 34 U. S. C. 1115b).

(10) For exemption of bequests for benefit of Naval Academy Museum, see section 4 of the Act of March 26, 1938 (52 Stat. 119; 34 U. S. C. 1119).

(11) For exemption of bequests received by National Archives Trust Fund Board, see section 7 of the National Archives Trust Fund Board Act (55 Stat. 582; 44 U. S. C. 300gg).

(3) EXEMPTION.—An exemption of $2,000.

(b) CONDITION OF ALLOWANCE OF DEDUCTIONS.—No deduction shall be allowed under paragraphs (1) and (2) of subsection (a) in the case of a nonresident not a citizen of the United States unless the executor includes in the return required to be filed under section 6018 the value at the time of his death of that part of the gross estate of such nonresident not situated in the United States.

(c) UNITED STATES BONDS.—For purposes of section 2103, the value of the gross estate (determined as provided in section 2031) of a decedent who was not engaged in business in the United States at the time of his death—

(1) shall not include obligations issued by the United States before March 1, 1941; and

(2) shall include obligations issued by the United States on or after March 1, 1941.

Subchapter C—Miscellaneous

Sec. 2201. Members of the Armed Forces dying during an induction period.
Sec. 2202. Missionaries in foreign service.
Sec. 2203. Definition of executor.
Sec. 2204. Discharge of executor from personal liability.
Sec. 2205. Reimbursement out of estate.
Sec. 2206. Liability of life insurance beneficiaries.
Sec. 2207. Liability of recipient of property over which decedent had power of appointment.

SEC. 2201. MEMBERS OF THE ARMED FORCES DYING DURING AN INDUCTION PERIOD.

The additional estate tax as defined in section 2011 (d) shall not apply to the transfer of the taxable estate of a citizen or resident of the United States dying during an induction period (as defined in sec. 112 (c) (5)), while in active service as a member of the Armed Forces of the United States, if such decedent—

(1) was killed in action while serving in a combat zone, as determined under section 112 (c); or

(2) died as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 112 (c), and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service.

SEC. 2202. MISSIONARIES IN FOREIGN SERVICE.

Missionaries duly commissioned and serving under boards of foreign missions of the various religious denominations in the United States, dying while in the foreign missionary service of such boards, shall not, by reason merely of their intention to permanently remain in such foreign service, be deemed nonresidents of the United States, but shall be presumed to be residents of the State, the District of Columbia, Alaska, or Hawaii wherein they respectively resided at the time of their commission and their departure for such foreign service.

SEC. 2203. DEFINITION OF EXECUTOR.

The term "executor" wherever it is used in this title in connection with the estate tax imposed by this chapter means the executor or administrator of the decedent, or, if there is no executor or administrator appointed, qualified, and acting within the United States, then any person in actual or constructive possession of any property of the decedent.

SEC. 2204. DISCHARGE OF EXECUTOR FROM PERSONAL LIABILITY.

If the executor makes written application to the Secretary or his delegate for determination of the amount of the tax and discharge from personal liability therefor, the Secretary or his delegate (as soon as possible, and in any event within 1 year after the making of such application, or, if the application is made before the return is filed, then within 1 year after the return is filed, but not after the expiration of the period prescribed for the assessment of the tax in section 6501) shall notify the executor of the amount of the tax. The executor, on payment of the amount of which he is notified, shall

be discharged from personal liability for any deficiency in tax thereafter found to be due and shall be entitled to a receipt or writing showing such discharge.

SEC. 2205. REIMBURSEMENT OUT OF ESTATE.

If the tax or any part thereof is paid by, or collected out of, that part of the estate passing to or in the possession of any person other than the executor in his capacity as such, such person shall be entitled to reimbursement out of any part of the estate still undistributed or by a just and equitable contribution by the persons whose interest in the estate of the decedent would have been reduced if the tax had been paid before the distribution of the estate or whose interest is subject to equal or prior liability for the payment of taxes, debts, or other charges against the estate, it being the purpose and intent of this chapter that so far as is practicable and unless otherwise directed by the will of the decedent the tax shall be paid out of the estate before its distribution.

SEC. 2206. LIABILITY OF LIFE INSURANCE BENEFICIARIES.

Unless the decedent directs otherwise in his will, if any part of the gross estate on which tax has been paid consists of proceeds of policies of insurance on the life of the decedent receivable by a beneficiary other than the executor, the executor shall be entitled to recover from such beneficiary such portion of the total tax paid as the proceeds of such policies bear to the sum of the taxable estate and the amount of the exemption allowed in computing the taxable estate, determined under section 2051. If there is more than one such beneficiary, the executor shall be entitled to recover from such beneficiaries in the same ratio. In the case of such proceeds receivable by the surviving spouse of the decedent for which a deduction is allowed under section 2056 (relating to marital deduction), this section shall not apply to such proceeds except as to the amount thereof in excess of the aggregate amount of the marital deductions allowed under such section.

SEC. 2207. LIABILITY OF RECIPIENT OF PROPERTY OVER WHICH DECEDENT HAD POWER OF APPOINTMENT.

Unless the decedent directs otherwise in his will, if any part of the gross estate on which the tax has been paid consists of the value of property included in the gross estate under section 2041, the executor shall be entitled to recover from the person receiving such property by reason of the exercise, nonexercise, or release of a power of appointment such portion of the total tax paid as the value of such property bears to the sum of the taxable estate and the amount of the exemption allowed in computing the taxable estate, determined under section 2052, or section 2106 (a), as the case may be. If there is more than one such person, the executor shall be entitled to recover from such persons in the same ratio. In the case of such property received by the surviving spouse of the decedent for which a deduction is allowed under section 2056 (relating to marital deduction), this section shall not apply to such property except as to the value thereof reduced by an amount equal to the excess of the aggregate amount of the marital deductions allowed under section 2056 over the amount of proceeds of insurance upon the life of the decedent receivable by the surviving spouse for which proceeds a marital deduction is allowed under such section.

CHAPTER 12—GIFT TAX

SUBCHAPTER A. Determination of tax liability.
SUBCHAPTER B. Transfers.
SUBCHAPTER C. Deductions.

Subchapter A—Determination of Tax Liability

Sec. 2501. Imposition of tax.
Sec. 2502. Rate of tax.
Sec. 2503. Taxable gifts.
Sec. 2504. Taxable gifts for preceding years.

SEC. 2501. IMPOSITION OF TAX.

(a) GENERAL RULE.—For the calendar year 1955 and each calendar year thereafter a tax, computed as provided in section 2502, is hereby imposed on the transfer of property by gift during such calendar year by any individual, resident or nonresident, except transfers of intangible property by a nonresident who is not a citizen of the United States and who was not engaged in business in the United States during such calendar year.

(b) CROSS REFERENCE.—

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. 2502. RATE OF TAX.

(a) COMPUTATION OF TAX.—The tax imposed by section 2501 for each calendar year shall be an amount equal to the excess of—

(1) a tax, computed in accordance with the rate schedule set forth in this subsection, on the aggregate sum of the taxable gifts for such calendar year and for each of the preceding calendar years, over

(2) a tax, computed in accordance with such rate schedule, on the aggregate sum of the taxable gifts for each of the preceding calendar years.

RATE SCHEDULE

If the taxable gifts are:	The tax shall be:
Not over $5,000	2¼% of the taxable gifts.
Over $5,000 but not over $10,000	$112.50, plus 5¼% of excess over $5,000.
Over $10,000 but not over $20,000	$375, plus 8¼% of excess over $10,000.
Over $20,000 but not over $30,000	$1,200, plus 10½% of excess over $20,000.
Over $30,000 but not over $40,000	$2,250, plus 13½% of excess over $30,000.
Over $40,000 but not over $50,000	$3,600, plus 16½% of excess over $40,000.
Over $50,000 but not over $60,000	$5,250, plus 18¾% of excess over $50,000.
Over $60,000 but not over $100,000	$7,125, plus 21% of excess over $60,000.

RATE SCHEDULE—continued

If the taxable gifts are:—Continued	The tax shall be:—Continued
Over $100,000 but not over $250,000	$15,525, plus 22½% of excess over $100,000.
Over $250,000 but not over $500,000	$49,275, plus 24% of excess over $250,000.
Over $500,000 but not over $750,000	$109,275, plus 26¼% of excess over $500,000.
Over $750,000 but not over $1,000,000	$174,900, plus 27¾% of excess over $750,000.
Over $1,000,000 but not over $1,250,000	$244,275, plus 29¼% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000	$317,400, plus 31½% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000	$396,150, plus 33¾% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000	$564,900, plus 36¾% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000	$748,650, plus 39¾% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000	$947,400, plus 42% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000	$1,157,400, plus 44¼% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000	$1,378,650, plus 47¼% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000	$1,851,150, plus 50¼% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000	$2,353,650, plus 52½% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000	$2,878,650, plus 54¾% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000	$3,426,150, plus 57% of excess over $8,000,000.
Over $10,000,000	$4,566,150, plus 57¾% of excess over $10,000,000.

(b) CALENDAR YEAR.—The term "calendar year" includes only the calendar year 1932 and succeeding calendar years, and, in the case of the calendar year 1932, includes only the portion of such year after June 6, 1932.

(c) PRECEDING CALENDAR YEARS.—The term "preceding calendar years" means the calendar year 1932 and all calendar years intervening between the calendar year 1932 and the calendar year for which the tax is being computed.

(d) TAX TO BE PAID BY DONOR.—The tax imposed by section 2501 shall be paid by the donor.

SEC. 2503. TAXABLE GIFTS.

(a) GENERAL DEFINITION.—The term "taxable gifts" means the total amount of gifts made during the calendar year, less the deductions provided in subchapter C (sec. 2521 and following).

(b) EXCLUSIONS FROM GIFTS.—In the case of gifts (other than gifts of future interests in property) made to any person by the donor during the calendar year 1955 and subsequent calendar years, the first $3,000 of such gifts to such person shall not, for purposes of subsection (a), be included in the total amount of gifts made during such year. Where there has been a transfer to any person of a present interest in property, the possibility that such interest may be diminished by the exercise of a power shall be disregarded in applying

this subsection, if no part of such interest will at any time pass to any other person.

(c) TRANSFER FOR THE BENEFIT OF MINOR.—No part of a gift to an individual who has not attained the age of 21 years on the date of such transfer shall be considered a gift of a future interest in property for purposes of subsection (b) if the property and the income therefrom—

(1) may be expended by, or for the benefit of, the donee before his attaining the age of 21 years, and

(2) will to the extent not so expended—

(A) pass to the donee on his attaining the age of 21 years, and

(B) in the event the donee dies before attaining the age of 21 years, be payable to the estate of the donee or as he may appoint under a general power of appointment as defined in section 2514 (c).

SEC. 2504. TAXABLE GIFTS FOR PRECEDING YEARS.

(a) IN GENERAL.—In computing taxable gifts for the calendar year 1954 and preceding calendar years for the purpose of computing the tax for the calendar year 1955 or any calendar year thereafter, there shall be treated as gifts such transfers as were considered to be gifts under the gift tax laws applicable to the years in which the transfers were made and there shall be allowed such deductions as were provided for under such laws, except that specific exemption in the amount, if any, allowable under section 2521 shall be applied in all computations in respect of the calendar year 1954 and previous calendar years for the purpose of computing the tax for the calendar year 1955 or any calendar year thereafter.

(b) EXCLUSIONS FROM GIFTS FOR PRECEDING YEARS.—In the case of gifts made to any person by the donor during the calendar year 1954 and preceding calendar years, the amount excluded, if any, by the provisions of gift tax laws applicable to the years in which the gifts were made shall not, for purposes of subsection (a), be included in the total amount of the gifts made during such year.

(c) VALUATION OF CERTAIN GIFTS FOR PRECEDING CALENDAR YEARS.—If the time has expired within which a tax may be assessed under this chapter or under corresponding provisions of prior laws, on the transfer of property by gift made during a preceding calendar year, as defined in section 2502 (c), and if a tax under this chapter or under corresponding provisions of prior laws has been assessed or paid for such preceding calendar year, the value of such gift made in such preceding calendar year shall, for purposes of computing the tax under this chapter for the calendar year 1955 and subsequent calendar years, be the value of such gift which was used in computing the tax for the last preceding calendar year, for which a tax under this chapter or under corresponding provisions of prior laws was assessed or paid.

(d) NET GIFTS.—For years before the calendar year 1955, the term "net gifts" as used in corresponding provisions of prior laws shall be read as "taxable gifts" for purposes of this chapter.

Subchapter B—Transfers

Sec. 2511. Transfers in general.
Sec. 2512. Valuation of gifts.
Sec. 2513. Gift by husband or wife to third party
Sec. 2514. Powers of appointment.
Sec. 2515. Tenancies by the entirety.
Sec. 2516. Certain property settlements.

SEC. 2511. TRANSFERS IN GENERAL.

(a) SCOPE.—Subject to the limitations contained in this chapter, the tax imposed by section 2501 shall apply whether the transfer is in trust or otherwise, whether the gift is direct or indirect, and whether the property is real or personal, tangible or intangible; but in the case of a nonresident not a citizen of the United States, shall apply to a transfer only if the property is situated within the United States.

(b) STOCK IN CORPORATION.—Shares of stock owned and held by a nonresident not a citizen of the United States shall be deemed property within the United States only if issued by a domestic corporation.

SEC. 2512. VALUATION OF GIFTS.

(a) If the gift is made in property, the value thereof at the date of the gift shall be considered the amount of the gift.

(b) Where property is transferred for less than an adequate and full consideration in money or money's worth, then the amount by which the value of the property exceeded the value of the consideration shall be deemed a gift, and shall be included in computing the amount of gifts made during the calendar year.

SEC. 2513. GIFT BY HUSBAND OR WIFE TO THIRD PARTY.

(a) CONSIDERED AS MADE ONE-HALF BY EACH.—

(1) IN GENERAL.—A gift made by one spouse to any person other than his spouse shall, for the purposes of this chapter, be considered as made one-half by him and one-half by his spouse, but only if at the time of the gift each spouse is a citizen or resident of the United States. This paragraph shall not apply with respect to a gift by a spouse of an interest in property if he creates in his spouse a general power of appointment, as defined in section 2514 (c), over such interest. For purposes of this section, an individual shall be considered as the spouse of another individual only if he is married to such individual at the time of the gift and does not remarry during the remainder of the calendar year.

(2) CONSENT OF BOTH SPOUSES.—Paragraph (1) shall apply only if both spouses have signified (under the regulations provided for in subsection (b)) their consent to the application of paragraph (1) in the case of all such gifts made during the calendar year by either while married to the other.

(b) MANNER AND TIME OF SIGNIFYING CONSENT.—

(1) MANNER.—A consent under this section shall be signified in such manner as is provided under regulations prescribed by the Secretary or his delegate.

(2) TIME.—Such consent may be so signified at any time after the close of the calendar year in which the gift was made, subject to the following limitations—

(A) the consent may not be signified after the 15th day of April following the close of such year, unless before such 15th day no return has been filed for such year by either spouse, in which case the consent may not be signified after a return for such year is filed by either spouse;

(B) the consent may not be signified after a notice of deficiency with respect to the tax for such year has been sent to either spouse in accordance with section 6212 (a).

(c) REVOCATION OF CONSENT.—Revocation of a consent previously signified shall be made in such manner as is provided under regulations prescribed by the Secretary or his delegate, but the right to revoke a consent previously signified with respect to a calendar year—

(1) shall not exist after the 15th day of April following the close of such year if the consent was signified on or before such 15th day; and

(2) shall not exist if the consent was not signified until after such 15th day.

(d) JOINT AND SEVERAL LIABILITY FOR TAX.—If the consent required by subsection (a) (2) is signified with respect to a gift made in any calendar year, the liability with respect to the entire tax imposed by this chapter of each spouse for such year shall be joint and several.

SEC. 2514. POWERS OF APPOINTMENT.

(a) POWERS CREATED ON OR BEFORE OCTOBER 21, 1942.—An exercise of a general power of appointment created on or before October 21, 1942, shall be deemed a transfer of property by the individual possessing such power; but the failure to exercise such a power or the complete release of such a power shall not be deemed an exercise thereof. If a general power of appointment created on or before October 21, 1942, has been partially released so that it is no longer a general power of appointment, the subsequent exercise of such power shall not be deemed to be the exercise of a general power of appointment if—

(1) such partial release occurred before November 1, 1951, or

(2) the donee of such power was under a legal disability to release such power on October 21, 1942, and such partial release occurred not later than six months after the termination of such legal disability.

(b) POWERS CREATED AFTER OCTOBER 21, 1942.—The exercise or release of a general power of appointment created after October 21, 1942, shall be deemed a transfer of property by the individual possessing such power. A disclaimer or renunciation of such a power of appointment shall not be deemed a release of such power.

(c) DEFINITION OF GENERAL POWER OF APPOINTMENT.—For purposes of this section, the term "general power of appointment" means a power which is exercisable in favor of the individual possessing the power (hereafter in this subsection referred to as the "possessor"), his estate, his creditors, or the creditors of his estate; except that—

(1) A power to consume, invade, or appropriate property for the benefit of the possessor which is limited by an ascertainable

standard relating to the health, education, support, or maintenance of the possessor shall not be deemed a general power of appointment.

(2) A power of appointment created on or before October 21, 1942, which is exercisable by the possessor only in conjunction with another person shall not be deemed a general power of appointment.

(3) In the case of a power of appointment created after October 21, 1942, which is exercisable by the possessor only in conjunction with another person—

(A) if the power is not exercisable by the possessor except in conjunction with the creator of the power—such power shall not be deemed a general power of appointment;

(B) if the power is not exercisable by the possessor except in conjunction with a person having a substantial interest, in the property subject to the power, which is adverse to exercise of the power in favor of the possessor—such power shall not be deemed a general power of appointment. For the purposes of this subparagraph a person who, after the death of the possessor, may be possessed of a power of appointment (with respect to the property subject to the possessor's power) which he may exercise in his own favor shall be deemed as having an interest in the property and such interest shall be deemed adverse to such exercise of the possessor's power;

(C) if (after the application of subparagraphs (A) and (B)) the power is a general power of appointment and is exercisable in favor of such other person—such power shall be deemed a general power of appointment only in respect of a fractional part of the property subject to such power, such part to be determined by dividing the value of such property by the number of such persons (including the possessor) in favor of whom such power is exercisable.

For purposes of subparagraphs (B) and (C), a power shall be deemed to be exercisable in favor of a person if it is exercisable in favor of such person, his estate, his creditors, or the creditors of his estate.

(d) CREATION OF ANOTHER POWER IN CERTAIN CASES.—If a power of appointment created after October 21, 1942, is exercised by creating another power of appointment which, under the applicable local law, can be validly exercised so as to postpone the vesting of any estate or interest in the property which was subject to the first power, or suspend the absolute ownership or power of alienation of such property, for a period ascertainable without regard to the date of the creation of the first power, such exercise of the first power shall, to the extent of the property subject to the second power, be deemed a transfer of property by the individual possessing such power.

(e) LAPSE OF POWER.—The lapse of a power of appointment created after October 21, 1942, during the life of the individual possessing the power shall be considered a release of such power. The rule of the preceding sentence shall apply with respect to the lapse of powers during any calendar year only to the extent that the property which could have been appointed by exercise of such lapsed powers exceeds in value the greater of the following amounts:

(1) $5,000, or

(2) 5 percent of the aggregate value of the assets out of which, or the proceeds of which, the exercise of the lapsed powers could be satisfied.

(f) DATE OF CREATION OF POWER.—For purposes of this section a power of appointment created by a will executed on or before October 21, 1942, shall be considered a power created on or before such date if the person executing such will dies before July 1, 1949, without having republished such will, by codicil or otherwise, after October 21, 1942.

SEC. 2515. TENANCIES BY THE ENTIRETY.

(a) CREATION.—The creation of a tenancy by the entirety in real property, either by one spouse alone or by both spouses, and additions to the value thereof in the form of improvements, reductions in the indebtedness thereon, or otherwise, shall not be deemed transfers of property for purposes of this chapter, regardless of the proportion of the consideration furnished by each spouse, unless the donor elects to have such creation of a tenancy by the entirety treated as a transfer, as provided in subsection (c).

(b) TERMINATION.—In the case of the termination of a tenancy by the entirety, other than by reason of the death of a spouse, the creation of which, or additions to which, were not deemed to be transfers by reason of subsection (a), a spouse shall be deemed to have made a gift to the extent that the proportion of the total consideration furnished by such spouse multiplied by the proceeds of such termination (whether in form of cash, property, or interests in property) exceeds the value of such proceeds of termination received by such spouse.

(c) EXERCISE OF ELECTION.—The election provided by subsection (a) shall be exercised by including such creation of a tenancy by the entirety or additions made to the value thereof as a transfer by gift, to the extent such transfer constitutes a gift, determined without regard to this section, in the gift tax return of the donor for the calendar year in which such tenancy by the entirety was created or additions made to the value thereof, filed within the time prescribed by law, irrespective of whether or not the gift exceeds the exclusion provided by section 2503 (b).

(d) CERTAIN JOINT TENANCIES INCLUDED.—For purposes of this section, the term "tenancy by the entirety" includes a joint tenancy between husband and wife with right of survivorship.

SEC. 2516. CERTAIN PROPERTY SETTLEMENTS.

Where husband and wife enter into a written agreement relative to their marital and property rights and divorce occurs within 2 years thereafter (whether or not such agreement is approved by the divorce decree), any transfers of property or interests in property made pursuant to such agreement—

(1) to either spouse in settlement of his or her marital or property rights, or

(2) to provide a reasonable allowance for the support of issue of the marriage during minority,

shall be deemed to be transfers made for a full and adequate consideration in money or money's worth.

Subchapter C—Deductions

Sec. 2521. Specific exemption.
Sec. 2522. Charitable and similar gifts.
Sec. 2523. Gift to spouse.
Sec. 2524. Extent of deductions.

SEC. 2521. SPECIFIC EXEMPTION.

In computing taxable gifts for the calendar year, there shall be allowed a deduction in the case of a citizen or resident an exemption of $30,000, less the aggregate of the amounts claimed and allowed as specific exemption in the computation of gift taxes for the calendar year 1932 and all calendar years intervening between that calendar year and the calendar year for which the tax is being computed under the laws applicable to such years.

SEC. 2522. CHARITABLE AND SIMILAR GIFTS.

(a) CITIZENS OR RESIDENTS.—In computing taxable gifts for the calendar year, there shall be allowed as a deduction in the case of a citizen or resident the amount of all gifts made during such year to or for the use of—

(1) the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes;

(2) a corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation;

(3) a fraternal society, order, or association, operating under the lodge system, but only if such gifts are to be used exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals;

(4) posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual.

(b) NONRESIDENTS.—In the case of a nonresident not a citizen of the United States, there shall be allowed as a deduction the amount of all gifts made during such year to or for the use of—

(1) the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes;

(2) a domestic corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes,

including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation;

(3) a trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation; but only if such gifts are to be used within the United States exclusively for such purposes;

(4) a fraternal society, order, or association, operating under the lodge system, but only if such gifts are to be used within the United States exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals;

(5) posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual.

(c) DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.—

For disallowance of certain charitable, etc., deductions otherwise allowable under this section, see sections 504 and 681.

(d) OTHER CROSS REFERENCES.—

(1) For exemption of gifts to or for benefit of Library of Congress, see section 5 of the Act of March 3, 1925, as amended (56 Stat. 765; 2 U. S. C. 161).

(2) For construction of gifts for benefit of library of Post Office Department as gifts to or for the use of the United States, see section 2 of the Act of August 8, 1946 (60 Stat. 924; 5 U. S. C. 393).

(3) For exemption of gifts for benefit of Office of Naval Records and Library, Navy Department, see section 2 of the Act of March 4, 1937 (50 Stat. 25; 5 U. S. C. 419b).

(4) For exemption of gifts to or for benefit of National Park Service, see section 5 of the Act of July 10, 1935 (49 Stat. 478; 16 U. S. C. 19c).

(5) For construction of gifts accepted by the Secretary of State under the Foreign Service Act of 1946 as gifts to or for the use of the United States, see section 1021 (e) of that Act (60 Stat. 1032; 22 U. S. C. 809).

(6) For construction of gifts or bequests of money accepted by the Attorney General for credit to "Commissary Funds, Federal Prisons" as gifts or bequests to or for the use of the United States, see section 2 of the Act of May 15, 1952, 66 Stat. 73, as amended by the Act of July 9, 1952, 66 Stat. 479 (31 U. S. C. 725s–4).

(7) For payment of tax on gifts of United States obligations to the United States, see section 24 of the Second Liberty Bond Act, as amended (59 Stat. 48, § 4; 31 U. S. C. 757e).

(8) For construction of gifts for benefit of or use in connection with Naval Academy as gifts to or for the use of the United States, see section 3 of the Act of March 31, 1944 (58 Stat. 135; 34 U. S. C. 1115b).

(9) For exemption of gifts for benefit of Naval Academy Museum, see section 4 of the Act of March 26, 1938 (52 Stat. 119; 34 U. S. C. 1119).

(10) For exemption of gifts received by National Archives Trust Fund Board, see section 7 of the National Archives Trust Fund Board Act (55 Stat. 582; 44 U. S. C. 300gg).

SEC. 2523. GIFT TO SPOUSE.

(a) IN GENERAL.—Where a donor who is a citizen or resident transfers during the calendar year by gift an interest in property to a donee who at the time of the gift is the donor's spouse, there shall be allowed as a deduction in computing taxable gifts for the calendar year an amount with respect to such interest equal to one-half of its value.

(b) LIFE ESTATE OR OTHER TERMINABLE INTEREST.—Where, on the lapse of time, on the occurrence of an event or contingency, or on the failure of an event or contingency to occur, such interest transferred to the spouse will terminate or fail, no deduction shall be allowed with respect to such interest—

(1) if the donor retains in himself, or transfers or has transferred (for less than an adequate and full consideration in money or money's worth) to any person other than such donee spouse (or the estate of such spouse), an interest in such property, and if by reason of such retention or transfer the donor (or his heirs or assigns) or such person (or his heirs or assigns) may possess or enjoy any part of such property after such termination or failure of the interest transferred to the donee spouse; or

(2) if the donor immediately after the transfer to the donee spouse has a power to appoint an interest in such property which he can exercise (either alone or in conjunction with any person) in such manner that the appointee may possess or enjoy any part of such property after such termination or failure of the interest transferred to the donee spouse. For purposes of this paragraph, the donor shall be considered as having immediately after the transfer to the donee spouse such power to appoint even though such power cannot be exercised until after the lapse of time, upon the occurrence of an event or contingency, or on the failure of an event or contingency to occur.

An exercise or release at any time by the donor, either alone or in conjunction with any person, of a power to appoint an interest in property, even though not otherwise a transfer, shall, for purposes of paragraph (1), be considered as a transfer by him. Except as provided in subsection (e), where at the time of the transfer it is impossible to ascertain the particular person or persons who may receive from the donor an interest in property so transferred by him, such interest shall, for purposes of paragraph (1), be considered as transferred to a person other than the donee spouse.

(c) INTEREST IN UNIDENTIFIED ASSETS.—Where the assets out of which, or the proceeds of which, the interest transferred to the donee spouse may be satisfied include a particular asset or assets with respect to which no deduction would be allowed if such asset or assets were transferred from the donor to such spouse, then the value of the interest transferred to such spouse shall, for purposes of subsection (a), be reduced by the aggregate value of such particular assets.

(d) JOINT INTERESTS.—If the interest is transferred to the donee spouse as sole joint tenant with the donor or as tenant by the entirety, the interest of the donor in the property which exists solely by reason of the possibility that the donor may survive the donee spouse, or that there may occur a severance of the tenancy, shall not be con-

sidered for purposes of subsection (b) as an interest retained by the donor in himself.

(e) LIFE ESTATE WITH POWER OF APPOINTMENT IN DONEE SPOUSE.—Where the donor transfers an interest in property, if by such transfer his spouse is entitled for life to all of 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 donee spouse to appoint the entire interest, or such specific portion (exercisable in favor of such donee spouse, or of the estate of such donee 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 such interest, or such portion, to any person other than the donee spouse—

(1) the interest, or such portion, so transferred shall, for purposes of subsection (a) be considered as transferred to the donee spouse, and

(2) no part of the interest, or such portion, so transferred shall, for purposes of subsection (b) (1), be considered as retained in the donor or transferred to any person other than the donee spouse.

This subsection shall apply only if, by such transfer, such power in the donee spouse to appoint the interest, or such portion, whether exercisable by will or during life, is exercisable by such spouse alone and in all events.

(f) COMMUNITY PROPERTY.—

(1) A deduction otherwise allowable under this section shall be allowed only to the extent that the transfer can be shown to represent a gift of property which is not, at the time of the gift, held as community property under the law of any State, Territory, or possession of the United States, or of any foreign country.

(2) For purposes of paragraph (1), community property (except property which is considered as community property solely by reason of paragraph (3)) shall not be considered as "held as community property" if the entire value of such property (and not merely one-half thereof) is treated as the amount of the gift.

(3) If during the calendar year 1942 or in succeeding calendar years, property held as such community property (unless considered by reason of paragraph (2) as not so held) was by the donor and the donee spouse converted, by one transaction or a series of transactions, into separate property of the donor and such spouse (including any form of coownership by them), the separate property so acquired by the donor and any property acquired at any time by the donor in exchange therefor (by one exchange or a series of exchanges) shall, for purposes of paragraph (1), be considered as "held as community property."

(4) Where the value (at the time of such conversion) of the separate property so acquired by the donor exceeded the value (at such time) of the separate property so acquired by such spouse, paragraph (3) shall apply only with respect to the same portion of such separate property of the donor as the portion which the value

(as of such time) of such separate property so acquired by such spouse is of the value (as of such time) of the separate property so acquired by the donor.

SEC. 2524. EXTENT OF DEDUCTIONS.

The deductions provided in sections 2522 and 2523 shall be allowed only to the extent that the gifts therein specified are included in the amount of gifts against which such deductions are applied.

Subtitle C—Employment Taxes

CHAPTER 21. Federal insurance contributions act.
CHAPTER 22. Railroad retirement tax act.
CHAPTER 23. Federal unemployment tax act.
CHAPTER 24. Collection of income tax at source on wages.
CHAPTER 25. General provisions relating to employment taxes.

CHAPTER 21—FEDERAL INSURANCE CONTRIBUTIONS ACT

SUBCHAPTER A. Tax on employees.
SUBCHAPTER B. Tax on employers.
SUBCHAPTER C. General provisions.

Subchapter A—Tax on Employees

Sec. 3101. Rate of tax.
Sec. 3102. Deduction of tax from wages.

SEC. 3101. RATE OF TAX.

In addition to other taxes, there is hereby imposed on the income of every individual a tax equal to the following percentages of the wages (as defined in section 3121 (a)) received by him with respect to employment (as defined in section 3121 (b))—

(1) with respect to wages received during the calendar years 1955 to 1959, both inclusive, the rate shall be 2 percent;

(2) with respect to wages received during the calendar years 1960 to 1964, both inclusive, the rate shall be 2½ percent;

(3) with respect to wages received during the calendar years 1965 to 1969, both inclusive, the rate shall be 3 percent;

(4) with respect to wages received after December 31, 1969, the rate shall be 3¼ percent.

SEC. 3102. DEDUCTION OF TAX FROM WAGES.

(a) REQUIREMENT.—The tax imposed by section 3101 shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid.

(b) INDEMNIFICATION OF EMPLOYER.—Every employer required so to deduct the tax shall be liable for the payment of such tax, and shall be indemnified against the claims and demands of any person for the amount of any such payment made by such employer.

Subchapter B—Tax on Employers

Sec. 3111. Rate of tax.
Sec. 3112. Instrumentalities of the United States.

SEC. 3111. RATE OF TAX.

In addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the following percentages of the wages (as defined in section 3121 (a)) paid by him with respect to employment (as defined in section 3121 (b))—

(1) with respect to wages paid during the calendar years 1955 to 1959, both inclusive, the rate shall be 2 percent;

(2) with respect to wages paid during the calendar years 1960 to 1964, both inclusive, the rate shall be 2½ percent;

(3) with respect to wages paid during the calendar years 1965 to 1969, both inclusive, the rate shall be 3 percent;

(4) with respect to wages paid after December 31, 1969, the rate shall be 3¼ percent.

SEC. 3112. INSTRUMENTALITIES OF THE UNITED STATES.

Notwithstanding any other provision of law (whether enacted before or after the enactment of this section) which grants to any instrumentality of the United States an exemption from taxation, such instrumentality shall not be exempt from the tax imposed by section 3111 unless such other provision of law grants a specific exemption, by reference to section 3111 (or the corresponding section of prior law), from the tax imposed by such section.

Subchapter C—General Provisions

Sec. 3121. Definitions.
Sec. 3122. Federal service.
Sec. 3123. Deductions as constructive payments.
Sec. 3124. Estimate of revenue reduction.
Sec. 3125. Short title.

SEC. 3121. DEFINITIONS.

(a) WAGES.—For purposes of this chapter, the term "wages" means all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include—

(1) that part of the remuneration which, after remuneration (other than remuneration referred to in the succeeding paragraphs of this subsection) equal to $3,600 with respect to employment has been paid to an individual by an employer during any calendar year, is paid to such individual by such employer during such calendar year. If an employer (hereinafter referred to as successor employer) during any calendar year acquires substantially all the property used in a trade or business of another employer (hereinafter referred to as a predecessor), or used in a separate unit of a trade or business of a predecessor, and immediately after the acquisition employs in his trade or business an individual who immediately prior to the acquisition was employed in the trade or business of such predecessor, then, for the purpose of determining whether the successor employer has paid remuneration (other than remuneration referred to in the succeeding paragraphs of this subsection) with respect to employment equal to $3,600 to such individual during such calendar year, any remuneration (other than remuneration referred to in the succeeding paragraphs of this subsection) with respect to employment paid (or considered under this paragraph as having been paid) to such individual by such predecessor during such calendar year and prior to such acquisition shall be considered as having been paid by such successor employer;

(2) the amount of any payment (including any amount paid by an employer for insurance or annuities, or into a fund, to provide for any such payment) made to, or on behalf of, an employee or any of his dependents under a plan or system established by an employer which makes provision for his employees generally (or for his employees generally and their dependents) or for a class or classes of his employees (or for a class or classes of his employees and their dependents), on account of—

(A) retirement, or

(B) sickness or accident disability, or

(C) medical or hospitalization expenses in connection with sickness or accident disability, or

(D) death;

(3) any payment made to an employee (including any amount paid by an employer for insurance or annuities, or into a fund, to provide for any such payment) on account of retirement;

(4) any payment on account of sickness or accident disability, or medical or hospitalization expenses in connection with sickness or accident disability, made by an employer to, or on behalf of, an employee after the expiration of 6 calendar months following the last calendar month in which the employee worked for such employer;

(5) any payment made to, or on behalf of, an employee or his beneficiary—

(A) from or to a trust described in section 401 (a) which is exempt from tax under section 501 (a) at the time of such payment unless such payment is made to an employee of the trust as remuneration for services rendered as such employee and not as a beneficiary of the trust, or

(B) under or to an annuity plan which, at the time of such payment, meets the requirements of section 401 (a) (3), (4), (5), and (6);

(6) the payment by an employer (without deduction from the remuneration of the employee)—

(A) of the tax imposed upon an employee under section 3101 (or the corresponding section of prior law), or

(B) of any payment required from an employee under a State unemployment compensation law;

(7) (A) remuneration paid in any medium other than cash to an employee for service not in the course of the employer's trade or business or for domestic service in a private home of the employer;

(B) cash remuneration paid by an employer in any calendar quarter to an employee for domestic service in a private home of the employer, if the cash remuneration paid in the quarter for such service is less than $50 or the employee is not regularly employed by the employer in such quarter of payment. For purposes of this subparagraph, an employee shall be deemed to be regularly employed by an employer during a calendar quarter only if—

(i) on each of some 24 days during the quarter the employee performs for the employer for some portion of the day domestic service in a private home of the employer, or

(ii) the employee was regularly employed (as determined under clause (i)) by the employer in the performance of such service during the preceding calendar quarter.

As used in this subparagraph, the term "domestic service in a private home of the employer" does not include service described in subsection (g) (5);

(8) remuneration paid in any medium other than cash for agricultural labor;

(9) any payment (other than vacation or sick pay) made to an employee after the month in which he attains the age of 65, if he did not work for the employer in the period for which such payment is made; or

(10) remuneration paid by an employer in any calendar quarter to an employee for service described in subsection (d) (3) (C) (relating to home workers), if the cash remuneration paid in such quarter by the employer to the employee for such service is less than $50.

(b) EMPLOYMENT.—For purposes of this chapter, the term "employment" means any service performed after 1936 and prior to 1955 which was employment for purposes of subchapter A of chapter 9 of the Internal Revenue Code of 1939 under the law applicable to the period in which such service was performed, and any service, of whatever nature, performed after 1954 either (A) by an employee for the person employing him, irrespective of the citizenship or residence of either, (i) within the United States, or (ii) on or in connection with an American vessel or American aircraft under a contract of service which is entered into within the United States or during the performance of which and while the employee is employed on the vessel or aircraft it touches at a port in the United States, if the employee is employed on and in connection with such vessel or aircraft when outside the United States, or (B) outside the United States by a citizen of the United States as an employee for an American employer (as defined in subsection (h)); except that, in the case of service performed after 1954, such term shall not include—

(1) (A) agricultural labor (as defined in subsection (g)) performed in any calendar quarter by an employee, unless the cash remuneration paid for such labor (other than service described in subparagraph (B)) is $50 or more and such labor is performed for an employer by an individual who is regularly employed by such employer to perform such agricultural labor. For purposes of this subparagraph, an individual shall be deemed to be regularly employed by an employer during a calendar quarter only if—

(i) such individual performs agricultural labor (other than service described in subparagraph (B)) for such employer on a full-time basis on 60 days during such quarter, and

(ii) the quarter was immediately preceded by a qualifying quarter.

For purposes of the preceding sentence, the term "qualifying quarter" means—

(I) any quarter during all of which such individual was continuously employed by such employer, or

(II) any subsequent quarter which meets the test of clause (i) if, after the last quarter during all of which such individual was continuously employed by such employer, each intervening quarter met the test of clause (i).

Notwithstanding the preceding provisions of this subparagraph, an individual shall also be deemed to be regularly employed by an employer during a calendar quarter if such individual was regularly employed (upon application of clauses (i) and (ii)) by such employer during the preceding calendar quarter;

(B) service performed in connection with the production or harvesting of any commodity defined as an agricultural commodity in section 15 (g) of the Agricultural Marketing Act, as amended (46 Stat. 1550, § 3; 12 U. S. C. 1141j), or in connection with the ginning of cotton;

(C) service performed by foreign agricultural workers under contracts entered into in accordance with title V of the Agricultural Act of 1949, as amended (65 Stat. 119; 7 U. S. C. 1461-1468);

(2) domestic service performed in a local college club, or local chapter of a college fraternity or sorority, by a student who is

enrolled and is regularly attending classes at a school, college, or university;

(3) service not in the course of the employer's trade or business performed in any calendar quarter by an employee, unless the cash remuneration paid for such service is $50 or more and such service is performed by an individual who is regularly employed by such employer to perform such service. For purposes of this paragraph, an individual shall be deemed to be regularly employed by an employer during a calendar quarter only if—

(A) on each of some 24 days during such quarter such individual performs for such employer for some portion of the day service not in the course of the employer's trade or business, or

(B) such individual was regularly employed (as determined under subparagraph (A)) by such employer in the performance of such service during the preceding calendar quarter.

As used in this paragraph, the term "service not in the course of the employer's trade or business" does not include domestic service in a private home of the employer and does not include service described in subsection (g) (5);

(4) service performed by an individual in the employ of his son, daughter, or spouse, and service performed by a child under the age of 21 in the employ of his father or mother;

(5) service performed by an individual on or in connection with a vessel not an American vessel, or on or in connection with an aircraft not an American aircraft, if the individual is employed on and in connection with such vessel or aircraft when outside the United States;

(6) service performed in the employ of any instrumentality of the United States, if such instrumentality is exempt from the tax imposed by section 3111 by virtue of any provision of law which specifically refers to such section (or the corresponding section of prior law) in granting such exemption;

(7) (A) service performed in the employ of the United States or in the employ of any instrumentality of the United States, if such service is covered by a retirement system established by a law of the United States;

(B) service performed in the employ of an instrumentality of the United States if such an instrumentality was exempt from the tax imposed by section 1410 of the Internal Revenue Code of 1939 on December 31, 1950, except that the provisions of this subparagraph shall not be applicable to—

(i) service performed in the employ of a corporation which is wholly owned by the United States;

(ii) service performed in the employ of a national farm loan association, a production credit association, a Federal Reserve Bank, or a Federal Credit Union;

(iii) service performed in the employ of a State, county, or community committee under the Commodity Stabilization Service; or

(iv) service performed by a civilian employee, not compensated from funds appropriated by the Congress, in the Army and Air Force Exchange Service, Army and Air Force Motion Picture Service, Navy Exchanges, Marine Corps Exchanges, or other

activities, conducted by an instrumentality of the United States subject to the jurisdiction of the Secretary of Defense, at installations of the Department of Defense for the comfort, pleasure, contentment, and mental and physical improvement of personnel of such Department;

(C) service performed in the employ of the United States or in the employ of any instrumentality of the United States, if such service is performed—

(i) as the President or Vice President of the United States or as a Member, Delegate, or Resident Commissioner, of or to the Congress;

(ii) in the legislative branch;

(iii) in the field service of the Post Office Department unless performed by any individual as an employee who is excluded by Executive order from the operation of the Civil Service Retirement Act of 1930 (46 Stat. 470; 5 U. S. C. 693) because he is serving under a temporary appointment pending final determination of eligibility for permanent or indefinite appointment;

(iv) in or under the Bureau of the Census of the Department of Commerce by temporary employees employed for the taking of any census;

(v) by any individual as an employee who is excluded by Executive order from the operation of the Civil Service Retirement Act of 1930 (46 Stat. 470; 5 U. S. C. 693) because he is paid on a contract or fee basis;

(vi) by any individual as an employee receiving nominal compensation of $12 or less per annum;

(vii) in a hospital, home, or other institution of the United States by a patient or inmate thereof;

(viii) by any individual as a consular agent appointed under authority of section 551 of the Foreign Service Act of 1946 (60 Stat. 1011; 22 U. S. C. 951);

(ix) by any individual as an employee included under section 2 of the Act of August 4, 1947 (relating to certain interns, student nurses, and other student employees of hospitals of the Federal Government) (61 Stat. 727; 5 U. S. C. 1052);

(x) by any individual as an employee serving on a temporary basis in case of fire, storm, earthquake, flood, or other similar emergency;

(xi) by any individual as an employee who is employed under a Federal relief program to relieve him from unemployment;

(xii) as a member of a State, county, or community committee under the Commodity Stabilization Service or of any other board, council, committee, or other similar body, unless such board, council, committee, or other body is composed exclusively of individuals otherwise in the full-time employ of the United States; or

(xiii) by an individual to whom the Civil Service Retirement Act of 1930 (46 Stat. 470; 5 U. S. C. 693) does not apply because such individual is subject to another retirement system;

(8) service (other than service which, under subsection (j), constitutes covered transportation service) performed in the employ of a State, or any political subdivision thereof, or any instrumentality

of any one or more of the foregoing which is wholly owned by one or more States or political subdivisions;

(9) (A) service performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of his ministry or by a member of a religious order in the exercise of duties required by such order;

(B) service performed in the employ of a religious, charitable, educational, or other organization described in section 501 (c) (3) which is exempt from income tax under section 501 (a), but this subparagraph shall not apply to service performed during the period for which a certificate, filed pursuant to subsection (k) (or the corresponding subsection of prior law), is in effect if such service is performed by an employee—

(i) whose signature appears on the list filed by such organization under subsection (k) (or the corresponding subsection of prior law), or

(ii) who became an employee of such organization after the calendar quarter in which the certificate was filed;

(10) service performed by an individual as an employee or employee representative as defined in section 3231;

(11) (A) service performed in any calendar quarter in the employ of any organization exempt from income tax under section 501 (a) (other than an organization described in section 401 (a)) or under section 521, if the remuneration for such service is less than $50;

(B) service performed in the employ of a school, college, or university if such service is performed by a student who is enrolled and is regularly attending classes at such school, college, or university;

(12) service performed in the employ of a foreign government (including service as a consular or other officer or employee or a nondiplomatic representative);

(13) service performed in the employ of an instrumentality wholly owned by a foreign government—

(A) if the service is of a character similar to that performed in foreign countries by employees of the United States Government or of an instrumentality thereof; and

(B) if the Secretary of State shall certify to the Secretary that the foreign government, with respect to whose instrumentality and employees thereof exemption is claimed, grants an equivalent exemption with respect to similar service performed in the foreign country by employees of the United States Government and of instrumentalities thereof;

(14) service performed as a student nurse in the employ of a hospital or a nurses' training school by an individual who is enrolled and is regularly attending classes in a nurses' training school chartered or approved pursuant to State law; and service performed as an intern in the employ of a hospital by an individual who has completed a 4 years' course in a medical school chartered or approved pursuant to State law;

(15) service performed by an individual in (or as an officer or member of the crew of a vessel while it is engaged in) the catching, taking, harvesting, cultivating, or farming of any kind of fish, shellfish, crustacea, sponges, seaweeds, or other aquatic forms of animal and vegetable life (including service performed by any

such individual as an ordinary incident to any such activity), except—

(A) service performed in connection with the catching or taking of salmon or halibut, for commercial purposes, and

(B) service performed on or in connection with a vessel of more than 10 net tons (determined in the manner provided for determining the register tonnage of merchant vessels under the laws of the United States);

(16) (A) service performed by an individual under the age of 18 in the delivery or distribution of newspapers or shopping news, not including delivery or distribution to any point for subsequent delivery or distribution;

(B) service performed by an individual in, and at the time of, the sale of newspapers or magazines to ultimate consumers, under an arrangement under which the newspapers or magazines are to be sold by him at a fixed price, his compensation being based on the retention of the excess of such price over the amount at which the newspapers or magazines are charged to him, whether or not he is guaranteed a minimum amount of compensation for such service, or is entitled to be credited with the unsold newspapers or magazines turned back; or

(17) service performed in the employ of an international organization.

(c) INCLUDED AND EXCLUDED SERVICE.—For purposes of this chapter, if the services performed during one-half or more of any pay period by an employee for the person employing him constitute employment, all the services of such employee for such period shall be deemed to be employment; but if the services performed during more than one-half of any such pay period by an employee for the person employing him do not constitute employment, then none of the services of such employee for such period shall be deemed to be employment. As used in this subsection, the term "pay period" means a period (of not more than 31 consecutive days) for which a payment of remuneration is ordinarily made to the employee by the person employing him. This subsection shall not be applicable with respect to services performed in a pay period by an employee for the person employing him, where any of such service is excepted by subsection (b) (10).

(d) EMPLOYEE.—For purposes of this chapter, the term "employee" means—

(1) any officer of a corporation; or

(2) any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee; or

(3) any individual (other than an individual who is an employee under paragraph (1) or (2)) who performs services for remuneration for any person—

(A) as an agent-driver or commission-driver engaged in distributing meat products, vegetable products, fruit products, bakery products, beverages (other than milk), or laundry or dry-cleaning services, for his principal;

(B) as a full-time life insurance salesman;

(C) as a home worker performing work, according to specifications furnished by the person for whom the services are performed, on materials or goods furnished by such person which are required to be returned to such person or a person designated by him, if the performance of such services is subject to licensing requirements under the laws of the State in which such services are performed; or

(D) as a traveling or city salesman, other than as an agent-driver or commission-driver, engaged upon a full-time basis in the solicitation on behalf of, and the transmission to, his principal (except for side-line sales activities on behalf of some other person) of orders from wholesalers, retailers, contractors, or operators of hotels, restaurants, or other similar establishments for merchandise for resale or supplies for use in their business operations;

if the contract of service contemplates that substantially all of such services are to be performed personally by such individual; except that an individual shall not be included in the term "employee" under the provisions of this paragraph if such individual has a substantial investment in facilities used in connection with the performance of such services (other than in facilities for transportation), or if the services are in the nature of a single transaction not part of a continuing relationship with the person for whom the services are performed.

(e) STATE, UNITED STATES, AND CITIZEN.—For purposes of this chapter—

(1) STATE.—The term "State" includes Alaska, Hawaii, the District of Columbia, Puerto Rico, and the Virgin Islands.

(2) UNITED STATES.—The term "United States" when used in a geographical sense includes Puerto Rico and the Virgin Islands.

An individual who is a citizen of Puerto Rico (but not otherwise a citizen of the United States) shall be considered, for purposes of this section, as a citizen of the United States.

(f) AMERICAN VESSEL AND AIRCRAFT.—For purposes of this chapter, the term "American vessel" means any vessel documented or numbered under the laws of the United States; and includes any vessel which is neither documented or numbered under the laws of the United States nor documented under the laws of any foreign country, if its crew is employed solely by one or more citizens or residents of the United States or corporations organized under the laws of the United States or of any State; and the term "American aircraft" means an aircraft registered under the laws of the United States.

(g) AGRICULTURAL LABOR.—For purposes of this chapter, the term "agricultural labor" includes all service performed—

(1) on a farm, in the employ of any person, in connection with cultivating the soil, or in connection with raising or harvesting any agricultural or horticultural commodity, including the raising, shearing, feeding, caring for, training, and management of livestock, bees, poultry, and fur-bearing animals and wildlife;

(2) in the employ of the owner or tenant or other operator of a farm, in connection with the operation, management, conservation, improvement, or maintenance of such farm and its tools and equipment, or in salvaging timber or clearing land of brush and other

debris left by a hurricane, if the major part of such service is performed on a farm;

(3) in connection with the production or harvesting of any commodity defined as an agricultural commodity in section 15 (g) of the Agricultural Marketing Act, as amended (46 Stat. 1550, § 3; 12 U. S. C. 1141j), or in connection with the ginning of cotton, or in connection with the operation or maintenance of ditches, canals, reservoirs, or waterways, not owned or operated for profit, used exclusively for supplying and storing water for farming purposes;

(4) (A) in the employ of the operator of a farm in handling, planting, drying, packing, packaging, processing, freezing, grading, storing, or delivering to storage or to market or to a carrier for transportation to market, in its unmanufactured state, any agricultural or horticultural commodity; but only if such operator produced more than one-half of the commodity with respect to which such service is performed;

(B) in the employ of a group of operators of farms (other than a cooperative organization) in the performance of service described in subparagraph (A), but only if such operators produced all of the commodity with respect to which such service is performed. For purposes of this subparagraph, any unincorporated group of operators shall be deemed a cooperative organization if the number of operators comprising such group is more than 20 at any time during the calendar quarter in which such service is performed;

(C) the provisions of subparagraphs (A) and (B) shall not be deemed to be applicable with respect to service performed in connection with commercial canning or commercial freezing or in connection with any agricultural or horticultural commodity after its delivery to a terminal market for distribution for consumption; or

(5) on a farm operated for profit if such service is not in the course of the employer's trade or business or is domestic service in a private home of the employer.

As used in this subsection, the term "farm" includes stock, dairy, poultry, fruit, fur-bearing animal, and truck farms, plantations, ranches, nurseries, ranges, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities, and orchards.

(h) AMERICAN EMPLOYER.—For purposes of this chapter, the term "American employer" means an employer which is—

(1) the United States or any instrumentality thereof,

(2) an individual who is a resident of the United States,

(3) a partnership, if two-thirds or more of the partners are residents of the United States,

(4) a trust, if all of the trustees are residents of the United States, or

(5) a corporation organized under the laws of the United States or of any State.

(i) COMPUTATION OF WAGES IN CERTAIN CASES.—For purposes of this chapter, in the case of domestic service described in subsection (a) (7) (B), any payment of cash remuneration for such service which is more or less than a whole-dollar amount shall, under such conditions and to such extent as may be prescribed by regulations made under this chapter, be computed to the nearest dollar. For the purpose of

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the computation to the nearest dollar, the payment of a fractional part of a dollar shall be disregarded unless it amounts to one-half dollar or more, in which case it shall be increased to $1. The amount of any payment of cash remuneration so computed to the nearest dollar shall, in lieu of the amount actually paid, be deemed to constitute the amount of cash remuneration for purposes of subsection (a) (7) (B).

(j) COVERED TRANSPORTATION SERVICE.—For purposes of this chapter—

(1) EXISTING TRANSPORTATION SYSTEMS—GENERAL RULE.—Except as provided in paragraph (2), all service performed in the employ of a State or political subdivision in connection with its operation of a public transportation system shall constitute covered transportation service if any part of the transportation system was acquired from private ownership after 1936 and prior to 1951.

(2) EXISTING TRANSPORTATION SYSTEMS—CASES IN WHICH NO TRANSPORTATION EMPLOYEES, OR ONLY CERTAIN EMPLOYEES, ARE COVERED.—Service performed in the employ of a State or political subdivision in connection with the operation of its public transportation system shall not constitute covered transportation service if—

(A) any part of the transportation system was acquired from private ownership after 1936 and prior to 1951, and substantially all service in connection with the operation of the transportation system was, on December 31, 1950, covered under a general retirement system providing benefits which, by reason of a provision of the State constitution dealing specifically with retirement systems of the State or political subdivisions thereof, cannot be diminished or impaired; or

(B) no part of the transportation system operated by the State or political subdivision on December 31, 1950, was acquired from private ownership after 1936 and prior to 1951;

except that if such State or political subdivision makes an acquisition after 1950 from private ownership of any part of its transportation system, then, in the case of any employee who—

(C) became an employee of such State or political subdivision in connection with and at the time of its acquisition after 1950 of such part, and

(D) prior to such acquisition rendered service in employment (including as employment service covered by an agreement under section 218 of the Social Security Act) in connection with the operation of such part of the transportation system acquired by the State or political subdivision,

the service of such employee in connection with the operation of the transportation system shall constitute covered transportation service, commencing with the first day of the third calendar quarter following the calendar quarter in which the acquisition of such part took place, unless on such first day such service of such employee is covered by a general retirement system which does not, with respect to such employee, contain special provisions applicable only to employees described in subparagraph (C).

(3) TRANSPORTATION SYSTEMS ACQUIRED AFTER 1950.—All service performed in the employ of a State or political subdivision thereof

in connection with its operation of a public transportation system shall constitute covered transportation service if the transportation system was not operated by the State or political subdivision prior to 1951 and, at the time of its first acquisition (after 1950) from private ownership of any part of its transportation system, the State or political subdivision did not have a general retirement system covering substantially all service performed in connection with the operation of the transportation system.

(4) DEFINITIONS.—For purposes of this subsection—

(A) The term "general retirement system" means any pension, annuity, retirement, or similar fund or system established by a State or by a political subdivision thereof for employees of the State, political subdivision, or both; but such term shall not include such a fund or system which covers only service performed in positions connected with the operation of its public transportation system.

(B) A transportation system or a part thereof shall be considered to have been acquired by a State or political subdivision from private ownership if prior to the acquisition service performed by employees in connection with the operation of the system or part thereof acquired constituted employment under this chapter or subchapter A of chapter 9 of the Internal Revenue Code of 1939 or was covered by an agreement made pursuant to section 218 of the Social Security Act and some of such employees became employees of the State or political subdivision in connection with and at the time of such acquisition.

(C) The term "political subdivision" includes an instrumentality of—

(i) a State,

(ii) one or more political subdivisions of a State, or

(iii) a State and one or more of its political subdivisions.

(k) EXEMPTION OF RELIGIOUS, CHARITABLE, AND CERTAIN OTHER ORGANIZATIONS.—

(1) WAIVER OF EXEMPTION BY ORGANIZATION.—An organization described in section 501 (c) (3) which is exempt from income tax under section 501 (a) may file a certificate (in such form and manner, and with such official, as may be prescribed by regulations made under this chapter) certifying that it desires to have the insurance system established by title II of the Social Security Act extended to service performed by its employees and that at least two-thirds of its employees concur in the filing of the certificate. Such certificate may be filed only if it is accompanied by a list containing the signature, address, and social security account number (if any) of each employee who concurs in the filing of the certificate. Such list may be amended, at any time prior to the expiration of the first month following the first calendar quarter for which the certificate is in effect, by filing with such official a supplemental list or lists containing the signature, address, and social security account number (if any) of each additional employee who concurs in the filing of the certificate. The list and any supplemental list shall be filed in such form and manner as may be prescribed by regulations made under this chapter. The certificate shall be in effect (for purposes of subsection (b) (9) (B) and for purposes of section 210 (a) (9) (B) of

the Social Security Act) for the period beginning with the first day following the close of the calendar quarter in which such certificate is filed. The period for which a certificate filed pursuant to this subsection or the corresponding subsection of prior law is effective may be terminated by the organization, effective at the end of a calendar quarter, upon giving 2 years' advance notice in writing, but only if, at the time of the receipt of such notice, the certificate has been in effect for a period of not less than 8 years. The notice of termination may be revoked by the organization by giving, prior to the close of the calendar quarter specified in the notice of termination, a written notice of such revocation. Notice of termination or revocation thereof shall be filed in such form and manner, and with such official, as may be prescribed by regulations made under this chapter.

(2) TERMINATION OF WAIVER PERIOD BY SECRETARY OR HIS DELEGATE.—If the Secretary or his delegate finds that any organization which filed a certificate pursuant to this subsection or the corresponding subsection of prior law has failed to comply substantially with the requirements applicable with respect to the taxes imposed by this chapter or the corresponding provisions of prior law or is no longer able to comply with the requirements applicable with respect to the taxes imposed by this chapter, the Secretary or his delegate shall give such organization not less than 60 days' advance notice in writing that the period covered by such certificate will terminate at the end of the calendar quarter specified in such notice. Such notice of termination may be revoked by the Secretary or his delegate by giving, prior to the close of the calendar quarter specified in the notice of termination, written notice of such revocation to the organization. No notice of termination or of revocation thereof shall be given under this paragraph to an organization without the prior concurrence of the Secretary of Health, Education, and Welfare.

(3) NO RENEWAL OF WAIVER.—In the event the period covered by a certificate filed pursuant to this subsection or the corresponding subsection of prior law is terminated by the organization, no certificate may again be filed by such organization pursuant to this subsection.

SEC. 3122. FEDERAL SERVICE.

In the case of the taxes imposed by this chapter with respect to service performed in the employ of the United States or in the employ of any instrumentality which is wholly owned by the United States, the determination whether an individual has performed service which constitutes employment as defined in section 3121 (b), the determination of the amount of remuneration for such service which constitutes wages as defined in section 3121 (a), and the return and payment of the taxes imposed by this chapter, shall be made by the head of the Federal agency or instrumentality having the control of such service, or by such agents as such head may designate. The person making such return may, for convenience of administration, make payments of the tax imposed under section 3111 with respect to such service without regard to the $3,600 limitation in section 3121 (a) (1), and he shall not be required to obtain a refund of the tax paid under section 3111 on that part of the remuneration not included in wages by

reason of section 3121 (a) (1). The provisions of this section shall be applicable in the case of service performed by a civilian employee, not compensated from funds appropriated by the Congress, in the Army and Air Force Exchange Service, Army and Air Force Motion Picture Service, Navy Exchanges, Marine Corps Exchanges, or other activities, conducted by an instrumentality of the United States subject to the jurisdiction of the Secretary of Defense, at installations of the Department of Defense for the comfort, pleasure, contentment, and mental and physical improvement of personnel of such Department; and for purposes of this section the Secretary of Defense shall be deemed to be the head of such instrumentality.

SEC. 3123. DEDUCTIONS AS CONSTRUCTIVE PAYMENTS.

Whenever under this chapter or any act of Congress, or under the law of any State, an employer is required or permitted to deduct any amount from the remuneration of an employee and to pay the amount deducted to the United States, a State, or any political subdivision thereof, then for purposes of this chapter the amount so deducted shall be considered to have been paid to the employee at the time of such deduction.

SEC. 3124. ESTIMATE OF REVENUE REDUCTION.

The Secretary or his delegate at intervals of not longer than 3 years shall estimate the reduction in the amount ot taxes collected under this chapter by reason of the operation of section 3121 (b) (10) and shall include such estimate in his annual report.

SEC. 3125. SHORT TITLE.

This chapter may be cited as the "Federal Insurance Contributions Act."

reason of section 3121 (a) (1). The provisions of this section shall be applicable in the case of service performed by a civilian employee, not compensated from funds appropriated by the Congress, in the Army and Air Force Exchange Service, Army and Air Force Motion Picture Service, Navy Exchanges, Marine Corps Exchanges, or other activities, conducted by an instrumentality of the United States subject to the jurisdiction of the Secretary of Defense, at installations of the Department of Defense for the comfort, pleasure, contentment, and mental and physical improvement of personnel of such Department; and for purposes of this section the Secretary of Defense shall be deemed to be the head of such instrumentality.

SEC. 3123. DEDUCTIONS AS CONSTRUCTIVE PAYMENTS.

Whenever under this chapter or any act of Congress, or under the law of any State, an employer is required or permitted to deduct any amount from the remuneration of an employee and to pay the amount deducted to the United States, a State, or any political subdivision thereof, then for purposes of this chapter the amount so deducted shall be considered to have been paid to the employee at the time of such deduction.

SEC. 3124. ESTIMATE OF REVENUE REDUCTION.

The Secretary or his delegate at intervals of not longer than 3 years shall estimate the reduction in the amount of taxes collected under this chapter by reason of the operation of section 3121 (b) (10) and shall include such estimate in his annual report.

SEC. 3125. SHORT TITLE.

This chapter may be cited as the "Federal Insurance Contributions Act".

CHAPTER 22—RAILROAD RETIREMENT TAX ACT

SUBCHAPTER A. Tax on employees.
SUBCHAPTER B. Tax on employee representatives.
SUBCHAPTER C. Tax on employers.
SUBCHAPTER D. General provisions.

Subchapter A—Tax on Employees

Sec. 3201. Rate of tax.
Sec. 3202. Deduction of tax from compensation.

SEC. 3201. RATE OF TAX.

In addition to other taxes, there is hereby imposed on the income of every employee a tax equal to 6¼ percent of so much of the compensation paid to such employee after December 31, 1954, for services rendered by him after such date as is not in excess of $300 for any calendar month.

SEC. 3202. DEDUCTION OF TAX FROM COMPENSATION.

(a) REQUIREMENT.—The tax imposed by section 3201 shall be collected by the employer of the taxpayer by deducting the amount of the tax from the compensation of the employee as and when paid. If an employee is paid compensation after December 31, 1954, by more than one employer for services rendered during any calendar month after 1954 and the aggregate of such compensation is in excess of $300, the tax to be deducted by each employer other than a subordinate unit of a national railway-labor-organization employer from the compensation paid by him to the employee with respect to such month shall be that proportion of the tax with respect to such compensation paid by all such employers which the compensation paid by him after December 31, 1954, to the employee for services rendered during such month bears to the total compensation paid by all such employers after December 31, 1954, to such employee for services rendered during such month; and in the event that the compensation so paid by such employers to the employee for services rendered during such month is less than $300, each subordinate unit of a national railway-labor-organization employer shall deduct such proportion of any additional tax as the compensation paid by such employer after December 31, 1954, to such employee for services rendered during such month bears to the total compensation paid by all such employers after December 31, 1954, to such employee for services rendered during such month.

(b) INDEMNIFICATION OF EMPLOYER.—Every employer required under subsection (a) to deduct the tax shall be made liable for the payment of such tax and shall not be liable to any person for the amount of any such payment.

Subchapter B—Tax on Employee Representatives

Sec. 3211. Rate of tax.
Sec. 3212. Determination of compensation.

SEC. 3211. RATE OF TAX.

In addition to other taxes, there is hereby imposed on the income of each employee representative a tax equal to 12½ percent of so much of the compensation, paid to such employee representative after December 31, 1954, for services rendered by him after such date as is not in excess of $300 for any calendar month.

SEC. 3212. DETERMINATION OF COMPENSATION.

The compensation of an employee representative for the purpose of ascertaining the tax thereon shall be determined in the same manner and with the same effect as if the employee organization by which such employee representative is employed were an employer as defined in section 3231 (a).

Subchapter C—Tax on Employers

Sec. 3221. Rate of tax.

SEC. 3221. RATE OF TAX.

In addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to 6¼ percent of so much of the compensation paid by such employer after December 31, 1954, for services rendered to him after December 31, 1954, as is, with respect to any employee for any calendar month, not in excess of $300; except that if an employee is paid compensation after December 31, 1954, by more than one employer for services rendered during any calendar month after 1954, the tax imposed by this section shall apply to not more than $300 of the aggregate compensation paid to such employee by all such employers after December 31, 1954, for services rendered during such month, and each employer other than a subordinate unit of a national railway-labor-organization employer shall be liable for that proportion of the tax with respect to such compensation paid by all such employers which the compensation paid by him after December 31, 1954, to the employee for services rendered during such month bears to the total compensation paid by all such employers after December 31, 1954, to such employee for services rendered during such month; and in the event that the compensation so paid by such employers to the employee for services rendered during such month is less than $300, each subordinate unit of a national railway-labor-organization employer shall be liable for such proportion of any additional tax as the compensation paid by such employer after December 31, 1954, to such employee for services rendered during such month bears to the total compensation paid by all such employers after December 31, 1954, to such employee for services rendered during such month.

Subchapter D—General Provisions

Sec. 3231. Definitions.
Sec. 3232. Court jurisdiction.
Sec. 3233. Short title.

SEC. 3231. DEFINITIONS.

(a) EMPLOYER.—For purposes of this chapter, the term "employer" means any carrier (as defined in subsection (g)), and any company which is directly or indirectly owned or controlled by one or more such carriers or under common control therewith, and which operates any equipment or facility or performs any service (except trucking service, casual service, and the casual operation of equipment or facilities) in connection with the transportation of passengers or property by railroad, or the receipt, delivery, elevation, transfer in transit, refrigeration or icing, storage, or handling of property transported by railroad, and any receiver, trustee, or other individual or body, judicial or otherwise, when in the possession of the property or operating all or any part of the business of any such employer; except that the term "employer" shall not include any street, interurban, or suburban electric railway, unless such railway is operating as a part of a general steam-railroad system of transportation, but shall not exclude any part of the general steam-railroad system of transportation now or hereafter operated by any other motive power. The Interstate Commerce Commission is hereby authorized and directed upon request of the Secretary or his delegate, or upon complaint of any party interested, to determine after hearing whether any line operated by electric power falls within the terms of this exception. The term "employer" shall also include railroad associations, traffic associations, tariff bureaus, demurrage bureaus, weighing and inspection bureaus, collection agencies and other associations, bureaus, agencies, or organizations controlled and maintained wholly or principally by two or more employers as hereinbefore defined and engaged in the performance of services in connection with or incidental to railroad transportation; and railway labor organizations, national in scope, which have been or may be organized in accordance with the provisions of the Railway Labor Act, as amended (44 Stat. 577; 45 U. S. C., chapter 8), and their State and National legislative committees and their general committees and their insurance departments and their local lodges and divisions, established pursuant to the constitutions and bylaws of such organizations. The term "employer" shall not include any company by reason of its being engaged in the mining of coal, the supplying of coal to an employer where delivery is not beyond the mine tipple, and the operation of equipment or facilities therefor, or in any of such activities.

(b) EMPLOYEE.—For purposes of this chapter, the term "employee" means any individual in the service of one or more employers for compensation; except that the term "employee" shall include an employee of a local lodge or division defined as an employer in subsection (a)

only if he was in the service of or in the employment relation to a carrier on or after August 29, 1935. An individual shall be deemed to have been in the employment relation to a carrier on August 29, 1935, if—

(1) he was on that date on leave of absence from his employment, expressly granted to him by the carrier by whom he was employed, or by a duly authorized representative of such carrier, and the grant of such leave of absence was established to the satisfaction of the Railroad Retirement Board before July 1947; or

(2) he was in the service of a carrier after August 29, 1935, and before January 1946 in each of 6 calendar months, whether or not consecutive; or

(3) before August 29, 1935, he did not retire and was not retired or discharged from the service of the last carrier by whom he was employed or its corporate or operating successor, but—

(A) solely by reason of his physical or mental disability he ceased before August 29, 1935, to be in the service of such carrier and thereafter remained continuously disabled until he attained age 65 or until August 1945, or

(B) solely for such last stated reason a carrier by whom he was employed before August 29, 1935, or a carrier who is its successor did not on or after August 29, 1935, and before August 1945 call him to return to service, or

(C) if he was so called he was solely for such reason unable to render service in 6 calendar months as provided in paragraph (2); or

(4) he was on August 29, 1935, absent from the service of a carrier by reason of a discharge which, within 1 year after the effective date thereof, was protested, to an appropriate labor representative or to the carrier, as wrongful, and which was followed within 10 years of the effective date thereof by his reinstatement in good faith to his former service with all his seniority rights;

except that an individual shall not be deemed to have been on August 29, 1935, in the employment relation to a carrier if before that date he was granted a pension or gratuity on the basis of which a pension was awarded to him pursuant to section 6 of the Railroad Retirement Act of 1937 (50 Stat. 312; 45 U. S. C. 228f), or if during the last payroll period before August 29, 1935, in which he rendered service to a carrier he was not in the service of an employer, in accordance with subsection (d), with respect to any service in such payroll period, or if he could have been in the employment relation to an employer only by reason of his having been, either before or after August 29, 1935, in the service of a local lodge or division defined as an employer in subsection (a). The term "employee" includes an officer of an employer. The term "employee" shall not include any individual while such individual is engaged in the physical operations consisting of the mining of coal, the preparation of coal, the handling (other than movement by rail with standard railroad locomotives) of coal not beyond the mine tipple, or the loading of coal at the tipple.

(c) EMPLOYEE REPRESENTATIVE.—For purposes of this chapter, the term "employee representative" means any officer or official representative of a railway labor organization other than a labor organization included in the term "employer" as defined in subsection (a),

who before or after June 29, 1937, was in the service of an employer as defined in subsection (a) and who is duly authorized and designated to represent employees in accordance with the Railway Labor Act (44 Stat. 577; 45 U. S. C., chapter 8), as amended, and any individual who is regularly assigned to or regularly employed by such officer or official representative in connection with the duties of his office.

(d) SERVICE.—For purposes of this chapter, an individual is in the service of an employer whether his service is rendered within or without the United States, if—

(1) he is subject to the continuing authority of the employer to supervise and direct the manner of rendition of his service, or he is rendering professional or technical services and is integrated into the staff of the employer, or he is rendering, on the property used in the employer's operations, other personal services the rendition of which is integrated into the employer's operations, and

(2) he renders such service for compensation;

except that an individual shall be deemed to be in the service of an employer, other than a local lodge or division or a general committee of a railway-labor-organization employer, not conducting the principal part of its business in the United States, only when he is rendering service to it in the United States; and an individual shall be deemed to be in the service of such a local lodge or division only if—

(3) all, or substantially all, the individuals constituting its membership are employees of an employer conducting the principal part of its business in the United States; or

(4) the headquarters of such local lodge or division is located in the United States;

and an individual shall be deemed to be in the service of such a general committee only if—

(5) he is representing a local lodge or division described in paragraph (3) or (4) immediately above; or

(6) all, or substantially all, the individuals represented by it are employees of an employer conducting the principal part of its business in the United States; or

(7) he acts in the capacity of a general chairman or an assistant general chairman of a general committee which represents individuals rendering service in the United States to an employer, but in such case if his office or headquarters is not located in the United States and the individuals represented by such general committee are employees of an employer not conducting the principal part of its business in the United States, only such proportion of the remuneration for such service shall be regarded as compensation as the proportion which the mileage in the United States under the jurisdiction of such general committee bears to the total mileage under its jurisdiction, unless such mileage formula is inapplicable, in which case such other formula as the Railroad Retirement Board may have prescribed pursuant to section 1 (c) of the Railroad Retirement Act of 1937 (50 Stat. 308; 45 U. S. C. 228a) shall be applicable, and if the application of such mileage formula, or such other formula as the Board may prescribe, would result in the compensation of the individual being less than 10 percent of his remuneration for such service, no part of such remuneration shall be regarded as compensation;

Provided however, That an individual not a citizen or resident of the United States shall not be deemed to be in the service of an employer when rendering service outside the United States to an employer who is required under the laws applicable in the place where the service is rendered to employ therein, in whole or in part, citizens or residents thereof; and the laws applicable on August 29, 1935, in the place where the service is rendered shall be deemed to have been applicable there at all times prior to that date.

(e) COMPENSATION.—For purposes of this chapter—

(1) The term "compensation" means any form of money remuneration earned by an individual for services rendered as an employee to one or more employers, or as an employee representative, including remuneration paid for time lost as an employee, but remuneration paid for time lost shall be deemed earned in the month in which such time is lost. Such term does not include tips, or the voluntary payment by an employer, without deduction from the remuneration of the employee, of the tax imposed on such employee by section 3201. Compensation which is earned during the period for which the Secretary or his delegate shall require a return of taxes under this chapter to be made and which is payable during the calendar month following such period shall be deemed to have been paid during such period only. For the purpose of determining the amount of taxes under sections 3201 and 3221, compensation earned in the service of a local lodge or division of a railway-labor-organization employer shall be disregarded with respect to any calendar month if the amount thereof is less than $3.

(2) A payment made by an employer to an individual through the employer's payroll shall be presumed, in the absence of evidence to the contrary, to be compensation for service rendered by such individual as an employee of the employer in the period with respect to which the payment is made. An employee shall be deemed to be paid "for time lost" the amount he is paid by an employer with respect to an identifiable period of absence from the active service of the employer, including absence on account of personal injury, and the amount he is paid by the employer for loss of earnings resulting from his displacement to a less remunerative position or occupation. If a payment is made by an employer with respect to a personal injury and includes pay for time lost, the total payment shall be deemed to be paid for time lost unless, at the time of payment, a part of such payment is specifically apportioned to factors other than time lost, in which event only such part of the payment as is not so apportioned shall be deemed to be paid for time lost.

(f) COMPANY.—For purposes of this chapter, the term "company" includes corporations, associations, and joint-stock companies.

(g) CARRIER.—For purposes of this chapter, the term "carrier" means an express company, sleeping-car company, or carrier by railroad, subject to part I of the Interstate Commerce Act (49 U. S. C., chapter 1).

SEC. 3232. COURT JURISDICTION.

The several district courts of the United States shall have jurisdiction to entertain an application by the Attorney General on behalf of the Secretary or his delegate to compel an employee or other person

residing within the jurisdiction of the court or an employer subject to service of process within its jurisdiction to comply with any obligations imposed on such employee, employer, or other person under the provisions of this chapter. The jurisdiction herein specifically conferred upon such Federal courts shall not be held exclusive of any jurisdiction otherwise possessed by such courts to entertain civil actions, whether legal or equitable in nature, in aid of the enforcement of rights or obligations arising under the provisions of this chapter.

SEC. 3233. SHORT TITLE.

This chapter may be cited as the "Railroad Retirement Tax Act."

CHAPTER 23—FEDERAL UNEMPLOYMENT TAX ACT

Sec. 3301. Rate of tax.
Sec. 3302. Credits against tax.
Sec. 3303. Conditions of additional credit allowance.
Sec. 3304. Approval of State laws.
Sec. 3305. Applicability of State law.
Sec. 3306. Definitions.
Sec. 3307. Deductions as constructive payments.
Sec. 3308. Short title.

SEC. 3301. RATE OF TAX

There is hereby imposed on every employer (as defined in section 3306 (a)) for the calendar year 1955 and for each calendar year thereafter an excise tax, with respect to having individuals in his employ, equal to 3 percent of the total wages (as defined in section 3306 (b)) paid by him during the calendar year with respect to employment (as defined in section 3306 (c)) after December 31, 1938.

SEC. 3302. CREDITS AGAINST TAX.

(a) CONTRIBUTIONS TO STATE UNEMPLOYMENT FUNDS.—

(1) The taxpayer may, to the extent provided in this subsection and subsection (c), credit against the tax imposed by section 3301 the amount of contributions paid by him into an unemployment fund maintained during the taxable year under the unemployment compensation law of a State which is certified for the taxable year as provided in section 3304.

(2) The credit shall be permitted against the tax for the taxable year only for the amount of contributions paid with respect to such taxable year.

(3) The credit against the tax for any taxable year shall be permitted only for contributions paid on or before the last day upon which the taxpayer is required under section 6071 to file a return for such year; except that credit shall be permitted for contributions paid after such last day, but such credit shall not exceed 90 percent of the amount which would have been allowable as credit on account of such contributions had they been paid on or before such last day.

(4) Upon the payment of contributions into the unemployment fund of a State which are required under the unemployment compensation law of that State with respect to remuneration on the basis of which, prior to such payment into the proper fund, the taxpayer erroneously paid an amount as contributions under another unemployment compensation law, the payment into the proper fund shall, for purposes of credit against the tax, be deemed to have been made at the time of the erroneous payment. If, by reason of such other law, the taxpayer was entitled to cease paying contributions with respect to services subject to such other law, the payment into the proper fund shall, for purposes of credit against the tax, be deemed to have been made on the date the return for the taxable year was filed under section 6071.

(b) ADDITIONAL CREDIT.—In addition to the credit allowed under subsection (a), a taxpayer may credit against the tax imposed by section 3301 for any taxable year an amount, with respect to the unemployment compensation law of each State certified for the taxable year as provided in section 3303 (or with respect to any provisions thereof so certified), equal to the amount, if any, by which the contributions required to be paid by him with respect to the taxable year were less than the contributions such taxpayer would have been required to pay if throughout the taxable year he had been subject under such State law to the highest rate applied thereunder in the taxable year to any person having individuals in his employ, or to a rate of 2.7 percent, whichever rate is lower.

(c) LIMIT ON TOTAL CREDITS.—

(1) The total credits allowed to a taxpayer under this section shall not exceed 90 percent of the tax against which such credits are allowable.

(2) If an advance or advances have been made to the unemployment account of a State under title XII of the Social Security Act, and if any balance of such advance or advances has not been returned to the Federal unemployment account as provided in that title before December 1 of the taxable year, then the total credits (after other reductions under this section) otherwise allowable under this section for such taxable year in the case of a taxpayer subject to the unemployment compensation law of such State shall be reduced—

(A) in the case of a taxable year beginning with the fourth consecutive January 1 on which such a balance of unreturned advances existed, by 5 percent of the tax imposed by section 3301 with respect to the wages paid by such taxpayer during such taxable year which are attributable to such State; and

(B) in the case of any succeeding taxable year beginning with a consecutive January 1 on which such a balance of unreturned advances existed, by an additional 5 percent, for each such succeeding taxable year, of the tax imposed by section 3301 with respect to the wages paid by such taxpayer during such taxable year which are attributable to such State.

For purposes of this paragraph, wages shall be attributable to a particular State if they are subject to the unemployment compensation law of the State, or (if not subject to the unemployment compensation law of any State) if they are determined (under rules or regulations prescribed by the Secretary or his delegate) to be attributable to such State.

SEC. 3303. CONDITIONS OF ADDITIONAL CREDIT ALLOWANCE.

(a) STATE STANDARDS.—A taxpayer shall be allowed an additional credit under section 3302 (b) with respect to any reduced rate of contributions permitted by a State law, only if the Secretary of Labor finds that under such law—

(1) no reduced rate of contributions to a pooled fund or to a partially pooled account is permitted to a person (or group of persons) having individuals in his (or their) employ except on the basis of his (or their) experience with respect to unemployment or other factors bearing a direct relation to unemployment risk during

not less than the 3 consecutive years immediately preceding the computation date;

(2) no reduced rate of contributions to a guaranteed employment account is permitted to a person (or a group of persons) having individuals in his (or their) employ unless—

(A) the guaranty of remuneration was fulfilled in the year preceding the computation date; and

(B) the balance of such account amounts to not less than 2½ percent of that part of the payroll or payrolls for the 3 years preceding the computation date by which contributions to such account were measured; and

(C) such contributions were payable to such account with respect to 3 years preceding the computation date;

(3) no reduced rate of contributions to a reserve account is permitted to a person (or group of persons) having individuals in his (or their) employ unless—

(A) compensation has been payable from such account throughout the year preceding the computation date, and

(B) the balance of such account amounts to not less than five times the largest amount of compensation paid from such account within any 1 of the 3 years preceding such date, and

(C) the balance of such account amounts to not less than 2½ percent of that part of the payroll or payrolls for the 3 years preceding such date by which contributions to such account were measured, and

(D) such contributions were payable to such account with respect to the 3 years preceding the computation date.

(b) CERTIFICATION BY THE SECRETARY OF LABOR WITH RESPECT TO ADDITIONAL CREDIT ALLOWANCE.—

(1) On December 31 in each taxable year, the Secretary of Labor shall certify to the Secretary the law of each State (certified with respect to such year by the Secretary of Labor as provided in section 3304) with respect to which he finds that reduced rates of contributions were allowable with respect to such taxable year only in accordance with the provisions of subsection (a).

(2) If the Secretary of Labor finds that under the law of a single State (certified by the Secretary of Labor as provided in section 3304) more than one type of fund or account is maintained, and reduced rates of contributions to more than one type of fund or account were allowable with respect to any taxable year, and one or more of such reduced rates were allowable under conditions not fulfilling the requirements of subsection (a), the Secretary of Labor shall, on December 31 of such taxable year, certify to the Secretary only those provisions of the State law pursuant to which reduced rates of contributions were allowable with respect to such taxable year under conditions fulfilling the requirements of subsection (a), and shall, in connection therewith, designate the kind of fund or account, as defined in subsection (c), established by the provisions so certified. If the Secretary of Labor finds that a part of any reduced rate of contributions payable under such law or under such provisions is required to be paid into one fund or account and a part into another fund or account, the Secretary of Labor shall make such certification pursuant to this paragraph as

he finds will assure the allowance of additional credits only with respect to that part of the reduced rate of contributions which is allowed under provisions which do fulfill the requirements of subsection (a).

(3) The Secretary of Labor shall, within 30 days after any State law is submitted to him for such purpose, certify to the State agency his findings with respect to reduced rates of contributions to a type of fund or account, as defined in subsection (c), which are allowable under such State law only in accordance with the provisions of subsection (a). After making such findings, the Secretary of Labor shall not withhold his certification to the Secretary of such State law, or of the provisions thereof with respect to which such findings were made, for any taxable year pursuant to paragraph (1) or (2) unless, after reasonable notice and opportunity for hearing to the State agency, the Secretary of Labor finds the State law no longer contains the provisions specified in subsection (a) or the State has, with respect to such taxable year, failed to comply substantially with any such provision.

(c) DEFINITIONS.—As used in this section—

(1) RESERVE ACCOUNT.—The term "reserve account" means a separate account in an unemployment fund, maintained with respect to a person (or group of persons) having individuals in his (or their) employ, from which account, unless such account is exhausted, is paid all and only compensation payable on the basis of services performed for such person (or for one or more of the persons comprising the group).

(2) POOLED FUND.—The term "pooled fund" means an unemployment fund or any part thereof (other than a reserve account or a guaranteed employment account) into which the total contributions of persons contributing thereto are payable, in which all contributions are mingled and undivided, and from which compensation is payable to all individuals eligible for compensation from such fund.

(3) PARTIALLY POOLED ACCOUNT.—The term "partially pooled account" means a part of an unemployment fund in which part of the fund all contributions thereto are mingled and undivided, and from which part of the fund compensation is payable only to individuals to whom compensation would be payable from a reserve account or from a guaranteed employment account but for the exhaustion or termination of such reserve account or of such guaranteed employment account. Payments from a reserve account or guaranteed employment account into a partially pooled account shall not be construed to be inconsistent with the provisions of paragraph (1) or (4).

(4) GUARANTEED EMPLOYMENT ACCOUNT.—The term "guaranteed employment account" means a separate account, in an unemployment fund, maintained with respect to a person (or group of persons) having individuals in his (or their) employ who, in accordance with the provisions of the State law or of a plan thereunder approved by the State agency,

(A) guarantees in advance at least 30 hours of work, for which remuneration will be paid at not less than stated rates, for each of 40 weeks (or if more, 1 weekly hour may be deducted

for each added week guaranteed) in a year, to all the individuals who are in his (or their) employ in, and who continue to be available for suitable work in, one or more distinct establishments, except that any such individual's guaranty may commence after a probationary period (included within the 11 or less consecutive weeks immediately following the first week in which the individual renders services), and

(B) gives security or assurance, satisfactory to the State agency, for the fulfillment of such guaranties, from which account, unless such account is exhausted or terminated, is paid all and only compensation, payable on the basis of services performed for such person (or for one or more of the persons comprising the group), to any such individual whose guaranteed remuneration has not been paid (either pursuant to the guaranty or from the security or assurance provided for the fulfillment of the guaranty), or whose guaranty is not renewed and who is otherwise eligible for compensation under the State law.

(5) YEAR.—The term "year" means any 12 consecutive calendar months.

(6) BALANCE.—The term "balance", with respect to a reserve account or a guaranteed employment account, means the amount standing to the credit of the account as of the computation date; except that, if subsequent to January 1, 1940, any moneys have been paid into or credited to such account other than payments thereto by persons having individuals in their employ, such term shall mean the amount in such account as of the computation date less the total of such other moneys paid into or credited to such account subsequent to January 1, 1940.

(7) COMPUTATION DATE.—The term "computation date" means the date, occurring at least once in each calendar year and within 27 weeks prior to the effective date of new rates of contributions, as of which such rates are computed.

(8) REDUCED RATE.—The term "reduced rate" means a rate of contributions lower than the standard rate applicable under the State law, and the term "standard rate" means the rate on the basis of which variations therefrom are computed.

(d) VOLUNTARY CONTRIBUTIONS.—A State law may, without being deemed to violate the standards set forth in subsection (a), permit voluntary contributions to be used in the computation of reduced rates if such contributions are paid prior to the expiration of 120 days after the beginning of the year for which such rates are effective.

SEC. 3304. APPROVAL OF STATE LAWS.

(a) REQUIREMENTS.—The Secretary of Labor shall approve any State law submitted to him, within 30 days of such submission, which he finds provides that—

(1) all compensation is to be paid through public employment offices or such other agencies as the Secretary of Labor may approve;

(2) no compensation shall be payable with respect to any day of unemployment occurring within 2 years after the first day of the first period with respect to which contributions are required;

(3) all money received in the unemployment fund shall (except for refunds of sums erroneously paid into such fund and except for refunds paid in accordance with the provisions of section 3305 (b))

immediately upon such receipt be paid over to the Secretary to the credit of the Unemployment Trust Fund established by section 904 of the Social Security Act (49 Stat. 640; 52 Stat. 1104, 1105; 42 U. S. C. 1104);

(4) all money withdrawn from the unemployment fund of the State shall be used solely in the payment of unemployment compensation, exclusive of expenses of administration, and for refunds of sums erroneously paid into such fund and refunds paid in accordance with the provisions of section 3305 (b); except that—

(A) an amount equal to the amount of employee payments into the unemployment fund of a State may be used in the payment of cash benefits to individuals with respect to their disability, exclusive of expenses of administration; and

(B) the amounts specified by section 903 (c) (2) of the Social Security Act may, subject to the conditions prescribed in such section, be used for expenses incurred by the State for administration of its unemployment compensation law and public employment offices;

(5) compensation shall not be denied in such State to any otherwise eligible individual for refusing to accept new work under any of the following conditions:

(A) if the position offered is vacant due directly to a strike, lockout, or other labor dispute;

(B) if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than those prevailing for similar work in the locality;

(C) if as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization;

(6) all the rights, privileges, or immunities conferred by such law or by acts done pursuant thereto shall exist subject to the power of the legislature to amend or repeal such law at any time.

(b) NOTIFICATION.—The Secretary of Labor shall, upon approving such law, notify the governor of the State of his approval.

(c) CERTIFICATION.—On December 31 of each taxable year the Secretary of Labor shall certify to the Secretary each State whose law he has previously approved, except that he shall not certify any State which, after reasonable notice and opportunity for hearing to the State agency, the Secretary of Labor finds has amended its law so that it no longer contains the provisions specified in subsection (a) or has with respect to such taxable year failed to comply substantially with any such provision and such finding has become effective. Such finding shall become effective on the 90th day after the governor of the State has been notified thereof, unless the State has before such 90th day so amended its law that it will comply substantially with the Secretary of Labor's interpretation of the provision of subsection (a), in which event such finding shall not become effective. No finding of a failure to comply substantially with the provision in State law specified in paragraph (5) of subsection (a) shall be based on an application or interpretation of State law with respect to which further administrative or judicial review is provided for under the laws of the State.

(d) NOTICE OF NONCERTIFICATION.—If, at any time during the taxable year, the Secretary of Labor has reason to believe that a State whose law he has previously approved may not be certified under subsection (c), he shall promptly so notify the governor of such State.

SEC. 3305. APPLICABILITY OF STATE LAW.

(a) INTERSTATE AND FOREIGN COMMERCE.—No person required under a State law to make payments to an unemployment fund shall be relieved from compliance therewith on the ground that he is engaged in interstate or foreign commerce, or that the State law does not distinguish between employees engaged in interstate or foreign commerce and those engaged in intrastate commerce.

(b) FEDERAL INSTRUMENTALITIES IN GENERAL.—The legislature of any State may require any instrumentality of the United States (except such as are (1) wholly owned by the United States, or (2) exempt from the tax imposed by section 3301 by virtue of any other provision of law), and the individuals in its employ, to make contributions to an unemployment fund under a State unemployment compensation law approved by the Secretary of Labor under section 3304 and (except as provided in section 5240 of the Revised Statutes, as amended (12 U. S. C. 484), and as modified by subsection (c)) to comply otherwise with such law. The permission granted in this subsection shall apply (A) only to the extent that no discrimination is made against such instrumentality, so that if the rate of contribution is uniform upon all other persons subject to such law on account of having individuals in their employ, and upon all employees of such persons, respectively, the contributions required of such instrumentality or the individuals in its employ shall not be at a greater rate than is required of such other persons and such employees, and if the rates are determined separately for different persons or classes of persons having individuals in their employ or for different classes of employees, the determination shall be based solely upon unemployment experience and other factors bearing a direct relation to unemployment risk, and (B) only if such State law makes provision for the refund of any contributions required under such law from an instrumentality of the United States or its employees for any year in the event said State is not certified by the Secretary of Labor under section 3304 with respect to such year.

(c) NATIONAL BANKS.—Nothing contained in section 5240 of the Revised Statutes, as amended (12 U. S. C. 484), shall prevent any State from requiring any national banking association to render returns and reports relative to the association's employees, their remuneration and services, to the same extent that other persons are required to render like returns and reports under a State law requiring contributions to an unemployment fund. The Comptroller of the Currency shall, upon receipt of a copy of any such return or report of a national banking association from, and upon request of, any duly authorized official, body, or commission of a State, cause an examination of the correctness of such return or report to be made at the time of the next succeeding examination of such association, and shall thereupon transmit to such official, body, or commission a complete statement of his findings respecting the accuracy of such returns or reports.

(d) FEDERAL PROPERTY.—No person shall be relieved from compliance with a State unemployment compensation law on the ground that services were performed on land or premises owned, held, or possessed by the United States, and any State shall have full jurisdiction and power to enforce the provisions of such law to the same extent and with the same effect as though such place were not owned, held, or possessed by the United States.

(e) BONNEVILLE POWER ADMINISTRATOR.—The legislature of any State may, with respect to service performed after December 31, 1945, by a laborer, mechanic, or workman, in connection with construction work or the operation and maintenance of electrical facilities, as an employee performing service for the Bonneville Power Administrator, require the Administrator, who for purposes of this subsection is designated an instrumentality of the United States, and any such employee, to make contributions to an unemployment fund under a State unemployment compensation law approved by the Secretary of Labor under section 3304 and to comply otherwise with such law. Such permission is subject to the conditions imposed by subsection (b) of this section upon permission to State legislatures to require contributions from instrumentalities of the United States. The Bonneville Power Administrator is authorized and directed to comply with the provisions of any applicable State unemployment compensation law on behalf of the United States as the employer of individuals whose service constitutes employment under such law by reason of this subsection.

(f) AMERICAN VESSELS.—The legislature of any State in which a person maintains the operating office, from which the operations of an American vessel operating on navigable waters within or within and without the United States are ordinarily and regularly supervised, managed, directed and controlled, may require such person and the officers and members of the crew of such vessel to make contributions to its unemployment fund under its State unemployment compensation law approved by the Secretary of Labor under section 3304 and otherwise to comply with its unemployment compensation law with respect to the service performed by an officer or member of the crew on or in connection with such vessel to the same extent and with the same effect as though such service was performed entirely within such State. Such person and the officers and members of the crew of such vessel shall not be required to make contributions, with respect to such service, to the unemployment fund of any other State. The permission granted by this subsection is subject to the condition that such service shall be treated, for purposes of wage credits given employees, like other service subject to such State unemployment compensation law performed for such person in such State, and also subject to the same limitation, with respect to contributions required from such person and from the officers and members of the crew of such vessel, as is imposed by the second sentence (other than clause (B) thereof) of subsection (b) with respect to contributions required from instrumentalities of the United States and from individuals in their employ.

(g) VESSELS OPERATED BY GENERAL AGENTS OF UNITED STATES.—The permission granted by subsection (f) shall apply in the same manner and under the same conditions (including the obligation to

comply with all requirements of State unemployment compensation laws) to general agents of the Secretary of Commerce with respect to service performed on or after July 1, 1953, by officers and members of the crew on or in connection with American vessels—

(1) owned by or bareboat chartered to the United States, and

(2) whose business is conducted by such general agents.

As to any such vessel, the State permitted to require contributions on account of such service shall be the State to which the general agent would make contributions if the vessel were operated for his own account. Such general agents are designated, for this purpose, instrumentalities of the United States not wholly owned by it and shall not be exempt from the tax imposed by section 3301. The permission granted by this subsection is subject to the same conditions and limitations as are imposed in subsection (f), except that clause (B) of the second sentence of subsection (b) shall apply.

(h) REQUIREMENT BY STATE OF CONTRIBUTIONS.—Any State may, as to service performed on or after July 1, 1953, and on account of which contributions are made pursuant to subsection (g)—

(1) require contributions from persons performing such service under its unemployment compensation law or temporary disability insurance law administered in connection therewith, and

(2) require general agents of the Secretary of Commerce to make contributions under such temporary disability insurance law and to make such deductions from wages or remuneration as are required by such unemployment compensation or temporary disability insurance law.

(i) GENERAL AGENT AS LEGAL ENTITY.—Each general agent of the Secretary of Commerce making contributions pursuant to subsection (g) or (h) shall, for purposes of such subsections, be considered a legal entity in his capacity as an instrumentality of the United States, separate and distinct from his identity as a person employing individuals on his own account.

SEC. 3306. DEFINITIONS.

(a) EMPLOYER.—For purposes of this chapter, the term "employer" does not include any person unless on each of some 20 days during the taxable year, each day being in a different calendar week, the total number of individuals who were employed by him in employment for some portion of the day (whether or not at the same moment of time) was eight or more.

(b) WAGES.—For purposes of this chapter, the term "wages" means all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include—

(1) that part of the remuneration which, after remuneration (other than remuneration referred to in the succeeding paragraphs of this subsection) equal to $3,000 with respect to employment has been paid to an individual by an employer during any calendar year, is paid to such individual by such employer during such calendar year. If an employer (hereinafter referred to as successor employer) during any calendar year acquires substantially all the property used in a trade or business of another employer (hereinafter referred to as a predecessor), or used in a separate unit of a trade or business of a predecessor, and immediately after

the acquisition employs in his trade or business an individual who immediately prior to the acquisition was employed in the trade or business of such predecessor, then, for the purpose of determining whether the successor employer has paid remuneration (other than remuneration referred to in the succeeding paragraphs of this subsection) with respect to employment equal to $3,000 to such individual during such calendar year, any remuneration (other than remuneration referred to in the succeeding paragraphs of this subsection) with respect to employment paid (or considered under this paragraph as having been paid) to such individual by such predecessor during such calendar year and prior to such acquisition shall be considered as having been paid by such successor employer;

(2) the amount of any payment (including any amount paid by an employer for insurance or annuities, or into a fund, to provide for any such payment) made to, or on behalf of, an employee or any of his dependents under a plan or system established by an employer which makes provision for his employees generally (or for his employees generally and their dependents) or for a class or classes of his employees (or for a class or classes of his employees and their dependents), on account of—

(A) retirement, or

(B) sickness or accident disability, or

(C) medical or hospitalization expenses in connection with sickness or accident disability, or

(D) death;

(3) any payment made to an employee (including any amount paid by an employer for insurance or annuities, or into a fund, to provide for any such payment) on account of retirement;

(4) any payment on account of sickness or accident disability, or medical or hospitalization expenses in connection with sickness or accident disability, made by an employer to, or on behalf of, an employee after the expiration of 6 calendar months following the last calendar month in which the employee worked for such employer;

(5) any payment made to, or on behalf of, an employee or his beneficiary—

(A) from or to a trust described in section 401 (a) which is exempt from tax under section 501 (a) at the time of such payment unless such payment is made to an employee of the trust as remuneration for services rendered as such employee and not as a beneficiary of the trust, or

(B) under or to an annuity plan which, at the time of such payment, meets the requirements of section 401 (a) (3), (4), (5), and (6);

(6) the payment by an employer (without deduction from the remuneration of the employee)—

(A) of the tax imposed upon an employee under section 3101 (or the corresponding section of prior law), or

(B) of any payment required from an employee under a State unemployment compensation law;

(7) remuneration paid in any medium other than cash to an employee for service not in the course of the employer's trade or business;

(8) any payment (other than vacation or sick pay) made to an employee after the month in which he attains the age of 65, if he did not work for the employer in the period for which such payment is made.

(c) EMPLOYMENT.—For purposes of this chapter, the term "employment" means any service performed prior to 1955, which was employment for purposes of subchapter C of chapter 9 of the Internal Revenue Code of 1939 under the law applicable to the period in which such service was performed, and any service, of whatever nature, performed after 1954 by an employee for the person employing him, irrespective of the citizenship or residence of either, (A) within the United States, or (B) on or in connection with an American vessel under a contract of service which is entered into within the United States or during the performance of which the vessel touches at a port in the United States, if the employee is employed on and in connection with such vessel when outside the United States, except—

(1) agricultural labor (as defined in subsection (k));

(2) domestic service in a private home, local college club, or local chapter of a college fraternity or sorority;

(3) service not in the course of the employer's trade or business performed in any calendar quarter by an employee, unless the cash remuneration paid for such service is $50 or more and such service is performed by an individual who is regularly employed by such employer to perform such service. For purposes of this paragraph, an individual shall be deemed to be regularly employed by an employer during a calendar quarter only if—

(A) on each of some 24 days during such quarter such individual performs for such employer for some portion of the day service not in the course of the employer's trade or business, or

(B) such individual was regularly employed (as determined under subparagraph (A)) by such employer in the performance of such service during the preceding calendar quarter;

(4) service performed on or in connection with a vessel not an American vessel by an employee, if the employee is employed on and in connection with such vessel when outside the United States;

(5) service performed by an individual in the employ of his son, daughter, or spouse, and service performed by a child under the age of 21 in the employ of his father or mother;

(6) service performed in the employ of the United States Government or of an instrumentality of the United States which is—

(A) wholly owned by the United States, or

(B) exempt from the tax imposed by section 3301 by virtue of any other provision of law;

(7) service performed in the employ of a State, or any political subdivision thereof, or any instrumentality of any one or more of the foregoing which is wholly owned by one or more States or political subdivisions; and any service performed in the employ of any instrumentality of one or more States or political subdivisions to the extent that the instrumentality is, with respect to such service, immune under the Constitution of the United States from the tax imposed by section 3301;

(8) service performed in the employ of a corporation, community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation;

(9) service performed by an individual as an employee or employee representative as defined in section 1 of the Railroad Unemployment Insurance Act (52 Stat. 1094, 1095; 45 U. S. C. 351);

(10) (A) service performed in any calendar quarter in the employ of any organization exempt from income tax under section 501 (a) (other than an organization described in section 401 (a)) or under section 521, if—

(i) the remuneration for such service is less than $50, or

(ii) such service is in connection with the collection of dues or premiums for a fraternal beneficiary society, order, or association, and is performed away from the home office, or is ritualistic service in connection with any such society, order, or association, or

(iii) such service is performed by a student who is enrolled and is regularly attending classes at a school, college, or university;

(B) service performed in the employ of an agricultural or horticultural organization described in section 501 (c) (5) which is exempt from tax under section 501 (a);

(C) service performed in the employ of a voluntary employees' beneficiary association providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents, if—

(i) no part of its net earnings inures (other than through such payments) to the benefit of any private shareholder or individual, and

(ii) 85 percent or more of the income consists of amounts collected from members for the sole purpose of making such payments and meeting expenses;

(D) service performed in the employ of a voluntary employees' beneficiary association providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents or their designated beneficiaries, if—

(i) admission to membership in such association is limited to individuals who are officers or employees of the United States Government, and

(ii) no part of the net earnings of such association inures (other than through such payments) to the benefit of any private shareholder or individual;

(E) service performed in the employ of a school, college, or university, not exempt from income tax under section 501 (a), if such service is performed by a student who is enrolled and is regularly attending classes at such school, college, or university;

(11) service performed in the employ of a foreign government (including service as a consular or other officer or employee or a nondiplomatic representative);

(12) service performed in the employ of an instrumentality wholly owned by a foreign government—

(A) if the service is of a character similar to that performed in foreign countries by employees of the United States Government or of an instrumentality thereof; and

(B) if the Secretary of State shall certify to the Secretary that the foreign government, with respect to whose instrumentality exemption is claimed, grants an equivalent exemption with respect to similar service performed in the foreign country by employees of the United States Government and of instrumentalities thereof;

(13) service performed as a student nurse in the employ of a hospital or a nurses' training school by an individual who is enrolled and is regularly attending classes in a nurses' training school chartered or approved pursuant to State law; and service performed as an intern in the employ of a hospital by an individual who has completed a 4 years' course in a medical school chartered or approved pursuant to State law;

(14) service performed by an individual for a person as an insurance agent or as an insurance solicitor, if all such service performed by such individual for such person is performed for remuneration solely by way of commission;

(15) (A) service performed by an individual under the age of 18 in the delivery or distribution of newspapers or shopping news, not including delivery or distribution to any point for subsequent delivery or distribution;

(B) service performed by an individual in, and at the time of, the sale of newspapers or magazines to ultimate consumers, under an arrangement under which the newspapers or magazines are to be sold by him at a fixed price, his compensation being based on the retention of the excess of such price over the amount at which the newspapers or magazines are charged to him, whether or not he is guaranteed a minimum amount of compensation for such service, or is entitled to be credited with the unsold newspapers or magazines turned back;

(16) service performed in the employ of an international organization; or

(17) service performed by an individual in (or as an officer or member of the crew of a vessel while it is engaged in) the catching, taking, harvesting, cultivating, or farming of any kind of fish, shellfish, crustacea, sponges, seaweeds, or other aquatic forms of animal and vegetable life (including service performed by any such individual as an ordinary incident to any such activity), except—

(A) service performed in connection with the catching or taking of salmon or halibut, for commercial purposes, and

(B) service performed on or in connection with a vessel of more than 10 net tons (determined in the manner provided for determining the register tonnage of merchant vessels under the laws of the United States).

(d) INCLUDED AND EXCLUDED SERVICE.—For purposes of this chapter, if the services performed during one-half or more of any pay period by an employee for the person employing him constitute

employment, all the services of such employee for such period shall be deemed to be employment; but if the services performed during more than one-half of any such pay period by an employee for the person employing him do not constitute employment, then none of the services of such employee for such period shall be deemed to be employment. As used in this subsection, the term "pay period" means a period (of not more than 31 consecutive days) for which a payment of remuneration is ordinarily made to the employee by the person employing him. This subsection shall not be applicable with respect to services performed in a pay period by an employee for the person employing him, where any of such service is excepted by subsection (c) (9).

(e) STATE AGENCY.—For purposes of this chapter, the term "State agency" means any State officer, board, or other authority, designated under a State law to administer the unemployment fund in such State.

(f) UNEMPLOYMENT FUND.—For purposes of this chapter, the term "unemployment fund" means a special fund, established under a State law and administered by a State agency, for the payment of compensation. Any sums standing to the account of the State agency in the Unemployment Trust Fund established by section 904 of the Social Security Act, as amended (49 Stat. 640; 52 Stat. 1104, 1105; 42 U. S. C. 1104), shall be deemed to be a part of the unemployment fund of the State, and no sums paid out of the Unemployment Trust Fund to such State agency shall cease to be a part of the unemployment fund of the State until expended by such State agency. An unemployment fund shall be deemed to be maintained during a taxable year only if throughout such year, or such portion of the year as the unemployment fund was in existence, no part of the moneys of such fund was expended for any purpose other than the payment of compensation (exclusive of expenses of administration) and for refunds of sums erroneously paid into such fund and refunds paid in accordance with the provisions of section 3305 (b); except that—

(1) an amount equal to the amount of employee payments into the unemployment fund of a State may be used in the payment of cash benefits to individuals with respect to their disability, exclusive of expenses of administration; and

(2) the amounts specified by section 903 (c) (2) of the Social Security Act may, subject to the conditions prescribed in such section, be used for expenses incurred by the State for administration of its unemployment compensation law and public employment offices.

(g) CONTRIBUTIONS.—For purposes of this chapter, the term "contributions" means payments required by a State law to be made into an unemployment fund by any person on account of having individuals in his employ, to the extent that such payments are made by him without being deducted or deductible from the remuneration of individuals in his employ.

(h) COMPENSATION.—For purposes of this chapter, the term "compensation" means cash benefits payable to individuals with respect to their unemployment.

(i) EMPLOYEE.—For purposes of this chapter, the term "employee" includes an officer of a corporation, but such term does not include—

(1) any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an independent contractor, or

(2) any individual (except an officer of a corporation) who is not an employee under such common law rules.

(j) STATE.—For purposes of this chapter, the term "State" includes Alaska, Hawaii, and the District of Columbia.

(k) AGRICULTURAL LABOR.—For purposes of this chapter, the term "agricultural labor" includes all service performed—

(1) on a farm, in the employ of any person, in connection with cultivating the soil, or in connection with raising or harvesting any agricultural or horticultural commodity, including the raising, shearing, feeding, caring for, training, and management of livestock, bees, poultry, and fur-bearing animals and wildlife;

(2) in the employ of the owner or tenant or other operator of a farm, in connection with the operation, management, conservation, improvement, or maintenance of such farm and its tools and equipment, or in salvaging timber or clearing land of brush and other debris left by a hurricane, if the major part of such service is performed on a farm;

(3) in connection with the production or harvesting of maple sirup or maple sugar or any commodity defined as an agricultural commodity in section 15 (g) of the Agricultural Marketing Act, as amended (46 Stat. 1550, § 3; 12 U. S. C. 1141j), or in connection with the raising or harvesting of mushrooms, or in connection with the hatching of poultry, or in connection with the ginning of cotton, or in connection with the operation or maintenance of ditches, canals, reservoirs, or waterways used exclusively for supplying and storing water for farming purposes; or

(4) in handling, planting, drying, packing, packaging, processing, freezing, grading, storing, or delivering to storage or to market or to a carrier for transportation to market, any agricultural or horticultural commodity; but only if such service is performed as an incident to ordinary farming operations or, in the case of fruits and vegetables, as an incident to the preparation of such fruits or vegetables for market. The provisions of this paragraph shall not be deemed to be applicable with respect to service performed in connection with commercial canning or commercial freezing or in connection with any agricultural or horticultural commodity after its delivery to a terminal market for distribution for consumption.

As used in this subsection, the term "farm" includes stock, dairy, poultry, fruit, fur-bearing animal, and truck farms, plantations, ranches, nurseries, ranges, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities, and orchards.

(l) CERTAIN EMPLOYEES OF BONNEVILLE POWER ADMINISTRATOR.—For purposes of this chapter—

(1) The term "employment" shall include such service as is determined by the Bonneville Power Administrator to be performed after December 31, 1945, by a laborer, mechanic, or workman, in connection with construction work or the operation and maintenance of electrical facilities, as an employee performing service for the Administrator.

(2) The term "wages" means, with respect to service which constitutes employment by reason of this subsection, such amount of remuneration as is determined (subject to the provisions of this section) by the Administrator to be paid for such service.

The Administrator is authorized and directed to comply with the provisions of the internal revenue laws on behalf of the United States as the employer of individuals whose service constitutes employment by reason of this subsection.

(m) AMERICAN VESSEL.—For purposes of this chapter, the term "American vessel" means any vessel documented or numbered under the laws of the United States; and includes any vessel which is neither documented or numbered under the laws of the United States nor documented under the laws of any foreign country, if its crew is employed solely by one or more citizens or residents of the United States or corporations organized under the laws of the United States or of any State.

(n) VESSELS OPERATED BY GENERAL AGENTS OF UNITED STATES.—Notwithstanding the provisions of subsection (c) (6), service performed on or after July 1, 1953, by officers and members of the crew of a vessel which would otherwise be included as employment under subsection (c) shall not be excluded by reason of the fact that it is performed on or in connection with an American vessel—

(1) owned by or bareboat chartered to the United States and

(2) whose business is conducted by a general agent of the Secretary of Commerce.

For purposes of this chapter, each such general agent shall be considered a legal entity in his capacity as such general agent, separate and distinct from his identity as a person employing individuals on his own account, and the officers and members of the crew of such an American vessel whose business is conducted by a general agent of the Secretary of Commerce shall be deemed to be performing services for such general agent rather than the United States. Each such general agent who in his capacity as such is an employer within the meaning of subsection (a) shall be subject to all the requirements imposed upon an employer under this chapter with respect to service which constitutes employment by reason of this subsection.

SEC. 3307. DEDUCTIONS AS CONSTRUCTIVE PAYMENTS.

Whenever under this chapter or any act of Congress, or under the law of any State, an employer is required or permitted to deduct any amount from the remuneration of an employee and to pay the amount deducted to the United States, a State, or any political subdivision thereof, then for purposes of this chapter the amount so deducted shall be considered to have been paid to the employee at the time of such deduction.

SEC. 3308. SHORT TITLE.

This chapter may be cited as the "Federal Unemployment Tax Act."

CHAPTER 24—COLLECTION OF INCOME TAX AT SOURCE ON WAGES

Sec. 3401. Definitions.
Sec. 3402. Income tax collected at source.
Sec. 3403. Liability for tax.
Sec. 3404. Return and payment by governmental employer.

SEC. 3401. DEFINITIONS.

(a) WAGES.—For purposes of this chapter, the term "wages" means all remuneration (other than fees paid to a public official) for services performed by an employee for his employer, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include remuneration paid—

(1) for active service as a member of the Armed Forces of the United States performed in a month for which such member is entitled to the benefits of section 112, or

(2) for agricultural labor (as defined in section 3121 (g)), or

(3) for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority, or

(4) for service not in the course of the employer's trade or business performed in any calendar quarter by an employee, unless the cash remuneration paid for such service is $50 or more and such service is performed by an individual who is regularly employed by such employer to perform such service. For purposes of this paragraph, an individual shall be deemed to be regularly employed by an employer during a calendar quarter only if—

(A) on each of some 24 days during such quarter such individual performs for such employer for some portion of the day service not in the course of the employer's trade or business, or

(B) such individual was regularly employed (as determined under subparagraph (A)) by such employer in the performance of such service during the preceding calendar quarter, or

(5) for services by a citizen or resident of the United States for a foreign government or an international organization, or

(6) for services performed by a nonresident alien individual, other than—

(A) a resident of a contiguous country who enters and leaves the United States at frequent intervals, or

(B) a resident of Puerto Rico if such services are performed as an employee of the United States or any agency thereof, or

(7) for such services, performed by a nonresident alien individual who is a resident of a contiguous country and who enters and leaves the United States at frequent intervals, as may be designated by regulations prescribed by the Secretary or his delegate, or

(8) (A) for services for an employer (other than the United States or any agency thereof)—

(i) performed by a citizen of the United States if, at the time of the payment of such remuneration, it is reasonable to believe

that such remuneration will be excluded from gross income under section 911, or

(ii) performed in a foreign country by such a citizen if, at the time of the payment of such remuneration, the employer is required by the law of any foreign country to withhold income tax upon such remuneration, or

(B) for services for an employer (other than the United States or any agency thereof) performed by a citizen of the United States within a possession of the United States (other than Puerto Rico), if it is reasonable to believe that at least 80 percent of the remuneration to be paid to the employee by such employer during the calendar year will be for such services, or

(C) for services for an employer (other than the United States or any agency thereof) performed by a citizen of the United States within Puerto Rico, if it is reasonable to believe that during the entire calendar year the employee will be a bona fide resident of Puerto Rico, or

(9) for services performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of his ministry or by a member of a religious order in the exercise of duties required by such order, or

(10) (A) for services performed by an individual under the age of 18 in the delivery or distribution of newspapers or shopping news, not including delivery or distribution to any point for subsequent delivery or distribution, or

(B) for services performed by an individual in, and at the time of, the sale of newspapers or magazines to ultimate consumers, under an arrangement under which the newspapers or magazines are to be sold by him at a fixed price, his compensation being based on the retention of the excess of such price over the amount at which the newspapers or magazines are charged to him, whether or not he is guaranteed a minimum amount of compensation for such service, or is entitled to be credited with the unsold newspapers or magazines turned back, or

(11) for services not in the course of the employer's trade or business, to the extent paid in any medium other than cash, or

(12) to, or on behalf of, an employee or his beneficiary—

(A) from or to a trust described in section 401 (a) which is exempt from tax under section 501 (a) at the time of such payment unless such payment is made to an employee of the trust as remuneration for services rendered as such employee and not as a beneficiary of the trust, or

(B) under or to an annuity plan which, at the time of such payment, meets the requirements of section 401 (a) (3), (4), (5), and (6).

(b) PAYROLL PERIOD.—For purposes of this chapter, the term "payroll period" means a period for which a payment of wages is ordinarily made to the employee by his employer, and the term "miscellaneous payroll period" means a payroll period other than a daily, weekly, biweekly, semimonthly, monthly, quarterly, semiannual, or annual payroll period.

(c) EMPLOYEE.—For purposes of this chapter, the term "employee" includes an officer, employee, or elected official of the United States,

a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing. The term "employee" also includes an officer of a corporation.

(d) EMPLOYER.—For purposes of this chapter, the term "employer" means the person for whom an individual performs or performed any service, of whatever nature, as the employee of such person, except that—

(1) if the person for whom the individual performs or performed the services does not have control of the payment of the wages for such services, the term "employer" (except for purposes of subsection (a)) means the person having control of the payment of such wages, and

(2) in the case of a person paying wages on behalf of a nonresident alien individual, foreign partnership, or foreign corporation, not engaged in trade or business within the United States, the term "employer" (except for purposes of subsection (a)) means such person.

(e) NUMBER OF WITHHOLDING EXEMPTIONS CLAIMED.—For purposes of this chapter, the term "number of withholding exemptions claimed" means the number of withholding exemptions claimed in a withholding exemption certificate in effect under section 3402 (f), or in effect under the corresponding section of prior law, except that if no such certificate is in effect, the number of withholding exemptions claimed shall be considered to be zero.

SEC. 3402. INCOME TAX COLLECTED AT SOURCE.

(a) REQUIREMENT OF WITHHOLDING.—Every employer making payment of wages shall deduct and withhold upon such wages a tax equal to 18 percent of the amount by which the wages exceed the number of withholding exemptions claimed, multiplied by the amount of one such exemption as shown in subsection (b) (1).

(b) PERCENTAGE METHOD OF WITHHOLDING.—

(1) The table referred to in subsection (a) is as follows:

Percentage Method Withholding Table

Payroll period	Amount of one withholding exemption
Weekly	$13.00
Biweekly	26.00
Semimonthly	28.00
Monthly	56.00
Quarterly	167.00
Semiannual	333.00
Annual	667.00
Daily or miscellaneous (per day of such period)	1.80

(2) If wages are paid with respect to a period which is not a payroll period, the withholding exemption allowable with respect to each payment of such wages shall be the exemption allowed for a miscellaneous payroll period containing a number of days (including Sundays and holidays) equal to the number of days in the period with respect to which such wages are paid.

(3) In any case in which wages are paid by an employer without regard to any payroll period or other period, the withholding exemption allowable with respect to each payment of such wages shall be the exemption allowed for a miscellaneous payroll period containing a number of days equal to the number of days (including Sundays and holidays) which have elapsed since the date of the last payment of such wages by such employer during the calendar year, or the date of commencement of employment with such employer during such year, or January 1 of such year, whichever is the later.

(4) In any case in which the period, or the time described in paragraph (3), in respect of any wages is less than one week, the Secretary or his delegate, under regulations prescribed by him, may authorize an employer, in computing the tax required to be deducted and withheld, to use the excess of the aggregate of the wages paid to the employee during the calendar week over the withholding exemption allowed by this subsection for a weekly payroll period.

(5) In determining the amount to be deducted and withheld under this subsection, the wages may, at the election of the employer, be computed to the nearest dollar.

(c) WAGE BRACKET WITHHOLDING.—

(1) At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a):

If the payroll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$0	$13	18% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$13	$14	$2.40	.10	0	0	0	0	0	0	0	0	0
$14	$15	2.60	.30	0	0	0	0	0	0	0	0	0
$15	$16	2.80	.50	0	0	0	0	0	0	0	0	0
$16	$17	3.00	.70	0	0	0	0	0	0	0	0	0
$17	$18	3.20	.80	0	0	0	0	0	0	0	0	0
$18	$19	3.30	1.00	0	0	0	0	0	0	0	0	0
$19	$20	3.50	1.20	0	0	0	0	0	0	0	0	0
$20	$21	3.70	1.40	0	0	0	0	0	0	0	0	0
$21	$22	3.90	1.60	0	0	0	0	0	0	0	0	0
$22	$23	4.10	1.70	0	0	0	0	0	0	0	0	0
$23	$24	4.20	1.90	0	0	0	0	0	0	0	0	0
$24	$25	4.40	2.10	0	0	0	0	0	0	0	0	0
$25	$26	4.60	2.30	0	0	0	0	0	0	0	0	0
$26	$27	4.80	2.50	.20	0	0	0	0	0	0	0	0
$27	$28	5.00	2.60	.30	0	0	0	0	0	0	0	0
$28	$29	5.10	2.80	.50	0	0	0	0	0	0	0	0
$29	$30	5.30	3.00	.70	0	0	0	0	0	0	0	0
$30	$31	5.50	3.20	.90	0	0	0	0	0	0	0	0
$31	$32	5.70	3.40	1.10	0	0	0	0	0	0	0	0
$32	$33	5.90	3.50	1.20	0	0	0	0	0	0	0	0
$33	$34	6.00	3.70	1.40	0	0	0	0	0	0	0	0
$34	$35	6.20	3.90	1.60	0	0	0	0	0	0	0	0
$35	$36	6.40	4.10	1.80	0	0	0	0	0	0	0	0
$36	$37	6.60	4.30	2.00	0	0	0	0	0	0	0	0
$37	$38	6.80	4.40	2.10	0	0	0	0	0	0	0	0
$38	$39	6.90	4.60	2.30	0	0	0	0	0	0	0	0
$39	$40	7.10	4.80	2.50	.20	0	0	0	0	0	0	0
$40	$41	7.30	5.00	2.70	.40	0	0	0	0	0	0	0
$41	$42	7.50	5.20	2.90	.50	0	0	0	0	0	0	0

If the payroll period with respect to an employee is weekly—Continued

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$42	$43	$7.70	$5.30	$3.00	$0.70	$0	$0	$0	$0	$0	$0	$0
$43	$44	7.80	5.50	3.20	.90	0	0	0	0	0	0	0
$44	$45	8.00	5.70	3.40	1.10	0	0	0	0	0	0	0
$45	$46	8.20	5.90	3.60	1.30	0	0	0	0	0	0	0
$46	$47	8.40	6.10	3.80	1.40	0	0	0	0	0	0	0
$47	$48	8.60	6.20	3.90	1.60	0	0	0	0	0	0	0
$48	$49	8.70	6.40	4.10	1.80	0	0	0	0	0	0	0
$49	$50	8.90	6.60	4.30	2.00	0	0	0	0	0	0	0
$50	$51	9.10	6.80	4.50	2.20	0	0	0	0	0	0	0
$51	$52	9.30	7.00	4.70	2.30	0	0	0	0	0	0	0
$52	$53	9.50	7.10	4.80	2.50	.20	0	0	0	0	0	0
$53	$54	9.60	7.30	5.00	2.70	.40	0	0	0	0	0	0
$54	$55	9.80	7.50	5.20	2.90	.60	0	0	0	0	0	0
$55	$56	10.00	7.70	5.40	3.10	.80	0	0	0	0	0	0
$56	$57	10.20	7.90	5.60	3.20	.90	0	0	0	0	0	0
$57	$58	10.40	8.00	5.70	3.40	1.10	0	0	0	0	0	0
$58	$59	10.50	8.20	5.90	3.60	1.30	0	0	0	0	0	0
$59	$60	10.70	8.40	6.10	3.80	1.50	0	0	0	0	0	0
$60	$62	11.00	8.70	6.40	4.10	1.70	0	0	0	0	0	0
$62	$64	11.30	9.00	6.70	4.40	2.10	0	0	0	0	0	0
$64	$66	11.70	9.40	7.10	4.80	2.50	.20	0	0	0	0	0
$66	$68	12.10	9.80	7.40	5.10	2.80	.50	0	0	0	0	0
$68	$70	12.40	10.10	7.80	5.50	3.20	.90	0	0	0	0	0
$70	$72	12.80	10.50	8.20	5.90	3.50	1.20	0	0	0	0	0
$72	$74	13.10	10.80	8.50	6.20	3.90	1.60	0	0	0	0	0
$74	$76	13.50	11.20	8.90	6.60	4.30	2.00	0	0	0	0	0
$76	$78	13.90	11.60	9.20	6.90	4.60	2.30	0	0	0	0	0
$78	$80	14.20	11.90	9.60	7.30	5.00	2.70	.40	0	0	0	0
$80	$82	14.60	12.30	10.00	7.70	5.30	3.00	.70	0	0	0	0
$82	$84	14.90	12.60	10.30	8.00	5.70	3.40	1.10	0	0	0	0
$84	$86	15.30	13.00	10.70	8.40	6.10	3.80	1.50	0	0	0	0
$86	$88	15.70	13.40	11.00	8.70	6.40	4.10	1.80	0	0	0	0
$88	$90	16.00	13.70	11.40	9.10	6.80	4.50	2.20	0	0	0	0
$90	$92	16.40	14.10	11.80	9.50	7.10	4.80	2.50	.20	0	0	0
$92	$94	16.70	14.40	12.10	9.80	7.50	5.20	2.90	.60	0	0	0
$94	$96	17.10	14.80	12.50	10.20	7.90	5.60	3.30	.90	0	0	0
$96	$98	17.50	15.20	12.80	10.50	8.20	5.90	3.60	1.30	0	0	0
$98	$100	17.80	15.50	13.20	10.90	8.60	6.30	4.00	1.70	0	0	0
$100	$105	18.50	16.10	13.80	11.50	9.20	6.90	4.60	2.30	0	0	0
$105	$110	19.40	17.00	14.70	12.40	10.10	7.80	5.50	3.20	.90	0	0
$110	$115	20.30	17.90	15.60	13.30	11.00	8.70	6.40	4.10	1.80	0	0
$115	$120	21.20	18.80	16.50	14.20	11.90	9.60	7.30	5.00	2.70	.40	0
$120	$125	22.10	19.70	17.40	15.10	12.80	10.50	8.20	5.90	3.60	1.30	0
$125	$130	23.00	20.60	18.30	16.00	13.70	11.40	9.10	6.80	4.50	2.20	0
$130	$135	23.90	21.50	19.20	16.90	14.60	12.30	10.00	7.70	5.40	3.10	.80
$135	$140	24.80	22.40	20.10	17.80	15.50	13.20	10.90	8.60	6.30	4.00	1.70
$140	$145	25.70	23.30	21.00	18.70	16.40	14.10	11.80	9.50	7.20	4.90	2.60
$145	$150	26.60	24.20	21.90	19.60	17.30	15.00	12.70	10.40	8.10	5.80	3.50
$150	$160	27.90	25.60	23.30	21.00	18.70	16.40	14.10	11.70	9.40	7.10	4.80
$160	$170	29.70	27.40	25.10	22.80	20.50	18.20	15.90	13.50	11.20	8.90	6.60
$170	$180	31.50	29.20	26.90	24.60	22.30	20.00	17.70	15.30	13.00	10.70	8.40
$180	$190	33.30	31.00	28.70	26.40	24.10	21.80	19.50	17.10	14.80	12.50	10.20
$190	$200	35.10	32.80	30.50	28.20	25.90	23.60	21.30	18.90	16.60	14.30	12.00
		18 percent of the excess over $200 plus—										
$200 and over		36.00	33.70	31.40	29.10	26.80	24.50	22.20	19.80	17.50	15.20	12.90

If the payroll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$0	$26	18% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$26	$28	$4.90	.20	0	0	0	0	0	0	0	0	0
$28	$30	5.20	.60	0	0	0	0	0	0	0	0	0
$30	$32	5.60	1.00	0	0	0	0	0	0	0	0	0
$32	$34	5.90	1.30	0	0	0	0	0	0	0	0	0
$34	$36	6.30	1.70	0	0	0	0	0	0	0	0	0
$36	$38	6.70	2.00	0	0	0	0	0	0	0	0	0
$38	$40	7.00	2.40	0	0	0	0	0	0	0	0	0
$40	$42	7.40	2.80	0	0	0	0	0	0	0	0	0
$42	$44	7.70	3.10	0	0	0	0	0	0	0	0	0
$44	$46	8.10	3.50	0	0	0	0	0	0	0	0	0
$46	$48	8.50	3.80	0	0	0	0	0	0	0	0	0
$48	$50	8.80	4.20	0	0	0	0	0	0	0	0	0
$50	$52	9.20	4.60	0	0	0	0	0	0	0	0	0
$52	$54	9.50	4.90	.30	0	0	0	0	0	0	0	0
$54	$56	9.90	5.30	.70	0	0	0	0	0	0	0	0
$56	$58	10.30	5.60	1.00	0	0	0	0	0	0	0	0
$58	$60	10.60	6.00	1.40	0	0	0	0	0	0	0	0
$60	$62	11.00	6.40	1.70	0	0	0	0	0	0	0	0
$62	$64	11.30	6.70	2.10	0	0	0	0	0	0	0	0
$64	$66	11.70	7.10	2.50	0	0	0	0	0	0	0	0
$66	$68	12.10	7.40	2.80	0	0	0	0	0	0	0	0
$68	$70	12.40	7.80	3.20	0	0	0	0	0	0	0	0
$70	$72	12.80	8.20	3.50	0	0	0	0	0	0	0	0
$72	$74	13.10	8.50	3.90	0	0	0	0	0	0	0	0
$74	$76	13.50	8.90	4.30	0	0	0	0	0	0	0	0
$76	$78	13.90	9.20	4.60	0	0	0	0	0	0	0	0
$78	$80	14.20	9.60	5.00	.40	0	0	0	0	0	0	0
$80	$82	14.60	10.00	5.30	.70	0	0	0	0	0	0	0
$82	$84	14.90	10.30	5.70	1.10	0	0	0	0	0	0	0
$84	$86	15.30	10.70	6.10	1.50	0	0	0	0	0	0	0
$86	$88	15.70	11.00	6.40	1.80	0	0	0	0	0	0	0
$88	$90	16.00	11.40	6.80	2.20	0	0	0	0	0	0	0
$90	$92	16.40	11.80	7.10	2.50	0	0	0	0	0	0	0
$92	$94	16.70	12.10	7.50	2.90	0	0	0	0	0	0	0
$94	$96	17.10	12.50	7.90	3.30	0	0	0	0	0	0	0
$96	$98	17.50	12.80	8.20	3.60	0	0	0	0	0	0	0
$98	$100	17.80	13.20	8.60	4.00	0	0	0	0	0	0	0
$100	$102	18.20	13.60	8.90	4.30	0	0	0	0	0	0	0
$102	$104	18.50	13.90	9.30	4.70	.10	0	0	0	0	0	0
$104	$106	18.90	14.30	9.70	5.10	.40	0	0	0	0	0	0
$106	$108	19.30	14.60	10.00	5.40	.80	0	0	0	0	0	0
$108	$110	19.60	15.00	10.40	5.80	1.20	0	0	0	0	0	0
$110	$112	20.00	15.40	10.70	6.10	1.50	0	0	0	0	0	0
$112	$114	20.30	15.70	11.10	6.50	1.90	0	0	0	0	0	0
$114	$116	20.70	16.10	11.50	6.90	2.20	0	0	0	0	0	0
$116	$118	21.10	16.40	11.80	7.20	2.60	0	0	0	0	0	0
$118	$120	21.40	16.80	12.20	7.60	3.00	0	0	0	0	0	0
$120	$124	22.00	17.30	12.70	8.10	3.50	0	0	0	0	0	0
$124	$128	22.70	18.10	13.40	8.80	4.20	0	0	0	0	0	0
$128	$132	23.40	18.80	14.20	9.60	4.90	.30	0	0	0	0	0
$132	$136	24.10	19.50	14.90	10.30	5.70	1.00	0	0	0	0	0
$136	$140	24.80	20.20	15.60	11.00	6.40	1.80	0	0	0	0	0
$140	$144	25.60	20.90	16.30	11.70	7.10	2.50	0	0	0	0	0
$144	$148	26.30	21.70	17.00	12.40	7.80	3.20	0	0	0	0	0
$148	$152	27.00	22.40	17.80	13.20	8.50	3.90	0	0	0	0	0
$152	$156	27.70	23.10	18.50	13.90	9.30	4.60	0	0	0	0	0
$156	$160	28.40	23.80	19.20	14.60	10.00	5.40	.70	0	0	0	0
$160	$164	29.20	24.50	19.90	15.30	10.70	6.10	1.50	0	0	0	0
$164	$168	29.90	25.30	20.60	16.00	11.40	6.80	2.20	0	0	0	0
$168	$172	30.60	26.00	21.40	16.80	12.10	7.50	2.90	0	0	0	0
$172	$176	31.30	26.70	22.10	17.50	12.90	8.20	3.60	0	0	0	0
$176	$180	32.00	27.40	22.80	18.20	13.60	9.00	4.30	0	0	0	0
$180	$184	32.80	28.10	23.50	18.90	14.30	9.70	5.10	.50	0	0	0
$184	$188	33.50	28.90	24.20	19.60	15.00	10.40	5.80	1.20	0	0	0
$188	$192	34.20	29.60	25.00	20.40	15.70	11.10	6.50	1.90	0	0	0
$192	$196	34.90	30.30	25.70	21.10	16.50	11.80	7.20	2.60	0	0	0
$196	$200	35.60	31.00	26.40	21.80	17.20	12.60	7.90	3.30	0	0	0
$200	$210	36.90	32.30	27.70	23.10	18.40	13.80	9.20	4.60	0	0	0
$210	$220	38.70	34.10	29.50	24.90	20.20	15.60	11.00	6.40	1.80	0	0
$220	$230	40.50	35.90	31.30	26.70	22.00	17.40	12.80	8.20	3.60	0	0
$230	$240	42.30	37.70	33.10	28.50	23.80	19.20	14.60	10.00	5.40	.80	0
$240	$250	44.10	39.50	34.90	30.30	25.60	21.00	16.40	11.80	7.20	2.60	0
$250	$260	45.90	41.30	36.70	32.10	27.40	22.80	18.20	13.60	9.00	4.40	0
$260	$270	47.70	43.10	38.50	33.90	29.20	24.60	20.00	15.40	10.80	6.20	1.50

If the payroll period with respect to an employee is biweekly—Continued

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$270	$280	$49.50	$44.90	$40.30	$35.70	$31.00	$26.40	$21.80	$17.20	$12.60	$8.00	$3.30
$280	$290	51.30	46.70	42.10	37.50	32.80	28.20	23.60	19.00	14.40	9.80	5.10
$290	$300	53.10	48.50	43.90	39.30	34.60	30.00	25.40	20.80	16.20	11.60	6.90
$300	$320	55.80	51.20	46.60	42.00	37.30	32.70	28.10	23.50	18.90	14.30	9.60
$320	$340	59.40	54.80	50.20	45.60	40.90	36.30	31.70	27.10	22.50	17.90	13.20
$340	$360	63.00	58.40	53.80	49.20	44.50	39.90	35.30	30.70	26.10	21.50	16.80
$360	$380	66.60	62.00	57.40	52.80	48.10	43.50	38.90	34.30	29.70	25.10	20.40
$380	$400	70.20	65.60	61.00	56.40	51.70	47.10	42.50	37.90	33.30	28.70	24.00
		18 percent of the excess over $400 plus—										
$400 and over		72.00	67.40	62.80	58.20	53.50	48.90	44.30	39.70	35.10	30.50	25.80

If the payroll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$0	$28	18% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$28	$30	$5.20	.20	0	0	0	0	0	0	0	0	0
$30	$32	5.60	.60	0	0	0	0	0	0	0	0	0
$32	$34	5.90	.90	0	0	0	0	0	0	0	0	0
$34	$36	6.30	1.30	0	0	0	0	0	0	0	0	0
$36	$38	6.70	1.70	0	0	0	0	0	0	0	0	0
$38	$40	7.00	2.00	0	0	0	0	0	0	0	0	0
$40	$42	7.40	2.40	0	0	0	0	0	0	0	0	0
$42	$44	7.70	2.70	0	0	0	0	0	0	0	0	0
$44	$46	8.10	3.10	0	0	0	0	0	0	0	0	0
$46	$48	8.50	3.50	0	0	0	0	0	0	0	0	0
$48	$50	8.80	3.80	0	0	0	0	0	0	0	0	0
$50	$52	9.20	4.20	0	0	0	0	0	0	0	0	0
$52	$54	9.50	4.50	0	0	0	0	0	0	0	0	0
$54	$56	9.90	4.90	0	0	0	0	0	0	0	0	0
$56	$58	10.30	5.30	.30	0	0	0	0	0	0	0	0
$58	$60	10.60	5.60	.60	0	0	0	0	0	0	0	0
$60	$62	11.00	6.00	1.00	0	0	0	0	0	0	0	0
$62	$64	11.30	6.30	1.30	0	0	0	0	0	0	0	0
$64	$66	11.70	6.70	1.70	0	0	0	0	0	0	0	0
$66	$68	12.10	7.10	2.10	0	0	0	0	0	0	0	0
$68	$70	12.40	7.40	2.40	0	0	0	0	0	0	0	0
$70	$72	12.80	7.80	2.80	0	0	0	0	0	0	0	0
$72	$74	13.10	8.10	3.10	0	0	0	0	0	0	0	0
$74	$76	13.50	8.50	3.50	0	0	0	0	0	0	0	0
$76	$78	13.90	8.90	3.90	0	0	0	0	0	0	0	0
$78	$80	14.20	9.20	4.20	0	0	0	0	0	0	0	0
$80	$82	14.60	9.60	4.60	0	0	0	0	0	0	0	0
$82	$84	14.90	9.90	4.90	0	0	0	0	0	0	0	0
$84	$86	15.30	10.30	5.30	.30	0	0	0	0	0	0	0
$86	$88	15.70	10.70	5.70	.70	0	0	0	0	0	0	0
$88	$90	16.00	11.00	6.00	1.00	0	0	0	0	0	0	0
$90	$92	16.40	11.40	6.40	1.40	0	0	0	0	0	0	0
$92	$94	16.70	11.70	6.70	1.70	0	0	0	0	0	0	0
$94	$96	17.10	12.10	7.10	2.10	0	0	0	0	0	0	0
$96	$98	17.50	12.50	7.50	2.50	0	0	0	0	0	0	0
$98	$100	17.80	12.80	7.80	2.80	0	0	0	0	0	0	0
$100	$102	18.20	13.20	8.20	3.20	0	0	0	0	0	0	0
$102	$104	18.50	13.50	8.50	3.50	0	0	0	0	0	0	0
$104	$106	18.90	13.90	8.90	3.90	0	0	0	0	0	0	0
$106	$108	19.30	14.30	9.30	4.30	0	0	0	0	0	0	0
$108	$110	19.60	14.60	9.60	4.60	0	0	0	0	0	0	0
$110	$112	20.00	15.00	10.00	5.00	0	0	0	0	0	0	0
$112	$114	20.30	15.30	10.30	5.30	.30	0	0	0	0	0	0

If the payroll period with respect to an employee is semimonthly—Continued

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$114	$116	$20.70	$15.70	$10.70	$5.70	$.70	$0	$0	$0	$0	$0	$0
$116	$118	21.10	16.10	11.10	6.10	1.10	0	0	0	0	0	0
$118	$120	21.40	16.40	11.40	6.40	1.40	0	0	0	0	0	0
$120	$124	22.00	17.00	12.00	7.00	2.00	0	0	0	0	0	0
$124	$128	22.70	17.70	12.70	7.70	2.70	0	0	0	0	0	0
$128	$132	23.40	18.40	13.40	8.40	3.40	0	0	0	0	0	0
$132	$136	24.10	19.10	14.10	9.10	4.10	0	0	0	0	0	0
$136	$140	24.80	19.80	14.80	9.80	4.80	0	0	0	0	0	0
$140	$144	25.60	20.60	15.60	10.60	5.60	.60	0	0	0	0	0
$144	$148	26.30	21.30	16.30	11.30	6.30	1.30	0	0	0	0	0
$148	$152	27.00	22.00	17.00	12.00	7.00	2.00	0	0	0	0	0
$152	$156	27.70	22.70	17.70	12.70	7.70	2.70	0	0	0	0	0
$156	$160	28.40	23.40	18.40	13.40	8.40	3.40	0	0	0	0	0
$160	$164	29.20	24.20	19.20	14.20	9.20	4.20	0	0	0	0	0
$164	$168	29.90	24.90	19.90	14.90	9.90	4.90	0	0	0	0	0
$168	$172	30.60	25.60	20.60	15.60	10.60	5.60	.60	0	0	0	0
$172	$176	31.30	26.30	21.30	16.30	11.30	6.30	1.30	0	0	0	0
$176	$180	32.00	27.00	22.00	17.00	12.00	7.00	2.00	0	0	0	0
$180	$184	32.80	27.80	22.80	17.80	12.80	7.80	2.80	0	0	0	0
$184	$188	33.50	28.50	23.50	18.50	13.50	8.50	3.50	0	0	0	0
$188	$192	34.20	29.20	24.20	19.20	14.20	9.20	4.20	0	0	0	0
$192	$196	34.90	29.90	24.90	19.90	14.90	9.90	4.90	0	0	0	0
$196	$200	35.60	30.60	25.60	20.60	15.60	10.60	5.60	.60	0	0	0
$200	$210	36.90	31.90	26.90	21.90	16.90	11.90	6.90	1.90	0	0	0
$210	$220	38.70	33.70	28.70	23.70	18.70	13.70	8.70	3.70	0	0	0
$220	$230	40.50	35.50	30.50	25.50	20.50	15.50	10.50	5.50	.50	0	0
$230	$240	42.30	37.30	32.30	27.30	22.30	17.30	12.30	7.30	2.30	0	0
$240	$250	44.10	39.10	34.10	29.10	24.10	19.10	14.10	9.10	4.10	0	0
$250	$260	45.90	40.90	35.90	30.90	25.90	20.90	15.90	10.90	5.90	.90	0
$260	$270	47.70	42.70	37.70	32.70	27.70	22.70	17.70	12.70	7.70	2.70	0
$270	$280	49.50	44.50	39.50	34.50	29.50	24.50	19.50	14.50	9.50	4.50	0
$280	$290	51.30	46.30	41.30	36.30	31.30	26.30	21.30	16.30	11.30	6.30	1.30
$290	$300	53.10	48.10	43.10	38.10	33.10	28.10	23.10	18.10	13.10	8.10	3.10
$300	$320	55.80	50.80	45.80	40.80	35.80	30.80	25.80	20.80	15.80	10.80	5.80
$320	$340	59.40	54.40	49.40	44.40	39.40	34.40	29.40	24.40	19.40	14.40	9.40
$340	$360	63.00	58.00	53.00	48.00	43.00	38.00	33.00	28.00	23.00	18.00	13.00
$360	$380	66.60	61.60	56.60	51.60	46.60	41.60	36.60	31.60	26.60	21.60	16.60
$380	$400	70.20	65.20	60.20	55.20	50.20	45.20	40.20	35.20	30.20	25.20	20.20
$400	$420	73.80	68.80	63.80	58.80	53.80	48.80	43.80	38.80	33.80	28.80	23.80
$420	$440	77.40	72.40	67.40	62.40	57.40	52.40	47.40	42.40	37.40	32.40	27.40
$440	$460	81.00	76.00	71.00	66.00	61.00	56.00	51.00	46.00	41.00	36.00	31.00
$460	$480	84.60	79.60	74.60	69.60	64.60	59.60	54.60	49.60	44.60	39.60	34.60
$480	$500	88.20	83.20	78.20	73.20	68.20	63.20	58.20	53.20	48.20	43.20	38.20
		18 percent of the excess over $500 plus—										
$500 and over		90.00	85.00	80.00	75.00	70.00	65.00	60.00	55.00	50.00	45.00	40.00

If the payroll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$0	$56	18% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$56	$60	$10.40	.40	0	0	0	0	0	0	0	0	0
$60	$64	11.20	1.20	0	0	0	0	0	0	0	0	0
$64	$68	11.90	1.90	0	0	0	0	0	0	0	0	0
$68	$72	12.60	2.60	0	0	0	0	0	0	0	0	0
$72	$76	13.30	3.30	0	0	0	0	0	0	0	0	0
$76	$80	14.00	4.00	0	0	0	0	0	0	0	0	0
$80	$84	14.80	4.80	0	0	0	0	0	0	0	0	0
$84	$88	15.50	5.50	0	0	0	0	0	0	0	0	0
$88	$92	16.20	6.20	0	0	0	0	0	0	0	0	0
$92	$96	16.90	6.90	0	0	0	0	0	0	0	0	0
$96	$100	17.60	7.60	0	0	0	0	0	0	0	0	0
$100	$104	18.40	8.40	0	0	0	0	0	0	0	0	0
$104	$108	19.10	9.10	0	0	0	0	0	0	0	0	0
$108	$112	19.80	9.80	0	0	0	0	0	0	0	0	0
$112	$116	20.50	10.50	.50	0	0	0	0	0	0	0	0
$116	$120	21.20	11.20	1.20	0	0	0	0	0	0	0	0
$120	$124	22.00	12.00	2.00	0	0	0	0	0	0	0	0
$124	$128	22.70	12.70	2.70	0	0	0	0	0	0	0	0
$128	$132	23.40	13.40	3.40	0	0	0	0	0	0	0	0
$132	$136	24.10	14.10	4.10	0	0	0	0	0	0	0	0
$136	$140	24.80	14.80	4.80	0	0	0	0	0	0	0	0
$140	$144	25.60	15.60	5.60	0	0	0	0	0	0	0	0
$144	$148	26.30	16.30	6.30	0	0	0	0	0	0	0	0
$148	$152	27.00	17.00	7.00	0	0	0	0	0	0	0	0
$152	$156	27.70	17.70	7.70	0	0	0	0	0	0	0	0
$156	$160	28.40	18.40	8.40	0	0	0	0	0	0	0	0
$160	$164	29.20	19.20	9.20	0	0	0	0	0	0	0	0
$164	$168	29.90	19.90	9.90	0	0	0	0	0	0	0	0
$168	$172	30.60	20.60	10.60	.60	0	0	0	0	0	0	0
$172	$176	31.30	21.30	11.30	1.30	0	0	0	0	0	0	0
$176	$180	32.00	22.00	12.00	2.00	0	0	0	0	0	0	0
$180	$184	32.80	22.80	12.80	2.80	0	0	0	0	0	0	0
$184	$188	33.50	23.50	13.50	3.50	0	0	0	0	0	0	0
$188	$192	34.20	24.20	14.20	4.20	0	0	0	0	0	0	0
$192	$196	34.90	24.90	14.90	4.90	0	0	0	0	0	0	0
$196	$200	35.60	25.60	15.60	5.60	0	0	0	0	0	0	0
$200	$204	36.40	26.40	16.40	6.40	0	0	0	0	0	0	0
$204	$208	37.10	27.10	17.10	7.10	0	0	0	0	0	0	0
$208	$212	37.80	27.80	17.80	7.80	0	0	0	0	0	0	0
$212	$216	38.50	28.50	18.50	8.50	0	0	0	0	0	0	0
$216	$220	39.20	29.20	19.20	9.20	0	0	0	0	0	0	0
$220	$224	40.00	30.00	20.00	10.00	0	0	0	0	0	0	0
$224	$228	40.70	30.70	20.70	10.70	.70	0	0	0	0	0	0
$228	$232	41.40	31.40	21.40	11.40	1.40	0	0	0	0	0	0
$232	$236	42.10	32.10	22.10	12.10	2.10	0	0	0	0	0	0
$236	$240	42.80	32.80	22.80	12.80	2.80	0	0	0	0	0	0
$240	$248	43.90	33.90	23.90	13.90	3.90	0	0	0	0	0	0
$248	$256	45.40	35.40	25.40	15.40	5.40	0	0	0	0	0	0

If the payroll period with respect to an employee is monthly—Continued

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$256	$264	$46.80	$36.80	$26.80	$16.80	$6.80	$0	$0	$0	$0	$0	$0
$264	$272	48.20	38.20	28.20	18.20	8.20	0	0	0	0	0	0
$272	$280	49.70	39.70	29.70	19.70	9.70	0	0	0	0	0	0
$280	$288	51.10	41.10	31.10	21.10	11.10	1.10	0	0	0	0	0
$288	$296	52.60	42.60	32.60	22.60	12.60	2.60	0	0	0	0	0
$296	$304	54.00	44.00	34.00	24.00	14.00	4.00	0	0	0	0	0
$304	$312	55.40	45.40	35.40	25.40	15.40	5.40	0	0	0	0	0
$312	$320	56.90	46.90	36.90	26.90	16.90	6.90	0	0	0	0	0
$320	$328	58.30	48.30	38.30	28.30	18.30	8.30	0	0	0	0	0
$328	$336	59.80	49.80	39.80	29.80	19.80	9.80	0	0	0	0	0
$336	$344	61.20	51.20	41.20	31.20	21.20	11.20	1.20	0	0	0	0
$344	$352	62.60	52.60	42.60	32.60	22.60	12.60	2.60	0	0	0	0
$352	$360	64.10	54.10	44.10	34.10	24.10	14.10	4.10	0	0	0	0
$360	$368	65.50	55.50	45.50	35.50	25.50	15.50	5.50	0	0	0	0
$368	$376	67.00	57.00	47.00	37.00	27.00	17.00	7.00	0	0	0	0
$376	$384	68.40	58.40	48.40	38.40	28.40	18.40	8.40	0	0	0	0
$384	$392	69.80	59.80	49.80	39.80	29.80	19.80	9.80	0	0	0	0
$392	$400	71.30	61.30	51.30	41.30	31.30	21.30	11.30	1.30	0	0	0
$400	$420	73.80	63.80	53.80	43.80	33.80	23.80	13.80	3.80	0	0	0
$420	$440	77.40	67.40	57.40	47.40	37.40	27.40	17.40	7.40	0	0	0
$440	$460	81.00	71.00	61.00	51.00	41.00	31.00	21.00	11.00	1.00	0	0
$460	$480	84.60	74.60	64.60	54.60	44.60	34.60	24.60	14.60	4.60	0	0
$480	$500	88.20	78.20	68.20	58.20	48.20	38.20	28.20	18.20	8.20	0	0
$500	$520	91.80	81.80	71.80	61.80	51.80	41.80	31.80	21.80	11.80	1.80	0
$520	$540	95.40	85.40	75.40	65.40	55.40	45.40	35.40	25.40	15.40	5.40	0
$540	$560	99.00	89.00	79.00	69.00	59.00	49.00	39.00	29.00	19.00	9.00	0
$560	$580	102.60	92.60	82.60	72.60	62.60	52.60	42.60	32.60	22.60	12.60	2.60
$580	$600	106.20	96.20	86.20	76.20	66.20	56.20	46.20	36.20	26.20	16.20	6.20
$600	$640	111.60	101.60	91.60	81.60	71.60	61.60	51.60	41.60	31.60	21.60	11.60
$640	$680	118.80	108.80	98.80	88.80	78.80	68.80	58.80	48.80	38.80	28.80	18.80
$680	$720	126.00	116.00	106.00	96.00	86.00	76.00	66.00	56.00	46.00	36.00	26.00
$720	$760	133.20	123.20	113.20	103.20	93.20	83.20	73.20	63.20	53.20	43.20	33.20
$760	$800	140.40	130.40	120.40	110.40	100.40	90.40	80.40	70.40	60.40	50.40	40.40
$800	$840	147.60	137.60	127.60	117.60	107.60	97.60	87.60	77.60	67.60	57.60	47.60
$840	$880	154.80	144.80	134.80	124.80	114.80	104.80	94.80	84.80	74.80	64.80	54.80
$880	$920	162.00	152.00	142.00	132.00	122.00	112.00	102.00	92.00	82.00	72.00	62.00
$920	$960	169.20	159.20	149.20	139.20	129.20	119.20	109.20	99.20	89.20	79.20	69.20
$960	$1,000	176.40	166.40	156.40	146.40	136.40	126.40	116.40	106.40	96.40	86.40	76.40
		18 percent of the excess over $1,000 plus—										
$1,000 and over		180.00	170.00	160.00	150.00	140.00	130.00	120.00	110.00	100.00	90.00	80.00

If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
$0	$2.00	18 % of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$2.00	$2.25	$0.40	.05	0	0	0	0	0	0	0	0	0
$2.25	$2.50	.45	.10	0	0	0	0	0	0	0	0	0
$2.50	$2.75	.45	.15	0	0	0	0	0	0	0	0	0
$2.75	$3.00	.50	.20	0	0	0	0	0	0	0	0	0
$3.00	$3.25	.55	.25	0	0	0	0	0	0	0	0	0
$3.25	$3.50	.60	.30	0	0	0	0	0	0	0	0	0
$3.50	$3.75	.65	.30	0	0	0	0	0	0	0	0	0
$3.75	$4.00	.70	.35	.05	0	0	0	0	0	0	0	0
$4.00	$4.25	.75	.40	.10	0	0	0	0	0	0	0	0
$4.25	$4.50	.80	.45	.15	0	0	0	0	0	0	0	0
$4.50	$4.75	.85	.50	.15	0	0	0	0	0	0	0	0
$4.75	$5.00	.90	.55	.20	0	0	0	0	0	0	0	0
$5.00	$5.25	.90	.60	.25	0	0	0	0	0	0	0	0
$5.25	$5.50	.95	.65	.30	0	0	0	0	0	0	0	0
$5.50	$5.75	1.00	.70	.35	.05	0	0	0	0	0	0	0
$5.75	$6.00	1.05	.75	.40	.05	0	0	0	0	0	0	0
$6.00	$6.25	1.10	.75	.45	.10	0	0	0	0	0	0	0
$6.25	$6.50	1.15	.80	.50	.15	0	0	0	0	0	0	0
$6.50	$6.75	1.20	.85	.55	.20	0	0	0	0	0	0	0
$6.75	$7.00	1.25	.90	.60	.25	0	0	0	0	0	0	0
$7.00	$7.25	1.30	.95	.60	.30	0	0	0	0	0	0	0
$7.25	$7.50	1.35	1.00	.65	.35	0	0	0	0	0	0	0
$7.50	$7.75	1.35	1.05	.70	.40	.05	0	0	0	0	0	0
$7.75	$8.00	1.40	1.10	.75	.45	.10	0	0	0	0	0	0
$8.00	$8.25	1.45	1.15	.80	.50	.15	0	0	0	0	0	0
$8.25	$8.50	1.50	1.20	.85	.50	.20	0	0	0	0	0	0
$8.50	$8.75	1.55	1.20	.90	.55	.25	0	0	0	0	0	0
$8.75	$9.00	1.60	1.25	.95	.60	.30	0	0	0	0	0	0
$9.00	$9.25	1.65	1.30	1.00	.65	.35	0	0	0	0	0	0
$9.25	$9.50	1.70	1.35	1.05	.70	.35	.05	0	0	0	0	0
$9.50	$9.75	1.75	1.40	1.05	.75	.40	.10	0	0	0	0	0
$9.75	$10.00	1.80	1.45	1.10	.80	.45	.15	0	0	0	0	0
$10.00	$10.50	1.85	1.50	1.20	.85	.55	.20	0	0	0	0	0
$10.50	$11.00	1.95	1.60	1.30	.95	.60	.30	0	0	0	0	0
$11.00	$11.50	2.05	1.70	1.35	1.05	.70	.40	.05	0	0	0	0
$11.50	$12.00	2.10	1.80	1.45	1.15	.80	.45	.15	0	0	0	0
$12.00	$12.50	2.20	1.90	1.55	1.20	.90	.55	.25	0	0	0	0
$12.50	$13.00	2.30	1.95	1.65	1.30	1.00	.65	.30	0	0	0	0
$13.00	$13.50	2.40	2.05	1.75	1.40	1.05	.75	.40	.10	0	0	0
$13.50	$14.00	2.50	2.15	1.80	1.50	1.15	.85	.50	.15	0	0	0
$14.00	$14.50	2.55	2.25	1.90	1.60	1.25	.90	.60	.25	0	0	0
$14.50	$15.00	2.65	2.35	2.00	1.65	1.35	1.00	.70	.35	0	0	0
$15.00	$15.50	2.75	2.40	2.10	1.75	1.45	1.10	.75	.45	.10	0	0
$15.50	$16.00	2.85	2.50	2.20	1.85	1.50	1.20	.85	.55	.20	0	0
$16.00	$16.50	2.95	2.60	2.25	1.95	1.60	1.30	.95	.60	.30	0	0
$16.50	$17.00	3.00	2.70	2.35	2.05	1.70	1.35	1.05	.70	.40	.05	0
$17.00	$17.50	3.10	2.80	2.45	2.10	1.80	1.45	1.15	.80	.45	.15	0
$17.50	$18.00	3.20	2.85	2.55	2.20	1.90	1.55	1.20	.90	.55	.25	0
$18.00	$18.50	3.30	2.95	2.65	2.30	1.95	1.65	1.30	1.00	.65	.35	0
$18.50	$19.00	3.40	3.05	2.70	2.40	2.05	1.75	1.40	1.05	.75	.40	.10
$19.00	$19.50	3.45	3.15	2.80	2.50	2.15	1.80	1.50	1.15	.85	.50	.20
$19.50	$20.00	3.55	3.25	2.90	2.55	2.25	1.90	1.60	1.25	.90	.60	.25
$20.00	$21.00	3.70	3.35	3.05	2.70	2.35	2.05	1.70	1.40	1.05	.75	.40
$21.00	$22.00	3.85	3.55	3.20	2.90	2.55	2.25	1.90	1.55	1.25	.90	.60
$22.00	$23.00	4.05	3.70	3.40	3.05	2.75	2.40	2.10	1.75	1.40	1.10	.75
$23.00	$24.00	4.25	3.90	3.55	3.25	2.90	2.60	2.25	1.95	1.60	1.25	.95
$24.00	$25.00	4.40	4.10	3.75	3.40	3.10	2.75	2.45	2.10	1.80	1.45	1.10
$25.00	$26.00	4.60	4.25	3.95	3.60	3.25	2.95	2.60	2.30	1.95	1.65	1.30
$26.00	$27.00	4.75	4.45	4.10	3.80	3.45	3.15	2.80	2.45	2.15	1.80	1.50
$27.00	$28.00	4.95	4.60	4.30	3.95	3.65	3.30	3.00	2.65	2.30	2.00	1.65
$28.00	$29.00	5.15	4.80	4.45	4.15	3.80	3.50	3.15	2.85	2.50	2.15	1.85
$29.00	$30.00	5.30	5.00	4.65	4.30	4.00	3.65	3.35	3.00	2.70	2.35	2.00
		18 percent of the excess over $30 plus—										
$30.00 and over		5.40	5.05	4.75	4.40	4.10	3.75	3.45	3.10	2.75	2.45	2.10

(2) If wages are paid with respect to a period which is not a payroll period, the amount to be deducted and withheld shall be that applicable in the case of a miscellaneous payroll period containing a number of days (including Sundays and holidays) equal to the number of days in the period with respect to which such wages are paid.

(3) In any case in which wages are paid by an employer without regard to any payroll period or other period, the amount to be deducted and withheld shall be that applicable in the case of a miscellaneous payroll period containing a number of days equal to the number of days (including Sundays and holidays) which have elapsed since the date of the last payment of such wages by such employer during the calendar year, or the date of commencement of employment with such employer during such year, or January 1 of such year, whichever is the later.

(4) In any case in which the period, or the time described in paragraph (3), in respect of any wages is less than one week, the Secretary or his delegate, under regulations prescribed by him, may authorize an employer to determine the amount to be deducted and withheld under the tables applicable in the case of a weekly payroll period, in which case the aggregate of the wages paid to the employee during the calendar week shall be considered the weekly wages.

(5) If the wages exceed the highest wage bracket, in determining the amount to be deducted and withheld under this subsection, the wages may, at the election of the employer, be computed to the nearest dollar.

(d) TAX PAID BY RECIPIENT.—If the employer, in violation of the provisions of this chapter, fails to deduct and withhold the tax under this chapter, and thereafter the tax against which such tax may be credited is paid, the tax so required to be deducted and withheld shall not be collected from the employer; but this subsection shall in no case relieve the employer from liability for any penalties or additions to the tax otherwise applicable in respect of such failure to deduct and withhold.

(e) INCLUDED AND EXCLUDED WAGES.—If the remuneration paid by an employer to an employee for services performed during one-half or more of any payroll period of not more than 31 consecutive days constitutes wages, all the remuneration paid by such employer to such employee for such period shall be deemed to be wages; but if the remuneration paid by an employer to an employee for services performed during more than one-half of any such payroll period does not constitute wages, then none of the remuneration paid by such employer to such employee for such period shall be deemed to be wages.

(f) WITHHOLDING EXEMPTIONS.—

(1) IN GENERAL.—An employee receiving wages shall on any day be entitled to the following withholding exemptions:

(A) an exemption for himself;

(B) one additional exemption for himself if, on the basis of facts existing at the beginning of such day, there may reasonably be expected to be allowable an exemption under section 151 (c) (1) (relating to old age) for the taxable year under subtitle A in respect of which amounts deducted and withheld under this

chapter in the calendar year in which such day falls are allowed as a credit;

(C) one additional exemption for himself if, on the basis of facts existing at the beginning of such day, there may reasonably be expected to be allowable an exemption under section 151 (d) (1) (relating to the blind) for the taxable year under subtitle A in respect of which amounts deducted and withheld under this chapter in the calendar year in which such day falls are allowed as a credit;

(D) if the employee is married, any exemption to which his spouse is entitled, or would be entitled if such spouse were an employee receiving wages, under subparagraph (A), (B), or (C), but only if such spouse does not have in effect a withholding exemption certificate claiming such exemption; and

(E) an exemption for each individual with respect to whom, on the basis of facts existing at the beginning of such day, there may reasonably be expected to be allowable an exemption under section 151 (e) for the taxable year under subtitle A in respect of which amounts deducted and withheld under this chapter in the calendar year in which such day falls are allowed as a credit.

(2) EXEMPTION CERTIFICATES.—

(A) ON COMMENCEMENT OF EMPLOYMENT.—On or before the date of the commencement of employment with an employer, the employee shall furnish the employer with a signed withholding exemption certificate relating to the number of withholding exemptions which he claims, which shall in no event exceed the number to which he is entitled.

(B) CHANGE OF STATUS.—If, on any day during the calendar year, the number of withholding exemptions to which the employee is entitled is less than the number of withholding exemptions claimed by the employee on the withholding exemption certificate then in effect with respect to him, the employee shall within 10 days thereafter furnish the employer with a new withholding exemption certificate relating to the number of withholding exemptions which the employee then claims, which shall in no event exceed the number to which he is entitled on such day. If, on any day during the calendar year, the number of withholding exemptions to which the employee is entitled is greater than the number of withholding exemptions claimed, the employee may furnish the employer with a new withholding exemption certificate relating to the number of withholding exemptions which the employee then claims, which shall in no event exceed the number to which he is entitled on such day.

(C) CHANGE OF STATUS WHICH AFFECTS NEXT CALENDAR YEAR.—If on any day during the calendar year the number of withholding exemptions to which the employee will be, or may reasonably be expected to be, entitled at the beginning of his next taxable year under subtitle A is different from the number to which the employee is entitled on such day, the employee shall, in such cases and at such times as the Secretary or his delegate may by regulations prescribe, furnish the employer with a withholding exemption certificate relating to the number of withholding exemptions which he claims with respect to such next taxable

year, which shall in no event exceed the number to which he will be, or may reasonably be expected to be, so entitled.

(3) WHEN CERTIFICATE TAKES EFFECT.—

(A) FIRST CERTIFICATE FURNISHED.—A withholding exemption certificate furnished the employer in cases in which no previous such certificate is in effect shall take effect as of the beginning of the first payroll period ending, or the first payment of wages made without regard to a payroll period, on or after the date on which such certificate is so furnished.

(B) FURNISHED TO TAKE PLACE OF EXISTING CERTIFICATE.—A withholding exemption certificate furnished the employer in cases in which a previous such certificate is in effect shall take effect with respect to the first payment of wages made on or after the first status determination date which occurs at least 30 days from the date on which such certificate is so furnished, except that at the election of the employer such certificate may be made effective with respect to any payment of wages made on or after the date on which such certificate is so furnished; but a certificate furnished pursuant to paragraph (2) (C) shall not take effect, and may not be made effective, with respect to any payment of wages made in the calendar year in which the certificate is furnished. For purposes of this subparagraph the term "status determination date" means January 1 and July 1 of each year.

(4) PERIOD DURING WHICH CERTIFICATE REMAINS IN EFFECT.—A withholding exemption certificate which takes effect under this subsection, or which on December 31, 1954, was in effect under the corresponding subsection of prior law, shall continue in effect with respect to the employer until another such certificate takes effect under this subsection.

(5) FORM AND CONTENTS OF CERTIFICATE.—Withholding exemption certificates shall be in such form and contain such information as the Secretary or his delegate may by regulations prescribe.

(g) OVERLAPPING PAY PERIODS, AND PAYMENT BY AGENT OR FIDUCIARY.—If a payment of wages is made to an employee by an employer—

(1) with respect to a payroll period or other period, any part of which is included in a payroll period or other period with respect to which wages are also paid to such employee by such employer, or

(2) without regard to any payroll period or other period, but on or prior to the expiration of a payroll period or other period with respect to which wages are also paid to such employee by such employer, or

(3) with respect to a period beginning in one and ending in another calendar year, or

(4) through an agent, fiduciary, or other person who also has the control, receipt, custody, or disposal of, or pays, the wages payable by another employer to such employee,

the manner of withholding and the amount to be deducted and withheld under this chapter shall be determined in accordance with regulations prescribed by the Secretary or his delegate under which the withholding exemption allowed to the employee in any calendar year shall approximate the withholding exemption allowable with respect to an annual payroll period.

(h) WITHHOLDING ON BASIS OF AVERAGE WAGES.—The Secretary or his delegate may, under regulations prescribed by him, authorize employers—

(1) to estimate the wages which will be paid to any employee in any quarter of the calendar year,

(2) to determine the amount to be deducted and withheld upon each payment of wages to such employee during such quarter as if the appropriate average of the wages so estimated constituted the actual wages paid, and

(3) to deduct and withhold upon any payment of wages to such employee during such quarter such amount as may be necessary to adjust the amount actually deducted and withheld upon the wages of such employee during such quarter to the amount required to be deducted and withheld during such quarter without regard to this subsection.

(i) ADDITIONAL WITHHOLDING.—The Secretary or his delegate is authorized by regulations to provide, under such conditions and to such extent as he deems proper, for withholding in addition to that otherwise required under this section in cases in which the employer and the employee agree (in such form as the Secretary or his delegate may by regulations prescribe) to such additional withholding. Such additional withholding shall for all purposes be considered tax required to be deducted and withheld under this chapter.

SEC. 3403. LIABILITY FOR TAX.

The employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter, and shall not be liable to any person for the amount of any such payment.

SEC. 3404. RETURN AND PAYMENT BY GOVERNMENTAL EMPLOYER.

If the employer is the United States, or a State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return of the amount deducted and withheld upon any wages may be made by any officer or employee of the United States, or of such State, Territory, or political subdivision, or of the District of Columbia, or of such agency or instrumentality, as the case may be, having control of the payment of such wages, or appropriately designated for that purpose.

CHAPTER 25—GENERAL PROVISIONS RELATING TO EMPLOYMENT TAXES

Sec. 3501. Collection and payment of taxes.
Sec. 3502. Nondeductibility of taxes in computing taxable income.
Sec. 3503. Erroneous payments.
Sec. 3504. Acts to be performed by agents.

SEC. 3501. COLLECTION AND PAYMENT OF TAXES.

The taxes imposed by this subtitle shall be collected by the Secretary or his delegate and shall be paid into the Treasury of the United States as internal-revenue collections.

SEC. 3502. NONDEDUCTIBILITY OF TAXES IN COMPUTING TAXABLE INCOME.

(a) The taxes imposed by section 3101 of chapter 21, and by sections 3201 and 3211 of chapter 22 shall not be allowed as a deduction to the taxpayer in computing taxable income under subtitle A.

(b) The tax deducted and withheld under chapter 24 shall not be allowed as a deduction either to the employer or to the recipient of the income in computing taxable income under subtitle A.

SEC. 3503. ERRONEOUS PAYMENTS.

Any tax paid under chapter 21 or 22 by a taxpayer with respect to any period with respect to which he is not liable to tax under such chapter shall be credited against the tax, if any, imposed by such other chapter upon the taxpayer, and the balance, if any, shall be refunded.

SEC. 3504. ACTS TO BE PERFORMED BY AGENTS.

In case a fiduciary, agent, or other person has the control, receipt, custody, or disposal of, or pays the wages of an employee or group of employees, employed by one or more employers, the Secretary or his delegate, under regulations prescribed by him, is authorized to designate such fiduciary, agent, or other person to perform such acts as are required of employers under this subtitle and as the Secretary or his delegate may specify. Except as may be otherwise prescribed by the Secretary or his delegate, all provisions of law (including penalties) applicable in respect of an employer shall be applicable to a fiduciary, agent, or other person so designated but, except as so provided, the employer for whom such fiduciary, agent, or other person acts shall remain subject to the provisions of law (including penalties) applicable in respect of employers.

CHAPTER 25—GENERAL PROVISIONS RELATING TO EMPLOYMENT TAXES

Sec. 3501. Collection and payment of taxes.
Sec. 3502. Nondeductibility of taxes in computing taxable income.
Sec. 3503. Erroneous payments.
Sec. 3504. Acts to be performed by agents.

SEC. 3501. COLLECTION AND PAYMENT OF TAXES.

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(b) The tax deducted and withheld under chapter 24 shall not be allowed as a deduction either to the employer or to the recipient of the income in computing taxable income under subtitle A.

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Any tax paid under chapter 21 or 22 by a taxpayer with respect to any period with respect to which he is not liable to tax under such chapter shall be credited against the tax, if any, imposed by such other chapter upon the taxpayer, and the balance, if any, shall be refunded.

SEC. 3504. ACTS TO BE PERFORMED BY AGENTS.

In case a fiduciary, agent, or other person has the control, receipt, custody, or disposal of, or pays the wages of an employee or group of employees, employed by one or more employers, the Secretary or his delegate, under regulations prescribed by him, is authorized to designate such fiduciary, agent, or other person to perform such acts as are required of employers under this subtitle and as the Secretary or his delegate may specify. Except as may be otherwise prescribed by the Secretary or his delegate, all provisions of law (including penalties) applicable in respect of an employer shall be applicable to a fiduciary, agent, or other person so designated but, except as so provided, the employer for whom such fiduciary, agent, or other person acts shall remain subject to the provisions of law (including penalties) applicable in respect of employers.

Subtitle D—Miscellaneous Excise Taxes

CHAPTER 31. Retailers excise taxes.
CHAPTER 32. Manufacturers' excise taxes.
CHAPTER 33. Facilities and services.
CHAPTER 34. Documentary stamp taxes.
CHAPTER 35. Taxes on wagering.
CHAPTER 36. Certain other excise taxes.
CHAPTER 37. Sugar, coconut and palm oil.
CHAPTER 38. Import taxes.
CHAPTER 39. Regulatory taxes.
CHAPTER 40. General provisions relating to occupational taxes.

CHAPTER 31—RETAILERS EXCISE TAXES

SUBCHAPTER A. Jewelry and related items.
SUBCHAPTER B. Furs.
SUBCHAPTER C. Toilet preparations.
SUBCHAPTER D. Luggage, handbags, etc.
SUBCHAPTER E. Special fuels.
SUBCHAPTER F. Special provisions applicable to retailers tax.

Subchapter A—Jewelry and Related Items

Sec. 4001. Imposition of tax.
Sec. 4002. Definition of sale includes auctions.
Sec. 4003. Exemptions.

SEC. 4001. IMPOSITION OF TAX.

There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 percent of the price for which so sold:

All articles commonly or commercially known as jewelry, whether real or imitation.
Pearls, precious and semi-precious stones, and imitations thereof.
Articles made of, or ornamented, mounted or fitted with precious metals or imitations thereof.
Watches.
Clocks.
Cases and movements for watches and clocks.
Gold, gold-plated, silver, or sterling flatware or hollow ware and silver-plated hollow ware.
Opera glasses.
Lorgnettes.
Marine glasses.
Field glasses.
Binoculars.

SEC. 4002. DEFINITION OF SALE INCLUDES AUCTIONS.

For the purposes of section 4001, the term "articles sold at retail" includes an article sold at retail by an auctioneer or other agent in the course of his business on behalf of (1) a person who is not engaged in the business of selling like articles, or (2) the legal representative of

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the estate of a decedent who was not engaged in the business of selling like articles. In the case of articles so sold, the auctioneer or other agent shall be considered the "person who sells at retail."

SEC. 4003. EXEMPTIONS.

(a) SPECIFIC ARTICLES.—The tax imposed by section 4001 shall not apply to any article used for religious purposes, to surgical instruments, to watches designed especially for use by the blind, to frames or mountings for spectacles or eye-glasses, to a fountain pen, mechanical pencil, or smokers' pipe if the only parts of the pen, the pencil, or the pipe which consist of precious metals are essential parts not used for ornamental purposes, or to buttons, insignia, cap devices, chin straps, and other devices prescribed for use in connection with the uniforms of the armed forces of the United States.

(b) CERTAIN AUCTION SALES.—

(1) In the case of an auction sale held at the home of a person whose articles are being sold, any taxable article (as defined in paragraph (2)) of such person sold by the auctioneer shall be exempt from the tax imposed by section 4001 except to the extent that the price for which such article is sold, when added to the sum of the sale prices of all other taxable articles of such person previously sold at the same auction, exceeds $100.

(2) For the purposes of this subsection—

(A) the term "taxable article" means an article which, by reason of section 4002 and without regard to the exemption provided in paragraph (1), is taxable under section 4001 when sold at auction; and

(B) in the case of articles of a decedent sold on behalf of the legal representative of his estate, an auction sale held at the home of such decedent shall be considered as "held at the home of a person whose articles are being sold".

Subchapter B—Furs

Sec. 4011. Imposition of tax.
Sec. 4012. Definitions.
Sec. 4013. Exemption of certain auction sales.

SEC. 4011. IMPOSITION OF TAX.

There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 percent of the price for which so sold: Articles made of fur on the hide or pelt, and articles of which such fur is the component material of chief value, but only if such value is more than three times the value of the next most valuable component material.

SEC. 4012. DEFINITIONS.

(a) MANUFACTURE FROM CUSTOMERS MATERIAL.—Where a person, who is engaged in the business of dressing or dyeing fur skins or of manufacturing, selling, or repairing fur articles, produces an article of the kind described in section 4011 from fur on the hide or pelt furnished, directly or indirectly, by a customer and the article is for the use of, and not for resale by, such customer, the transaction shall be deemed to be a sale at retail and the person producing the article shall be deemed to be the person selling such article at retail for the purposes of such section. The tax on such a transaction shall be computed and paid by such person upon the fair retail market value, as determined by the Secretary or his delegate, of the finished article.

(b) SALE INCLUDES AUCTIONS.—For the purposes of section 4011, the term "articles sold at retail" includes an article sold at retail by an auctioneer or other agent in the course of his business on behalf of—

(1) a person who is not engaged in the business of selling like articles, or

(2) the legal representative of the estate of a decedent who was not engaged in the business of selling like articles. In the case of articles so sold, the auctioneer or other agent shall be considered the "person who sells at retail."

SEC. 4013. EXEMPTION OF CERTAIN AUCTION SALES.

(a) In the case of an auction sale held at the home of a person whose articles are being sold, any taxable article (as defined in subsection (b)) of such person sold by the auctioneer shall be exempt from the tax imposed by section 4011 except to the extent that the price for which such article is sold, when added to the sum of the sale prices of all other taxable articles of such person previously sold at the same auction, exceeds $100.

(b) For the purposes of this section—

(1) the term "taxable article" means an article which, by reason of section 4012 (b) and without regard to the exemption provided in subsection (a), is taxable under section 4011 when sold at auction; and

(2) in the case of articles of a decedent sold on behalf of the legal representative of his estate, an auction sale held at the home of such decedent shall be considered as "held at the home of a person whose articles are being sold".

Subchapter C—Toilet Preparations

Sec. 4021. Imposition of tax.
Sec. 4022. Exemptions.

SEC. 4021. IMPOSITION OF TAX.

There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 percent of the price for which so sold—

Perfume.
Essences.
Extracts.
Toilet waters.
Cosmetics.
Petroleum jellies.
Hair oils.
Pomades.
Hair dressings.
Hair restoratives.
Hair dyes.
Aromatic cachous.
Toilet powders.

Any other similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

SEC. 4022. EXEMPTIONS.

(a) ITEMS FOR BABIES.—The tax imposed by section 4021 shall not apply to lotion, oil, powder, or other article intended to be used or applied only in the care of babies.

(b) BARBER SHOPS AND BEAUTY PARLORS.—For the purposes of section 4021, the sale of any article described in such section to any person operating a barber shop, beauty parlor, or similar establishment for use in the operation thereof, or for resale, shall not be considered as a sale at retail. The resale of such article at retail by such person shall be subject to the provisions of section 4021.

(c) MINIATURE SAMPLES.—For the purposes of section 4021, the sale of miniature samples of any article described in such section for demonstration use only to a house-to-house salesman by the manufacturer or distributor, shall not be considered as a sale at retail. The resale of such sample at retail by such house-to-house salesman shall be subject to the provisions of section 4021.

Subchapter D—Luggage, Handbags, Etc.

Sec. 4031. Imposition of tax.

SEC. 4031. IMPOSITION OF TAX.

There is hereby imposed upon the following articles sold at retail (including in each case fittings or accessories therefor sold on or in connection with the sale thereof) a tax equivalent to 10 percent of the price for which so sold—

Trunks.
Valises.
Traveling bags.
Suitcases.
Satchels.
Overnight bags.
Hat boxes for use by travelers.
Beach bags.
Bathing suit bags.
Brief cases made of leather or imitation leather.
Salesmen's sample and display cases.
Purses.
Handbags.
Pocketbooks.
Wallets.
Billfolds.
Card, pass, and key cases.
Toilet cases.

Other cases, bags, and kits (without regard to size, shape, construction, or material from which made) for use in carrying toilet articles or articles of wearing apparel.

Subchapter E—Special Fuels

Sec. 4041. Imposition of tax.
Sec. 4042. Cross reference.

SEC. 4041. IMPOSITION OF TAX.

(a) DIESEL FUEL.—There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 4081)—

(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle; or

(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under paragraph (1).

(b) SPECIAL MOTOR FUELS.—There is hereby imposed a tax of 2 cents a gallon upon benzol, benzene, naphtha, liquefied petroleum gas, or any other liquid (other than kerosene, gas oil, or fuel oil, or any product taxable under section 4081 or subsection (a) of this section)—

(1) sold by any person to an owner, lessee, or other operator of a motor vehicle, motorboat, or airplane for use as a fuel for the propulsion of such motor vehicle, motorboat, or airplane; or

(2) used by any person as a fuel for the propulsion of a motor vehicle, motorboat, or airplane unless there was a taxable sale of such liquid under paragraph (1).

(c) RATE REDUCTION.—On and after April 1, 1955, the taxes imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.

SEC. 4042. CROSS REFERENCE.

For exemption from tax where special motor fuels are sold for use for certain vessels, see section 4222.

Subchapter F—Special Provisions Applicable to Retailers Tax

Sec. 4051. Definition of price.
Sec. 4052. Lease considered sale.
Sec. 4053. Computation of tax on installment sales, etc.
Sec. 4054. Application of taxes to sales by United States, etc.
Sec. 4055. State and local government exemption.
Sec. 4056. Exemption for exports.
Sec. 4057. Cross reference.

SEC. 4051. DEFINITION OF PRICE.

In determining, for the purposes of this chapter, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this chapter, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Secretary or his delegate, in accordance with the regulations. There shall also be excluded, if stated as a separate charge, the amount of any retail sales tax imposed by any State or Territory or political subdivision of the foregoing, or the District of Columbia, whether the liability for such tax is imposed on the vendor or the vendee.

SEC. 4052. LEASE CONSIDERED SALE.

For the purposes of this chapter, the lease of an article shall be considered the sale of such article.

SEC. 4053. COMPUTATION OF TAX ON INSTALLMENT SALES, ETC.

In the case of—

(1) a lease,

(2) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments,

(3) a conditional sale, or

(4) a chattel mortgage arrangement wherein it is provided that the sales price shall be paid in installments,

there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment.

SEC. 4054. APPLICATION OF TAXES TO SALES BY UNITED STATES, ETC.

The taxes imposed by this chapter shall apply with respect to articles sold at retail by the United States, or by any agency or instrumentality of the United States, unless sales by such agency or instrumentality are by statute specifically exempted from such taxes.

SEC. 4055. STATE AND LOCAL GOVERNMENT EXEMPTION.

Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under this chapter with respect to the sale of any article for the exclusive use of any State, Territory of the United States, or any political subdivision of any of the foregoing, or the District of Columbia, or, in the case of the tax imposed by section 4041, with respect to the use by any of the foregoing of any liquid as a fuel.

SEC. 4056. EXEMPTION FOR EXPORTS.

Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under this chapter upon the sale of any article for export, or for shipment to a possession of the United States, and in due course so exported or shipped.

SEC. 4057. CROSS REFERENCE.

(1) For exemption on sales to the United States in certain cases see section 4293.

(2) For administrative provisions of general application to the taxes imposed under this chapter, see subtitle F.

CHAPTER 32—MANUFACTURERS EXCISE TAXES

SUBCHAPTER A. Automotive and related items.
SUBCHAPTER B. Household type equipment, etc.
SUBCHAPTER C. Entertainment equipment.
SUBCHAPTER D. Recreational equipment.
SUBCHAPTER E. Other items.
SUBCHAPTER F. Special provisions applicable to manufacturers tax.

Subchapter A—Automotive and Related Items

Part I. Motor vehicles.
Part II. Tires and tubes.
Part III. Petroleum products.

PART I—MOTOR VEHICLES

Sec. 4061. Imposition of tax.
Sec. 4062. Definitions.
Sec. 4063. Exemptions.

SEC. 4061. IMPOSITION OF TAX.

(a) AUTOMOBILES.—There is hereby imposed upon the following articles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to the specified percent of the price for which so sold:

(1) Articles taxable at 8 percent, except that on and after April 1, 1955, the rate shall be 5 percent—

Automobile truck chassis.
Automobile truck bodies.
Automobile bus chassis.
Automobile bus bodies.
Truck and bus trailer and semitrailer chassis.
Truck and bus trailer and semitrailer bodies.
Tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer.

A sale of an automobile truck, bus, truck or bus trailer or semitrailer shall, for the purposes of this paragraph, be considered to be a sale of the chassis and of the body.

(2) Articles taxable at 10 percent except that on and after April 1, 1955, the rate shall be 7 percent—

Automobile chassis and bodies other than those taxable under paragraph (1).
Chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles.
Motorcycles.

A sale of an automobile, trailer, or semitrailer shall, for the purposes of this paragraph, be considered to be a sale of the chassis and of the body.

(b) PARTS AND ACCESSORIES.—There is hereby imposed upon parts or accessories (other than tires and inner tubes and other than automobile radio and television receiving sets) for any of the articles enumerated in subsection (a) sold by the manufacturer, producer, or importer a tax equivalent to 8 percent of the price for which so sold, except that on and after April 1, 1955, the rate shall be 5 percent.

SEC. 4062. DEFINITIONS.

(a) CERTAIN ARTICLES CONSIDERED AS PARTS.—For the purposes of section 4061, spark plugs, storage batteries, leaf springs, coils, timers, and tire chains, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in section 4061 (a), shall be considered parts or accessories for such articles, whether or not primarily adapted for such use.

(b) SALE PRICE OF REBUILT PARTS.—In determining the sale price of a rebuilt automobile part or accessory there shall be excluded from the price, in accordance with regulations prescribed by the Secretary or his delegate, the value of a like part or accessory accepted in exchange.

SEC. 4063. EXEMPTIONS.

(a) SPECIFIC ARTICLES EXEMPT FROM TAX ON AUTOMOBILES.—The tax imposed under section 4061 (a) (2) shall not apply in the case of house trailers or tractors.

(b) SALES TO MANUFACTURERS.—Under regulations prescribed by the Secretary or his delegate, the tax under section 4061 shall not apply in the case of sales of bodies or parts or accessories by the manufacturer, producer, or importer to a manufacturer or producer of automobile trucks or other automobiles to be sold by such vendee. For the purposes of section 4061, such vendee shall be considered the manufacturer or producer of such bodies, or parts or accessories.

PART II—TIRES AND TUBES

Sec. 4071. Imposition of tax.
Sec. 4072. Definition of rubber.
Sec. 4073. Exemptions.

SEC. 4071. IMPOSITION OF TAX.

There is hereby imposed upon the following articles sold by the manufacturer, producer, or importer a tax at the following rates:

(1) Tires wholly or in part of rubber, 5 cents a pound on total weight (exclusive of metal rims or rim bases);

(2) Inner tubes (for tires) wholly or in part of rubber, 9 cents a pound on total weight.

The total weight of the foregoing articles is to be determined under regulations prescribed by the Secretary or his delegate.

SEC. 4072. DEFINITION OF RUBBER.

For the purposes of this chapter, the term "rubber" includes synthetic and substitute rubber.

SEC. 4073. EXEMPTIONS.

(a) TIRES OF CERTAIN SIZES.—The tax imposed by section 4071 shall not apply to tires which are not more than 20 inches in diameter and not more than 1¾ inches in cross-section, if such tires are of all-

rubber construction (whether hollow center or solid) without fabric or metal reinforcement.

(b) TIRES WITH INTERNAL WIRE FASTENING.—The tax imposed by section 4071 shall not apply to tires of extruded tiring with an internal wire fastening agent.

PART III—PETROLEUM PRODUCTS

Subpart A. Gasoline.
Subpart B. Lubricating oil.
Subpart C. Special provisions applicable to petroleum products.

Subpart A—Gasoline

Sec. 4081. Imposition of tax.
Sec. 4082. Definitions.
Sec. 4083. Exemption of sales to producer.

SEC. 4081. IMPOSITION OF TAX.

There is hereby imposed on gasoline sold by the producer or importer thereof, or by any producer of gasoline, a tax of 2 cents a gallon. On and after April 1, 1955, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.

SEC. 4082. DEFINITIONS.

(a) PRODUCER.—As used in this subpart, the term "producer" includes a refiner, compounder, or blender, and a dealer selling gasoline exclusively to producers of gasoline, as well as a producer. Any person to whom gasoline is sold tax-free under this subpart shall be considered the producer of such gasoline.

(b) GASOLINE.—As used in this subpart, the term "gasoline" means all products commonly or commercially known or sold as gasoline (including casinghead and natural gasoline).

(c) CERTAIN USES DEFINED AS SALES.—If a producer or importer uses (otherwise than in the production of gasoline or of special motor fuels referred to in section 4041 (b)) gasoline sold to him free of tax, or produced or imported by him, such use shall for the purposes of this chapter be considered a sale.

SEC. 4083. EXEMPTION OF SALES TO PRODUCER.

Under regulations prescribed by the Secretary or his delegate the tax imposed by section 4081 shall not apply in the case of sales of gasoline to a producer of gasoline.

Subpart B—Lubricating Oil

Sec. 4091. Imposition of tax.
Sec. 4092. Definition of certain vendees as a manufacturer.
Sec. 4093. Exemption of sales to producer.

SEC. 4091. IMPOSITION OF TAX.

There is hereby imposed upon lubricating oils sold in the United States by the manufacturer or producer a tax at the rate of 6 cents a gallon (except that, in the case of cutting oils, the tax shall not exceed 10 percent of the price for which so sold), to be paid by the manufacturer or producer. For purposes of this section, the term "cutting oils" means oils used primarily in cutting and machining operations

(including forging, drawing, rolling, shearing, punching, and stamping) on metals and known commercially as cutting oils.

SEC. 4092. DEFINITION OF CERTAIN VENDEES AS A MANUFACTURER.

For the purposes of this subpart a vendee who has purchased lubricating oils free of tax under section 4093 shall be considered the manufacturer or producer of such lubricating oils.

SEC. 4093. EXEMPTION OF SALES TO PRODUCERS.

Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under this subpart upon lubricating oils sold to a manufacturer or producer of lubricating oils for resale by him.

Subpart C—Special Provisions Applicable to Petroleum Products

Sec. 4101. Registration and bond.
Sec. 4102. Inspection of records, returns, etc., by local officers.

SEC. 4101. REGISTRATION AND BOND.

Every person subject to tax under section 4081 or section 4091 shall, before incurring any liability for tax under such sections, register with the Secretary or his delegate and shall give a bond, to be approved by the Secretary or his delegate, conditioned that he shall not engage in any attempt, by himself or by collusion with others, to defraud the United States of any tax under such sections; that he shall render truly and completely all returns, statements, and inventories required by law or regulations in pursuance thereof and shall pay all taxes due under such sections; and that he shall comply with all requirements of law and regulations in pursuance thereof with respect to tax under such sections. Such bond shall be in such sum as the Secretary or his delegate may require in accordance with regulations prescribed by him, but not less than $2,000. The Secretary or his delegate may from time to time require a new or additional bond in accordance with this section.

SEC. 4102. INSPECTION OF RECORDS, RETURNS, ETC., BY LOCAL OFFICERS.

Under regulations prescribed by the Secretary or his delegate, records required to be kept with respect to taxes under this part, and returns, reports, and statements with respect to such taxes filed with the Secretary or his delegate, shall be open to inspection by such officers of any State or Territory or political subdivision thereof or the District of Columbia as shall be charged with the enforcement or collection of any tax on gasoline or lubricating oils. The Secretary or his delegate shall furnish to any of such officers, upon written request, certified copies of any such statements, reports, or returns filed in his office, upon the payment of a fee of $1 for each 100 words or fraction thereof in the copy or copies requested.

Subchapter B—Household Type Equipment, Etc.

Part I. Refrigeration equipment.
Part II. Electric, gas, and oil appliances.
Part III. Electric light bulbs.

PART I—REFRIGERATION EQUIPMENT

Sec. 4111. Imposition of tax.
Sec. 4112. Definitions.
Sec. 4113. Exemptions for manufacturers.

SEC. 4111. IMPOSITION OF TAX.

There is hereby imposed upon the sale of the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof) by the manufacturer, producer, or importer a tax equivalent to the specified percent of the price for which so sold:

ARTICLES TAXABLE AT 5 PERCENT—

Household type refrigerators (for single or multiple cabinet installations) having, or being primarily designed for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene, or gasoline.

Household type units for the quick freezing or frozen storage of foods operated by electricity, gas, kerosene, or gasoline.

Combinations of household type refrigerators and quick-freeze units described above.

Refrigerator components.

ARTICLES TAXABLE AT 10 PERCENT—

Self-contained air-conditioning units.

SEC. 4112. DEFINITIONS.

(a) REFRIGERATOR COMPONENTS.—As used in section 4111, the term "component" means cabinets, compressors, condensers, condensing units, evaporators, expansion units, absorbers, and controls for, or suitable for use as parts of or with, household-type refrigerators or quick-freeze units of the kind described in section 4111 except when sold as component parts of complete refrigerators, refrigerating or cooling apparatus, or quick-freeze units (hereinafter referred to as "refrigerating equipment").

(b) CERTAIN VENDEES CONSIDERED PRODUCERS.—If any of the refrigerator components defined in section 4112 (a) are resold by the manufacturer or producer to whom sold or resold tax free as provided in section 4113 otherwise than on or in connection with, or with the sale of, complete refrigerating equipment manufactured or produced by him, then for the purposes of this part such manufacturer or producer shall be considered the manufacturer or producer of the refrigerator components so resold by him.

SEC. 4113. EXEMPTIONS FOR MANUFACTURERS.

Under regulations prescribed by the Secretary or his delegate, the tax under section 4111 shall not apply in the case of sales of any such refrigerator components by the manufacturer, producer, or importer to

(1) a manufacturer or producer of refrigerating equipment, or
(2) a vendee for resale to a manufacturer or producer of refrigerating equipment if such components are in due course so resold.

PART II—ELECTRIC, GAS, AND OIL APPLIANCES

Sec. 4121. Imposition of tax.

SEC. 4121. IMPOSITION OF TAX.

(a) HOUSEHOLD-TYPE ARTICLES.—There is hereby imposed upon the sale by the manufacturer, producer, or importer of the following articles of the household type (including in each case parts or accessories therefor sold on or in connection with the sale thereof), a tax equivalent to 5 percent of the price for which so sold:

Electric, gas, or oil water heaters.
Electric flatirons.
Electric air heaters (not including furnaces).
Electric immersion heaters.
Electric blankets, sheets, and spreads.
Electric, gas, or oil appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises.
Electric mixers, whippers, and juicers.
Electric belt-driven fans.
Electric exhaust blowers.
Electric or gas clothes driers.
Electric door chimes.
Electric dehumidifiers.
Electric dishwashers.
Electric floor polishers and waxers.
Electric food choppers and grinders.
Electric hedge trimmers.
Electric ice cream freezers.
Electric mangles.
Electric pants pressers.
Electric garbage disposal units.
Power lawn mowers.

(b) NONINDUSTRIAL TYPE ARTICLES.—There is hereby imposed upon the sale by the manufacturer, producer, or importer of electric direct motor driven fans and air circulators not of the industrial type (including in each case parts or accessories therefor sold on or in connection with the sale thereof), a tax equivalent to 5 percent of the price for which so sold.

PART III—ELECTRIC LIGHT BULBS

Sec. 4131. Imposition of tax.

SEC. 4131. IMPOSITION OF TAX.

There is hereby imposed upon the sale by the manufacturer, producer, or importer of electric light bulbs and tubes, not including articles taxable under any other provision of this chapter, a tax equivalent to 10 percent of the price for which so sold.

Subchapter C—Entertainment Equipment

Part I. Radio and television sets, phonographs and records.
Part II. Musical instruments.

PART I—RADIO AND TELEVISION SETS, PHONOGRAPHS AND RECORDS

Sec. 4141. Imposition of tax.
Sec. 4142. Definition of radio and television component.
Sec. 4143. Exemptions for sales to United States.

SEC. 4141. IMPOSITION OF TAX.

There is hereby imposed upon the sale by the manufacturer, producer, or importer of the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof), a tax equivalent to 10 percent of the price for which so sold:

Radio receiving sets.
Automobile radio receiving sets.
Television receiving sets.
Automobile television receiving sets.
Phonographs.
Combinations of any of the foregoing.
Radio and television components.
Phonograph records.

SEC. 4142. DEFINITION OF RADIO AND TELEVISION COMPONENT.

As used in section 4141 the term "radio and television components" means chassis, cabinets, tubes, speakers, amplifiers, power supply units, antennae of the "built-in" type, and phonograph mechanisms, which are suitable for use on or in connection with, or as component parts of any of the articles enumerated in section 4141, whether or not primarily adapted for such use.

SEC. 4143. EXEMPTIONS FOR SALES TO UNITED STATES.

(a) COMMUNICATION, DETECTION AND NAVIGATION RECEIVERS.—No tax shall be imposed under section 4141 with respect to the sale to the United States for its exclusive use of a communication, detection, or navigation receiver of the type used in commercial, military, or marine installations.

(b) COMPONENTS OF COMMUNICATION RECEIVERS, ETC.—Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under section 4141 with respect to the sale of any article for use by the vendee as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers are to be sold by the vendee to the United States for its exclusive use. If any article sold tax-free to such vendee is not so used by him, or being so used the receiver is not so sold, the vendee shall be considered as the manufacturer or producer of such article.

PART II—MUSICAL INSTRUMENTS

Sec. 4151. Imposition of tax.
Sec. 4152. Exemption for religious or educational use.

SEC. 4151. IMPOSITION OF TAX.

There is hereby imposed upon the sale of musical instruments by the manufacturer, producer, or importer a tax equivalent to 10 percent of the price for which so sold.

SEC. 4152. EXEMPTION FOR RELIGIOUS OR EDUCATIONAL USE.

The tax imposed by section 4151 shall not apply to musical instruments sold for the use of any religious or nonprofit educational institution for exclusively religious or educational purposes. The right to exemption under this section shall be evidenced in such manner as the Secretary or his delegate may prescribe by regulations.

Subchapter D—Recreational Equipment

Part I. Sporting goods.
Part II. Photographic equipment.
Part III. Firearms.

PART I—SPORTING GOODS

Sec. 4161. Imposition of tax.

SEC. 4161. IMPOSITION OF TAX.

There is hereby imposed upon the sale by the manufacturer, producer, or importer of the following articles (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof) a tax equivalent to 10 percent of the price for which so sold:

Badminton nets, rackets and racket frames (measuring 22 inches overall or more in length), racket string, shuttlecocks, and standards.
Billiard and pool tables (measuring 45 inches overall or more in length) and balls and cues for such tables.
Bowling balls and pins.
Clay pigeons and traps for throwing clay pigeons.
Cricket balls and bats.
Croquet balls and mallets.
Curling stones.
Deck tennis rings, nets and posts.
Fishing rods, creels, reels and artificial lures, baits and flies.
Golf bags (measuring 26 inches or more in length), balls and clubs (measuring 30 inches or more in length).
Lacrosse balls and sticks.
Polo balls and mallets.
Skis, ski poles, snowshoes, and snow toboggans and sleds (measuring more than 60 inches overall in length).
Squash balls, rackets and racket frames (measuring 22 inches overall or more in length), and racket string.
Table tennis tables, balls, nets and paddles.
Tennis balls, nets, rackets and racket frames (measuring 22 inches overall or more in length) and racket string.

PART II—PHOTOGRAPHIC EQUIPMENT

Sec. 4171. Imposition of tax.
Sec. 4172. Definition of certain vendees as manufacturers.
Sec. 4173. Exemptions.

SEC. 4171. IMPOSITION OF TAX.

There is hereby imposed upon the sale by the manufacturer, producer, or importer of the following articles (including in each case parts or accessories of such articles sold on or in connection there-

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with, or with the sale thereof) a tax equivalent to the specified percent of the price for which so sold:

ARTICLES TAXABLE AT 10 PERCENT—

Cameras.

Camera lenses.

Unexposed photographic film in rolls (including motion picture film).

ARTICLES TAXABLE AT 5 PERCENT—

Electric motion or still picture projectors of the household type.

SEC. 4172. DEFINITION OF CERTAIN VENDEES AS MANUFACTURERS.

Any person who acquires unexposed photographic film not subject to tax under this part and sells such unexposed film in form and dimensions subject to tax hereunder (or in connection with a sale cuts such film to form and dimensions subject to tax hereunder) shall for the purposes of section 4171 be considered the manufacturer of the film so sold by him.

SEC. 4173. EXEMPTIONS.

The tax imposed under this part shall not apply to—

(1) CAMERAS.—X-ray cameras or cameras weighing more than four pounds exclusive of lens and accessories;

(2) LENSES.—Still camera lenses having a focal length of more than one hundred and twenty millimeters, or motion picture camera lenses having a focal length of more than thirty millimeters;

(3) FILM.—X-ray film, unperforated microfilm, film more than one hundred and fifty feet in length, or film more than twenty-five feet in length and more than thirty millimeters in width.

PART III—FIREARMS

Sec. 4181. Imposition of tax.
Sec. 4182. Exemptions.

SEC. 4181. IMPOSITION OF TAX.

There is hereby imposed upon the sale by the manufacturer, producer, or importer of the following articles a tax equivalent to the specified percent of the price for which so sold:

ARTICLES TAXABLE AT 10 PERCENT—

Pistols.

Revolvers.

ARTICLES TAXABLE AT 11 PERCENT—

Firearms (other than pistols and revolvers).

Shells, and cartridges.

SEC. 4182. EXEMPTIONS.

(a) MACHINE GUNS AND SHORT BARRELLED FIREARMS.—The tax imposed by section 4181 shall not apply to any firearm on which the tax provided by section 5811 has been paid.

(b) SALES TO DEFENSE DEPARTMENT.—No firearms, pistols, revolvers, shells, and cartridges purchased with funds appropriated for the military department shall be subject to any tax imposed on the sale or transfer of such articles.

Subchapter E—Other Items

Part I. Business machines.
Part II. Pens and mechanical pencils and lighters.
Part III. Matches.

PART I—BUSINESS MACHINES

Sec. 4191. Imposition of tax.
Sec. 4192. Exemption for retail sales cash register.

SEC. 4191. IMPOSITION OF TAX.

There is hereby imposed upon the sale by the manufacturer, producer, or importer of the following articles (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof), a tax equivalent to 10 percent of the price for which so sold:

Adding machines.
Addressing machines.
Autographic registers.
Bank proof machines.
Billing machines.
Bookkeeping machines.
Calculating machines.
Card punch machines.
Cash registers.
Change making machines.
Check writing, signing, canceling, perforating, cutting, and dating machines and other check protector machine devices.
Computing machines.
Coin counters.
Dictographs.
Dictating machines.
Dictating machine record shaving machines.
Duplicating machines.
Embossing machines.
Envelope opening machines.
Erasing machines.
Folding machines.
Fanfold machines.
Fare registers and boxes.
Listing machines.
Line-a-time and similar machines.
Mailing machines.
Multigraph machines, typesetting machines and type justifying machines.
Numbering machines.
Portable paper fastening machines.
Payroll machines.
Pencil sharpeners.
Postal permit mailing machines.
Punch card machines.
Sorting machines.
Stencil cutting machines.
Shorthand writing machines.
Sealing machines.
Tabulating machines.
Ticket counting machines.
Ticket issuing machines.
Typewriters.
Transcribing machines.
Time recording devices.
Combinations of any of the foregoing.

SEC. 4192. EXEMPTION FOR RETAIL SALES CASH REGISTER.

No tax shall be imposed under section 4191 on the sale of cash registers of the type used in registering over-the-counter retail sales.

PART II—PENS AND MECHANICAL PENCILS AND LIGHTERS

Sec. 4201. Imposition of tax.

SEC. 4201. IMPOSITION OF TAX.

There is hereby imposed upon the sale by the manufacturer, producer, or importer of the following articles, a tax equal to 10 percent of the price for which so sold:

Mechanical lighters for cigarettes, cigars and pipes.
Mechanical pencils, fountain pens and ball point pens.

PART III—MATCHES

Sec. 4211. Imposition of tax.

SEC. 4211. IMPOSITION OF TAX.

There is hereby imposed upon the sale by the manufacturer, producer, or importer of matches, a tax of 2 cents per 1,000 matches but not more than 10 percent of the price for which so sold, except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5½ cents per 1,000 matches.

Subchapter F—Special Provisions Applicable to Manufacturers Tax

Sec. 4216. Definition of price.
Sec. 4217. Lease considered sale.
Sec. 4218. Use by manufacturer or importer considered sale.
Sec. 4219. Application of tax in case of sales by other than manufacturer or importer.
Sec. 4220. Exemptions for sales or resales to manufacturers.
Sec. 4221. Exemption for articles taxable as jewelry.
Sec. 4222. Exemption from tax of certain supplies for vessels and airplanes.
Sec. 4223. Exemption of articles manufactured or produced by Indians.
Sec. 4224. State and local governmental exemption.
Sec. 4225. Exemption for export.
Sec. 4226. Cross references.

SEC. 4216. DEFINITION OF PRICE.

(a) CONTAINERS, PACKING AND TRANSPORTATION CHARGES.—In determining, for the purposes of this chapter, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this chapter, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Secretary or his delegate in accordance with the regulations.

(b) CONSTRUCTIVE SALE PRICE.—If an article is—

(1) sold at retail,

(2) sold on consignment, or

(3) sold (otherwise than through an arm's length transaction) at less than the fair market price,

the tax under this chapter shall (if based on the price for which the article is sold) be computed on the price for which such articles are sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Secretary or his delegate.

(c) PARTIAL PAYMENTS.—In the case of—

(1) a lease,

(2) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments,

(3) a conditional sale, or

(4) a chattel mortgage arrangement wherein it is provided that the sales price shall be paid in installments,

there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment.

SEC. 4217. LEASE CONSIDERED AS SALE.

For the purposes of this chapter, the lease of an article (including any renewal or any extension of a lease or any subsequent lease of such article) by the manufacturer, producer, or importer shall be considered a taxable sale of such article.

SEC. 4218. USE BY MANUFACTURER OR IMPORTER CONSIDERED SALE.

(a) GENERAL RULE.—If—

(1) any person manufactures, produces, or imports an article (other than a tire, inner tube, or automobile radio or television receiving set taxable under section 4141 and uses it (otherwise than as material in the manufacture or production of, or as a component part of, another article to be manufactured or produced by him which will be taxable under this chapter or sold free of tax by virtue of section 4220 or 4224, relating to tax-free sales), or

(2) any person manufactures, produces, or imports a tire, inner tube, or automobile radio or television receiving set taxable under section 4141 and sells it on or in connection with, or with the sale of, an article taxable under section 4061, relating to the tax on automobiles, or uses it,

he shall be liable for tax under this chapter in the same manner as if such article was sold by him, and the tax (if based on the price for which the article is sold) shall be computed on the price at which such or similar articles are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Secretary or his delegate.

(b) EXCEPTION.—This section shall not apply with respect to the use by the manufacturer, producer, or importer of articles described in section 4141 if such articles are used by him as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers are to be sold to the United States for its exclusive use.

SEC. 4219. APPLICATION OF TAX IN CASE OF SALES BY OTHER THAN MANUFACTURER OR IMPORTER.

In case any person acquires from the manufacturer, producer, or importer of an article, by operation of law or as a result of any transaction not taxable under this chapter, the right to sell such article, the sale of such article by such person shall be taxable under this chapter as if made by the manufacturer, producer, or importer, and such person shall be liable for the tax.

SEC. 4220. EXEMPTION FOR SALES OR RESALES TO MANUFACTURERS.

Under regulations prescribed by the Secretary or his delegate, no tax under this chapter shall be imposed with respect to the sale of any article—

(1) for use by the vendee as material in the manufacture or production of, or as a component part of, an article enumerated in this chapter;

(2) for resale by the vendee for such use by his vendee, if such article is in due course so resold.

For the purposes of this chapter, the manufacturer or producer to whom an article is sold under paragraph (1) or resold under paragraph (2) shall be considered the manufacturer or producer of such

article. The provisions of paragraphs (1) and (2) shall not apply with respect to tires, inner tubes, or automobile radio or television receiving sets taxable under section 4141.

SEC. 4221. EXEMPTION FOR ARTICLES TAXABLE AS JEWELRY.

No tax shall be imposed under this chapter on any article taxable under section 4001 (relating to jewelry tax).

SEC. 4222. EXEMPTION FROM TAX OF CERTAIN SUPPLIES FOR VESSELS AND AIRPLANES.

Under regulations prescribed by the Secretary or his delegate, no tax under this chapter or under section 4041 (b) (relating to retailers excise tax on special motor fuels) shall be imposed upon any article sold for use as fuel supplies, ships' stores, sea stores, or legitimate equipment on vessels of war of the United States or of any foreign nation, vessels employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions. Articles manufactured or produced with the use of articles upon the importation of which tax has been paid under subchapter A, B, C, or D of chapter 38, if laden for use as supplies on such vessels, shall be held to be exported for the purposes of section 4601. The term "vessels" as used in this section includes civil aircraft employed in foreign trade or trade between the United States and any of its possessions, and the term "vessels of war of the United States or of any foreign nation" includes aircraft owned by the United States or by any foreign nation and constituting a part of the armed forces thereof. The privileges granted under this section in respect to civil aircraft employed in foreign trade or trade between the United States and any of its possessions, in respect of aircraft registered in a foreign country, shall be allowed only if the Secretary of the Treasury has been advised by the Secretary of Commerce that he has found that such foreign country allows, or will allow, substantially reciprocal privileges in respect of aircraft registered in the United States. If the Secretary of the Treasury is advised by the Secretary of Commerce that he has found that a foreign country has discontinued or will discontinue the allowance of such privileges, the privileges granted under this section shall not apply thereafter in respect of civil aircraft registered in that foreign country and employed in foreign trade or trade between the United States and any of its possessions.

SEC. 4223. EXEMPTION OF ARTICLES MANUFACTURED OR PRODUCED BY INDIANS.

No tax shall be imposed under this chapter on any article of native Indian handicraft manufactured or produced by Indians on Indian reservations, or in Indian schools, or by Indians under the jurisdiction of the United States Government in Alaska.

SEC. 4224. STATE AND LOCAL GOVERNMENTAL EXEMPTION.

Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under this chapter upon the sale of any article for the exclusive use of any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia.

SEC. 4225. EXEMPTION FOR EXPORTS.

Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under this chapter upon the sale of any article for export or for shipment to a possession of the United States, and in due course so exported or shipped.

SEC. 4226. CROSS REFERENCES.

(1) For exemption from tax in case of certain sales to the United States, see section 4293.

(2) For credit for taxes on tires and inner tubes, and automobile radio and television receiving sets, see section 6416 (c).

(3) For administrative provisions of general application to the taxes imposed under this chapter, see subtitle F.

CHAPTER 33—FACILITIES AND SERVICES

SUBCHAPTER A. Admissions and dues.
SUBCHAPTER B. Communications.
SUBCHAPTER C. Transportation.
SUBCHAPTER D. Safe deposit boxes.
SUBCHAPTER E. Special provisions applicable to services and facilities taxes.

Subchapter A—Admissions and Dues

Part I. Admissions.
Part II. Club dues.

PART I—ADMISSIONS

Sec. 4231. Imposition of tax.
Sec. 4232. Definitions.
Sec. 4233. Exemptions.
Sec. 4234. Printing of price on ticket.

SEC. 4231. IMPOSITION OF TAX.

There is hereby imposed:

(1) GENERAL.—A tax of 1 cent for each 10 cents or major fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription. No tax shall be imposed under this paragraph on the amount paid for admission—

(A) if the amount paid for admission is 50 cents or less, or

(B) in the case of a season ticket or subscription, if the amount which would be charged to the holder or subscriber for a single admission is 50 cents or less.

The tax imposed under this paragraph shall be paid by the person paying for such admission.

(2) CERTAIN RACE TRACKS.—In lieu of the tax imposed under paragraph (1), a tax of 1 cent for each 5 cents or major fraction thereof of the amount paid for admission to any place (including admission by season ticket or subscription) if the principal amusement or recreation offered with respect to such admission is horse or dog racing at a race track. The tax imposed under this paragraph shall be paid by the person paying for such admission.

(3) PERMANENT USE OR LEASE OF BOXES OR SEATS.—In the case of persons having the permanent use of boxes or seats in an opera house or any place of amusement or a lease for the use of such box or seat in such opera house or place of amusement (in lieu of the tax imposed under paragraph (1) or (2)), a tax equivalent to 10 percent (20 percent if paragraph (2) would otherwise apply) of the amount for which a similar box or seat is sold for each performance or exhibition at which the box or seat is used or reserved by or for the lessee or holder. The tax imposed under this paragraph shall be paid by the lessee or holder.

(4) SALES OUTSIDE OF BOX OFFICE IN EXCESS OF ESTABLISHED PRICE.—Upon tickets or cards of admission to theaters, operas,

and other places of amusement, sold at news stands, hotels, and places other than the ticket offices of such theaters, operas, or other places of amusement, at a price in excess of the sum of the established price therefor at such ticket offices plus the amount of any tax imposed under paragraph (1) or (2), a tax equivalent to 10 percent (20 percent if paragraph (2) applies) of the amount of such excess. The tax imposed under this paragraph shall be returned and paid by the person selling such tickets.

(5) SALES BY PROPRIETORS IN EXCESS OF REGULAR PRICE.—A tax equivalent to 50 percent of the amount for which the proprietors, managers, or employees of any opera house, theater, or other place of amusement sell or dispose of tickets or cards of admission in excess of the regular or established price or charge therefor. The tax imposed under this paragraph shall be returned and paid by the persons selling such tickets.

(6) CABARETS.—A tax equivalent to 20 percent of all amounts paid for admission, refreshment, service, or merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, by or for any patron or guest who is entitled to be present during any portion of such performance. The tax imposed under this paragraph shall be returned and paid by the person receiving such payments. No tax shall be applicable under paragraph (1) or (2) on account of an amount paid with respect to which tax is imposed under this paragraph.

SEC. 4232. DEFINITIONS.

(a) ADMISSION.—The term "admission" as used in this chapter includes seats and tables, reserved or otherwise, and other similar accommodations, and the charges made therefor.

(b) ROOF GARDEN, CABARET OR OTHER SIMILAR PLACE.—The term "roof garden, cabaret, or other similar place," as used in this chapter, shall include any room in any hotel, restaurant, hall, or other public place where music and dancing privileges or any other entertainment, except instrumental or mechanical music alone, are afforded the patrons in connection with the serving or selling of food, refreshment, or merchandise. In no case shall such term include any ballroom, dance hall, or other similar place where the serving or selling of food, refreshment, or merchandise is merely incidental, unless such place would be considered, without the application of the preceding sentence, as a "roof garden, cabaret, or other similar place."

(c) PERFORMANCE FOR PROFIT.—A performance shall be regarded as being furnished for profit for purposes of section 4231 (6) even though the charge made for admission, refreshment, service, or merchandise is not increased by reason of the furnishing of such performance.

SEC. 4233. EXEMPTIONS.

(a) ALLOWANCE.—No tax shall be imposed under section 4231 in respect of:

(1) CERTAIN RELIGIOUS, EDUCATIONAL, OR CHARITABLE ENTERTAINMENTS, ETC.—

(A) IN GENERAL.—Except as provided in subparagraph (C), any admissions all the proceeds of which inure exclusively to the benefit of—

(i) a church or a convention or association of churches;

(ii) an educational institution described in section 501 (c) (3) which is exempt from tax under section 501 (a) or which is an educational institution of a government or political subdivision thereof, if such organization normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on;

(iii) a corporation or any community chest, fund, or foundation organized and operated exclusively for charitable purposes, described in section 501 (c) (3) which is exempt from tax under section 501 (a), if such corporation or organization is supported, in whole or in part, by funds contributed by the United States or any State or political subdivision thereof, or is primarily supported by contributions from the general public;

(iv) a society or organization conducted for the sole purpose of maintaining symphony orchestras or operas and receiving substantial support from voluntary contributions;

(v) an organization (organized prior to October 1, 1951) described in section 501 (c) (3) which is exempt from tax under section 501 (a) and which is operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location;

(vi) National Guard organizations, Reserve officers' associations or organizations, posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions—

if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

(B) POLICEMEN'S AND FIREMEN'S DISABILITY FUNDS.—Except as provided in subparagraph (C), any admissions all the proceeds of which inure exclusively to the benefit of a police or fire department of any city, town, village, or any municipality or exclusively to a retirement, pension, or disability fund for the sole benefit of members of such a police or fire department or to a fund for the heirs of such members.

(C) NONEXEMPT ADMISSIONS.—The exemption provided under subparagraph (A) or (B) shall not apply in the case of admissions to—

(i) any athletic game or exhibition unless the proceeds inure exclusively to the benefit of an elementary or secondary school or unless in the case of an athletic game between teams composed of students from elementary or secondary schools, or colleges, the entire gross proceeds from such game inure to the benefit of a hospital for crippled children,

(ii) wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions,

(iii) carnivals, rodeos (except as provided in paragraph (9)), or circuses in which any professional performer or operator participates for compensation, or

(iv) any motion picture exhibition.

Clauses (i) and (ii) shall not apply in the case of any athletic event between educational institutions held during the regular

athletic season for such event, if the proceeds therefrom inure exclusively to the benefit of such institutions.

(2) AGRICULTURAL FAIRS.—Any admissions to agricultural fairs if no part of the net earnings thereof inures to the benefit of any stockholders or members of the association conducting the same—if the proceeds therefrom are used exclusively for the improvement, maintenance, and operation of such agricultural fairs.

(3) CERTAIN CONCERTS.—Any admissions to concerts conducted by a civic or community membership association if no part of the net earnings thereof inures to the benefit of any stockholders or members of such association.

(4) MUNICIPAL SWIMMING POOLS, ETC.—Any admissions to swimming pools, bathing beaches, skating rinks, or other places providing facilities for physical exercise, operated by any State or political subdivision thereof or by the United States or any agency or instrumentality thereof—if the proceeds therefrom inure exclusively to the benefit of the State, political subdivision, United States, agency, or instrumentality.

(5) HOME AND GARDEN TOURS.—Any admission to a home or garden which is temporarily opened to the general public as part of a program conducted by a society or organization to permit the inspection of historical homes and gardens—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

(6) HISTORIC SITES, MUSEUMS, AND PLANETARIUMS.—Any admission to an historic site, house, or shrine, to a museum of history, art, or science, to a planetarium, or to any exhibition in connection with any of the foregoing, operated—

(A) by any State or political subdivision thereof or by the United States or any agency or instrumentality thereof—if the proceeds therefrom inure exclusively to the benefit of the State, political subdivision, United States, agency, or instrumentality, or

(B) by any society or organization not organized for profit—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

(7) CERTAIN AMATEUR THEATER PERFORMANCES.—Any admission to an amateur performance presented and performed by a civic or community theater group or organization—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

(8) CERTAIN AMATEUR AND SEMIPROFESSIONAL BASEBALL GAMES.—Any admission to a baseball game, if all the players who participate therein have an amateur or semiprofessional standing, and if (A) such game is not primarily conducted for profit, (B) neither team participating in such game is regularly engaged in playing baseball for its own profit, and (C) no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

(9) CERTAIN RODEOS AND PAGEANTS.—Any admission to a rodeo or an historical pageant, if the proceeds therefrom are used exclusively for the improvement, maintenance, and operation of such rodeo or pageant, and if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

(b) STATE DEFINED.—For purposes of subsection (a), the term "State" includes Alaska, Hawaii, and the District of Columbia.

SEC. 4234. PRINTING OF PRICE ON TICKET.

(a) GENERAL.—The price (exclusive of the tax to be paid by the person paying for admission) at which every admission ticket or card is sold shall be conspicuously and indelibly printed, stamped, or written on the face or back of that part of the ticket which is to be taken up by the management of the theater, opera, or other place of amusement, together with the name of the vendor if sold other than at the ticket office of the theater, opera, or other place of amusement.

(b) PENALTY.—Whoever sells an admission ticket or card on which the name of the vendor and the price are not printed, stamped, or written, as provided in subsection (a), or at a price in excess of the price so printed, stamped, or written thereon, is guilty of a misdemeanor, and upon conviction thereof shall be fined not more than $100.

PART II—CLUB DUES

Sec. 4241. Imposition of tax.
Sec. 4242. Definitions.
Sec. 4243. Exemption—Fraternal organizations.

SEC. 4241. IMPOSITION OF TAX.

(a) RATE.—There is hereby imposed—

(1) DUES OR MEMBERSHIP FEES.—A tax equivalent to 20 percent of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of $10 per year.

(2) INITIATION FEES.—A tax equivalent to 20 percent of any amount paid as initiation fees to such a club or organization, if such fees amount to more than $10, or if the dues or membership fees, not including initiation fees, of an active resident annual member are in excess of $10 per year.

(3) LIFE MEMBERSHIPS.—In the case of life memberships, a tax equivalent to the tax upon the amount paid by active resident annual members for dues or membership fees other than assessments, but no tax shall be paid upon the amount paid for life membership. In such a case, the tax shall be paid annually at the time for the payment of dues by active resident annual members.

(b) BY WHOM PAID.—The taxes imposed by this section shall be paid by the person paying such dues or fees, or holding such life membership.

SEC. 4242. DEFINITIONS.

(a) DUES.—As used in this part the term "dues" includes any assessment, irrespective of the purpose for which made, and any charges for social privileges or facilities, or for golf, tennis, polo, swimming, or other athletic or sporting privileges or facilities, for any period of more than six days; and

(b) INITIATION FEES.—As used in this part the term "initiation fees" includes any payment, contribution, or loan, required as a condition precedent to membership, whether or not any such payment, contribution, or loan is evidenced by a certificate of interest or

indebtedness or share of stock, and irrespective of the person or organization to whom paid, contributed, or loaned.

SEC. 4243. EXEMPTION—FRATERNAL ORGANIZATIONS.

There shall be exempted from the provisions of section 4241 all amounts paid as dues or fees to a fraternal society, order, or association, operating under the lodge system, or to any local fraternal organization among the students of a college or university.

Subchapter B—Communications

Sec. 4251. Imposition of tax.
Sec. 4252. Definitions.
Sec. 4253. Exemptions.
Sec. 4254. Computation of tax.

SEC. 4251. IMPOSITION OF TAX.

There is hereby imposed on amounts paid for the communication services or facilities enumerated in the following table a tax equal to the percent of the amount so paid as is specified in such table:

Taxable service	Rate of tax
	Percent
Local telephone service	10
Long distance telephone service	10
Telegraph service	10
Leased wire, teletypewriter or talking circuit special service	10
Wire and equipment service	8

The taxes imposed by this section shall be paid by the person paying for the services or facilities.

SEC. 4252. DEFINITIONS.

(a) LOCAL TELEPHONE SERVICE.—As used in section 4251 the term, "local telephone service" means any telephone service not taxable as long distance telephone service; leased wire, teletypewriter or talking circuit special service; or wire and equipment service. Amounts paid for the installation of instruments, wires, poles, switchboards, apparatus, and equipment shall not be considered amounts paid for service. This subsection shall not be construed as defining as local telephone service, amounts paid for services and facilities which are exempted from other communication taxes by section 4253 (b).

(b) LONG DISTANCE TELEPHONE SERVICE.—As used in section 4251 the term "long distance telephone service" means a telephone or radio telephone message or conversation for which the toll charge is more than 24 cents and for which the charge is paid within the United States.

(c) TELEGRAPH SERVICE.—As used in section 4251 the term "telegraph service" means a telegraph, cable, or radio dispatch or message for which the charge is paid within the United States.

(d) LEASED WIRE, TELETYPEWRITER OR TALKING CIRCUIT SPECIAL SERVICE.—As used in section 4251 the term "leased wire, teletypewriter or talking circuit special service" does not include any service used exclusively in rendering a service taxable as wire and equipment service. The tax imposed by section 4251 with respect to a leased wire, teletypewriter or talking circuit special service shall apply whether or not the wires or services are within a local exchange area.

(e) WIRE AND EQUIPMENT SERVICE.—As used in section 4251 the term "wire and equipment service" shall include stock quotation and information services, burglar alarm or fire alarm service, and all other similar services, but not including service described in subsection (d) of this section. The tax imposed by section 4251 with respect to wire and equipment service shall apply whether or not the wires or services are within a local exchange area.

SEC. 4253. EXEMPTIONS.

(a) CERTAIN COIN-OPERATED SERVICE.—Services paid for by inserting coins in coin-operated telephones available to the public shall not be subject to the tax imposed by section 4251 with respect to local telephone service, except that where such coin-operated telephone service is furnished for a guaranteed amount, the amounts paid under such guarantee plus any fixed monthly or other periodic charge shall be subject to the tax.

(b) NEWS SERVICES.—No tax shall be imposed under section 4251, except with respect to local telephone service, upon any payment received from any person for services or facilities utilized in the collection of news for the public press, or a news ticker service furnishing a general news service similar to that of the public press, or radio broadcasting, or in the dissemination of news through the public press, or a news ticker service furnishing a general news service similar to that of the public press, or by means of radio broadcasting, if the charge for such services or facilities is billed in writing to such person.

(c) CERTAIN ORGANIZATIONS.—No tax shall be imposed under section 4251 upon any payment received for services or facilities furnished to an international organization, or any organization created by act of Congress to act in matters of relief under the treaty of Geneva of August 22, 1864.

(d) SERVICEMEN IN COMBAT ZONE.—No tax shall be imposed under section 4251 with respect to long distance telephone service upon any payment received for any telephone or radio telephone message which originates within a combat zone, as defined in section 112, from a member of the Armed Forces of the United States performing service in such combat zone, as determined under such section, provided a certificate, setting forth such facts as the Secretary or his delegate may by regulations prescribe, is furnished to the person receiving such payment.

(e) FOR ITEMS OTHERWISE TAXED.—Only one payment of tax under section 4251 shall be required with respect to the tax on long distance telephone service or telegraph service notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message or conversation.

(f) SPECIAL WIRE SERVICE IN COMPANY BUSINESS.—No tax shall be imposed under section 4251 on the amount paid for so much of the service described in sections 4252 (d) and (e) as is utilized in the conduct, by a common carrier or a telephone or telegraph company or radio broadcasting station or network, of its business as such.

SEC. 4254. COMPUTATION OF TAX.

(a) IN GENERAL.—If a bill is rendered the taxpayer for telephone services or telegraph services with respect to which a tax is imposed by section 4251, the amount upon which the tax shall be based shall

be the sum of all such charges included in the bill, and the tax shall not be based upon the charge for each item, separately, included in the bill.

(b) WHERE PAYMENT IS MADE FOR LONG DISTANCE TELEPHONE SERVICE OR TELEGRAPH SERVICE IN COIN-OPERATED TELEPHONES.—If the tax imposed by section 4251 with respect to long distance telephone service or telegraph service is paid by inserting coins in coin-operated telephones, tax shall be computed to the nearest multiple of 5 cents, except that where the tax is midway between multiples of 5 cents, the next higher multiple shall apply.

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Subchapter C—Transportation

Part I. Persons.
Part II. Property.
Part III. Oil by pipeline.

PART I—PERSONS

Sec. 4261. Imposition of tax.
Sec. 4262. Exemptions.

SEC. 4261. IMPOSITION OF TAX.

(a) AMOUNTS PAID WITHIN THE UNITED STATES.—There is hereby imposed upon the amount paid within the United States for the transportation of persons by rail, motor vehicle, water, or air within or without the United States a tax equal to 10 percent of the amount so paid.

(b) AMOUNTS PAID WITHOUT THE UNITED STATES.—There is hereby imposed upon the amount paid without the United States for the transportation of persons by rail, motor vehicle, water, or air which begins and ends in the United States a tax equal to 10 percent of the amount so paid.

(c) SEATS, BERTHS, ETC.—There is hereby imposed upon the amount paid for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) or (b) a tax equivalent to 10 percent of the amount so paid.

(d) BY WHOM PAID.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax.

SEC. 4262. EXEMPTIONS.

(a) CERTAIN FOREIGN TRAVEL.—The tax imposed by section 4261 shall not apply with respect to transportation any part of which is outside the northern portion of the Western Hemisphere, except with respect to any part of such transportation which is from any port or station within the United States, Canada, or Mexico to any other port or station within the United States, Canada, or Mexico. In the case of transportation by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere, no part of such transportation shall be considered for the purposes of the preceding sentence to be from any port within the United States, Canada, or Mexico to any other such port if the vessel in stopping at any such intermediate port is not authorized both to discharge and to take on passengers. A port or station within Newfoundland shall not, for the purposes of the preceding two sentences, be considered as a port or station within Canada. For the purposes of this section, the words "northern portion of the Western Hemisphere" mean the area lying west of the 30th meridian west of Green-

wich, east of the International Date Line, and north of the equator, but not including any country of South America.

(b) COMMUTATION TRAVEL, ETC.—The tax imposed by section 4261 shall not apply to amounts paid for transportation which do not exceed 35 cents, to amounts paid for commutation or season tickets for single trips of less than 30 miles, or to amounts paid for commutation tickets for one month or less.

(c) SMALL VEHICLES ON NONESTABLISHED LINES.—The tax imposed by section 4261 shall not apply to transportation by motor vehicles having a passenger seating capacity of less than ten adult passengers, including the driver, except when such vehicle is operated on an established line.

(d) FISHING TRIPS.—The tax imposed by section 4261 shall not apply to amounts paid for transportation by boat for the purpose of fishing from such boat.

(e) CERTAIN ORGANIZATIONS.—The tax imposed by section 4261 shall not apply to the payment for transportation or facilities furnished to an international organization, or any corporation created by act of Congress to act in matters of relief under the treaty of Geneva of August 22, 1864.

(f) MEMBERS OF THE ARMED FORCES.—The tax imposed by section 4261 shall not apply to the payment for transportation or facilities furnished under special tariffs providing for fares of not more than 2.025 cents per mile applicable to round-trip tickets sold to personnel of the United States Army, Air Force, Navy, Marine Corps, and Coast Guard traveling in uniform of the United States at their own expense when on official leave, furlough, or pass, including authorized cadets and midshipmen, issued on presentation of properly executed certificate.

PART II—PROPERTY

Sec. 4271. Imposition of tax.
Sec. 4272. Exemptions.
Sec. 4273. Registration.

SEC. 4271. IMPOSITION OF TAX.

(a) PROPERTY OTHER THAN COAL.—There is hereby imposed upon the amount paid within or without the United States for the transportation of property, except coal, by rail, motor vehicle, water, or air from one point in the United States to another, a tax equal to 3 percent of the amount so paid.

(b) COAL.—There is hereby imposed upon the amount paid within or without the United States for the transportation of coal by rail, motor vehicle, water, or air from one point in the United States to another, a tax equal to 4 cents per short ton for the coal so transported.

(c) APPLICATION OF TAX TO TRANSPORTATION PARTIALLY WITHIN THE UNITED STATES.—In the case of property transported from a point without the United States to a point within the United States, the tax shall apply to the amount paid within the United States for that part of the transportation which takes place within the United States.

(d) BY WHOM PAID.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax.

SEC. 4272. EXEMPTIONS.

(a) NOT IN BUSINESS FOR HIRE.—The tax imposed under section 4271 shall apply only to amounts paid to a person engaged in the business of transporting property for hire, including amounts paid to a freight forwarder, express company, or similar person, but not including amounts paid by a freight forwarder, express company, or similar person for transportation with respect to which a tax has previously been paid under such section.

(b) CONSTRUCTION PROJECTS.—The tax imposed by section 4271 shall not apply to the transportation of earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project and transported to any place within, or adjacent to, the boundaries of such project.

(c) COAL PREVIOUSLY TAXED.—The tax imposed by section 4271 (b) on the transportation of coal shall not apply to the transportation of coal with respect to which there has been a previous taxable transportation.

(d) CERTAIN ORGANIZATIONS.—The tax imposed by section 4271 shall not apply to amounts paid for the transportation of property to or from an international organization, or any corporation created by act of Congress to act in matters of relief under the treaty of Geneva of August 22, 1864.

(e) POST OFFICE DEPARTMENT.—The tax imposed by section 4271 shall not apply to amounts paid to the Post Office Department for the transportation of property.

SEC. 4273. REGISTRATION.

Every person engaged in the business of transporting property for hire, including freight forwarders, express companies, and similar persons, shall, within 60 days after first engaging in the business of transportation of property for hire, register his name and his place or places of business with the Secretary or his delegate.

PART III—OIL BY PIPELINE

Sec. 4281. Imposition of tax.
Sec. 4282. Definition of fair charge.
Sec. 4283. Exemption for oil transported within premises of a plant.

SEC. 4281. IMPOSITION OF TAX.

There is hereby imposed upon all transportation of crude petroleum and liquid products thereof by pipeline a tax equivalent to 4½ percent of the amount paid for such transportation. If no charge for transportation is made (either by reason of ownership of the commodity transported or for any other reason), or if the payment for transportation is less than the fair charge therefor (other than in the case of an arm's length transaction), such tax shall be imposed on the fair charge for such transportation. The tax imposed by this section is to be paid by the person furnishing such transportation.

SEC. 4282. DEFINITION OF FAIR CHARGE.

For the purposes of section 4281, the fair charge for transportation shall be computed

(1) from actual bona fide rates or tariffs; or

(2) if no such rates or tariffs exist, then on the basis of the actual bona fide rates or tariffs of other pipelines for like services, as determined by the Secretary or his delegate; or

(3) if no such rates or tariffs exist, then on the basis of a reasonable charge for such transportation, as determined by the Secretary or his delegate.

SEC. 4283. EXEMPTION FOR OIL TRANSPORTED WITHIN PREMISES OF A PLANT.

For the purposes of section 4281, the term "transportation" shall not include any movement through lines of pipe within the premises of a refinery, a bulk plant, a terminal, or a gasoline plant, if such movement is not a continuation of a taxable transportation. The crossing of rights-of-way, streets, highways, railroads, levees, or narrow bodies of water, in connection with such a movement, shall not of itself constitute such movement as being "transportation."

Subchapter D—Safe Deposit Boxes

Sec. 4286. Imposition of tax.
Sec. 4287. Definition of safe deposit box.

SEC. 4286. IMPOSITION OF TAX.

There is hereby imposed a tax equivalent to 10 percent of the amount collected for the use of any safe deposit box. Such tax shall be paid by the person paying for the use of the safe deposit box.

SEC. 4287. DEFINITION OF SAFE DEPOSIT BOX.

For the purposes of section 4286, any vault, safe, box, or other receptacle, of not more than 40 cubic feet capacity, used for the safe-keeping or storage of jewelry, plate, money, specie, bullion, stocks, bonds, securities, valuable papers of any kind, or other valuable personal property, shall be regarded as a safe deposit box.

Subchapter E—Special Provisions Applicable to Services and Facilities Taxes

Sec. 4291. Cases where persons receiving payment must collect tax.
Sec. 4292. State and local governmental exemption.
Sec. 4293. Exemption for United States and possessions.
Sec. 4294. Cross reference to general administrative provisions.

SEC. 4291. CASES WHERE PERSONS RECEIVING PAYMENT MUST COLLECT TAX.

Every person receiving any payment for facilities or services on which a tax is imposed upon the payor thereof under this chapter, shall collect the amount of the tax from the person making such payment, except that if the payment specified in section 4261 is made outside the United States for a prepaid order, exchange order, or similar order, the person furnishing the initial transportation pursuant to such order shall collect the amount of the tax. For the purpose of this section every club or organization having life members shall collect the tax imposed on life memberships by section 4241.

SEC. 4292. STATE AND LOCAL GOVERNMENTAL EXEMPTION.

Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under section 4251, 4261, or 4271 upon (1) any payment received for services or facilities furnished to or (2) amounts paid for the transportation of property to or from the Government of any State, Territory of the United States, or any political subdivision of the foregoing or the District of Columbia.

SEC. 4293. EXEMPTION FOR UNITED STATES AND POSSESSIONS.

The Secretary may authorize exemption from the taxes imposed by chapters 31 and 32 and subchapters B and C of chapter 33, as to any particular article, or service or class of articles or services, to be purchased for the exclusive use of the United States, if he determines that the imposition of such taxes with respect to such articles or services, or class of articles or services will cause substantial burden or expense which can be avoided by granting tax exemption and that full benefit of such exemption, if granted, will accrue to the United States.

SEC. 4294. CROSS REFERENCE TO GENERAL ADMINISTRATIVE PROVISIONS.

See Subtitle F for administrative provisions of general application to the taxes imposed under this chapter.

CHAPTER 34—DOCUMENTARY STAMP TAXES

SUBCHAPTER A. Issuance of capital stock and certificates of indebtedness by a corporation.
SUBCHAPTER B. Sales or transfers of capital stock and certificates of indebtedness of a corporation.
SUBCHAPTER C. Conveyances.
SUBCHAPTER D. Policies issued by foreign insurers.
SUBCHAPTER E. Miscellaneous provisions applicable to documentary stamp taxes.

Subchapter A—Issuance of Capital Stock and Certificate of Indebtedness by a Corporation

Part I. Issuance of capital stock and similar interests.
Part II. Issuance of certificates of indebtedness.

PART I—ISSUANCE OF CAPITAL STOCK AND SIMILAR INTERESTS

Sec. 4301. Imposition of tax.
Sec. 4302. Recapitalization.
Sec. 4303. Exemptions.
Sec. 4304. Affixing of stamps.
Sec. 4305. Cross references.

SEC. 4301. IMPOSITION OF TAX.

There shall be imposed a tax on each original issue of shares or certificates of stock, issued by a corporation, whether on organization or reorganization, at the following rates:

(1) PAR VALUE STOCK.—Eleven cents on each $100 or fraction thereof of the par or face value of each certificate (or of the shares where no certificate is issued).

(2) NO-PAR-VALUE STOCK.—

(A) ACTUAL VALUE OF $100 OR MORE PER SHARE.—Eleven cents on each $100 or fraction thereof of the actual value of each certificate (or of the shares where no certificate is issued).

(B) ACTUAL VALUE OF LESS THAN $100 PER SHARE.—Three cents on each $20 or fraction thereof of the actual value of each certificate (or of the shares where no certificate is issued).

SEC. 4302. RECAPITALIZATION.

In the case of a recapitalization, the tax imposed by section 4301 shall be that proportion of the tax computed on the certificates (or on the shares where no certificates are issued) issued in the recapitalization that (1) the amount dedicated as capital for the first time by the recapitalization, whether by a transfer of earned surplus or otherwise, bears to (2) the total par value (or actual value if no par stock) of such certificates or shares issued in the recapitalization.

SEC. 4303. EXEMPTIONS.

(a) COMMON TRUST FUNDS.—The tax imposed by section 4301 shall not apply to the issue of shares or certificates of a common trust fund, as defined in section 584.

(b) OTHER EXEMPTIONS.—

For other exemptions, see section 4382.

SEC. 4304. AFFIXING OF STAMPS.

The stamps representing the tax imposed by section 4301 shall be affixed to the stock books or corresponding records of the organization and not to the certificates issued.

SEC. 4305. CROSS REFERENCES.

For definitions, penalties, and other general and administrative provisions applicable to this part, see sections 4381 and 4383 and subtitle F.

PART II—ISSUANCE OF CERTIFICATES OF INDEBTEDNESS

Sec. 4311. Imposition of tax.
Sec. 4312. Definitions.
Sec. 4313. Renewals.
Sec. 4314. Bond as security for debt.
Sec. 4315. Exemptions.
Sec. 4316. Cross references.

SEC. 4311. IMPOSITION OF TAX.

There shall be imposed a tax on all certificates of indebtedness issued by a corporation at the rate of 11 cents on each $100 of face value or fraction thereof.

SEC. 4312. DEFINITIONS.

(a) CORPORATION.—For the purpose of section 4311 the term "corporation" includes any receiver, trustee in bankruptcy, assignee, or other person, having custody of property, or charge of the affairs, of the corporation.

(b) CROSS REFERENCES.—

For other definitions, see section 4381 and subtitle F.

SEC. 4313. RENEWALS.

Every renewal of any certificate of indebtedness shall be taxed as a new issue.

SEC. 4314. BOND AS SECURITY FOR DEBT.

In the case where a bond conditioned for the repayment or payment of money is given in a penal sum greater than the debt secured, the tax imposed by section 4311 shall be based upon the amount secured.

SEC. 4315. EXEMPTIONS.

(a) INSTALLMENT PURCHASE OF OBLIGATIONS.—The tax imposed by section 4311 shall not apply to any instrument under the terms of which the obligee is required to make payment therefor in installments and is not permitted to make in any year a payment of more than 20 percent of the cash amount to which entitled upon maturity of the instrument.

(b) OTHER EXEMPTIONS.—

For other exemptions, see section 4382.

SEC. 4316. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this part, see section 4383 and subtitle F.

Subchapter B—Sales or Transfers of Capital Stock and Certificates of Indebtedness of a Corporation

Part I. Sales or transfers of capital stock and similar interests.
Part II. Sales or transfers of certificates of indebtedness.
Part III. Provisions common to sales or transfers of capital stock and certificates of indebtedness.

PART I—SALES OR TRANSFERS OF CAPITAL STOCK AND SIMILAR INTERESTS

Sec. 4321. Imposition of tax.
Sec. 4322. Exemptions.
Sec. 4323. Affixing of stamps.
Sec. 4324. Cross references.

SEC. 4321. IMPOSITION OF TAX.

There shall be imposed a tax on each sale or transfer of shares or certificates of stock, or of rights to subscribe for or to receive such shares or certificates, issued by a corporation, at the following rates:

(1) PAR-VALUE STOCK.—Five cents on each $100 or fraction thereof of the par or face value of each certificate (or of the shares where no certificate is sold or transferred), except as provided in paragraph (3).

(2) NO-PAR-VALUE STOCK.—Five cents on each share, except as provided in paragraph (3).

(3) EXCEPTION.—In the case of a sale at $20 or more per share, the rate provided in paragraphs (1) and (2) shall be 6 cents in lieu of 5 cents.

SEC. 4322. EXEMPTIONS.

(a) EXEMPTIONS FOR CERTAIN TRANSFERS.—The tax imposed by section 4321 shall not apply to any delivery or transfer of shares, certificates, or rights—

(1) LOANS.—To a borrower as a loan of such shares, certificates, or rights, or to the lender as a return of such loan;

(2) BROKERS.—To a broker or his registered nominee for sale of such shares, certificates, or rights; by a broker or his registered nominee to a customer for whom and upon whose order the broker has purchased same; or by a purchasing broker to his registered nominee to be held by such nominee for the same purpose as if held by the broker;

(3) CORPORATIONS.—From a corporation to a registered nominee of such corporation, or from one such nominee to another such nominee, provided that in each instance such shares, certificates, or rights are to be held by the nominee for the same purpose as if retained by the corporation; or from such nominee to such corporation; or

(4) WORTHLESS STOCK.—By an executor or administrator to a legatee, heir, or distributee, if it is shown to the satisfaction of the Secretary or his delegate that the value of such shares, certificates,

or rights is not greater than the amount of the tax that would otherwise be imposed on such delivery or transfer.

(b) OTHER EXEMPTIONS.—

For other exemptions, see sections 4341 to 4343, inclusive, and section 4382.

SEC. 4323. AFFIXING OF STAMPS.

(a) BOOKS OF THE CORPORATION.—The stamps representing the tax imposed by section 4321 shall be affixed to the books of the corporation in case of sale where the evidence of transfer is shown only by the books of the corporation.

(b) OTHER EVIDENCES OF SALE OR TRANSFER.—

For provisions applicable to the affixing of stamps in cases of sale or transfer shown otherwise than only by the books of the corporation, see section 4353.

SEC. 4324. CROSS REFERENCES.

For definitions, penalties, and other general and administrative provisions applicable to this part, see sections 4344, 4351, 4352, 4381, and 4383, and subtitle F.

PART II—SALES OR TRANSFERS OF CERTIFICATES OF INDEBTEDNESS

Sec. 4331. Imposition of tax.
Sec. 4332. Exemptions.
Sec. 4333. Cross references.

SEC. 4331. IMPOSITION OF TAX.

There shall be imposed a tax on each sale or transfer of any certificates of indebtedness, issued by a corporation, at the rate of 5 cents on each $100 or fraction thereof of the face value.

SEC. 4332. EXEMPTIONS.

(a) BROKERS.—The tax imposed by section 4331 shall not apply to any delivery or transfer to a broker for sale, nor upon any delivery or transfer by a broker to a customer for whom and upon whose order he has purchased same.

(b) OTHER EXEMPTIONS.—

For other exemptions, see sections 4341 to 4343, inclusive, and section 4382.

SEC. 4333. CROSS REFERENCES.

For definitions, penalties, and other general and administrative provisions applicable to this part, see sections 4344, 4381, and 4383; sections 4351 to 4353 inclusive; and subtitle F.

PART III—PROVISIONS COMMON TO SALES OR TRANSFERS OF CAPITAL STOCK AND CERTIFICATES OF INDEBTEDNESS

Subpart A. Exemptions.
Subpart B. Miscellaneous provisions.

Subpart A—Exemptions

Sec. 4341. Transfers as security.
Sec. 4342. Fiduciaries and custodians.
Sec. 4343. Transfers by operation of law.
Sec. 4344. Exemption certificates.
Sec. 4345. Cross references.

SEC. 4341. TRANSFERS AS SECURITY.

The taxes imposed by sections 4321 and 4331 shall not apply to any delivery or transfer of any of the instruments referred to in such sections—

(1) COLLATERAL SECURITY.—To a lender as collateral security for money loaned thereon, provided that such collateral security is not actually sold; or

(2) SECURITY FOR PERFORMANCE.—To a trustee or public officer made pursuant to Federal or State law as security for the performance of an obligation, or by such trustee or public officer as a return of such security.

SEC. 4342. FIDUCIARIES AND CUSTODIANS.

The taxes imposed by sections 4321 and 4331 shall not apply to any delivery or transfer of any of the instruments referred to in such sections—

(1) FIDUCIARIES.—From a fiduciary to his nominee, or from one nominee of the fiduciary to another nominee, provided that in each instance such instruments are to be held by the nominee for the same purpose as if retained by the fiduciary; or from the nominee to such fiduciary; or

(2) CUSTODIANS.—

(A) from the owner to a custodian if under a written agreement between the parties such instruments are to be held or disposed of by such custodian for, and subject at all times to the instructions of, the owner; or from such custodian to such owner;

(B) from a custodian as specified in subparagraph (A) to a registered nominee of such custodian, or from one such nominee to another such nominee, provided that in each instance such instruments are to be held by the nominee for the same purpose as if retained by the custodian; or from such nominee to such custodian.

SEC. 4343. TRANSFERS BY OPERATION OF LAW.

(a) EXEMPT TRANSFERS.—The taxes imposed by sections 4321 and 4331 shall not apply to any delivery or transfer of any of the instruments referred to in such sections—

(1) DECEDENTS.—From a decedent to his executor or administrator;

(2) MINORS.—From a minor to his guardian, or from a guardian to his ward upon attaining majority;

(3) INCOMPETENTS.—From an incompetent to his committee or similar legal representative, or from a committee or similar legal representative to a former incompetent upon removal of disability;

(4) FINANCIAL INSTITUTIONS.—From a bank, trust company, financial institution, insurance company, or other similar entity, or nominee, custodian, or trustee therefor, to a public officer or commission, or person designated by such officer or commission or by a court, in the taking over of its assets, in whole or part, under Federal or State law regulating or supervising such institutions, nor upon redelivery or retransfer by any such transferee or successor thereto;

(5) BANKRUPTS.—From a bankrupt or person in receivership due to insolvency to the trustee in bankruptcy or receiver, from such receiver to such trustee, or from such trustee to such receiver, nor upon redelivery or retransfer by any such transferee or successor thereto;

(6) SUCCESSORS.—From a transferee under paragraphs (1) to (5), inclusive, to his successor acting in the same capacity, or from one such successor to another;

(7) FOREIGN GOVERNMENTS AND ALIENS.—From a foreign country or national thereof to the United States or any agency thereof, or to the government of any foreign country, directed pursuant to the authority vested in the President by section 5 (b) of the Trading with the Enemy Act (40 Stat. 415), as amended by the First War Powers Act, 1941 (55 Stat. 838; 50 U. S. C. App. 5);

(8) TRUSTEES.—From trustees to surviving, substituted, succeeding, or additional trustees of the same trust; or

(9) SURVIVORS.—Upon the death of a joint tenant or tenant by the entireties, to the survivor or survivors.

(b) NONEXEMPT TRANSFERS.—No delivery or transfer shall be exempt because effected by operation of law unless an exemption is otherwise specifically provided.

SEC. 4344. EXEMPTION CERTIFICATES.

No exemption shall be granted under section 4322 (a) (1), (2), or (3), section 4332 (a), section 4341 (2), section 4342, or under section 4343 (a) unless the delivery or transfer is accompanied by a certificate setting forth such facts as the Secretary or his delegate may by regulations prescribe.

SEC. 4345. CROSS REFERENCES.

For other exemptions, see sections 4322, 4332, and 4382.

Subpart B—Miscellaneous Provisions

Sec. 4351. Definitions.
Sec. 4352. Stock or certificates of indebtedness owned by a partnership.
Sec. 4353. Affixing of stamps.
Sec. 4354. Cross references.

SEC. 4351. DEFINITIONS.

(a) REGISTERED NOMINEE.—For the purpose of this subchapter, the term "registered nominee" means any person registered with the official in charge of the collection district in accordance with such regulations as the Secretary or his delegate shall prescribe.

(b) SALE OR TRANSFER.—For the purpose of this subchapter, the term "sale or transfer" means any sale, agreement to sell, memorandum of sale or delivery, or transfer of legal title, whether or not

shown by the books of the corporation or other organization (or by any assignment in blank, or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale); and whether or not the holder acquires a beneficial interest in the instruments.

SEC. 4352. STOCK OR CERTIFICATES OF INDEBTEDNESS OWNED BY A PARTNERSHIP.

In the case of a transfer of an interest in a partnership owning any of the instruments referred to in sections 4321 and 4331, the tax imposed by each of such sections shall be that proportion of the tax computed on the transfer of all of the instruments taxable under each of such sections that—

(1) the interest in the partnership transferred bears to

(2) the total interests in the partnership of all the partners.

SEC. 4353. AFFIXING OF STAMPS.

The stamps representing the taxes imposed by section 4321 and section 4331 shall be affixed to—

(1) INSTRUMENT.—The instrument where the change of ownership is by transfer of the instrument;

(2) BILL OR MEMORANDUM OF SALE.—The bill or memorandum of sale in cases of an agreement to sell or where the transfer is by delivery of the instrument assigned in blank; such bill or memorandum of sale shall be made and delivered by the seller to the buyer, and shall show the date thereof, the name of the seller, the amount of the sale, and the instrument to which it refers.

SEC. 4354. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subchapter, see section 4383 and subtitle F.

Subchapter C—Conveyances

Sec. 4361. Imposition of tax.
Sec. 4362. Exemptions.
Sec. 4363. Cross references.

SEC. 4361. IMPOSITION OF TAX.

There shall be imposed a tax on each deed, instrument, or writing (unless deposited in escrow before April 1, 1932), whereby any lands, tenements, or other realty sold shall be granted, assigned, transferred, or otherwise conveyed to, or vested in, the purchaser or purchasers, or any other person or persons, by his, her, or their direction, when the consideration or value of the interest or property conveyed, exclusive of the value of any lien or encumbrance remaining thereon at the time of sale, exceeds $100 and does not exceed $500, in the amount of 55 cents; and at the rate of 55 cents for each additional $500 or fractional part thereof.

SEC. 4362. EXEMPTIONS.

(a) SECURITY FOR DEBT.—The tax imposed by section 4361 shall not apply to any instrument or writing given to secure a debt.

(b) OTHER EXEMPTIONS.—

For other exemptions, see section 4382.

SEC. 4363. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subchapter, see section 4383 and subtitle F.

Subchapter D—Policies Issued by Foreign Insurers

Sec. 4371. Imposition of tax.
Sec. 4372. Definitions.
Sec. 4373. Exemptions.
Sec. 4374. Affixing of stamps.
Sec. 4375. Cross references.

SEC. 4371. IMPOSITION OF TAX.

There shall be imposed a tax on each policy of insurance, indemnity bond, annuity contract, or policy of reinsurance issued by any foreign insurer or reinsurer at the following rates:

(1) CASUALTY INSURANCE AND INDEMNITY BONDS.—Four cents on each dollar, or fractional part thereof, of the premium charged on the policy of casualty insurance or the indemnity bond, if issued to or for, or in the name of, an insured as defined in section 4372 (d);

(2) LIFE INSURANCE, SICKNESS, AND ACCIDENT POLICIES, AND ANNUITY CONTRACTS.—One cent on each dollar, or fractional part thereof, of the premium charged on the policy of life, sickness, or accident insurance, or annuity contract, unless the insurer is subject to tax under section 807;

(3) REINSURANCE.—One cent on each dollar, or fractional part thereof, of the premium charged on the policy of reinsurance covering any of the contracts taxable under paragraph (1) or (2).

SEC. 4372. DEFINITIONS.

(a) FOREIGN INSURER OR REINSURER.—For the purpose of this subchapter, the term "foreign insurer or reinsurer" means an insurer or reinsurer who is a nonresident alien individual, or a foreign partnership, or a foreign corporation. The term includes a nonresident alien individual, foreign partnership, or foreign corporation which shall become bound by an obligation of the nature of an indemnity bond.

(b) POLICY OF CASUALTY INSURANCE.—For the purpose of section 4371 (1), the term "policy of casualty insurance" means any policy (other than life) or other instrument by whatever name called whereby a contract of insurance is made, continued, or renewed.

(c) INDEMNITY BOND.—For the purpose of this subchapter, the term "indemnity bond" means any instrument by whatever name called whereby an obligation of the nature of an indemnity, fidelity, or surety bond is made, continued, or renewed. The term includes any bond for indemnifying any person who shall have become bound or engaged as surety, and any bond for the due execution or performance of any contract, obligation, or requirement, or the duties of any office or position, and to account for money received by virtue thereof, where a premium is charged for the execution of such bond.

(d) INSURED.—For the purpose of section 4371 (1), the term "insured" means—

(1) a domestic corporation or partnership, or an individual resident of the United States, against, or with respect to, hazards, risks, losses, or liabilities wholly or partly within the United States, or

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(2) a foreign corporation, foreign partnership, or nonresident individual, engaged in a trade or business within the United States, with respect to hazards, risks, or liabilities within the United States.

(e) POLICY OF LIFE, SICKNESS, OR ACCIDENT INSURANCE, OR ANNUITY CONTRACT.—For the purpose of section 4371 (2), the term "policy of life, sickness, or accident insurance, or annuity contract" means any policy or other instrument by whatever name called whereby a contract of insurance or an annuity contract is made, continued, or renewed with respect to the life or hazards to the person of a citizen or resident of the United States.

(f) POLICY OF REINSURANCE.—For the purpose of section 4371 (3), the term "policy of reinsurance" means any policy or other instrument by whatever name called whereby a contract of reinsurance is made, continued, or renewed against, or with respect to, any of the hazards, risks, losses, or liabilities covered by contracts taxable under paragraph (1) or (2) of section 4371.

SEC. 4373. EXEMPTIONS.

The tax imposed by section 4371 shall not apply to—

(1) DOMESTIC AGENT.—Any policy, indemnity bond, or annuity contract signed or countersigned by an officer or agent of the insurer in a State, Territory, or District of the United States within which such insurer is authorized to do business; or

(2) INDEMNITY BOND.—Any indemnity bond required to be filed by any person to secure payment of any pension, allowance, allotment, relief, or insurance by the United States, or to secure a duplicate for, or the payment of, any bond, note, certificate of indebtedness, war-saving certificate, warrant or check, issued by the United States.

SEC. 4374. AFFIXING OF STAMPS.

Any person to or for whom or in whose name any policy, indemnity bond, or annuity contract referred to in section 4371 is issued, or any solicitor or broker acting for or on behalf of such person in the procurement of any such instrument, shall affix the proper stamps to such instrument.

SEC. 4375. CROSS REFERENCES.

For penalties and other general and administrative provisions, see section 4383 and subtitle F.

Subchapter E—Miscellaneous Provisions Applicable to Documentary Stamp Taxes

Sec. 4381. Definitions.
Sec. 4382. Exemptions.
Sec. 4383. Liability for tax.

SEC. 4381. DEFINITIONS.

(a) CERTIFICATES OF INDEBTEDNESS.—For purposes of the taxes imposed by sections 4311 and 4331, the term "certificates of indebtedness" means bonds and debentures; and also includes all instruments, however termed, issued by a corporation with interest coupons or in registered form, known generally as corporate securities.

(b) CORPORATION.—For purposes of the taxes imposed by sections 4301 and 4331, the term "corporation" includes any investment trust or similar organization (or any person acting in behalf of such investment trust or similar organization) holding or dealing in shares or certificates of stock, or in certificates of indebtedness. The definition herein shall not be construed to limit the effect of the definition of the term "corporation" provided in section 7701 (a) (3).

(c) SHARES OR CERTIFICATES OF STOCK.—For purposes of the taxes imposed by sections 4301 and 4331, the term "shares or certificates of stock" includes shares or certificates of profits or of interest in property or accumulations.

SEC. 4382. EXEMPTIONS.

(a) The taxes imposed by this chapter shall not apply to—

(1) GOVERNMENT AND STATE OBLIGATIONS.—Any certificate of indebtedness, note, or other instrument, issued by the United States, or by any foreign Government, or by any State, Territory, or the District of Columbia, or local subdivision thereof, or municipal or other corporation exercising the taxing power;

(2) DOMESTIC BUILDING AND LOAN ASSOCIATIONS AND MUTUAL DITCH OR IRRIGATION COMPANIES.—Shares or certificates of stock and certificates of indebtedness issued by domestic building and loan associations, savings and loan associations, cooperative banks, and homestead associations substantially all the business of which is confined to making loans to members, or by mutual ditch or irrigation companies;

(3) FARMERS', FRUIT GROWERS', OR COOPERATIVE ASSOCIATIONS.—Shares or certificates of stock and certificates of indebtedness issued by any farmers' or fruit growers' or like associations organized and operated on a cooperative basis for the purposes, and subject to the conditions, prescribed in section 521.

(b) The taxes imposed by sections 4301, 4311, 4321, 4331, and 4361 shall not apply to—

(1) CORPORATE AND RAILROAD REORGANIZATIONS.—The issuance, transfer, or exchange of securities, or the making, delivery, or filing of conveyances to make effective any plan of reorganization or adjustment confirmed or approved as indicated below, provided

that the issuance, transfer, or exchange of securities, or the making, delivery or filing of instruments of transfer or conveyances, occurs within 5 years from the date of such confirmation or approval—

(A) confirmed under the Bankruptcy Act, as amended (30 Stat. 544; U. S. C., title 11),

(B) approved in an equity receivership proceeding in a court involving a railroad corporation, as defined in section 77 (m) of the Bankruptcy Act, as amended (49 Stat. 922; 11 U. S. C. 205 (m)), or

(C) approved in an equity receivership proceeding in a court involving a corporation, as defined in section 106 (3) of the Bankruptcy Act, as amended (52 Stat. 883; 11 U. S. C. 506);

(2) ORDERS OF THE SECURITIES AND EXCHANGE COMMISSION.—The issuance, transfer, or exchange of securities, or making or delivery of conveyances, to make effective any order of the Securities and Exchange Commission as defined in section 1083 (a): *Provided*, That—

(A) the order of the Securities and Exchange Commission in obedience to which such issuance, transfer, or exchange of securities or conveyances are made recites that such issuance, transfer, or exchange, or conveyances are necessary or appropriate to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935 (49 Stat. 820; 15 U. S. C. 79k (b)),

(B) such order specifies and itemizes the securities and other property which are ordered to be issued, transferred, exchanged, or conveyed, and

(C) such issuance, transfer, or exchange, or conveyance is made in obedience to such order.

SEC. 4383. LIABILITY FOR TAX.

The tax imposed by this chapter shall be paid by any person who makes, signs, issues, or sells any of the documents and instruments subject to the taxes imposed by this chapter, or for whose use or benefit the same are made, signed, issued, or sold. The United States or any agency or instrumentality thereof shall not be liable for the tax with respect to an instrument to which it is a party, and affixing of stamps thereby shall not be deemed payment for the tax, which may be collected by assessment from any other party liable therefor.

CHAPTER 35—TAXES ON WAGERING

SUBCHAPTER A. Tax on wagers.
SUBCHAPTER B. Occupational tax.
SUBCHAPTER C. Miscellaneous provisions.

Subchapter A—Tax on Wagers

Sec. 4401. Imposition of tax.
Sec. 4402. Exemptions.
Sec. 4403. Record requirements.
Sec. 4404. Territorial extent.
Sec. 4405. Cross references.

SEC. 4401. IMPOSITION OF TAX.

(a) WAGERS.—There shall be imposed on wagers, as defined in section 4421, an excise tax equal to 10 percent of the amount thereof.

(b) AMOUNT OF WAGER.—In determining the amount of any wager for the purposes of this subchapter, all charges incident to the placing of such wager shall be included; except that if the taxpayer establishes, in accordance with regulations prescribed by the Secretary or his delegate, that an amount equal to the tax imposed by this subchapter has been collected as a separate charge from the person placing such wager, the amount so collected shall be excluded.

(c) PERSONS LIABLE FOR TAX.—Each person who is engaged in the business of accepting wagers shall be liable for and shall pay the tax under this subchapter on all wagers placed with him. Each person who conducts any wagering pool or lottery shall be liable for and shall pay the tax under this subchapter on all wagers placed in such pool or lottery.

SEC. 4402. EXEMPTIONS.

No tax shall be imposed by this subchapter—

(1) PARIMUTUELS.—On any wager placed with, or on any wager placed in a wagering pool conducted by, a parimutuel wagering enterprise licensed under State law, and

(2) COIN-OPERATED DEVICES.—On any wager placed in a coin-operated device with respect to which an occupational tax is imposed by section 4461.

SEC. 4403. RECORD REQUIREMENTS.

Each person liable for tax under this subchapter shall keep a daily record showing the gross amount of all wagers on which he is so liable, in addition to all other records required pursuant to section 6001 (a).

SEC. 4404. TERRITORIAL EXTENT.

The tax imposed by this subchapter shall apply only to wagers

(1) accepted in the United States, or

(2) placed by a person who is in the United States

(A) with a person who is a citizen or resident of the United States, or

(B) in a wagering pool or lottery conducted by a person who is a citizen or resident of the United States.

SEC. 4405. CROSS REFERENCES.

For penalties and other administrative provisions applicable to this subchapter, see sections 4421 to 4423, inclusive; and subtitle F.

Subchapter B—Occupational Tax

Sec. 4411. Imposition of tax.
Sec. 4412. Registration.
Sec. 4413. Certain provisions made applicable.
Sec. 4414. Cross references.

SEC. 4411. IMPOSITION OF TAX.

There shall be imposed a special tax of $50 per year to be paid by each person who is liable for tax under section 4401 or who is engaged in receiving wagers for or on behalf of any person so liable.

SEC. 4412. REGISTRATION.

(a) REQUIREMENT.—Each person required to pay a special tax under this subchapter shall register with the official in charge of the internal revenue district—

(1) his name and place of residence;

(2) if he is liable for tax under subchapter A, each place of business where the activity which makes him so liable is carried on, and the name and place of residence of each person who is engaged in receiving wagers for him or on his behalf; and

(3) if he is engaged in receiving wagers for or on behalf of any person liable for tax under subchapter A, the name and place of residence of each such person.

(b) FIRM OR COMPANY.—Where subsection (a) requires the name and place of residence of a firm or company to be registered, the names and places of residence of the several persons constituting the firm or company shall be registered.

(c) SUPPLEMENTAL INFORMATION.—In accordance with regulations prescribed by the Secretary, he or his delegate may require from time to time such supplemental information from any person required to register under this section as may be needful to the enforcement of this chapter.

SEC. 4413. CERTAIN PROVISIONS MADE APPLICABLE.

Sections 4901, 4902, 4904, 4905, and 4906 shall extend to and apply to the special tax imposed by this subchapter and to the persons upon whom it is imposed, and for that purpose any activity which makes a person liable for special tax under this subchapter shall be considered to be a business or occupation referred to in such sections. No other provision of sections 4901 to 4907, inclusive, shall so extend or apply.

SEC. 4414. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subchapter, see sections 4421 to 4423, inclusive; and subtitle F.

Subchapter C—Miscellaneous Provisions

Sec. 4421. Definitions.
Sec. 4422. Applicability of federal and state laws.
Sec. 4423. Inspection of books.

SEC. 4421. DEFINITIONS.

For purposes of this chapter—

(1) WAGER.—The term "wager" means—

(A) any wager with respect to a sports event or a contest placed with a person engaged in the business of accepting such wagers,

(B) any wager placed in a wagering pool with respect to a sports event or a contest, if such pool is conducted for profit, and

(C) any wager placed in a lottery conducted for profit.

(2) LOTTERY.—The term "lottery" includes the numbers game, policy, and similar types of wagering. The term does not include—

(A) any game of a type in which usually

(i) the wagers are placed,

(ii) the winners are determined, and

(iii) the distribution of prizes or other property is made, in the presence of all persons placing wagers in such game, and

(B) any drawing conducted by an organization exempt from tax under sections 501 and 521, if no part of the net proceeds derived from such drawing inures to the benefit of any private shareholder or individual.

SEC. 4422. APPLICABILITY OF FEDERAL AND STATE LAWS.

The payment of any tax imposed by this chapter with respect to any activity shall not exempt any person from any penalty provided by a law of the United States or of any State for engaging in the same activity, nor shall the payment of any such tax prohibit any State from placing a tax on the same activity for State or other purposes.

SEC. 4423. INSPECTION OF BOOKS.

Notwithstanding section 7605 (b), the books of account of any person liable for tax under this chapter may be examined and inspected as frequently as may be needful to the enforcement of this chapter.

CHAPTER 36—CERTAIN OTHER EXCISE TAXES

SUBCHAPTER A. Playing cards.
SUBCHAPTER B. Occupational tax on coin-operated devices.
SUBCHAPTER C. Occupational tax on bowling alleys, billiard and pool tables.

Subchapter A—Playing Cards

Sec. 4451. Imposition of tax.
Sec. 4452. Definition of manufacturer.
Sec. 4453. Exemption in case of exportation.
Sec. 4454. Liability for tax.
Sec. 4455. Registration.
Sec. 4456. Stamps.
Sec. 4457. Cross references.

SEC. 4451. IMPOSITION OF TAX.

There shall be imposed a tax of 13 cents per pack upon every pack of playing cards containing not more than 54 cards, manufactured or imported, and sold, or removed for consumption or sale, by a manufacturer. This tax shall be in addition to any import duties imposed on such articles of foreign manufacture.

SEC. 4452. DEFINITION OF MANUFACTURER.

Every person who offers or exposes for sale playing cards, whether the articles so offered or exposed are of foreign manufacture and imported or are of domestic manufacture, shall be deemed the manufacturer thereof, and subject to all the duties, liabilities, and penalties imposed by law in regard to the sale of domestic articles without the use of the proper stamps denoting the tax paid thereon.

SEC. 4453. EXEMPTION IN CASE OF EXPORTATION.

Playing cards may be removed from the place of manufacture for export to a foreign country or for shipment to a possession of the United States without payment of tax, or affixing stamps thereto, under such rules and regulations and the filing of such bonds as the Secretary or his delegate may prescribe.

SEC. 4454. LIABILITY FOR TAX.

The tax imposed by this subchapter shall be paid by any person who makes, sells, removes, consigns, or ships any playing cards, or for whose use or benefit the same are made, removed, consigned, or shipped.

SEC. 4455. REGISTRATION.

Every manufacturer of playing cards shall register with the official in charge of the collection district his name or style, place of residence, trade, or business, and the place where such business is to be carried on.

SEC. 4456. STAMPS.

(a) SALE.—The Secretary shall cause the stamps on playing cards to be sold only to those manufacturers as have registered as required

by law, and to importers of playing cards, who are required to affix the stamps to imported playing cards.

(b) ACCOUNTS.—The Secretary shall cause to be kept accounts of the number and denominate values of the stamps sold to each manufacturer and importer.

SEC. 4457. CROSS REFERENCES.

For penalties and other administrative provisions applicable to this subchapter, see subtitle F.

Subchapter B—Occupational Tax on Coin-Operated Devices

Sec. 4461. Imposition of tax.
Sec. 4462. Definition of coin-operated amusement or gaming device.
Sec. 4463. Administrative provisions.

SEC. 4461. IMPOSITION OF TAX.

There shall be imposed a special tax to be paid by every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device at the following rates:

(1) $10 a year, in the case of a device defined in paragraph (1) of section 4462 (a);

(2) $250 a year, in the case of a device defined in paragraph (2) of section 4462 (a); and

(3) $10 or $250 a year, as the case may be, for each additional device so maintained or the use of which is so permitted. If one such device is replaced by another, such other device shall not be considered an additional device.

SEC. 4462. DEFINITION OF COIN-OPERATED AMUSEMENT OR GAMING DEVICE.

(a) IN GENERAL.—As used in sections 4461 to 4463, inclusive, the term "coin-operated amusement or gaming device" means—

(1) any amusement or music machine operated by means of the insertion of a coin, token, or similar object, and

(2) so-called "slot" machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive cash, premiums, merchandise, or tokens.

(b) EXCLUSION.—The term "coin-operated amusement or gaming device" does not include bona fide vending machines in which are not incorporated gaming or amusement features.

(c) 1-CENT VENDING MACHINE.—For purposes of sections 4461 to 4463, inclusive, a vending machine operated by means of the insertion of a 1-cent coin, which, when it dispenses a prize, never dispenses a prize of a retail value of, or entitles a person to receive a prize of a retail value of, more than 5 cents, and if the only prize dispensed is merchandise and not cash or tokens, shall be classified under paragraph (1) and not under paragraph (2) of subsection (a).

SEC. 4463. ADMINISTRATIVE PROVISIONS.

(a) TRADE OR BUSINESS.—An operator of a place or premises who maintains for use or permits the use of any coin-operated device shall be considered, for purposes of chapter 40, to be engaged in a trade or business in respect of each such device.

(b) CROSS REFERENCE.—

For penalties and other administrative provisions applicable to this subchapter, see chapter 40 and subtitle F.

Subchapter C—Occupational Tax on Bowling Alleys, Billiard and Pool Tables

Sec. 4471. Imposition of tax.
Sec. 4472. Definitions.
Sec. 4473. Exemptions.
Sec. 4474. Cross references.

SEC. 4471. IMPOSITION OF TAX.

There shall be imposed a special tax to be paid by every person who operates a bowling alley, billiard room, or pool room at the rate of $20 a year for each bowling alley, billiard table, or pool table.

SEC. 4472. DEFINITION.

For the purpose of section 4471 every building or place where bowls are thrown or where games of billiards or pool are played, except in private homes, shall be regarded as a bowling alley, billiard room, or pool room, respectively.

SEC. 4473. EXEMPTIONS.

The tax imposed by section 4471 shall not apply with respect to—

(1) HOSPITALS.—Any billiard table or pool table in a hospital if no charge is made for the use of such table; or

(2) ARMED FORCES.—Any bowling alley, billiard table, or pool table maintained exclusively for the use of members of the Armed Forces on any property owned, reserved, or used by, or otherwise acquired for the use of, the United States if no charge is made for their use.

SEC. 4474. CROSS REFERENCES.

For penalties and administrative provisions applicable to this subchapter, see chapter 40 and subtitle F.

CHAPTER 37—SUGAR, COCONUT AND PALM OIL

SUBCHAPTER A. Sugar.
SUBCHAPTER B. Coconut and palm oil.

Subchapter A—Sugar

Sec. 4501. Imposition of tax.
Sec. 4502. Definitions.
Sec. 4503. Exemptions for sugar manufactured for home consumption.
Sec. 4504. Import tax imposed as tariff duty.

SEC. 4501. IMPOSITION OF TAX.

(a) GENERAL.—There is hereby imposed upon manufactured sugar manufactured in the United States, a tax, to be paid by the manufacturer at the following rates:

(1) on all manufactured sugar testing by the polariscope 92 sugar degrees, 0.465 cent per pound, and, for each additional sugar degree shown by the polariscopic test, 0.00875 cent per pound additional, and fractions of a degree in proportion;

(2) on all manufactured sugar testing by the polariscope less than 92 sugar degrees, 0.5144 cent per pound of the total sugars therein.

The manufacturer shall pay the tax with respect to manufactured sugar (1) which has been sold, or used in the production of other articles, by the manufacturer during the preceding month (if the tax has not already been paid) and (2) which has not been so sold or used within 12 months ending during the preceding calendar month, after it was manufactured (if the tax has not already been paid). For the purpose of determining whether sugar has been sold or used within 12 months after it was manufactured, sugar shall be considered to have been sold or used in the order in which it was manufactured.

(b) IMPORT TAX.—In addition to any other tax or duty imposed by law, there is hereby imposed, under such regulations as the Secretary or his delegate shall prescribe, a tax upon articles imported or brought into the United States as follows:

(1) on all manufactured sugar testing by the polariscope 92 sugar degrees, 0.465 cent per pound, and, for each additional sugar degree shown by the polariscopic test, 0.00875 cent per pound additional, and fractions of a degree in proportion;

(2) on all manufactured sugar testing by the polariscope less than 92 sugar degrees, 0.5144 cent per pound of the total sugars therein;

(3) on all articles composed in chief value of manufactured sugar, 0.5144 cent per pound of the total sugars therein.

(c) TERMINATION OF TAX.—No tax shall be imposed under this subchapter on the manufacture, use, or importation of sugar or articles composed in chief value of sugar after June 30, 1957. Notwithstanding the provisions of subsection (a) or (b), no tax shall be imposed under this subchapter with respect to unsold sugar held by a manufacturer on June 30, 1957, or with respect to sugar or articles composed

in chief value of sugar held in customs custody or control on such date. With respect to any sugar or articles composed in chief value of sugar upon which tax imposed under subsection (b) has been paid and which, on June 30, 1957, are held by the importer and intended for sale or other disposition, there shall be refunded (without interest) to such importer, subject to such regulations as may be prescribed by the Secretary or his delegate, an amount equal to the tax paid with respect to such sugar or articles composed in chief value of sugar.

SEC. 4502. DEFINITIONS.

For the purposes of this subchapter.—

(1) MANUFACTURER.—Any person who acquires any sugar which is to be manufactured into manufactured sugar but who, without further refining or otherwise improving it in quality, sells such sugar as manufactured sugar or uses such sugar as manufactured sugar in the production of other articles for sale shall be considered, for the purposes of section 4501 (a), the manufacturer of manufactured sugar and, as such, liable for the tax under section 4501 (a) with respect thereto.

(2) PERSON.—The term "person" means an individual, partnership, corporation, or association.

(3) MANUFACTURED SUGAR.—The term "manufactured sugar" means any sugar derived from sugar beets or sugarcane, which is not to be, and which shall not be, further refined or otherwise improved in quality; except sugar in liquid form which contains nonsugar solids (excluding any foreign substance that may have been added or developed in the product) equal to more than 6 per centum of the total soluble solids and except also sirup of cane juice produced from sugarcane grown in continental United States. The grades or types of sugar within the meaning of this definition shall include, but shall not be limited to, granulated sugar, lump sugar, cube sugar, powdered sugar, sugar in the form of blocks, cones, or molded shapes, confectioners' sugar, washed sugar, centrifugal sugar, clarified sugar, turbinado sugar, plantation white sugar, muscovado sugar, refiners' soft sugar, invert sugar mush, raw sugar, sirups, molasses, and sugar mixtures.

(4) TOTAL SUGARS.—The term "total sugars" means the total amount of the sucrose (Clerget) and of the reducing or invert sugars. The total sugars contained in any grade or type of manufactured sugar shall be ascertained in the manner prescribed in paragraphs 758, 759, 762, and 763 of the United States Customs Regulations (1931 edition).

(5) UNITED STATES.—The term "United States" shall be deemed to include the States, the Territories of Hawaii and Alaska, the District of Columbia, and Puerto Rico.

SEC. 4503. EXEMPTIONS FOR SUGAR MANUFACTURED FOR HOME CONSUMPTION.

No tax shall be required to be paid under sec. 4501 (a) upon the manufacture of manufactured sugar by or for the producer of the sugar beets or sugarcane from which such manufactured sugar was derived, for consumption by the producer's own family, employees, or household.

SEC. 4504. IMPORT TAX IMPOSED AS TARIFF DUTY.

The tax imposed by section 4501 (b) shall be levied, assessed, collected, and paid in the same manner as a duty imposed by the Tariff Act of 1930 (46 Stat. 590; 19 U. S. C., chapter 4) and shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such act, except that for the purposes of sections 336 and 350 of such act (the so-called flexible tariff and trade agreements provisions; 46 Stat. 701; 48 Stat. 943; 19 U. S. C. 1336, 1351) such tax shall not be considered a duty or import restriction, and except that no preference with respect to such tax shall be accorded any articles imported or brought into the United States.

Subchapter B—Coconut and Palm Oil

Sec. 4511. Imposition of tax.
Sec. 4512. Definition of first domestic processing.
Sec. 4513. Exemptions.
Sec. 4514. Cross reference to general administrative provisions.

SEC. 4511. IMPOSITION OF TAX.

(a) GENERAL.—There is hereby imposed upon the first domestic processing of coconut oil, palm oil, palm-kernel oil, fatty acids derived from any of the foregoing oils, salts of any of the foregoing (whether or not such oils, fatty acids, or salts have been refined, sulphonated, sulphated, hydrogenated, or otherwise processed), or any combination or mixture containing a substantial quantity of any one or more of such oils, fatty acids, or salts, a tax of 3 cents per pound, to be paid by the processor.

(b) ADDITIONAL RATE ON COCONUT OIL.—There is hereby imposed (in addition to the tax imposed by the preceding subsection) a tax of 2 cents per pound, to be paid by the processor, upon the first domestic processing of coconut oil or of any combination or mixture containing a substantial quantity of coconut oil with respect to which oil there has been no previous first domestic processing.

(c) TERMINATION OF ADDITIONAL RATE.—The tax imposed by subsection (b) shall not apply to any domestic processing after July 3, 1974.

SEC. 4512. DEFINITION OF FIRST DOMESTIC PROCESSING.

For the purposes of this subchapter, the term "first domestic processing" means the first use in the United States, in the manufacture or production of an article intended for sale, of the article with respect to which the tax is imposed, but does not include the use of palm oil in the manufacture of iron or steel products, or tin plate or terne plate, or any subsequent use of palm oil residue resulting from the manufacture of iron or steel products, or tin plate or terne plate.

SEC. 4513. EXEMPTIONS.

(a) ACIDS AND SALTS PREVIOUSLY TAXED.—The tax under section 4511 shall not apply—

(1) with respect to any fatty acid or salt resulting from a previous first domestic processing taxed under such section or upon which an import tax has been paid under subchapter E of chapter 38, or

(2) with respect to any combination or mixture by reason of its containing an oil, fatty acid, or salt with respect to which there has been a previous first domestic processing or upon which an import tax has been paid under subchapter E of chapter 38.

(b) FROM ADDITIONAL TAX ON COCONUT OIL.—The additional tax imposed by section 4511 (b) shall not apply when it is established, in accordance with regulations prescribed by the Secretary or his delegate, that the coconut oil (whether or not contained in a combination or mixture)—

(1) is wholly the production of the Philippine Islands, any possession of the United States, or the Territory of the Pacific Islands (hereinafter in this paragraph referred to as the "Trust Territory"), or

(2) was produced wholly from materials the growth or production of the Philippine Islands, any possessions of the United States, or the Trust Territory:

Provided, however, That such additional tax shall apply in respect of coconut oil (whether or not contained in a combination or mixture) so derived from the Trust Territory, to such extent, and at such time after the date of the applicable proclamation, as the President, after taking into account the responsibilities of the United States with respect to the economy of the Trust Territory, shall hereafter determine and proclaim to be justified to prevent substantial injury or the threat thereof to the competitive trade of any country of the free world.

(c) PROCESSED FOR EXPORTATION.—Upon the giving of bond satisfactory to the Secretary or his delegate for the faithful observance of the provisions of this chapter requiring the payment of taxes, any person shall be entitled, without payment of the tax, to process for exportation any article wholly or in chief value of an article with respect to which a tax is imposed by section 4511.

SEC. 4514. CROSS REFERENCE TO GENERAL ADMINISTRATIVE PROVISIONS.

See subtitle F for administrative provisions of general application to the taxes imposed under this chapter.

CHAPTER 38—IMPORT TAXES

SUBCHAPTER A. Petroleum products.
SUBCHAPTER B. Coal.
SUBCHAPTER C. Copper.
SUBCHAPTER D. Lumber.
SUBCHAPTER E. Animal and vegetable oils and seeds.
SUBCHAPTER F. Oleomargarine.
SUBCHAPTER G. Special provisions applicable to import taxes.

Subchapter A—Petroleum Products

Sec. 4521. Imposition of tax.

SEC. 4521. IMPOSITION OF TAX.

In addition to any other tax or duty imposed by law, there is hereby imposed upon the following articles imported into the United States, unless treaty provisions of the United States otherwise provide, a tax at the rates specified. For the purposes of such tax, the term "United States" includes Puerto Rico.

(1) CRUDE PETROLEUM, FUEL, AND GASOLINE.—Crude petroleum, fuel oil derived from petroleum, gas oil derived from petroleum, and all liquid derivatives of crude petroleum, except lubricating oil and gasoline or other motor fuel, one-half cent per gallon.

(2) GASOLINE OR OTHER MOTOR FUEL.—Gasoline or other motor fuel, 2½ cents per gallon.

(3) LUBRICATING OIL.—Lubricating oil, 4 cents per gallon.

(4) PARAFFIN AND OTHER WAX PRODUCTS.—Paraffin and other petroleum wax products, 1 cent per pound.

Subchapter B—Coal

Sec. 4531. Imposition of tax.
Sec. 4532. Exemption where exports exceed imports.

SEC. 4531. IMPOSITION OF TAX.

In addition to any other tax or duty imposed by law, there is hereby imposed a tax of 10 cents per 100 pounds on coal of all sizes, grades, and classifications (except culm and duff), coke manufactured therefrom, and coal or coke briquettes imported into the United States, unless treaty provisions of the United States otherwise provide. For the purpose of such tax, the term "United States" includes Puerto Rico.

SEC. 4532. EXEMPTION WHERE EXPORTS EXCEED IMPORTS.

The tax on the articles described in section 4531 shall not be imposed upon any such article if during the preceding calendar year the exports of the articles described in section 4531 from the United States to the country from which such article is imported have been greater in quantity than the imports into the United States from such country of the articles described in such section.

Subchapter C—Copper

Sec. 4541. Imposition of tax.
Sec. 4542. Exemptions.

SEC. 4541. IMPOSITION OF TAX.

In addition to any other tax or duty imposed by law, there is hereby imposed upon the following articles, imported into the United States, unless treaty provisions of the United States otherwise provide, a tax at the rates specified. For the purposes of such tax, the term "United States" includes Puerto Rico.

(1) GENERAL.—Copper-bearing ores and concentrates and articles provided for in paragraph 316, 380, 381, 387, 1620, 1634, 1657, 1658, or 1659 of the Tariff Act of 1930 (46 Stat. 613, 626, 627, 674, 675, 676; 19 U. S. C. 1001, 1201), 4 cents per pound on the copper contained therein.

(2) OTHER ARTICLES WHERE COPPER IS CHIEF COMPONENT.—All articles dutiable under the Tariff Act of 1930 (46 Stat. 590; 19 U. S. C., chapter 4), not provided for heretofore in this section, in which copper (including copper in alloys) is the component material of chief value, 3 cents per pound.

(3) OTHER ARTICLES CONTAINING 4 PERCENT OR MORE OF COPPER.—All articles dutiable under the Tariff Act of 1930, not provided for heretofore in this section, containing 4 percent or more of copper by weight, 3 percent ad valorem or three-fourths of 1 cent per pound, whichever is the lower.

SEC. 4542. EXEMPTIONS.

(a) COPPER LOST IN PROCESSING.—No tax shall be imposed under section 4541 on copper which is lost in metallurgical processes.

(b) COPPER USABLE AS FLUX, ETC.—Ores or concentrates usable as a flux or sulphur reagent in copper smelting and/or converting and having a copper content of not more than 15 percent, when imported for fluxing purposes, shall be admitted free of the tax imposed by section 4541 in an aggregate amount of not to exceed in any one year 15,000 tons of copper content.

Subchapter D—Lumber

Sec. 4551. Imposition of tax.
Sec. 4552. Definitions.
Sec. 4553. Exemption.

SEC. 4551. IMPOSITION OF TAX.

In addition to any other tax or duty imposed by law, there is hereby imposed upon the following articles imported into the United States, unless treaty provisions of the United States otherwise provide, a tax at the rates specified. For the purposes of such tax, the term "United States" includes Puerto Rico.

(1) IN GENERAL.—Lumber, rough or planed or dressed on one or more sides, except flooring made of maple (other than Japanese maple), birch, or beech, $3 per 1,000 feet, board measure.

(2) WOOD DOWELS.—

(A) Dowels made of fir, spruce, pine, hemlock, larch, or cedar (except cedar commercially known as Spanish cedar), 75 cents per 1,000 feet, board measure.

(B) Dowels made of Japanese maple, Japanese white oak, teak, box, ebony, lancewood, or lignum vitae, $3 per 1,000 feet, board measure.

(C) Dowels made of wood and for which no rate of tax is specified under subparagraph (A) or (B), $1.50 per 1,000 feet, board measure.

SEC. 4552. DEFINITIONS.

(a) BOARD MEASURE.—In determining board measure for the purposes of this subchapter, no deduction shall be made on account of planing, tonguing, and grooving.

(b) LUMBER.—As used in this subchapter "lumber" includes sawed timber. This section shall apply—

(1) unless in conflict with any international obligation of the United States or

(2) if so in conflict, then on the termination of such obligation otherwise than in connection with the undertaking by the United States of a new obligation which continues such conflict.

SEC. 4553. EXEMPTION.

The tax imposed by section 4551 shall not apply to lumber of Northern white pine (pinus strobus), Norway pine (pinus resinosa), Western white spruce, and Engelmann spruce.

Subchapter E—Animal and Vegetable Oils and Seeds

Part I. Animal oils.
Part II. Seeds and seed oils.
Part III. Manufactures and compounds.

PART I—ANIMAL OILS

Sec. 4561. Imposition of tax.
Sec. 4562. Exemptions for United States vessels.

SEC. 4561. IMPOSITION OF TAX.

In addition to any other tax or duty imposed by law, there is hereby imposed upon the following articles imported into the United States, unless treaty provisions of the United States otherwise provide, a tax of 3 cents per pound, to be paid by the importer:

Whale oil (except sperm oil).
Fish oil (except cod oil, cod-liver oil, and halibut liver oil).
Marine animal oil.
Tallow.
Inedible animal oils.
Inedible animal fats.
Inedible animal greases.
Fatty acids derived from any of the foregoing, and salts of any of the foregoing; all the foregoing, whether or not refined, sulphonated, sulphated, hydrogenated, or otherwise processed.

SEC. 4562. EXEMPTIONS FOR UNITED STATES VESSELS.

Whale oil (except sperm oil), fish oil, or marine animal oil of any kind (whether or not refined, sulphonated, sulphated, hydrogenated or otherwise processed), or fatty acids derived therefrom, shall be admitted to entry free from the tax provided in section 4561 provided that such oil was produced on vessels of the United States or in the United States or its possessions, from whales, fish, or marine animals or parts thereof taken and captured by vessels of the United States.

PART II—SEEDS AND SEED OILS

Sec. 4571. Imposition of tax.
Sec. 4572. Exemption for certain uses of rapeseed oil.

SEC. 4571. IMPOSITION OF TAX.

In addition to any other tax or duty imposed by law, there shall be imposed upon the following articles imported into the United States, unless treaty provisions of the United States otherwise provide, a tax at the rates set forth to be paid by the importer.

(1) OILS.—Sesame oil provided for in paragraph 1732 of the Tariff Act of 1930 (46 Stat., 680; 19 U. S. C. 1201), sunflower oil, rapeseed oil, kapok oil, hempseed oil, perilla oil, fatty acids derived from any of the foregoing or from linseed oil, and salts of any of the foregoing; all the foregoing, whether or not refined, sulpho-

nated, sulphated, hydrogenated, or otherwise processed, 4½ cents per pound;

(2) HEMPSEED.—Hempseed, 1.24 cents per pound;

(3) PERILLA SEED.—Perilla seed, 1.38 cents per pound;

(4) KAPOK AND RAPESEED.—Kapok seed and rapeseed, 2 cents per pound;

(5) SESAME SEED.—Sesame seed, 1.18 cents per pound.

SEC. 4572. EXEMPTION FOR CERTAIN USES OF RAPESEED OIL.

The tax imposed under section 4571 (1) shall not apply to rapeseed oil imported to be used in the manufacture of rubber substitutes or lubricating oil, and the Secretary or his delegate shall prescribe methods and regulations to carry out this section.

PART III—MANUFACTURES AND COMPOUNDS

Sec. 4581. Imposition of tax.
Sec. 4582. Exemptions.

SEC. 4581. IMPOSITION OF TAX.

In addition to any other tax or duty imposed by law, there is hereby imposed upon the following articles imported into the United States, unless treaty provisions of the United States otherwise provide, a tax at the rates set forth, to be paid by the importer—

Any article, merchandise, or combination (except oils specified in section 4511), 10 percent or more of the quantity by weight of which consists of, or is derived directly or indirectly from, one or more of the products specified in sections 4561 and 4571, or of the oils, fatty acids, or salts specified in section 4511, a tax at the rate or rates per pound equal to that proportion of the rate or rates prescribed in sections 4561 and 4571 or section 4511 in respect of such product or products which the quantity by weight of the imported article, merchandise, or combination, consisting of or derived from such product or products, bears to the total weight of the imported article, merchandise, or combination;

SEC. 4582. EXEMPTIONS.

(a) CERTAIN NATURAL OILS.—There shall not be taxable under section 4581 any article, merchandise, or combination (other than an oil, fat, or grease, and other than products resulting from processing seeds without full commercial extraction of the oil content), by reason of the presence therein of an oil, fat, or grease which is a natural component of such article, merchandise, or combination and has never had a separate existence as an oil, fat, or grease.

(b) CERTAIN COCONUT OIL.—The taxes imposed by this subchapter shall not apply to any article, merchandise, or combination, by reason of the presence therein of any coconut oil produced in Guam or American Samoa, or any direct or indirect derivative of such oil.

(c) GLYCERIN, STEARINE PITCH AND CERTAIN COMPONENTS OF WASTES.—No tax shall be imposed under this subchapter on the importation of glycerin or stearine pitch or any article by reason of any component of such article derived directly or indirectly from a waste not named in sections 4561, 4571, or 4581.

Subchapter F—Oleomargarine

Sec. 4591. Imposition of tax.
Sec. 4592. Definitions.
Sec. 4593. Exemption.
Sec. 4594. Packing requirements for manufacturers.
Sec. 4595. Wholesale and retail selling requirements.
Sec. 4596. Bonds.
Sec. 4597. Books and returns.

SEC. 4591. IMPOSITION OF TAX.

(a) RATE.—There is hereby imposed on all oleomargarine imported from foreign countries, in addition to any import duty imposed on the same, an internal revenue tax of 15 cents per pound, such tax to be represented by coupon stamps. The Secretary or his delegate is authorized to decide what substances, extracts, mixtures, or compounds which may be submitted for his inspection in contested cases are to be taxed under this subchapter; and his decision in matters of taxation under this subchapter shall be final.

(b) AFFIXING OF STAMPS.—The stamps shall be affixed and canceled by the owner or importer of the oleomargarine while it is in the custody of the proper custom house officers; and the oleomargarine shall not pass out of the custody of said officers until the stamps have been so affixed and canceled, but shall be put up in wooden packages, each containing not less than 10 pounds, before the stamps are affixed. Whenever it is necessary to take any oleomargarine so imported to any place other than the public stores of the United States for the purpose of affixing and canceling such stamps, the collector of customs of the port where such oleomargarine is entered shall designate a bonded warehouse to which it shall be taken, under the control of such customs officer as such collector may direct.

SEC. 4592. DEFINITIONS.

(a) OLEOMARGARINE.—For the purposes of section 4591, certain manufactured substances, certain extracts, and certain mixtures and compounds, including such mixtures and compounds with butter, shall be known and designated as "oleomargarine," namely: All substances known prior to August 2, 1886, as oleomargarine, oleo, oleo margarine oil, butterine, lardine, suine, and neutral; all mixtures and compounds of oleomargarine, oleo, oleomargarine oil, butterine, lardine, suine, and neutral; all lard extracts and tallow extracts; and all mixtures and compounds of tallow, beef fat, suet, lard, lard oil, fish oil or fish fat, vegetable oil, annatto, and other coloring matter, intestinal fat, and offal fat;—if (1) made in imitation or semblance of butter, or (2) calculated or intended to be sold as butter or for butter, or (3) churned, emulsified, or mixed in cream, milk, water, of other liquid, and containing moisture in excess of 1 per centum or common salt.

(b) MANUFACTURER.—Every person who manufactures oleomargarine for sale shall be deemed a manufacturer of oleomargarine. And any person that sells, vends, or furnishes oleomargarine for the use and consumption of others, except to his own family table without com-

pensation, who shall add to or mix with such oleomargarine any substance which causes such oleomargarine to be yellow in color, shall also be held to be a manufacturer of oleomargarine within the meaning of this chapter.

(c) WHOLESALE DEALER.—Every person who sells or offers for sale oleomargarine in the original manufacturer's packages shall be deemed a wholesale dealer in oleomargarine.

(d) RETAIL SALES.—Every person who sells oleomargarine in less quantities than ten pounds at one time shall be regarded as a retail dealer in oleomargarine.

SEC. 4593. EXEMPTION.

(a) SHORTENING OR CONDIMENTS.—Section 4591 shall not apply to puff-pastry shortening not churned or emulsified in milk or cream, and having a melting point of 118 degrees Fahrenheit or more, nor to any of the following containing condiments and spices: salad dressings, mayonnaise dressings, or mayonnaise products, nor to liquid emulsion, pharmaceutical preparations, oil meals, liquid preservatives, illuminating oils, cleansing compounds, or flavoring compounds.

(b) EXPORTS.—Oleomargarine may be removed from the place of manufacture for export to a foreign country without payment of tax or affixing stamps thereto, under such regulations and the filing of such bonds and other security as the Secretary or his delegate may prescribe. Every person who shall export oleomargarine shall brand upon every tub, firkin, or other package containing such article the word "Oleomargarine", in plain Roman letters not less than one-half inch square.

SEC. 4594. PACKING REQUIREMENTS FOR MANUFACTURERS.

(a) KIND AND WEIGHT OF PACKAGES.—All oleomargarine shall be packed by the manufacturer thereof in firkins, tubs, or other wooden, tin-plate, or paper packages, not before used for that purpose, containing, or encased in a manufacturer's package made from any of such materials of, not less than ten pounds.

(b) MARKS AND STAMPS.—The packages described in subsection (a) shall be marked, stamped, and branded as the Secretary or his delegate shall prescribe; and all sales made by manufacturers of oleomargarine shall be in original stamped packages.

(c) CAUTION LABEL.—Every manufacturer of oleomargarine shall securely affix, by pasting, on each package containing oleomargarine manufactured by him, a label on which shall be printed, besides the number of the manufactory and the district and State in which it is situated, these words: "NOTICE.—The manufacturer of the oleomargarine herein contained has complied with all the requirements of law. Every person is cautioned not to use either this package again or the stamp thereon again, nor to remove the contents of this package without destroying said stamp, under the penalty provided by law in such cases."

(d) FACTORY NUMBER AND SIGNS.—Every manufacturer of oleomargarine shall put up such signs and affix such number to his factory as the Secretary or his delegate may, by regulation, require.

SEC. 4595. WHOLESALE AND RETAIL SELLING REQUIREMENTS.

(a) WHOLESALE.—All sales made by wholesale dealers in oleomargarine shall be in original stamped packages.

(b) RETAIL.—Retail dealers in oleomargarine must sell only from original stamped packages, in quantities not exceeding ten pounds, and shall pack, or cause to be packed, the oleomargarine sold by them in suitable wooden, tin-plate, or paper packages which shall be marked and branded as the Secretary or his delegate shall prescribe.

SEC. 4596. BONDS.

Every manufacturer of oleomargarine shall file such bonds as the Secretary or his delegate, may, by regulation, require. But the bonds required of such manufacturer shall be with sureties satisfactory to the Secretary or his delegate, and in a penal sum of not less than $5,000; and the sum of said bond may be increased from time to time, and additional sureties required at the discretion of the Secretary or his delegate.

SEC. 4597. BOOKS AND RETURNS.

(a) WHOLESALE DEALERS.—Wholesale dealers in oleomargarine shall keep such books and render such returns in relation thereto as the Secretary or his delegate may, by regulation, require; and such books shall be open at all times to the inspection of any internal revenue officer or agent.

(b) Manufacturers.—

See section 7641.

Subchapter G—Special Provisions Applicable to Import Taxes

Sec. 4601. Applicability of tariff provisions.
Sec. 4602. Certain taxes not to contravene trade agreements.
Sec. 4603. Cross references.

SEC. 4601. APPLICABILITY OF TARIFF PROVISIONS.

The taxes imposed by this chapter (except subchapter F) shall be levied, assessed, collected and paid in the same manner as a duty imposed by the Tariff Act of 1930 (46 Stat. 590; 19 U. S. C., chapter 4) and shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such act, except that—

(1) TAX BASE.—The value on which such tax shall be based shall be the sum of (1) the dutiable value (under section 503 of such act; 46 Stat. 731; 19 U. S. C. 1503) of the article, plus (2) the customs duties, if any, imposed thereon under any provision of law;

(2) ADDITIONAL DUTY AND FLEXIBLE TARIFF PROVISIONS.—For the purposes of section 489 of such act (relating to additional duties in certain cases of undervaluation; 46 Stat. 725; 19 U. S. C. 1489), such tax shall not be considered an ad valorem rate of duty or a duty based upon or regulated in any manner by the value of the article, and for the purposes of section 336 of such act (the so-called flexible tariff provision; 46 Stat. 701; 19 U. S. C. 1336) such tax shall not be considered a duty; and

(3) The tax imposed under subchapter E except as specifically provided in section 4582 (b) with reference to certain products of Guam and American Samoa shall be imposed in full notwithstanding any provision of law granting exemption from or reduction of duties to products of any possession of the United States.

SEC. 4602. CERTAIN TAXES NOT TO CONTRAVENE TRADE AGREEMENTS.

Nothing in subchapter E shall be construed as imposing a tax in contravention of an obligation undertaken in any trade agreement entered into prior to August 21, 1936, under the authority of section 350 of the Tariff Act of 1930, as amended (c. 474, 48 Stat. 943; 19 U. S. C. 1351). Each reference to any provision of the Internal Revenue Code of 1939 in any agreement entered into, or in any proclamation of the President made, under the authority of such section shall be deemed also to refer to the corresponding provision of this title.

SEC. 4603. CROSS REFERENCES.

(1) See subtitle F for administrative provisions of general application to the taxes imposed under this chapter.

(2) See section 4501 (b) for the import tax on sugar.

CHAPTER 39—REGULATORY TAXES

SUBCHAPTER A. Narcotic drugs and marihuana.
SUBCHAPTER B. White phosphorus matches.
SUBCHAPTER C. Adulterated butter and filled cheese.
SUBCHAPTER D. Cotton futures.
SUBCHAPTER E. Circulation other than of national banks.
SUBCHAPTER F. Silver bullion.

Subchapter A—Narcotic Drugs and Marihuana

Part I. Narcotic drugs.
Part II. Marihuana.
Part III. Miscellaneous provisions relating to narcotic drugs and marihuana.

PART I—NARCOTIC DRUGS

Subpart A. Tax on opium, isonipecaine, opiates, and coca leaves.
Subpart B. Tax on opium for smoking.
Subpart C. Occupational tax.
Subpart D. General provisions relating to narcotic drugs.

Subpart A—Tax on Opium, Isonipecaine, Opiates, and Coca Leaves

Sec. 4701. Imposition of tax.
Sec. 4702. Exemptions.
Sec. 4703. Affixing of stamps.
Sec. 4704. Packages.
Sec. 4705. Order forms.
Sec. 4706. Forfeitures.
Sec. 4707. Cross references.

SEC. 4701. IMPOSITION OF TAX.

(a) RATE.—There shall be imposed an internal revenue tax upon narcotic drugs, produced in or imported into the United States, and sold, or removed for consumption or sale, at the rate of 1 cent per ounce, and any fraction of an ounce in a package shall be taxed as an ounce. The tax imposed by this subsection shall be in addition to any import duty imposed on narcotic drugs.

(b) BY WHOM PAID.—The tax imposed by subsection (a) shall be paid by the importer, manufacturer, producer, or compounder.

SEC. 4702. EXEMPTIONS.

(a) PREPARATIONS OF LIMITED NARCOTIC CONTENT.—The provisions of this subpart and sections 4721 to 4726, inclusive, shall not be construed to apply to the manufacture, sale, distribution, giving away, dispensing, or possession of preparations and remedies which do not contain more than 2 grains of opium, or more than one-fourth of a grain of morphine, or more than one-eighth of a grain of heroin, or more than 1 grain of codeine, or any salt or derivative of any of them, in 1 fluid ounce, or, if a solid or semisolid preparation, in 1 avoirdupois ounce; or to liniments, ointments, or other preparations which are prepared for external use only, except liniments, ointments, and other

preparations which contain cocaine or any of its salts or alpha or beta eucaine or any of their salts or any synthetic substitute for them: *Provided*, That such remedies and preparations are manufactured, sold, distributed, given away, dispensed, or possessed as medicines and not for the purpose of evading the intentions and provisions of this subpart and sections 4721 to 4726, inclusive, *Provided further*, That any manufacturer, producer, compounder, or vendor (including dispensing physicians) of the preparations and remedies mentioned in this section, lawfully entitled to manufacture, produce, compound, or vend such preparations and remedies, shall keep a record of all sales, exchanges, or gifts of such preparations and remedies in such manner as the Secretary or his delegate shall direct. Such record shall be preserved for a period of 2 years in such a way as to be readily accessible to inspection by any officer or employee of the Treasury Department duly authorized for that purpose, and the State, Territorial, District, municipal, and insular officers named in section 4773, and every such person so possessing or disposing of such preparations and remedies shall register as required in section 4722 and, if he is not paying a tax under section 4721, he shall pay a special tax of $1 for each year, or fractional part thereof, in which he is engaged in such occupation, to the official in charge of the collection district in which he carries on such occupation as provided in sections 4721 to 4726, inclusive.

(b) DECOCAINIZED COCA LEAVES.—The provisions of this subpart and sections 4721 to 4726, inclusive, shall not apply to decocainized coca leaves or preparations made therefrom, or to other preparations of coca leaves which do not contain cocaine.

(c) GOVERNMENT AND STATE OFFICIALS.—

(1) STAMPING DRUGS.—Officials of the United States, Territorial, District of Columbia, or insular possessions, State or municipal governments, who in the exercise of their official duties engage in any of the business described in sections 4721 to 4726, inclusive, shall not be required to stamp narcotic drugs, as prescribed in this subpart, but their right to this exemption shall be evidenced in such manner as the Secretary or his delegate may by regulations prescribe.

(2) REGISTRATION AND PAYMENT OF TAX.—

For exemption of officials of the United States, Territorial, District of Columbia, or insular possessions, State or municipal governments from the requirements as to registration and the payment of special taxes, see section 4772 (b).

SEC. 4703. AFFIXING OF STAMPS.

The stamps provided in section 4771 (a) (1) for narcotic drugs shall be so affixed to the bottle or other container as to securely seal the stopper, covering, or wrapper thereof.

SEC. 4704. PACKAGES.

(a) GENERAL REQUIREMENT.—It shall be unlawful for any person to purchase, sell, dispense, or distribute narcotic drugs except in the original stamped package or from the original stamped package; and the absence of appropriate taxpaid stamps from narcotic drugs shall be prima facie evidence of a violation of this subsection by the person in whose possession the same may be found.

(b) EXCEPTIONS IN CASE OF REGISTERED PRACTITIONERS.—The provisions of subsection (a) shall not apply—

(1) PRESCRIPTIONS.—To any person having in his or her possession narcotic drugs which have been obtained from a registered dealer in pursuance of a prescription, written for legitimate medical uses, issued by a physician, dentist, veterinary surgeon, or other practitioner registered under section 4722, and where the bottle or other container in which such drug may be put up by the dealer upon said prescription bears the name and registry number of the druggist, serial number of prescription, name and address of the patient, and name, address, and registry number of the person writing said prescription; or

(2) DISPENSATIONS DIRECT TO PATIENTS.—To the dispensing, or administration, or giving away of narcotic drugs to a patient by a registered physician, dentist, veterinary surgeon, or other practitioner in the course of his professional practice, and where said drugs are dispensed or administered to the patient for legitimate medical purposes, and the record kept as required by this subpart of the drugs so dispensed, administered, distributed, or given away.

SEC. 4705. ORDER FORMS.

(a) GENERAL REQUIREMENT.—It shall be unlawful for any person to sell, barter, exchange, or give away narcotic drugs except in pursuance of a written order of the person to whom such article is sold, bartered, exchanged, or given, on a form to be issued in blank for that purpose by the Secretary or his delegate.

(b) EXCEPTION IN CASE OF VIRGIN ISLANDS.—The President is authorized and directed to issue such Executive orders as will permit those persons in the Virgin Islands of the United States, lawfully entitled to sell, deal in, dispense, prescribe, and distribute narcotic drugs, to obtain said drugs from persons registered under section 4722 within the continental United States for legitimate medical purposes, without regard to the order forms described in this section.

(c) OTHER EXCEPTIONS.—Nothing contained in this section, section 4735, or section 4774 shall apply—

(1) USE OF DRUGS IN PROFESSIONAL PRACTICE.—To the dispensing or distribution of narcotic drugs to a patient by a physician, dentist, or veterinary surgeon registered under section 4722 in the course of his professional practice only: *Provided*, That such physician, dentist, or veterinary surgeon shall keep a record of all such drugs dispensed or distributed, showing the amount dispensed or distributed, the date, and the name and address of the patient to whom such drugs are dispensed or distributed, except such as may be dispensed or distributed to a patient upon whom such physician, dentist, or veterinary surgeon shall personally attend; and such record shall be kept for a period of two years from the date of dispensing or distributing such drugs, subject to inspection, as provided in section 4773.

(2) PRESCRIPTIONS.—To the sale, dispensing, or distribution of narcotic drugs by a dealer to a consumer under and in pursuance of a written prescription issued by a physician, dentist, or veterinary surgeon registered under section 4722: *Provided, however*, That such prescription shall be dated as of the day on which signed and shall be signed by the physician, dentist, or veterinary surgeon who shall

have issued the same: *And provided further*, That such dealer shall preserve such prescription for a period of 2 years from the day on which such prescription is filled in such a way as to be readily accessible to inspection by the officers, employees, and officials mentioned in section 4773.

(3) EXPORTATION.—To the sale, exportation, shipment, or delivery of narcotic drugs by any person within the United States or any Territory or the District of Columbia or any of the insular possessions of the United States to any person in any foreign country, regulating their entry in accordance with such regulations for importation thereof into such foreign country as are prescribed by said country, such regulations to be promulgated from time to time by the Secretary of State.

(4) GOVERNMENT AND STATE OFFICIALS.—To the sale, barter, exchange, or giving away of narcotic drugs to any officer of the United States Government or of any State, Territorial, district, county, or municipal or insular government lawfully engaged in making purchases thereof for the various departments of the Army and Navy, the Public Health Service, and for Government, State, Territorial, district, county, or municipal or insular hospitals or prisons.

(d) PRESERVATION.—Every person who shall accept any order required under subsection (a), and in pursuance thereof shall sell, barter, exchange, or give away narcotic drugs, shall preserve such order for a period of 2 years in such a way as to be readily accessible to inspection by any officer or employee of the Treasury Department duly authorized for that purpose, and the State, Territorial, District, municipal, and insular officials named in section 4773.

(e) DUPLICATES.—Every person who shall give an order as provided in this section to any other person for narcotic drugs shall, at or before the time of giving such order, make or cause to be made a duplicate thereof on a form to be issued in blank for that purpose by the Secretary or his delegate, and in case of the acceptance of such order shall preserve such duplicate for said period of 2 years in such a way as to be readily accessible to inspection by the officers, employees, and officials mentioned in section 4773.

(f) SUPPLY.—The Secretary or his delegate shall cause suitable forms to be prepared for the purposes mentioned in this section, and shall cause the same to be distributed to each internal revenue district for sale to those persons who shall have registered and paid the special tax as required by sections 4722 and 4721; and he shall require that the same be sold only to persons who have registered and paid the special tax as required by said sections. The price at which such forms shall be sold shall be fixed by the Secretary or his delegate but shall not exceed the sum of $1 per hundred. The Secretary or his delegate shall cause to be kept accounts of the number of such forms sold, the names of the purchasers, and the number of such forms sold to each of such purchasers. Whenever any of such forms are sold, the Secretary or his delegate shall cause the name of the purchaser thereof to be plainly written or stamped thereon before delivering the same; and no person other than such purchaser shall use any of said forms bearing the name of such purchaser for the purpose of procuring narcotic drugs, or furnish any of the forms bearing the name of such purchaser

to any person with intent thereby to procure the shipment or delivery of narcotic drugs.

(g) UNLAWFUL USE.—It shall be unlawful for any person to obtain by means of said order forms narcotic drugs for any purpose other than the use, sale, or distribution thereof by him in the conduct of a lawful business in said drugs or in the legitimate practice of his profession.

(h) CROSS REFERENCE.—

For issuance of order forms in Puerto Rico and the Trust Territory of the Pacific Islands, see section 4735 (a).

SEC. 4706. FORFEITURES.

(a) UNSTAMPED PACKAGES.—All unstamped packages of narcotic drugs found in the possession of any person, except as provided in this subpart, shall be subject to seizure and forfeiture, and all the provisions of internal revenue laws relating to searches, seizures, and forfeiture of unstamped articles shall be extended to and made to apply to the articles taxed under this subpart and the persons upon whom the taxes under this subpart or sections 4721 to 4726, inclusive, are imposed.

(b) CROSS REFERENCES.—

(1) CONFISCATION AND DISPOSAL OF SEIZED DRUGS.—For provisions relating to the confiscation and disposal of seized drugs, see section 4733.

(2) OTHER FORFEITURE PROVISIONS.—

For other general forfeiture provisions, see subtitle F.

SEC. 4707. CROSS REFERENCES.

For penalties and other general and administrative provisions, see sections 4731 to 4736, inclusive; sections 4771 to 4776, inclusive; and subtitle F.

Subpart B—Tax on Opium for Smoking

Sec. 4711. Imposition of tax.
Sec. 4712. Stamps.
Sec. 4713. Manufacturers.
Sec. 4714. Forfeiture.
Sec. 4715. Cross references.

SEC. 4711. IMPOSITION OF TAX.

There shall be imposed an internal revenue tax of $300 per pound upon all opium manufactured in the United States for smoking purposes.

SEC. 4712. STAMPS.

(a) METHOD OF PAYMENT.—

(1) STAMPS.—All opium prepared for smoking manufactured in the United States shall be duly stamped in such a permanent manner as to denote the payment of the internal revenue tax thereon.

(2) ASSESSMENT.—

For assessment in case of omitted taxes payable by stamp, see subtitle F.

(b) CERTAIN STAMP PROVISIONS APPLICABLE.—The provisions of law covering the engraving, issue, sale, accountability, effacement,

cancellation, and destruction of stamps relating to tobacco and snuff, as far as applicable, shall apply to stamps provided for by paragraph (1) of subsection (a).

SEC. 4713. MANUFACTURERS.

(a) DEFINITION.—Every person who prepares opium suitable for smoking purposes from crude gum opium, or from any preparation thereof, or from the residue of smoked or partially smoked opium, commonly known as yen shee, or from any mixture of the above, or any of them, shall be regarded as a manufacturer of smoking opium within the meaning of this subpart.

(b) BOND.—Every manufacturer of opium suitable for smoking purposes shall file with the official in charge of the internal revenue district in which his manufactory is located such bonds as the Secretary or his delegate may by regulation require. The bond required of such manufacturer shall be in a penal sum of not less than $100,000; and the sum of said bond may be increased from time to time and additional sureties required, at the discretion of the Secretary or his delegate. No person shall engage in such manufacture who has not given the bond required by the Secretary or his delegate.

(c) CITIZENSHIP.—No person shall engage in the manufacture of opium suitable for smoking purposes who is not a citizen of the United States.

(d) SIGNS AND FACTORY NUMBER.—Every manufacturer of opium suitable for smoking purposes shall put up such signs and affix such number to his factory as the Secretary or his delegate may by regulation require.

SEC. 4714. FORFEITURE.

All opium prepared for smoking, whenever found within the United States without the stamps required by this subpart, shall be forfeited and destroyed.

SEC. 4715. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subpart, see sections 4731 to 4736, inclusive; sections 4771 to 4776, inclusive; and subtitle F.

Subpart C—Occupational Tax

Sec. 4721. Imposition of tax.
Sec. 4722. Registration.
Sec. 4723. Possession by person not registered.
Sec. 4724. Unlawful acts in case of failure to register and pay special tax.
Sec. 4725. Other laws applicable.
Sec. 4726. Cross references.

SEC. 4721. IMPOSITION OF TAX.

On or before July 1 of each year every person who imports, manufactures, produces, compounds, sells, deals in, dispenses, or gives away narcotic drugs shall pay the special taxes hereinafter provided. Every person upon first engaging in any of such activities shall immediately pay the proportionate part of the tax for the period ending on the following June 30.

(1) IMPORTERS, MANUFACTURERS, OR PRODUCERS.—Importers, manufacturers, producers, or compounders, lawfully entitled to im-

port, manufacture, produce, or compound narcotic drugs, $24 a year;

(2) WHOLESALE DEALERS.—Wholesale dealers, lawfully entitled to sell and deal in narcotic drugs, $12 a year;

(3) RETAIL DEALERS.—Retail dealers, lawfully entitled to sell and deal in narcotic drugs, $3 a year;

(4) PHYSICIANS, DENTISTS, VETERINARY SURGEONS, AND OTHER PRACTITIONERS.—Physicians, dentists, veterinary surgeons, and other practitioners, lawfully entitled to distribute, dispense, give away, or administer narcotic drugs to patients upon whom they in the course of their professional practice are in attendance, $1 a year or fraction thereof during which they engage in any of such activities;

(5) PERSONS ENGAGED IN RESEARCH, INSTRUCTION, OR ANALYSIS.—Persons not registered as an importer, manufacturer, producer, or compounder and lawfully entitled to obtain and use in a laboratory narcotic drugs for the purpose of research, instruction, or analysis shall pay $1 a year, but such persons shall keep such special records relating to receipt, disposal, and stocks on hand of narcotic drugs as the Secretary or his delegate may by regulation require. Such special records shall be open at all times to the inspection of any duly authorized officer or employee of the Treasury Department.

(6) PERSONS NOT OTHERWISE TAXED.—

For a tax of $1 a year on persons not otherwise taxed, dispensing preparations and remedies of limited narcotic content, see section 4702 (a).

(7) PERSONS IN CANAL ZONE.—

For authority of the President to issue Executive orders providing for the imposition of a special tax upon all persons in the Canal Zone who produce, import, compound, deal in, dispense, distribute, sell, or give away narcotic drugs, see section 4735 (b).

SEC. 4722. REGISTRATION.

On or before July 1 of each year every person who engages in any of the activities enumerated in section 4721 shall register with the Secretary or his delegate his name or style, place of business and place or places where such business is to be carried on, and every person upon first engaging in any such activities shall immediately make like registration.

SEC. 4723. POSSESSION BY PERSON NOT REGISTERED.

The possession of any original stamped package containing narcotic drugs by any person who has not registered and paid special taxes as required by sections 4721 and 4722 shall be prima facie evidence of liability to such special tax.

SEC. 4724. UNLAWFUL ACTS IN CASE OF FAILURE TO REGISTER AND PAY SPECIAL TAX.

(a) TRAFFICKING.—It shall be unlawful for any person required to register under the provisions of this subpart or section 4702 (a) to import, manufacture, produce, compound, sell, deal in, dispense, distribute, administer, or give away narcotic drugs without having registered and paid the special tax imposed by this subpart or section 4702 (a).

(b) TRANSPORTATION.—Except as otherwise provided in this subsection, it shall be unlawful for any person to send, ship, carry, or deliver narcotic drugs from any State or Territory or the District of Columbia, or any insular possession of the United States, into any other State or Territory or the District of Columbia, or any insular possession of the United States. Nothing contained in this subsection shall apply—

(1) to any person who shall have registered and paid the special tax as required by sections 4721 and 4722;

(2) to common carriers engaged in transporting narcotic drugs;

(3) to any employee acting within the scope of his employment for any person who shall have registered and paid the special tax as required by sections 4721 and 4722, or to any contract carrier or other agent acting within the scope of his agency for such registered person;

(4) to any person who shall deliver any such drug which has been prescribed or dispensed by a physician, dentist, veterinarian, or other practitioner required to register under the terms of this subpart or section 4702 (a) and employed to prescribe for the particular patient receiving such drug;

(5) to any person carrying any such drug which has been obtained by the person from a registered dealer in pursuance of a prescription, written for legitimate medical uses, issued by a physician, dentist, veterinarian, or other practitioner registered under section 4722 if the bottle or other container in which such drug is carried bears the name and registry number of the druggist, serial number of prescription, name and address of the patient, and name, address, and registry number of the person writing such prescription;

(6) to any person carrying any such drug which has been obtained by the person as a patient from a registered physician, dentist, or other practitioner in the course of his professional practice if such drug is dispensed to the patient for legitimate medical purposes; or

(7) to any United States, State, county, municipal, District, Territorial, or insular officer or official acting within the scope of his official duties.

(c) POSSESSION.—It shall be unlawful for any person who has not registered and paid the special tax provided for by this subpart or section 4702 (a) to have in his possession or under his control narcotic drugs; and such possession or control shall be presumptive evidence of a violation of this subsection and subsection (a), and also a violation of the provisions of sections 4721 and 4722: *Provided*, That this subsection shall not apply to any employee of a registered person, or to a nurse under the supervision of a physician, dentist, or veterinary surgeon registered under this subpart or section 4702 (a), having such possession or control by virtue of his employment or occupation and not on his own account; or to the possession of narcotic drugs which has or have been prescribed in good faith by a physician, dentist, or veterinary surgeon registered under this subpart or section 4702 (a); or to any United States, State, county, municipal, District, Territorial, or insular officer or official who has possession of any of said drugs, by reason of his official duties; or to a warehouseman holding possession for a person registered and who has paid the taxes under this

subpart and sections 4701 to 4707, inclusive; or to common carriers engaged in transporting such drugs: *Provided further*, That it shall not be necessary to negative any of the aforesaid exemptions in any complaint, information, indictment, or other writ or proceeding laid or brought under this subpart or sections 4701 to 4707, inclusive; and the burden of proof of any such exemption shall be upon the defendant.

SEC. 4725. OTHER LAWS APPLICABLE.

All provisions of law relating to special taxes, as far as necessary, shall be extended and made applicable to the special tax imposed by this subpart.

SEC. 4726. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subpart, see sections 4731 to 4736, inclusive; sections 4771 to 4776, inclusive; chapter 40; and subtitle F.

Subpart D—General Provisions Relating to Narcotic Drugs

Sec. 4731. Definitions.
Sec. 4732. Records, statements, and returns.
Sec. 4733. Confiscation and disposal of seized drugs.
Sec. 4734. Laws unaffected.
Sec. 4735. Administration in Puerto Rico, the Trust Territory of the Pacific Islands, the Canal Zone, and the Virgin Islands.
Sec. 4736. Other laws applicable.

SEC. 4731. DEFINITIONS.

(a) NARCOTIC DRUGS.—The words "narcotic drugs" as used in this part shall mean any of the following, whether produced directly or indirectly by extraction from substances of vegetable origin, or independently by means of chemical synthesis, or by a combination of extraction and chemical synthesis:

(1) Opium, isonipecaine, coca leaves, and opiate;

(2) Any compound, manufacture, salt, derivative, or preparation of opium, isonipecaine, coca leaves, or opiate;

(3) Any substance (and any compound, manufacture, salt, derivative, or preparation thereof) which is chemically identical with any of the substances referred to in clauses (1) and (2).

(b) PERSON.—The word "person", as used in sections 4701 to 4707, inclusive, and sections 4721 to 4726, inclusive, shall be construed to mean and include a partnership, association, company, or corporation, as well as a natural person.

(c) IMPORTER, MANUFACTURER, OR PRODUCER.—Every person who imports, manufactures, compounds, or otherwise produces for sale or distribution narcotic drugs shall be deemed to be an importer, manufacturer, or producer.

(d) WHOLESALE DEALER.—Every person who sells, or offers for sale, any of said drugs in the original stamped packages as provided in section 4704 (a) shall be deemed a wholesale dealer.

(e) RETAIL DEALER.—Every person who sells or dispenses from original stamped packages as provided in section 4704 (a) shall be deemed a retail dealer: *Provided*, That the office, or if none, the residence, of any person shall be considered, for the purpose of this part, except sections 4711 to 4715, inclusive, his place of business.

(f) ISONIPECAINE.—The word "isonipecaine", as used in this part shall mean any substance identified chemically as 1-methyl-4-phenylpiperidine-4-carboxylic acid ethyl ester, or any salt thereof, by whatever trade name designated.

(g) OPIATE.—The word "opiate", as used in this part shall mean any drug (as defined in the Federal Food, Drug, and Cosmetic Act; 52 Stat. 1041, section 201 (g); 21 U. S. C. 321) found by the Secretary or his delegate, after due notice and opportunity for public hearing, to have an addiction-forming or addiction-sustaining liability similar to morphine or cocaine, and proclaimed by the President to have been so found by the Secretary or his delegate. The Secretary or his delegate is authorized to issue necessary rules and regulations for carrying out the provisions of this subsection, and to confer or impose upon any officer or employee of the Treasury Department whom he shall designate or appoint, the duty of conducting any hearing authorized hereunder.

(h) TERRITORY.—As used in this part—

(1) the word "territory" shall include the Trust Territory of the Pacific Islands, and

(2) the word "territorial" shall reflect such inclusion.

SEC. 4732. RECORDS, STATEMENTS, AND RETURNS.

(a) BOOKS AND MONTHLY RETURNS OF IMPORTERS, MANUFACTURERS, AND WHOLESALE DEALERS.—Importers, manufacturers, and wholesale dealers shall keep such books and records and render such monthly returns in relation to the transactions in narcotic drugs as the Secretary or his delegate may by regulations require.

(b) RETURNS BY REGISTRANTS OF DRUGS RECEIVED.—Any person who shall be registered with the Secretary or his delegate under the provisions of section 4722 shall, whenever required so to do by the Secretary or his delegate, render to the official in charge of the internal revenue district a true and correct statement or return, verified by affidavit, setting forth the quantity of narcotic drugs received by him in said internal revenue district during such period immediately preceding the demand of the Secretary or his delegate, not exceeding 3 months, as the Secretary or his delegate may fix and determine; the names of the persons from whom the said drugs were received; the quantity in each instance received from each of such persons; and the date when received.

SEC. 4733. CONFISCATION AND DISPOSAL OF SEIZED DRUGS.

All narcotic drugs seized by the United States Government from any person or persons charged with any violation of this part, or the act of February 9, 1909 (c. 100, 35 Stat. 614), as amended by the act of January 17, 1914 (c. 9, 38 Stat. 275), the act of May 26, 1922 (c. 202, 42 Stat. 596), the act of June 7, 1924 (c. 352, 43 Stat. 657), the act of June 14, 1930 (c. 488, 46 Stat. 586), and the act of November 2, 1951 (c. 666, 65 Stat. 767; 21 U. S. C. 171–185), shall upon conviction of the person or persons from whom seized be confiscated by and forfeited to the United States; and the Secretary or his delegate is authorized to deliver for medical or scientific purposes to any department, bureau, or other agency of the United States Government, upon proper application therefor under such regulation as may be prescribed by the Secretary or his delegate, any of the drugs so seized, confiscated, and forfeited to the United States. The provisions of

this section shall also apply to narcotic drugs seized or coming into the possession of the United States in the enforcement of this part or any of the above-mentioned acts, where the owner or owners thereof are unknown. No narcotic drugs coming into possession of the United States under the operation of said part or acts, or the provisions of this section, shall be destroyed without certification by a committee appointed by the Secretary or his delegate that they are of no value for medical or scientific purposes.

SEC. 4734. LAWS UNAFFECTED.

Nothing contained in sections 4701 to 4707, inclusive, or sections 4721 to 4726, inclusive, shall be construed to impair, alter, amend, or repeal any of the provisions of the act approved February 9, 1909, entitled "An Act to prohibit the importation and use of opium for other than medicinal purposes" (c. 100, 35 Stat. 614; 21 U. S. C. 171–185), or of the Federal Food, Drug, and Cosmetic Act (June 25, 1938, c. 675, 52 Stat. 1040; 21 U. S. C. 301 et seq.), and any amendment thereof.

SEC. 4735. ADMINISTRATION IN PUERTO RICO, THE TRUST TERRITORY OF THE PACIFIC ISLANDS, THE CANAL ZONE, AND THE VIRGIN ISLANDS.

(a) PUERTO RICO AND THE TRUST TERRITORY OF THE PACIFIC ISLANDS.—In Puerto Rico and the Trust Territory of the Pacific Islands, the administration of sections 4701 to 4707, inclusive, and sections 4721 to 4726, inclusive, the collection of the special tax imposed by section 4721, and the issuance of the order forms specified in section 4705 shall be performed by the appropriate internal revenue officers of those governments, and all revenues collected thereunder in Puerto Rico and the Trust Territory of the Pacific Islands shall accrue intact to the general governments thereof, respectively. The highest court of original jurisdiction of the Trust Territory of the Pacific Islands shall possess and exercise jurisdiction in all cases arising in such Territory under sections 4701 to 4707, inclusive, and sections 4721 to 4726, inclusive.

(b) CANAL ZONE.—The President is authorized and directed to issue such Executive orders as will carry into effect in the Canal Zone the intent and purpose of sections 4701 to 4707, inclusive, and sections 4721 to 4726, inclusive, by providing for the registration and the imposition of a special tax upon all persons in the Canal Zone who produce, import, compound, deal in, dispense, sell, distribute, or give away narcotic drugs.

(c) VIRGIN ISLANDS.—

For authority of the President to exempt persons in the Virgin Islands from the order form requirements, see section 4705 (b).

SEC. 4736. OTHER LAWS APPLICABLE.

All administrative, special, or stamp provisions of law, including the law relating to the assessment of taxes, so far as applicable, shall be extended to and made a part of sections 4701 to 4707, inclusive, sections 4721, 4722, and 4724 (a), and of section 4772 insofar as it relates to narcotic drugs.

PART II—MARIHUANA

Subpart A. Tax on transfers.
Subpart B. Occupational tax.
Subpart C. General provisions relating to marihuana.

Subpart A—Tax on Transfers

Sec. 4741. Imposition of tax.
Sec. 4742. Order forms.
Sec. 4743. Affixing of stamps.
Sec. 4744. Unlawful possession.
Sec. 4745. Forfeitures.
Sec. 4746. Cross references.

SEC. 4741. IMPOSITION OF TAX.

(a) RATE.—There shall be imposed upon all transfers of marihuana which are required by section 4742 to be carried out in pursuance of written order forms taxes at the following rates:

(1) TRANSFERS TO SPECIAL TAXPAYERS.—Upon each transfer to any person who has paid the special tax and registered under sections 4751 to 4753, inclusive, $1 per ounce of marihuana or fraction thereof.

(2) TRANSFERS TO OTHERS.—Upon each transfer to any person who has not paid the special tax and registered under sections 4751 to 4753, inclusive, $100 per ounce of marihuana or fraction thereof.

(b) BY WHOM PAID.—Such tax shall be paid by the transferee at the time of securing each order form and shall be in addition to the price of such form. Such transferee shall be liable for the tax imposed by this section but in the event that the transfer is made in violation of section 4742 without an order form and without payment of the transfer tax imposed by this section, the transferor shall also be liable for such tax.

SEC. 4742. ORDER FORMS.

(a) GENERAL REQUIREMENT.—It shall be unlawful for any person, whether or not required to pay a special tax and register under sections 4751 to 4753, inclusive, to transfer marihuana, except in pursuance of a written order of the person to whom such marihuana is transferred, on a form to be issued in blank for that purpose by the Secretary or his delegate.

(b) EXCEPTIONS.—Subject to such regulations as the Secretary or his delegate may prescribe, nothing contained in this section shall apply—

(1) PROFESSIONAL PRACTICE.—To a transfer of marihuana to a patient by a physician, dentist, veterinary surgeon, or other practitioner registered under section 4753, in the course of his professional practice only: *Provided*, That such physician, dentist, veterinary surgeon, or other practitioner shall keep a record of all such marihuana transferred, showing the amount transferred and the name and address of the patient to whom such marihuana is transferred, and such record shall be kept for a period of 2 years from the date of the transfer of such marihuana, and subject to inspection as provided in section 4773.

(2) PRESCRIPTIONS.—To a transfer of marihuana, made in good faith by a dealer to a consumer under and in pursuance of a written

prescription issued by a physician, dentist, veterinary surgeon, or other practitioner registered under section 4753: *Provided*, That such prescription shall be dated as of the day on which signed and shall be signed by the physician, dentist, veterinary surgeon, or other practitioner who issues the same: *Provided further*, That such dealer shall preserve such prescription for a period of 2 years from the day on which such prescription is filled, so as to be readily accessible for inspection by the officers, employees, and officials mentioned in section 4773.

(3) EXPORTATION.—To the sale, exportation, shipment, or delivery of marihuana by any person within the United States, any Territory, the District of Columbia, or any of the insular possessions of the United States, to any person in any foreign country regulating the entry of marihuana, if such sale, shipment, or delivery of marihuana is made in accordance with such regulations for importation into such foreign country as are prescribed by such foreign country, such regulations to be promulgated from time to time by the Secretary of State of the United States.

(4) GOVERNMENT AND STATE OFFICIALS.—To a transfer of marihuana to any officer or employee of the United States Government or of any State, Territorial, District, county, or municipal or insular government lawfully engaged in making purchases thereof for the Department of Defense, the Public Health Service, and for Government, State, Territorial, District, county, or municipal or insular hospitals or prisons.

(5) CERTAIN SEEDS.—To a transfer of any seeds of the plant Cannabis sativa L. to any person registered under section 4753.

(c) SUPPLY.—The Secretary or his delegate shall cause suitable forms to be prepared for the purposes mentioned in this section and shall cause them to be distributed to each internal revenue district for sale. The price at which such forms shall be sold shall be fixed by the Secretary or his delegate, but shall not exceed 2 cents each. Whenever any of such forms are sold, the Secretary or his delegate shall cause the date of sale, the name and address of the proposed vendor, the name and address of the purchaser, and the amount of marihuana ordered to be plainly written or stamped thereon before delivering the same.

(d) PRESERVATION.—Each such order form sold by the Secretary or his delegate shall be prepared to include an original and two copies, any one of which shall be admissible in evidence as an original. The original and one copy shall be given to the purchaser thereof. The original shall in turn be given by the purchaser thereof to any person who shall, in pursuance thereof, transfer marihuana to him and shall be preserved by such person for a period of 2 years so as to be readily accessible for inspection by an officer or employee mentioned in section 4773. The copy given to the purchaser shall be retained by the purchaser and preserved for a period of 2 years so as to be readily accessible to inspection by any officer or employee mentioned in section 4773. The second copy shall be preserved in the records of the internal revenue district.

(e) EXEMPTION OF CERTAIN TRANSFERS TO MILLERS.—Nothing in this section shall apply to a transfer of the plant Cannabis sativa L. or any parts thereof from any person registered under section 4753

to a person who is also registered under section 4753 as a taxpayer required to pay the tax imposed by paragraph (6) of section 4751.

SEC. 4743. AFFIXING OF STAMPS.

The stamps provided in section 4771 (a) (1) for marihuana shall be affixed by the Secretary or his delegate to the original order form.

SEC. 4744. UNLAWFUL POSSESSION.

(a) PERSONS IN GENERAL.—It shall be unlawful for any person who is a transferee required to pay the transfer tax imposed by section 4741 (a) to acquire or otherwise obtain any marihuana without having paid such tax; and proof that any person shall have had in his possession any marihuana and shall have failed, after reasonable notice and demand by the Secretary or his delegate, to produce the order form required by section 4742 to be retained by him shall be presumptive evidence of guilt under this section and of liability for the tax imposed by section 4741 (a).

(b) GOVERNMENT AND STATE OFFICIALS.—No liability shall be imposed by virtue of this section upon any duly authorized officer of the Treasury Department engaged in the enforcement of this part, or upon any duly authorized officer of any State, or Territory, or of any political subdivision thereof, or the District of Columbia, or of any insular possession of the United States, who shall be engaged in the enforcement of any law or municipal ordinance dealing with the production, sale, prescribing, dispensing, dealing in, or distributing of marihuana.

SEC. 4745. FORFEITURES.

(a) OWNERSHIP BY VIOLATORS.—Any marihuana which may be seized by the United States Government from any person or persons charged with any violation of this part shall upon conviction of the person or persons from whom seized be confiscated by and forfeited to the United States.

(b) UNKNOWN OWNERSHIP.—Any marihuana seized or coming into the possession of the United States in the enforcement of this part, the owner or owners of which are unknown, shall be confiscated by and forfeited to the United States.

(c) DISPOSAL.—The Secretary or his delegate is hereby directed to destroy any marihuana confiscated by and forfeited to the United States under this section or to deliver such marihuana to any department, bureau, or other agency of the United States Government, upon proper application therefor, under such regulations as may be prescribed by the Secretary or his delegate.

(d) OTHER LAWS APPLICABLE.—Except as inconsistent with the provisions of this part, all the provisions of internal revenue laws relating to searches, seizures, and forfeitures are extended to include marihuana.

SEC. 4746. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subpart, see sections 4761 and 4762; sections 4771 to 4776, inclusive, and subtitle F.

Subpart B—Occupational Tax

Sec. 4751. Imposition of tax.
Sec. 4752. Computation and liability for tax.
Sec. 4753. Registration.
Sec. 4754. Returns.
Sec. 4755. Unlawful acts in case of failure to register and pay special tax.
Sec. 4756. Other laws applicable.
Sec. 4757. Cross references.

SEC. 4751. IMPOSITION OF TAX.

Every person who imports, manufactures, produces, compounds, sells, deals in, dispenses, prescribes, administers, or gives away marihuana shall before engaging in any of the above-mentioned activities, and thereafter on or before July 1 of each year, pay the following special taxes respectively:

(1) IMPORTERS, MANUFACTURERS, AND COMPOUNDERS.—Importers, manufacturers, and compounders of marihuana, $24 a year;

(2) PRODUCERS.—Producers of marihuana (except those included within paragraph (4)), $1 a year, or fraction thereof, during which they engage in such activity;

(3) PHYSICIANS, DENTISTS, VETERINARY SURGEONS, AND OTHER PRACTITIONERS.—Physicians, dentists, veterinary surgeons, and other practitioners who distribute, dispense, give away, administer, or prescribe marihuana to patients upon whom they in the course of their professional practice are in attendance, $1 a year, or fraction thereof, during which they engage in any of such activities;

(4) PERSONS ENGAGED IN RESEARCH, INSTRUCTION, OR ANALYSIS.—Any person not registered as an importer, manufacturer, producer, or compounder who obtains and uses marihuana in a laboratory for the purpose of research, instruction, or analysis, or who produces marihuana for any such purpose, $1 a year, or fraction thereof, during which he engages in such activities;

(5) PERSONS NOT OTHERWISE TAXED.—Any person who is not a physician, dentist, veterinary surgeon, or other practitioner and who deals in, dispenses, or gives away marihuana, $3 a year: *Provided*, That any person who has registered and paid the special tax as an importer, manufacturer, compounder, or producer, as required by paragraphs (1) and (2), may deal in, dispense, or give away marihuana imported, manufactured, compounded, or produced by him without further payment of the tax imposed by this section;

(6) MILLERS.—Any person who at a mill manufactures or produces from the plant Cannabis sativa L. any fiber or fiber products, $1 a year, or fraction thereof, during which he engages in such activities.

SEC. 4752. COMPUTATION AND LIABILITY FOR TAX.

(a) COMPUTATION OF TAX.—Where a tax under paragraph (1) or (5) of section 4751 is payable on July 1 of any year it shall be computed for 1 year; where any such tax is payable on any other day it shall be computed proportionately from the first day of the month in which the liability for the tax accrued to the following July 1.

(b) LIABILITY IN CASE OF ACTIVITIES IN MORE THAN ONE PLACE.—In the event that any person subject to a tax imposed by section 4751 engages in any of the activities enumerated in such section at more

than one place, such person shall pay the tax with respect to each such place.

(c) LIABILITY IN CASE OF MORE THAN ONE ACTIVITY BY SAME PERSON AT SAME TIME.—Except as otherwise provided, whenever more than one of the activities enumerated in section 4751 is carried on by the same person at the same time, such person shall pay the tax for each such activity, according to the respective rates prescribed.

SEC. 4753. REGISTRATION.

(a) IN GENERAL.—Any person subject to the tax imposed by section 4751 shall, upon payment of such tax, register his name or style and his place or places of business with the official in charge of the internal revenue district in which such place or places of business are located.

(b) SPECIAL REQUIREMENTS FOR MILLERS.—The Secretary or his delegate shall not permit the registration of any person under this section as a person required to pay the tax imposed by paragraph (6) of section 4751, unless in the opinion of the Secretary or his delegate such person (or if a corporation, each officer thereof) is a person of good moral character and unless in the opinion of the Secretary or his delegate such person is a person of suitable financial standing, intends to engage in good faith in the business of manufacturing or producing fiber or fiber products from the plant Cannabis sativa L. on a commercial basis, and is not seeking registration under this section for the purpose of facilitating the unlawful diversion of marihuana. Any person who is registered under this section and has paid the tax imposed by paragraph (6) of section 4751 shall afford officers and employees designated by the Secretary or his delegate ready access at all times to any part of the premises of the mill or other premises of such person and the right to inspect any and all books, papers, records, or documents connected with the activities of such person in dealing in, manufacturing, and processing Cannabis sativa L. and fiber or fiber products thereof, and the handling of marihuana. The Secretary or his delegate may cancel or may refuse to renew, after notice and opportunity for hearing, the registration of any such person if he finds that such person has not complied or is not complying with the requirements of this subsection, or if he finds that grounds exist which would justify the refusal to permit the original registration of such person under this section.

SEC. 4754. RETURNS.

(a) REGISTRANTS.—Any person who shall be registered under the provisions of section 4753 with the Secretary or his delegate shall, whenever required to do so by the Secretary or his delegate, render a true and correct statement or return, verified by affidavits, setting forth the quantity of marihuana received or harvested by him during such period immediately preceding the demand of the Secretary or his delegate, not exceeding 3 months, as the Secretary or his delegate may fix and determine. If such person is not solely a producer, he shall set forth in such statement or return the names of the persons from whom said marihuana was received, the quantity in each instance received from such persons, and the date when received.

(b) CROSS REFERENCES.—

For general requirement as to records, statements, and returns in the case of persons liable for tax, see subtitle F.

SEC. 4755. UNLAWFUL ACTS IN CASE OF FAILURE TO REGISTER AND PAY SPECIAL TAX.

(a) TRAFFICKING.—

(1) LIABILITY.—It shall be unlawful for any person required to register and pay the special tax under the provisions of sections 4751 to 4753, inclusive, to import, manufacture, produce, compound, sell, deal in, dispense, distribute, prescribe, administer, or give away marihuana without having so registered and paid such tax.

(2) ENFORCEMENT OF LIABILITY.—In any suit or proceeding to enforce the liability imposed by this section or sections 4751 to 4753, inclusive, if proof is made that marihuana was at any time growing upon land under the control of the defendant, such proof shall be presumptive evidence that at such time the defendant was a producer and liable under this section as well as under sections 4751 to 4753, inclusive.

(b) TRANSPORTATION.—It shall be unlawful for any person who shall not have paid the special tax and registered, as required by sections 4751 to 4753, inclusive, to send, ship, carry, transport, or deliver any marihuana within any Territory, the District of Columbia, or any insular possession, or from any State, Territory, the District of Columbia, any insular possession of the United States, or the Canal Zone, into any other State, Territory, the District of Columbia, or insular possession of the United States: *Provided*, That nothing contained in this section shall apply to any common carrier engaged in transporting marihuana; or to any employee of any person who shall have registered and paid the special tax as required by sections 4751 to 4753, inclusive, while acting within the scope of his employment; or to any person who shall deliver marihuana which has been prescribed or dispensed by a physician, dentist, veterinary surgeon, or other practitioner registered under section 4753, who has been employed to prescribe for the particular patient receiving such marihuana; or to any United States, State, county, municipal, District, Territorial, or insular officer or official acting within the scope of his official duties.

SEC. 4756. OTHER LAWS APPLICABLE.

All provisions of law (including penalties) applicable in respect of the taxes imposed by sections 4701 and 4721 shall, insofar as not inconsistent with this part, be applicable in respect of the taxes imposed by this part.

SEC. 4757. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subpart, see sections 4761 and 4762; sections 4771 to 4776, inclusive; chapter 40; and subtitle F.

Subpart C—General Provisions Relating to Marihuana

Sec. 4761. Definitions.
Sec. 4762. Administration in insular possession.

SEC. 4761. DEFINITIONS.

When used in this part—

(1) PERSON.—The term "person" means an individual, a partnership, trust, association, company, or corporation, and includes an

officer or employee of a trust, association, company, or corporation, or a member or employee of a partnership, who, as such officer, employee, or member, is under a duty to perform any act in respect of which any violation of this part occurs.

(2) MARIHUANA.—The term "marihuana" means all parts of the plant Cannabis sativa L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds, or resin; but shall not include the mature stalks of such plant, fiber produced from such stalks, oil or cake made from the seeds of such plant, any other compound, manufacture, salt, derivative, mixture, or preparation of such mature stalks (except the resin extracted therefrom), fiber, oil, or cake, or the sterilized seed of such plant which is incapable of germination.

(3) PRODUCER.—The term "producer" means any person who (A) plants, cultivates, or in any way facilitates the natural growth of marihuana; or (B) harvests and transfers or makes use of marihuana.

(4) TRANSFER OR TRANSFERRED.—The term "transfer" or "transferred" means any type of disposition resulting in a change of possession, but shall not include a transfer to a common carrier for the purpose of transporting marihuana.

SEC. 4762. ADMINISTRATION IN INSULAR POSSESSION.

(a) PUERTO RICO.—In Puerto Rico the administration of this part, the collection of the special taxes and transfer taxes, and the issuance of the order forms provided for in section 4742 shall be performed by the appropriate internal revenue officers of the government of Puerto Rico, and all revenues collected under this part in Puerto Rico shall accrue intact to the general government thereof.

(b) VIRGIN ISLANDS.—The President shall be authorized and directed to issue such Executive orders as will carry into effect in the Virgin Islands the intent and purpose of this part by providing for the registration with appropriate officers and the imposition of the special and transfer taxes upon all persons in the Virgin Islands who import, manufacture, produce, compound, sell, deal in, dispense, prescribe, administer, or give away marihuana.

PART III—MISCELLANEOUS PROVISIONS RELATING TO NARCOTIC DRUGS AND MARIHUANA

Sec. 4771. Stamps.
Sec. 4772. Exemption from tax and registration.
Sec. 4773. Inspection of returns, order forms, and prescriptions.
Sec. 4774. Territorial extent of law.
Sec. 4775. List of special taxpayers.
Sec. 4776. Cross references.

SEC. 4771. STAMPS.

(a) METHOD OF PAYMENT.—

(1) STAMPS.—The taxes imposed by sections 4701 and 4741 shall be represented by appropriate stamps, to be provided by the Secretary or his delegate.

(2) ASSESSMENT.—

For assessment in case of omitted taxes payable by stamp, see subtitle F.

(b) OTHER LAWS APPLICABLE.—All the provisions of law relating to the engraving, issuance, sale, accountability, cancellation, and destruction of tax-paid stamps provided for in the internal revenue laws shall, insofar as applicable and not inconsistent with sections 4701 to 4707, inclusive, and sections 4741 to 4746, inclusive, be extended and made to apply to the stamps provided in subsection (a).

SEC. 4772. EXEMPTION FROM TAX AND REGISTRATION.

(a) EMPLOYEES.—No employee of any person who has registered and paid a special tax as required in sections 4721 to 4726, inclusive, or sections 4751 to 4757, inclusive, acting within the scope of his employment shall be required to register and pay such special taxes.

(b) GOVERNMENT AND STATE OFFICIALS.—Officials of the United States, Territorial, District of Columbia, or insular possessions, State or municipal governments, who in the exercise of their official duties engage in any of the businesses described in section 4741 or activities enumerated in sections 4751 and 4752, shall not be required to register, nor pay special tax, but their right to this exemption shall be evidenced in such manner as the Secretary or his delegate may by regulations prescribe.

(c) CROSS REFERENCES.—

(1) CANAL ZONE.—

For authority of the President to issue Executive orders providing for the registration of all persons in the Canal Zone who produce, import, compound, deal in, dispense, distribute, sell, or give away narcotic drugs, see section 4735 (b).

(2) VIRGIN ISLANDS.—

For authority of the President to issue Executive orders providing for the registration and the imposition of special taxes relating to marihuana, on persons in the Virgin Islands, see section 4762 (b).

SEC. 4773. INSPECTION OF RETURNS, ORDER FORMS, AND PRESCRIPTIONS.

The duplicate order forms and the prescriptions required to be preserved under the provisions of section 4705 (c) (2) and (e), and the order forms and copies thereof and the prescriptions and records required to be preserved under the provisions of section 4742, in addition to the statements or returns filed in the office of the official in charge of the internal revenue district under the provisions of sections 4732 (b) or 4754, shall be open to inspection by officers and employees of the Treasury Department duly authorized for that purpose, and such officials of any State or Territory, or of any organized municipality therein, or of the District of Columbia, or any insular possession of the United States, as shall be charged with the enforcement of any law or municipal ordinance regulating the production of marihuana or regulating the sale, prescribing, dispensing, dealing in, or distribution of narcotic drugs or marihuana. The Secretary or his delegate is authorized to furnish, upon written request, certified copies of any of the said statements or returns filed in the office of any official in charge of an internal revenue district to any of such officials of any State or Territory or organized municipality therein, or the District of Columbia, or any insular possession of the United States as shall be entitled to inspect the said statements or returns filed in the office of the official in charge of the internal revenue district, upon the pay-

ment of a fee of $1 for each 100 words or fraction thereof in the copy or copies so requested.

SEC. 4774. TERRITORIAL EXTENT OF LAW.

The provisions of sections 4701 to 4707, inclusive, and sections 4721 to 4776, inclusive, shall apply to the several States, the District of Columbia, the Territory of Alaska, the Territory of Hawaii, and the insular possessions of the United States; and, in the case of narcotic drugs, shall also apply to the Trust Territory of the Pacific Islands and to the Canal Zone.

SEC. 4775. LIST OF SPECIAL TAXPAYERS.

The Secretary or any officer or employee designated by him is authorized to furnish upon written request, to any person, a certified copy of the names of any or all persons who may be listed in the respective internal revenue districts as special taxpayers under the provisions of sections 4721 to 4726, inclusive, section 4702 (a), section 4751, or section 4752, upon payment of a fee of $1 for each 100 names or fraction thereof in the copy so requested.

SEC. 4776. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subchapter, see subtitle F.

Subchapter B—White Phosphorus Matches

Sec. 4801. Imposition of tax.
Sec. 4802. Definition of white phosphorus.
Sec. 4803. Stamps.
Sec. 4804. Requirements on manufacturers.
Sec. 4805. Importation and exportation.
Sec. 4806. Cross references.

SEC. 4801. IMPOSITION OF TAX.

(a) RATE.—There shall be imposed upon white phosphorus matches manufactured, sold, or removed a tax at the rate of 2 cents per one hundred matches.

(b) BY WHOM PAID.—The tax imposed by subsection (a) shall be paid by the manufacturer.

SEC. 4802. DEFINITION OF WHITE PHOSPHORUS.

For the purpose of this subchapter, the words "white phosphorus" shall be understood to mean the common poisonous white or yellow phosphorus used in the manufacture of matches and not to include the nonpoisonous forms or the nonpoisonous compounds of white or yellow phosphorus.

SEC. 4803. STAMPS.

(a) METHOD OF PAYMENT.—

(1) STAMPS.—The tax imposed by section 4801 shall be represented by adhesive stamps.

(2) ASSESSMENT.—

For assessment in case of omitted taxes, see subtitle F.

(b) SALE.—The Secretary or his delegate shall require that stamps be sold only to duly qualified manufacturers.

(c) ACCOUNTS.—The Secretary or his delegate shall cause to be kept accounts of the number and denominate values of the stamps sold to each manufacturer.

(d) OTHER STAMP PROVISIONS.—All the provisions and penalties of law governing the engraving, issuing, sale, affixing, cancellation, accountability, effacement, destruction, and forgery of stamps provided for internal revenues shall apply to stamps provided for by this subchapter.

SEC. 4804. REQUIREMENTS ON MANUFACTURERS.

(a) PACKING.—

(1) NUMBER IN PACKAGES.—All white phosphorus matches shall be packed by the manufacturer thereof in packages containing 100, 200, 500, 1,000, or 1,500 matches each, which shall then be packed by the manufacturer in packages containing not less than 14,400 matches.

(2) STAMPING.—The manufacturer shall affix to every package ...ining 100, 200, 500, 1,000, or 1,500 matches an adhesive stamp ...uired value and shall place thereon the initials of his name ...n which such stamp is affixed, so that the same may

(3) FACTORY NUMBER.—Every manufacturer of matches shall mark, brand, affix, stamp, or print, in such manner as the Secretary or his delegate shall prescribe, on every package of white phosphorus matches manufactured, sold, or removed by him, the factory number required under subsection (b).

(4) LABEL.—Every manufacturer of white phosphorus matches shall securely affix by pasting on each original package containing stamped packages of white phosphorus matches manufactured by him a label, on which shall be printed, besides the number of the manufactory and the district in which it is situated, these words: "NOTICE.—The manufacturer of the white phosphorus matches herein contained has complied with all the requirements of law. Every person is cautioned not to use again the stamps on the packages herein contained under the penalty provided by law in such cases."

(b) FACTORY NUMBER AND SIGNS.—Every manufacturer of white phosphorus matches shall put up such signs and affix such number to his factory as the Secretary or his delegate may by regulation require.

(c) BONDS.—Every manufacturer of white phosphorus matches shall file with the official in charge of the internal revenue district in which his manufactory is located such bonds as the Secretary or his delegate may by regulation require. The bond required of such manufacturer shall be in the penal sum of not less than $1,000; and the sum of said bond may be increased from time to time and additional sureties required at the discretion of the Secretary or his delegate.

(d) REGISTRATION.—Every manufacturer of white phosphorus matches shall register with the official in charge of the internal revenue district his name or style, place of manufactory, and the place where such business is to be carried on.

SEC. 4805. IMPORTATION AND EXPORTATION.

(a) IMPORTATION.—White phosphorus matches, manufactured wholly or in part in any foreign country, shall not be entitled to entry at any of the ports of the United States, and the importation thereof is prohibited. All matches imported into the United States shall be accompanied by such certificate of official inspection by the government of the country in which such matches were manufactured as shall satisfy the Secretary or his delegate that they are not white phosphorus matches.

(b) EXPORTATION.—It shall be unlawful to export from the United States any white phosphorus matches.

SEC. 4806. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subchapter, see subtitle F.

Subchapter C—Adulterated Butter and Filled Cheese

Part I. Adulterated and process or renovated butter.
Part II. Filled cheese.

PART I—ADULTERATED AND PROCESS OR RENOVATED BUTTER

Subpart A. Tax on products.
Subpart B. Occupational tax
Subpart C. Definitions.

Subpart A—Tax on Products

Sec. 4811. Imposition of tax.
Sec. 4812. Importation of adulterated butter.
Sec. 4813. Stamps.
Sec. 4814. Requirements applicable to manufacturers.
Sec. 4815. Requirements applicable to dealers.
Sec. 4816. Exportation of adulterated butter.
Sec. 4817. Inspection of process or renovated butter.
Sec. 4818. Administrative decisions relating to adulterated butter.
Sec. 4819. Cross references.

SEC. 4811. IMPOSITION OF TAX.

(a) RATE.—

(1) ADULTERATED BUTTER.—There shall be imposed upon adulterated butter, when manufactured or sold or removed for consumption or use, a tax of 10 cents per pound, and any fractional part of a pound shall be taxed as a pound.

(2) PROCESS OR RENOVATED BUTTER.—There shall be imposed upon process or renovated butter, when manufactured or sold or removed for consumption or use, a tax of one-fourth of 1 cent per pound, and any fractional part of a pound shall be taxed as a pound.

(b) BY WHOM PAID.—The tax imposed by subsection (a) shall be paid by the manufacturer.

SEC. 4812. IMPORTATION OF ADULTERATED BUTTER.

There shall be imposed upon adulterated butter imported from a foreign country, in addition to any import duty imposed on the same, an internal revenue tax of 15 cents per pound, such tax to be represented by coupon stamps as in the case of adulterated butter manufactured in the United States. The stamps shall be affixed and canceled by the owner or importer of the adulterated butter while it is in the custody of the officers or employees designated by the Secretary or his delegate; and the adulterated butter shall not pass out of the custody of said officers or employees until the stamps have been so affixed and canceled, but shall be put up in wooden packages, each containing not less than 10 pounds, as prescribed in this subpart for adulterated butter manufactured in the United States, before the stamps are affixed; and the owner or importer of such adulterated butter shall be liable to all the penal provisions of this subpart pre-

scribed for manufacturers of adulterated butter manufactured in the United States. Whenever it is necessary to take any adulterated butter so imported to any place other than the public stores of the United States for the purpose of affixing and canceling such stamps, the Secretary or his delegate shall designate a bonded warehouse to which it shall be taken, under the control of such officer or employee as the Secretary or his delegate may direct.

SEC. 4813. STAMPS.

(a) METHOD OF PAYMENT.—

(1) STAMPS.—The tax imposed by section 4811 shall be represented by coupon stamps.

(2) ASSESSMENT.—

For assessment in case of omitted taxes, see subtitle F.

(b) EMPTIED PACKAGES.—Whenever any stamped package containing adulterated butter is emptied, it shall be the duty of the person in whose hands the same is to destroy utterly the stamps thereon. The Secretary or his delegate may destroy any emptied package of adulterated butter upon which the tax-paid stamp is found.

(c) OTHER STAMP PROVISIONS.—The provisions of law governing the engraving, issuing, sale, accountability, effacement, and destruction of stamps relating to tobacco and snuff, as far as applicable, shall apply to the stamps provided in paragraph (1) of subsection (a).

SEC. 4814. REQUIREMENTS APPLICABLE TO MANUFACTURERS.

(a) PACKING, STAMPING, AND SELLING REQUIREMENTS.—

(1) ADULTERATED BUTTER.—All adulterated butter shall be packed by the manufacturer thereof in firkins, tubs, or other wooden, tin-plate, or paper packages not before used for that purpose, containing, or encased in a manufacturer's package made from any of such materials of, not less than ten pounds, and marked, stamped, and branded as the Secretary or his delegate shall prescribe, and all sales made by manufacturers of adulterated butter shall be in original, stamped packages. Every manufacturer of adulterated butter shall securely affix, by pasting, on each package containing adulterated butter manufactured by him a label on which shall be printed, besides the number of the manufactory and the district and State in which it is situated, these words: "Notice.—The manufacturer of the adulterated butter herein contained has complied with all the requirements of law. Every person is cautioned not to use either this package again or the stamp thereon, nor to remove the contents of this package without destroying said stamp, under the penalty provided by law in such cases."

(2) PROCESS OR RENOVATED BUTTER.—

For marking process or renovated butter, see section 4817.

(b) FACTORY NUMBER AND SIGNS.—Every manufacturer of process or renovated butter or adulterated butter shall put up such signs and affix such number to his factory as the Secretary or his delegate may by regulation require.

(c) BONDS.—Every manufacturer of process or renovated butter or adulterated butter shall file with the official in charge of the internal revenue district in which his manufactory is located such bonds as the Secretary or his delegate may by regulation require. The bond required of such manufacturer shall be in a penal sum of not less than

$500; and the sum of said bond may be increased from time to time and additional sureties required at the discretion of the Secretary or his delegate.

SEC. 4815. REQUIREMENTS APPLICABLE TO DEALERS.

(a) SELLING REQUIREMENTS.—Dealers in adulterated butter must sell only original or from original stamped packages, and when such original stamped packages are broken the adulterated butter sold from same shall be placed in suitable wooden, tin-plate, or paper packages, which shall be marked and branded as the Secretary or his delegate shall prescribe.

(b) BOOKS OF WHOLESALE DEALERS.—Books required by section 6001 to be kept by wholesale dealers in process, renovated, or adulterated butter shall be open at all times to the inspection of any officer or employee designated by the Secretary or his delegate.

SEC. 4816. EXPORTATION OF ADULTERATED BUTTER.

Adulterated butter may be removed from the place of manufacture for export to a foreign country without payment of tax or affixing stamps thereto, under such regulations and the filing of such bonds and other security as the Secretary or his delegate may prescribe. Every person who shall export adulterated butter shall brand upon every tub, firkin, or other package containing such article the words "Adulterated Butter", in plain Roman letters not less than one-half inch square.

SEC. 4817. INSPECTION OF PROCESS OR RENOVATED BUTTER.

For the purpose of protecting interstate and foreign commerce from process or renovated butter which is unclean, unwholesome, unhealthful, or otherwise unfit for human food—

(1) INGREDIENTS.—The Secretary of Agriculture shall, through inspectors appointed by him, cause inspections to be made of all milk, butter, butter oil, and other ingredients intended for use in the manufacture of process or renovated butter. All ingredients which are found to be putrid or decomposed or which contain organic or inorganic substances which are foreign to such ingredients when properly made, manufactured, produced, collected, stored, transported, or handled, and which organic or inorganic substances cannot be removed by processing, shall be deemed unfit for use in the manufacture of process or renovated butter, shall be marked "U. S. Inspected and Condemned", and shall be denatured or destroyed under the supervision of the inspector. All other ingredients shall be marked "U. S. Inspected and Passed", and shall be deemed fit for use in the manufacture of process or renovated butter.

(2) FINISHED PRODUCT.—The Secretary of Agriculture shall cause inspections to be made of all process or renovated butter. If such butter is found to be clean, wholesome, healthful, and otherwise fit for human food, it shall be marked "U. S. Inspected and Passed". Process or renovated butter that is found to be unclean, unwholesome, unhealthful, or otherwise unfit for human food shall be denatured or destroyed under the supervision of the inspector.

(3) FACTORIES.—The Secretary of Agriculture shall cause inspections to be made of all factories wherein process or renovated butter is manufactured to determine the sanitary conditions thereof, and if it is found that the conditions existing in any such factory do not

meet the standards prescribed by the Secretary in his regulations, he shall cause inspection to be withdrawn therefrom.

(4) COMPLIANCE BY MANUFACTURER.—The Secretary of Agriculture is authorized to withdraw inspection from any factory wherein process or renovated butter is made, if the manufacturer shall fail to comply with any of the provisions of this section or with any of the rules and regulations prescribed hereunder.

(5) RULES AND REGULATIONS.—The Secretary of Agriculture is authorized to make such rules and regulations as he deems necessary for the efficient administration of the provisions of this section, and all inspections hereunder shall be made in such manner as may be prescribed in such regulations. The Secretary of Agriculture may, from time to time, by regulations define the foreign substances and the extent thereof that render the ingredients unfit for use in manufacturing process or renovated butter.

(6) STATISTICS.—The Secretary of Agriculture shall cause to be ascertained, and he shall report, from time to time, the quantity and quality of all process or renovated butter manufactured and the character and condition of the materials from which it is made.

(7) FORGERY, ETC., OF STAMPS, ETC.—No person, firm, or corporation shall forge, counterfeit, simulate, falsely represent, detach, or, knowingly alter, deface, or destroy, or use without proper authority any of the marks, stamps, labels, or tabs provided for in this section or in any regulations prescribed hereunder by the Secretary of Agriculture for use on process or renovated butter or on wrappers, packages, containers, or cases in which the product is contained, or any certificate in relation thereto.

(8) LABELS ON CONTAINERS.—All process or renovated butter and the packages or containers thereof shall be marked with the words "Process Butter" and by such other marks, labels, or brands, and in such manner, as may be prescribed by the Secretary of Agriculture.

(9) FALSE OR MISLEADING LABELS.—No statement that is false or misleading in any particular shall be placed on or affixed to any wrapper, label, carton, or container of process or renovated butter.

(10) UNAPPROVED PRODUCT IN INTERSTATE OR FOREIGN COMMERCE.—No person, firm, or corporation shall transport, or offer for transportation, or sell or offer for sale, in interstate or foreign commerce, or in commerce affecting commerce among the States, any process or renovated butter that has not been inspected and passed and marked, labeled, and branded in accordance with this section and the regulations issued hereunder.

(11) ADMINISTRATION.—The administration and enforcement of the provisions of this section, other than its provisions relating to revenue, but including the seizure and denaturing or destruction of ingredients intended to be used in the manufacture of process or renovated butter and the denaturing or destruction of process or renovated butter, are committed exclusively to the Secretary of Agriculture: *Provided*, That any powers and duties of the Food and Drug Administration of the Department of Health, Education, and Welfare under the Federal Food, Drug, and Cosmetic Act, as amended (52 Stat. 1040; 21 U. S. C., chapter 9), as regards such ingredients before they come into the possession of the manufacturers of process or renovated butter, or as regards such powers and

duties in connection with process or renovated butter after it leaves such manufacturers and comes into the hands of wholesale or retail dealers, or others, shall not be affected by this section.

SEC. 4818. ADMINISTRATIVE DECISIONS RELATING TO ADULTERATED BUTTER.

(a) TAXABILITY.—The Secretary or his delegate is authorized to decide what substances, extracts, mixtures, or compounds which may be submitted for his inspection in contested cases are to be taxed as adulterated butter under this subpart; and his decision in such matters of taxation under this subpart shall be final.

(b) DELETERIOUS INGREDIENTS.—The Secretary or his delegate may also decide whether any substance made in imitation or semblance of butter, and intended for human consumption, contains ingredients deleterious to the public health.

(c) APPEAL.—In case of doubt or contest, the decisions of the Secretary or his delegate in the class of cases under subsection (b) may be appealed to a board constituted for the purpose and composed of the Surgeon General of the Department of the Army, the Surgeon General of the Department of the Navy, and the Secretary of Agriculture; and the decisions of this board shall be final in the premises.

SEC. 4819. CROSS REFERENCES.

(a) DEFINITIONS.—

For definitions applicable to this subpart, see section 4826.

(b) OTHER PROVISIONS.—

For penalties and other general and administrative provisions applicable to this subpart see subtitle F.

Subpart B—Occupational Tax

Sec. 4821. Imposition of tax.
Sec. 4822. Cross references.

SEC. 4821. IMPOSITION OF TAX.

(a) MANUFACTURERS.—

(1) PROCESS OR RENOVATED BUTTER.—Manufacturers of process or renovated butter shall pay a special tax of $50 a year.

(2) ADULTERATED BUTTER.—Manufacturers of adulterated butter shall pay a special tax of $600 a year.

(b) WHOLESALE DEALERS IN ADULTERATED BUTTER.—Wholesale dealers in adulterated butter shall pay a special tax of $480 a year.

(c) RETAIL DEALERS IN ADULTERATED BUTTER.—Retail dealers in adulterated butter shall pay a special tax of $48 a year.

SEC. 4822. CROSS REFERENCES.

(a) DEFINITIONS.—

For definitions applicable to this subpart, see section 4826.

(b) OTHER PROVISIONS.—

For penalties and other general and administrative provisions applicable to this subpart, see chapter 40 and subtitle F.

Subpart C—Definitions

Sec. 4826. Definitions.

SEC. 4826. DEFINITIONS.

(a) BUTTER.—For the purpose of this part, the word "butter" shall be understood to mean the food product usually known as butter, and made exclusively from milk or cream, or both, with or without common salt, and with or without additional coloring matter.

(b) ADULTERATED BUTTER.—"Adulterated butter" is defined to mean a grade of butter produced by mixing, reworking, rechurning in milk or cream, refining, or in any way producing a uniform, purified, or improved product from different lots or parcels of melted or unmelted butter or butter fat, in which any acid, alkali, chemical, or any substance whatever is introduced or used for the purpose or with the effect of deodorizing or removing therefrom rancidity, or any butter or butter fat with which there is mixed any substance foreign to butter as defined in subsection (a), with intent or effect of cheapening in cost the product, or any butter in the manufacture or manipulation of which any process or material is used with intent or effect of causing the absorption of abnormal quantities of water, milk, or cream.

(c) PROCESS OR RENOVATED BUTTER.—"Process butter" or "renovated butter" is defined to mean butter which has been subjected to any process by which it is melted, clarified, or refined and made to resemble genuine butter, always excepting "adulterated butter" as defined by subsection (b).

(d) MANUFACTURER.—Every person who engages in the production of process or renovated butter or adulterated butter as a business shall be considered to be a manufacturer thereof.

(e) DEALER.—Every person who sells adulterated butter shall be regarded as a dealer in adulterated butter.

(f) RETAIL DEALER.—Every person who sells adulterated butter in less quantities than 10 pounds at one time shall be regarded as a retail dealer in adulterated butter.

PART II—FILLED CHEESE

Subpart A. Tax on products.
Subpart B. Occupational tax.
Subpart C. Definitions.

Subpart A—Tax on Products

Sec. 4831. Imposition of tax.
Sec. 4832. Stamps.
Sec. 4833. Requirements applicable to manufacturers.
Sec. 4834. Requirements applicable to wholesale and retail dealers.
Sec. 4835. Administrative decisions.
Sec. 4836. Cross references.

SEC. 4831. IMPOSITION OF TAX.

(a) DOMESTIC.—There shall be imposed upon all filled cheese which shall be manufactured a tax of 1 cent per pound payable by the manufacturer thereof; and any fractional part of a pound in a package shall be taxed as a pound.

(b) IMPORTED.—There shall be imposed upon all filled cheese imported from a foreign country, in addition to any import duty imposed on the same, an internal revenue tax of 8 cents per pound; and such imported filled cheese and the packages containing the same shall be stamped, marked, and branded, as in the case of filled cheese manufactured in the United States.

SEC. 4832. STAMPS.

(a) METHOD OF PAYMENT.—

(1) STAMPS.—The taxes imposed by section 4831 shall be represented by coupon stamps.

(2) ASSESSMENT.—

For assessment in case of omitted taxes, see subtitle F.

(b) EMPTIED PACKAGES.—Whenever any stamped package containing filled cheese is emptied, it shall be the duty of the person in whose hands the same is to destroy the stamps thereon.

(c) OTHER STAMP PROVISIONS.—The provisions of law governing the engraving, issue, sale, accountability, effacement, and destruction of stamps relating to tobacco and snuff, as far as applicable, shall apply to stamps provided for by paragraph (1) of subsection (a).

SEC. 4833. REQUIREMENTS APPLICABLE TO MANUFACTURERS.

(a) PACKING REQUIREMENTS.—

(1) MARKS, STAMPS, AND PACKAGES.—Filled cheese shall be packed by the manufacturers in wooden packages only, not before used for that purpose, and marked, stamped, and branded with the words "filled cheese" in black-faced letters not less than two inches in length, in a circle in the center of the top and bottom of the cheese; and in black-faced letters not less than two inches in length in line from the top to the bottom of the cheese, on the side in four places equidistant from each other; and the package containing such cheese shall be marked in the same manner, and in the same number of places, and in the same description of letters as above provided for the marking of the cheese; and all sales or consignments made by manufacturers of filled cheese to wholesale dealers in filled cheese or to exporters of filled cheese shall be in original stamped packages.

(2) LABEL.—Every manufacturer of filled cheese shall securely affix, by pasting on each package containing filled cheese manufactured by him, a label on which shall be printed, besides the number of the manufactory and the district and State in which it is situated, these words: "NOTICE.—The manufacturer of the filled cheese herein contained has complied with all the requirements of the law. Every person is cautioned not to use either this package again or the stamp thereon again, nor to remove the contents of this package without destroying said stamp, under the penalty provided by law in such cases."

(b) FACTORY NUMBER AND SIGNS.—Every manufacturer of filled cheese shall put up such signs and affix such number to his factory as the Secretary or his delegate may by regulation require.

(c) BONDS.—Every manufacturer of filled cheese shall file with the official in charge of the internal revenue district in which his manufactory is located such bonds as the Secretary or his delegate may by regulation require. The bond required of such manufacturer shall be in a penal sum of not less than $5,000; and the amount of said bond

may be increased from time to time, and additional sureties required, at the discretion of the Secretary or his delegate.

SEC. 4834. REQUIREMENTS APPLICABLE TO WHOLESALE AND RETAIL DEALERS.

(a) SIGNS.—Every wholesale dealer and every retail dealer in filled cheese shall display in a conspicuous place in his salesroom a sign bearing the words "Filled cheese sold here" in black-faced letters not less than six inches in length, upon a white ground, with the name and number of the revenue district in which his business is conducted.

(b) SELLING REQUIREMENTS.—Retail dealers in filled cheese shall sell only from original stamped packages, and shall pack the filled cheese when sold in suitable wooden or paper packages, which shall be marked and branded in accordance with rules and regulations to be prescribed by the Secretary or his delegate.

SEC. 4835. ADMINISTRATIVE DECISIONS.

(a) DELETERIOUS INGREDIENTS.—The Secretary or his delegate is authorized to have applied scientific tests, and to decide whether any substances used in the manufacture of filled cheese contain ingredients deleterious to health.

(b) APPEAL.—In case of doubt or contest the decision of the Secretary or his delegate in the class of cases referred to in subsection (a) may be appealed to a board constituted for the purpose, and composed of the Surgeon General of the Department of the Army, the Surgeon General of the Department of the Navy, and the Secretary of Agriculture; and the decision of this board shall be final in the premises.

SEC. 4836. CROSS REFERENCES.

For definitions, penalties, and other general and administrative provisions, see section 4846 and subtitle F.

Subpart B—Occupational Tax

Sec. 4841. Imposition of tax.
Sec. 4842. Cross references.

SEC. 4841. IMPOSITION OF TAX.

(a) MANUFACTURERS.—Manufacturers of filled cheese shall pay a special tax of $400 a year for each and every factory.

(b) WHOLESALE DEALERS.—

(1) IN GENERAL.—Wholesale dealers in filled cheese shall pay a special tax of $250 a year.

(2) MANUFACTURERS SELLING AT WHOLESALE.—Any manufacturer of filled cheese who has given the required bond and paid the required special tax, and who sells only filled cheese of his own production, at the place of manufacture, in the original packages, to which the tax-paid stamps are affixed, shall not be required to pay the special tax of a wholesale dealer in filled cheese on account of such sales.

(c) RETAIL DEALERS.—Retail dealers in filled cheese shall pay a special tax of $12 a year.

SEC. 4842. CROSS REFERENCES.

(a) DEFINITIONS.—

For definitions applicable to this subpart, see section 4846.

(b) OTHER PROVISIONS.—

For penalties and other general and administrative provisions applicable to this subpart, see chapter 40 and subtitle F.

Subpart C—Definitions

Sec. 4846. Definitions.

SEC. 4846. DEFINITIONS.

For the purposes of this part—

(1) CHEESE.—The word "cheese" shall be understood to mean the food product known as cheese, and made from milk or cream and without the addition of butter, or any animal, vegetable, or other oils or fats foreign to such milk or cream, with or without additional coloring matter.

(2) FILLED CHEESE.—Certain substances and compounds shall be known and designated as "filled cheese," namely: All substances made of milk or skimmed milk, with the admixture of butter, animal oils or fats, vegetable or any other oils, or compounds foreign to such milk, and made in imitation or semblance of cheese. Substances and compounds, consisting principally of cheese with added edible oils, which are not sold as cheese or as substitutes for cheese but are primarily useful for imparting a natural cheese flavor to other foods shall not be considered "filled cheese" within the meaning of this part.

(3) MANUFACTURER.—Every person, firm, or corporation who manufactures filled cheese for sale shall be deemed a manufacturer of filled cheese.

(4) WHOLESALE DEALER.—Every person, firm, or corporation who sells or offers for sale filled cheese, in the original manufacturer's packages for resale, or to retail dealers as defined in paragraph (5) shall be deemed a wholesale dealer in filled cheese.

(5) RETAIL DEALER.—Every person who sells filled cheese at retail, not for resale, and for actual consumption, shall be regarded as a retail dealer in filled cheese.

Subchapter D—Cotton Futures

Part I. General provisions.
Part II. Exemptions.
Part III. Administrative provisions.

PART I—GENERAL PROVISIONS

Sec. 4851. Imposition of tax.
Sec. 4852. Definition.
Sec. 4853. Form and validity of contracts.
Sec. 4854. Cotton standards.

SEC. 4851. IMPOSITION OF TAX.

(a) RATE.—Upon each contract of sale of any cotton for future delivery made at, on, or in any exchange, board of trade, or similar institution or place of business, there shall be imposed a tax in the nature of an excise of 2 cents for each pound of the cotton involved in any such contract.

(b) BY WHOM PAID.—The tax imposed by subsection (a) shall be paid by the seller of the cotton involved in the contract of sale.

SEC. 4852. DEFINITION.

For the purpose of this subchapter, the term "contract of sale" shall be held to include sales, agreements of sale, and agreements to sell.

SEC. 4853. FORM AND VALIDITY OF CONTRACTS.

(a) FORM.—Each contract of sale of cotton for future delivery mentioned in section 4851 (a) shall be in writing plainly stating, or evidenced by written memorandum showing, the terms of such contract, including the quantity of the cotton involved and the names and addresses of the seller and buyer in such contract, and shall be signed by the party to be charged, or by his agent in his behalf. If the contract or memorandum specify in bales the quantity of the cotton involved, without giving the weight, each bale shall, for the purpose of this subchapter, be deemed to weigh 500 pounds.

(b) VALIDITY.—No contract of sale of cotton for future delivery mentioned in section 4851 (a), which does not conform to the requirements of subsection (a) of this section and has not the necessary stamps affixed thereto as required by section 4871, shall be enforceable in any court of the United States by, or on behalf of, any party to such contract or his privies.

SEC. 4854. COTTON STANDARDS.

(a) SOURCE AND DESCRIPTION.—Subject to the provisions of section 6 of the Act of March 4, 1923 (42 Stat. 1518; 7 U. S. C. 56), the Secretary of Agriculture is authorized, from time to time, to establish and promulgate standards of cotton by which its quality or value may be judged or determined, including its grade, length of staple, strength of staple, color, and such other qualities, properties, and conditions as may be standardized in practical form, which, for the

purpose of this subchapter, shall be known as the "Official cotton standards of the United States": *Provided*, That any standard of any cotton established and promulgated under this subchapter by the Secretary of Agriculture shall not be changed or replaced within a period less than one year from and after the date of the promulgation thereof by the Secretary of Agriculture: *Provided further*, That no change or replacement of any standard of any cotton established and promulgated under this subchapter by the Secretary of Agriculture shall become effective until after one year's public notice thereof, which notice shall specify the date when same is to become effective.

(b) PRACTICAL FORMS.—

(1) PREPARATION, CERTIFICATION, AND DISTRIBUTION.—The Secretary of Agriculture is authorized and directed to prepare practical forms of the official cotton standards which shall be established by him, and to furnish such practical forms from time to time, upon request, to any person, the cost thereof, as determined by the Secretary of Agriculture, to be paid by the person requesting the same, and to certify such practical forms under the seal of the Department of Agriculture and under the signature of the said Secretary, thereto affixed by himself or by some official or employee of the Department of Agriculture thereunto duly authorized by the said Secretary.

(2) DISPOSITION OF RECEIPTS FROM SALES.—All sums collected by the Secretary of Agriculture for furnishing practical forms under paragraph (1) shall be deposited and covered into the Treasury as miscellaneous receipts.

PART II—EXEMPTIONS

Sec. 4861. Spot cotton.
Sec. 4862. Definition of bona fide spot markets.
Sec. 4863. Basis grade contracts.
Sec. 4864. Tendered grade contracts.
Sec. 4865. Specific grade contracts.

SEC. 4861. SPOT COTTON.

This subchapter shall not be construed to impose a tax on any sale of spot cotton.

SEC. 4862. DEFINITION OF BONA FIDE SPOT MARKETS.

(a) DEFINITION.—For the purpose of this subchapter, the only markets which shall be considered bona fide spot markets shall be those which the Secretary of Agriculture shall, from time to time, after investigation, determine and designate to be such, and of which he shall give public notice.

(b) DETERMINATION.—In determining, pursuant to the provisions of this subchapter, what markets are bona fide spot markets, the Secretary of Agriculture is directed to consider only markets in which spot cotton is sold in such volume and under such conditions as customarily to reflect accurately the value of middling cotton and the differences between the prices or values of middling cotton and of other grades of cotton for which standards shall have been established by the Secretary of Agriculture: *Provided*, That if there be not sufficient places, in the markets of which are made bona fide sales of spot cotton of grades for which standards are established by

the Secretary of Agriculture, to enable him to designate at least five spot markets in accordance with section 4863 (c), he shall, from data as to spot sales collected by him, make rules and regulations for determining the actual commercial differences in the value of spot cotton of the grades established by him as reflected by bona fide sales of spot cotton, of the same or different grades, in the markets selected and designated by him, from time to time, for that purpose, and in that event differences in value of cotton of various grades involved in contracts made pursuant to section 4863 (a) and (b) shall be determined in compliance with such rules and regulations: *Provided further*, That it shall be the duty of any person engaged in the business of dealing in cotton, when requested by the Secretary of Agriculture or any agent acting under his instructions, to answer correctly to the best of his knowledge, under oath or otherwise, all questions touching his knowledge of the number of bales, the classification, the price or bona fide price offered, and other terms of purchase or sale, of any cotton involved in any transaction participated in by him, or to produce all books, letters, papers, or documents in his possession or under his control relating to such matter.

SEC. 4863. BASIS GRADE CONTRACTS.

(a) CONDITIONS.—No tax shall be imposed under this subchapter on any contract of sale mentioned in section 4851 (a) if the contract comply with each of the following conditions:

(1) CONFORMITY WITH SECTION 4853 (a) AND REGULATIONS.—Conform to the requirements in section 4853 (a) and the rules and regulations made pursuant to this subchapter.

(2) SPECIFICATION OF GRADE, PRICE, AND DATES OF SALE AND SETTLEMENT.—Specify the basis grade for the cotton involved in the contract, which shall be one of the grades for which standards are established by the Secretary of Agriculture, except grades prohibited from being delivered on a contract made under this section by the fifth paragraph of this subsection, the price per pound at which the cotton of such basis grade is contracted to be bought or sold, the date when the purchase or sale was made, and the month or months in which the contract is to be fulfilled or settled: *Provided*, That middling shall be deemed the basis grade incorporated into the contract if no other basis grade be specified either in the contract or in the memorandum evidencing the same.

(3) PROVISION FOR DELIVERY OF STANDARD GRADES ONLY.—Provide that the cotton dealt with therein or delivered thereunder shall be of or within the grades for which standards are established by the Secretary of Agriculture except grades prohibited from being delivered on a contract made under this section by paragraph (5) and no other grade or grades.

(4) PROVISION FOR SETTLEMENT ON BASIS OF ACTUAL COMMERCIAL DIFFERENCES.—Provide that in case cotton of grade other than the basis grade be tendered or delivered in settlement of such contract, the differences above or below the contract price which the receiver shall pay for such grades other than the basis grade shall be the actual commercial differences, determined as hereinafter provided.

(5) PROHIBITION OF DELIVERY OF INFERIOR COTTON.—Provide that cotton that, because of the presence of extraneous matter of

any character, or irregularities or defects, is reduced in value below that of low middling, or cotton that is below the grade of low middling, or, if tinged, cotton that is below the grade of strict middling, or, if yellow stained, cotton that is below the grade of good middling, the grades mentioned being of the official cotton standards of the United States, or cotton that is less than seven-eighths of an inch in length of staple, or cotton of perished staple, or of immature staple, or cotton that is "gin cut" or reginned, or cotton that is "repacked" or "false packed" or "mixed packed" or "water packed," shall not be delivered on, under, or in settlement of such contract.

(6) PROVISIONS FOR TENDER IN FULL, NOTICE OF DELIVERY DATE, AND CERTIFICATE OF GRADE.—Provide that all tenders of cotton under such contract shall be the full number of bales involved therein, except that such variations of the number of bales may be permitted as is necessary to bring the total weight of the cotton tendered within the provisions of the contract as to weight; that, on the fifth business day prior to delivery, the person making the tender shall give to the person receiving the same written notice of the date of delivery, and that, on or prior to the date so fixed for delivery, and in advance of final settlement of the contract, the person making the tender shall furnish to the person receiving the same a written notice or certificate stating the grade of each individual bale to be delivered and, by means of marks or numbers, identifying each bale with its grade.

(7) PROVISION FOR TENDER AND SETTLEMENT IN ACCORDANCE WITH GOVERNMENT CLASSIFICATION.—Provide that all tenders of cotton and settlements therefor under such contract shall be in accordance with the classification thereof made under the regulations of the Secretary of Agriculture by such officer or officers of the Government as shall be designated for the purpose, and the costs of such classification shall be fixed, assessed, collected, and paid as provided in such regulations. All moneys collected as such costs may be used as a revolving fund for carrying out the purposes of this paragraph. The Secretary of Agriculture is authorized to prescribe regulations for carrying out the purposes of this paragraph, and the certificates of the officers of the Government as to the classification of any cotton for the purposes of this paragraph shall be accepted in the courts of the United States in all suits between the parties to such contract, or their privies, as prima facie evidence of the true classification of the cotton involved.

(b) INCORPORATION OF CONDITIONS IN CONTRACTS.—The provisions of subsection (a) (3), (4), (5), (6), and (7) shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memoranda evidencing the same, at or prior to the time the same is signed, the phrase "Subject to Internal Revenue Code, section 4863."

(c) DELIVERY ALLOWANCES.—For the purpose of this section, the differences above or below the contract price which the receiver shall pay for cotton of grades above or below the basis grade in the settlement of a contract of sale for the future delivery of cotton shall be determined by the actual commercial differences in value thereof upon the sixth business day prior to the day fixed, in accordance with sub-

section (a) (6), for the delivery of cotton on the contract, established by the sale of spot cotton in the spot markets of not less than five places designated for the purpose from time to time by the Secretary of Agriculture, as such values were established by the sales of spot cotton, in such designated five or more markets: *Provided*, That for the purpose of this subsection such values in the said spot markets be based upon the standards for grades of cotton established by the Secretary of Agriculture: *And provided further*, That whenever the value of one grade is to be determined from the sale or sales of spot cotton of another grade or grades, such value shall be fixed in accordance with rules and regulations which shall be prescribed for the purpose by the Secretary of Agriculture.

SEC. 4864. TENDERED GRADE CONTRACTS.

(a) CONDITIONS.—No tax shall be imposed under this subchapter on any contract of sale mentioned in section 4851 (a) if the contract—

(1) COMPLIANCE WITH SECTION 4863.—Comply with all the terms and conditions of section 4863 not inconsistent with this section; and

(2) PROVISION FOR CONTINGENT SPECIFIC PERFORMANCE.—Provide that, in case cotton of grade or grades other than the basis grade specified in the contract shall be tendered in performance of the contract, the parties to such contract may agree, at the time of the tender, as to the price of the grade or grades so tendered, and that if they shall not then agree as to such price, then, and in that event, the buyer of said contract shall have the right to demand the specific fulfillment of such contract by the actual delivery of cotton of the basis grade named therein and at the price specified for such basis grade in said contract.

(b) INCORPORATION OF CONDITIONS IN CONTRACT.—Contracts made in compliance with this section shall be known as "Section 4864 Contracts." The provisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the same, at or prior to the time the same is signed, the phrase "Subject to Internal Revenue Code, section 4864."

(c) APPLICATION OF SECTION.—Nothing in this section shall be so construed as to relieve from the tax imposed by section 4851 (a) any contract in which, or in the settlement of or in respect to which, any device or arrangement whatever is resorted to, or any agreement is made, for the determination or adjustment of the price of the grade or grades tendered other than the basis grade specified in the contract by any "fixed difference" system, or by arbitration, or by any other method not provided for by this subchapter.

SEC. 4865. SPECIFIC GRADE CONTRACTS.

(a) CONDITIONS.—No tax shall be imposed under this subchapter on any contract of sale mentioned in section 4851 (a) if the contract comply with each of the following conditions:

(1) CONFORMITY WITH RULES AND REGULATIONS.—Conform to the rules and regulations made pursuant to this subchapter.

(2) SPECIFICATION OF GRADE, PRICE, DATES OF SALE AND DELIVERY.—Specify the grade, type, sample, or description of the cotton involved in the contract, the price per pound at which such

cotton is contracted to be bought or sold, the date of the purchase or sale, and the time when shipment or delivery of such cotton is to be made.

(3) PROHIBITION OF DELIVERY OF OTHER THAN SPECIFIED GRADE.—Provide that cotton of or within the grade or of the type, or according to the sample or description, specified in the contract shall be delivered thereunder, and that no cotton which does not conform to the type, sample, or description, or which is not of or within the grade specified in the contract shall be tendered or delivered thereunder.

(4) PROVISION FOR SPECIFIC PERFORMANCE.—Provide that the delivery of cotton under the contract shall not be effected by means of "set-off" or "ring" settlement, but only by the actual transfer of the specified cotton mentioned in the contract.

(b) INCORPORATION OF CONDITIONS IN CONTRACT.—The provisions of subsection (a) (1), (3), and (4) shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the document or memorandum evidencing the same, at or prior to the time the same is entered into, the words "Subject to Internal Revenue Code, section 4865."

(c) APPLICATION OF SECTION.—This section shall not be construed to apply to any contract of sale made in compliance with section 4863 or 4864.

PART III—ADMINISTRATIVE PROVISIONS

Sec. 4871. Method of payment.
Sec. 4872. Collection and enforcement.
Sec. 4873. Liability of principal for acts of agent.
Sec. 4874. Immunity of witnesses.
Sec. 4875. Operation of State laws.
Sec. 4876. Reports of Secretary of Agriculture.
Sec. 4877. Cross references.

SEC. 4871. METHOD OF PAYMENT.

The tax imposed by section 4851 (a) shall be paid by means of stamps which shall be affixed to such contracts, or to the memoranda evidencing the same, and canceled in compliance with rules and regulations which shall be prescribed by the Secretary or his delegate.

SEC. 4872. COLLECTION AND ENFORCEMENT.

(a) RULES AND REGULATIONS.—The Secretary or his delegate is authorized to make and promulgate such rules and regulations as he may deem necessary to collect the tax imposed by this subchapter and otherwise to enforce its provisions.

(b) RECORDS AND RETURNS.—Further to effect the purpose of subsection (a), the Secretary or his delegate shall require all persons coming within its provisions to keep such records and statements of account, and may require such persons to make such returns verified under oath or otherwise, as will fully and correctly disclose all transactions mentioned in section 4851 (a), including the making, execution, settlement, and fulfillment thereof; he may require all persons who act in the capacity of a clearing house, clearing association, or similar institution for the purpose of clearing, settling, or adjusting transactions mentioned in section 4851 (a) to keep such records and to make such returns as will fully and correctly disclose all facts in their possession relating to such transactions.

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(c) EMPLOYMENT OF OFFICERS AND EMPLOYEES.—The Secretary or his delegate may appoint officers and employees to conduct the inspection necessary to collect said tax and otherwise to enforce this subchapter and all rules and regulations made by him in pursuance hereof.

SEC. 4873. LIABILITY OF PRINCIPAL FOR ACTS OF AGENT.

When construing and enforcing the provisions of this subchapter, the act, omission, or failure of any official, agent, or other person acting for or employed by any association, partnership, or corporation within the scope of his employment or office shall, in every case, also be deemed the act, omission, or failure of such association, partnership, or corporation, as well as that of the person.

SEC. 4874. IMMUNITY OF WITNESSES.

No person whose evidence is deemed material by the officer prosecuting on behalf of the United States in any case brought under any provision of this subchapter shall withhold his testimony because of complicity by him in any violation of this subchapter or of any regulation made pursuant to this subchapter, but any such person called by such officer who testifies in such case shall be exempt from prosecution for any offense to which his testimony relates.

SEC. 4875. OPERATION OF STATE LAWS.

The payment of any tax imposed by this subchapter shall not exempt any person from any penalty or punishment now or hereafter provided by the laws of any State for entering into contracts of sale of cotton for future delivery, nor shall the payment of any tax imposed by this subchapter be held to prohibit any State or municipality from imposing a tax on the same transaction.

SEC. 4876. REPORTS OF SECRETARY OF AGRICULTURE.

The Secretary of Agriculture is directed to publish from time to time the results of investigations made in pursuance of this subchapter.

SEC. 4877. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subchapter, see subtitle F.

Subchapter E—Circulation Other Than of National Banks

Sec. 4881. Imposition of tax.
Sec. 4882. Definition of bank or banker.
Sec. 4883. Exemptions.
Sec. 4884. Returns and payment of tax.
Sec. 4885. Estimation of outstanding circulation in default of return.
Sec. 4886. Cross references.

SEC. 4881. IMPOSITION OF TAX.

(a) AVERAGE CIRCULATION OUTSTANDING.—There shall be imposed—

(1) ENTIRE CIRCULATION.—A tax of one-twelfth of 1 percent each month upon the average amount of circulation issued by any bank, association, corporation, company, or person, including as circulation all certified checks and all notes and other obligations calculated or intended to circulate or to be used as money, but not including that in the vault of the bank, or redeemed and on deposit for said bank; and

(2) CIRCULATION EXCEEDING 90 PERCENT OF CAPITAL.—An additional tax of one-sixth of 1 percent each month upon the average amount of such circulation, issued as aforesaid, beyond the amount of 90 percent of the capital of any such bank, association, corporation, company, or person.

In the case of banks with branches, the tax herein provided shall be assessed upon the circulation of each branch severally, and the amount of capital of each branch shall be considered to be the amount allotted to it.

(b) CIRCULATION PAID OUT.—

(1) OWN CIRCULATION.—Every person, firm, association other than national bank associations, and every corporation, State bank, or State banking association, shall pay a tax of 10 percent on the amount of their own notes used for circulation and paid out by them.

(2) OTHER CIRCULATION.—Every such person, firm, association, corporation, State bank, or State banking association, and also every national banking association, shall pay a like tax of 10 per cent on the amount of notes of any person, firm, association other than a national banking association, or of any corporation, State bank, or State banking association, or of any town, city, or municipal corporation, used for circulation and paid out by them.

SEC. 4882. DEFINITION OF BANK OR BANKER.

Every incorporated or other bank, and every person, firm, or company having a place of business where credits are opened by the deposit or collection of money or currency, subject to be paid or remitted upon draft, check, or order, or where money is advanced or loaned on stocks, bonds, bullion, bills of exchange, or promissory notes, or where stocks, bonds, bullion, bills of exchange, or promissory

notes are received for discount or for sale, shall be regarded as a bank or as a banker.

SEC. 4883. EXEMPTIONS.

(a) CIRCULATION REDUCED TO NOT OVER 5 PERCENT OF CAPITAL.—Whenever the outstanding circulation of any bank, association, corporation, company, or person is reduced to an amount not exceeding 5 percent of the chartered or declared capital existing at the time the same was issued, said circulation shall be free from taxation.

(b) CIRCULATION UNDER REDEMPTION IN WHOLE.—Whenever any bank which has ceased to issue notes for circulation deposits in the Treasury of the United States, in lawful money, the amount of its outstanding circulation, to be redeemed at par, under such regulations as the Secretary or his delegate shall prescribe, it shall be exempt from any tax upon such circulation.

(c) NATIONAL BANKS.—The provisions of this subchapter, relating to the tax on the circulation of banks, and to their returns, except as contained in sections 4881 (b) (2), 4883 (a) and (b), 4884 (a) (3), and such parts of sections 4884 (a) (1) and (2) and (b), 4885, and 4886, as relate to the tax of 10 percent on certain notes, shall not apply to associations which are taxed as national banks.

(d) CIRCULATION OF INSOLVENT BANKS.—

For exemption in case of insolvent banks, see subtitle F.

SEC. 4884. RETURNS AND PAYMENT OF TAX.

(a) CIRCULATION OUTSTANDING.—

(1) TIME FOR MAKING RETURN.—A true and complete return of the monthly amount of circulation as aforesaid for the previous six months shall be made and rendered in duplicate on the first day of December, and the first day of June, by each of such banks, associations, corporations, companies, or persons.

(2) CALCULATION OF TAX.—The tax imposed by section 4881 (a) shall be calculated at the rate per month prescribed by said section, so that the tax for six months shall not be less than the aggregate would be if such taxes were collected monthly.

(3) RETURN AND PAYMENT WHEN STATE BANK CONVERTED INTO NATIONAL BANK.—Whenever any State bank or banking association has been converted into a national banking association, and such national banking association has assumed the liabilities of such State bank or banking association, including the redemption of its bills, by any agreement or understanding whatever with the representatives of such State bank or banking association, such national banking association shall be held to make the required return and payment on the circulation outstanding, so long as such circulation shall exceed 5 per centum of the capital before such conversion of such State bank or banking association.

(b) CIRCULATION PAID OUT.—The amount of circulating notes referred to in section 4881 (b), and of the tax due thereon, shall be returned, and the tax paid at the same time, and in the same manner, and with like penalties for failure to return and pay the same, as provided by law for the return and payment of taxes on circulation imposed by section 4881 (a).

SEC. 4885. ESTIMATION OF OUTSTANDING CIRCULATION IN DEFAULT OF RETURN.

In default of the returns provided in section 4884, the amount of circulation and notes of persons, town, city, and municipal corporations, State banks, and State banking associations paid out, as aforesaid, shall be estimated by the Secretary or his delegate, upon the best information he can obtain.

SEC. 4886. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subchapter, see subtitle F.

Subchapter F—Silver Bullion

Sec. 4891. Imposition of tax.
Sec. 4892. Definitions.
Sec. 4893. Liability for tax.
Sec. 4894. Abatement or refund.
Sec. 4895. Stamps.
Sec. 4896. Applicability.
Sec. 4897. Cross references.

SEC. 4891. IMPOSITION OF TAX.

There shall be imposed on all transfers of any interest in silver bullion, if the price for which such interest is or is to be transferred exceeds the total of the cost thereof and allowed expenses, a tax of 50 percent of the amount of such excess.

SEC. 4892. DEFINITIONS.

For the purpose of this subchapter—

(1) COST.—The term "cost" means the cost of the interest in silver bullion to the transferor, except that—

(A) in case of silver bullion produced from materials containing silver which has not previously entered into industrial, commercial, or monetary use, the cost to a transferor who is the producer shall be deemed to be the market price at the time of production determined in accordance with regulations issued hereunder;

(B) in the case of an interest in silver bullion acquired by the transferor otherwise than for valuable consideration, the cost shall be deemed to be the cost thereof to the last previous transferor by whom it was acquired for a valuable consideration; and

(C) in the case of any interest in silver bullion acquired by the transferor in a wash sale, the cost shall be deemed to be the cost to him of the interest transferred by him in such wash sale, but with proper adjustment, in accordance with regulations under this subchapter, when such interests are in silver bullion for delivery at different times.

(2) TRANSFER.—The term "transfer" means a sale, agreement of sale, agreement to sell, memorandum of sale or delivery of, or transfer, whether made by assignment in blank or by any delivery, or by any paper or agreement or memorandum or any other evidence of transfer or sale; or means to make a transfer as so defined.

(3) INTEREST IN SILVER BULLION.—The term "interest in silver bullion" means any title or claim to, or interest in, any silver bullion or contract therefor.

(4) ALLOWED EXPENSES.—The term "allowed expenses" means usual and necessary expenses actually incurred in holding, processing, or transporting the interest in silver bullion as to which an interest is transferred (including storage, insurance, and transportation charges but not including interest, taxes, or charges in the nature of overhead), determined in accordance with regulations issued hereunder.

(5) MEMORANDUM.—The term "memorandum" means a bill, memorandum, agreement, or other evidence of a transfer.

(6) WASH SALE.—The term "wash sale" means a transaction involving the transfer of an interest in silver bullion and, within 30 days before or after such transfer, the acquisition by the same person of an interest in silver bullion. Only so much of the interest so acquired as does not exceed the interest so transferred, and only so much of the interest so transferred as does not exceed the interest so acquired, shall be deemed to be included in the wash sale.

(7) SILVER BULLION.—The term "silver bullion" means silver which has been melted, smelted, or refined and is in such state or condition that its value depends primarily upon the silver content and not upon its form.

SEC. 4893. LIABILITY FOR TAX.

This tax imposed by this subchapter shall be paid by any person who makes, signs, issues, or sells any of the documents and instruments subject to the tax imposed by this subchapter, or for whose use or benefit the same are made, signed, issued, or sold. The United States or any agency or instrumentality thereof shall not be liable for the tax with respect to an instrument to which it is a party, and affixing of stamps thereby shall not be deemed payment for the tax, which may be collected by assessment from any other party liable therefor.

SEC. 4894. ABATEMENT OR REFUND.

The Secretary or his delegate shall abate or refund, in accordance with regulations issued under this subchapter, such portion of any tax imposed by section 4891 as he finds to be attributable to profits—

(1) COURSE OF REGULAR BUSINESS.—Realized in the course of the transferor's regular business of furnishing silver bullion for industrial, professional, or artistic use and—

(A) not resulting from a change in the market price of silver bullion, or

(B) offset by contemporaneous losses incurred in transactions in interests in silver bullion determined, in accordance with such regulations, to have been specifically related hedging transactions; or

(2) SILVER FOREIGN EXCHANGE.—Offset by contemporaneous losses attributable to changes in the market price of silver bullion and incurred in transactions in silver foreign exchange determined, in accordance with such regulations, to have been hedged specifically by the interest in silver bullion transferred.

SEC. 4895. STAMPS.

(a) AFFIXING OF STAMPS.—On every transfer subject to the tax imposed by section 4891, there shall be made and delivered by the transferor to the transferee a memorandum to which there shall be affixed lawful stamps in value equal to the tax thereon.

(b) MEMORANDUM.—Every such memorandum shall show the date thereof, the names and addresses of the transferor and transferee, the interest in silver bullion to which it refers, the price for which such interest is or is to be transferred, and the cost thereof and the allowed expenses.

(c) CANCELLATION OF STAMPS.—Stamps affixed under this section shall be canceled (in lieu of the manner provided in subtitle F) by

such officers and in such manner as regulations under this subchapter shall prescribe. Such officers shall cancel such stamps only if it appears that the proper tax is being paid, and, when stamps with respect to any transfer are so canceled, the transferor and not the transferee shall be liable for any additional tax found due or penalty with respect to such transfer.

SEC. 4896. APPLICABILITY.

(a) TERRITORIAL EXTENT.—The provisions of this subchapter shall extend to all transfers in the United States of any interest in silver bullion, and to all such transfers outside the United States if either party thereto is a resident of the United States or is a citizen of the United States who has been a resident thereof within 3 months before the date of the transfer or if such silver bullion or interest therein is situated in the United States.

(b) TRANSFERS TO THE UNITED STATES GOVERNMENT.—The provisions of this subchapter shall extend to transfers to the United States Government (the tax in such cases to be payable by the transferor), but shall not extend to transfers of silver bullion by deposit or delivery at a United States mint under proclamation by the President or in compliance with any Executive order issued pursuant to section 7 of the Silver Purchase Act of 1934 (48 Stat. 1179; 31 U. S. C. 316a).

SEC. 4897. CROSS REFERENCES.

For penalties and other general and administrative provisions applicable to this subchapter, see subtitle F.

CHAPTER 40—GENERAL PROVISIONS RELATING TO OCCUPATIONAL TAXES

Sec. 4901. Payment of tax.
Sec. 4902. Liability of partners.
Sec. 4903. Liability in case of business in more than one location.
Sec. 4904. Liability in case of different businesses of same ownership and location.
Sec. 4905. Liability in case of death or change of location.
Sec. 4906. Application of state laws.
Sec. 4907. Federal agencies or instrumentalities.

SEC. 4901. PAYMENT OF TAX.

(a) CONDITION PRECEDENT TO CARRYING ON CERTAIN BUSINESS.—No person shall be engaged in or carry on any trade or business subject to the tax imposed by section 4411 (wagering), 4461 (2) (coin-operated gaming devices), 4721 (narcotic drugs), or 4751 (marihuana) until he has paid the special tax therefor.

(b) COMPUTATION.—All special taxes shall be imposed as of on the first day of July in each year, or on commencing any trade or business on which such tax is imposed. In the former case the tax shall be reckoned for 1 year, and in the latter case it shall be reckoned proportionately, from the first day of the month in which the liability to a special tax commenced, to and including the 30th day of June following.

(c) HOW PAID.—

(1) STAMP.—All special taxes imposed by law shall be paid by stamps denoting the tax.

(2) ASSESSMENT.—

For authority of the Secretary or his delegate to make assessments where the special taxes have not been duly paid by stamp at the time and in the manner provided by law, see subtitle F.

SEC. 4902. LIABILITY OF PARTNERS.

Any number of persons doing business in copartnership at any one place shall be required to pay but one special tax.

SEC. 4903. LIABILITY IN CASE OF BUSINESS IN MORE THAN ONE LOCATION.

The payment of the special tax imposed, other than the tax imposed by section 4411, shall not exempt from an additional special tax the person carrying on a trade or business in any other place than that stated in the register kept in the office of the official in charge of the internal revenue district; but nothing herein contained shall require a special tax for the storage of goods, wares, or merchandise in other places than the place of business, nor, except as provided in this subtitle, for the sale by manufacturers or producers of their own goods, wares, and merchandise, at the place of production or manufacture, and at their principal office or place of business, provided no goods, wares, or merchandise shall be kept except as samples at said office or place of business.

SEC. 4904. LIABILITY IN CASE OF DIFFERENT BUSINESSES OF SAME OWNERSHIP AND LOCATION.

Whenever more than one of the pursuits or occupations described in this subtitle are carried on in the same place by the same person at the same time, except as otherwise provided in this subtitle, the tax shall be paid for each according to the rates severally prescribed.

SEC. 4905. LIABILITY IN CASE OF DEATH OR CHANGE OF LOCATION.

(a) REQUIREMENTS.—When any person who has paid the special tax for any trade or business dies, his wife or child, or executors or administrators or other legal representatives, may occupy the house or premises, and in like manner carry on, for the residue of the term for which the tax is paid, the same trade or business as the deceased before carried on, in the same house and upon the same premises, without the payment of any additional tax. When any person removes from the house or premises for which any trade or business was taxed to any other place, he may carry on the trade or business specified in the register kept in the office of the official in charge of the internal revenue district at the place to which he removes, without the payment of any additional tax: *Provided*, That all cases of death, change, or removal, as aforesaid, with the name of the successor to any person deceased, or of the person making such change or removal, shall be registered with the Secretary or his delegate, under regulations to be prescribed by the Secretary or his delegate.

(b) REGISTRATION.—

(1) For registration in case of wagering, playing cards, narcotics, marihuana, and white phosphorus matches, see sections 4412, 4455, 4722, 4753, and 4804 (d), respectively.

(2) For other provisions relating to registration, see subtitle F.

SEC. 4906. APPLICATION OF STATE LAWS.

The payment of any special tax imposed by this subtitle for carrying on any trade or business shall not be held to exempt any person from any penalty or punishment provided by the laws of any State for carrying on the same within such State, or in any manner to authorize the commencement or continuance of such trade or business contrary to the laws of such State or in places prohibited by municipal law; nor shall the payment of any such tax be held to prohibit any State from placing a duty or tax on the same trade or business, for State or other purposes.

SEC. 4907. FEDERAL AGENCIES OR INSTRUMENTALITIES.

Any special tax imposed by this subtitle, except the tax imposed by section 4411, shall apply to any agency or instrumentality of the United States unless such agency or instrumentality is granted by statute a specific exemption from such tax.

Subtitle E—Alcohol, Tobacco, and Certain Other Excise Taxes

CHAPTER 51. Distilled spirits, wines, and beer.
CHAPTER 52. Tobacco, cigars, cigarettes, and cigarette papers and tubes.
CHAPTER 53. Machine guns and certain other firearms.

CHAPTER 51—DISTILLED SPIRITS, WINES, AND BEER

SUBCHAPTER A. Gallonage and occupational taxes.
SUBCHAPTER B. Distilleries.
SUBCHAPTER C. Internal Revenue bonded warehouses.
SUBCHAPTER D. Rectifying plants.
SUBCHAPTER E. Industrial alcohol plants, bonded warehouses, denaturing plants, and denaturation.
SUBCHAPTER F. Bonded and taxpaid wine premises.
SUBCHAPTER G. Breweries.
SUBCHAPTER H. Miscellaneous plants and warehouses.
SUBCHAPTER I. Miscellaneous general provisions.
SUBCHAPTER J. Penalties, seizures, and forfeitures relating to liquors.

Subchapter A—Gallonage and Occupational Taxes

Part I. Gallonage taxes.
Part II. Occupational tax.

PART I—GALLONAGE TAXES

Subpart A. Distilled spirits.
Subpart B. Rectification.
Subpart C. Wines.
Subpart D. Beer.
Subpart E. General provisions.

Subpart A—Distilled Spirits

Sec. 5001. Imposition, rate, and attachment of tax.
Sec. 5002. Definitions.
Sec. 5003. Exemptions.
Sec. 5004. Lien for tax.
Sec. 5005. Persons liable for tax.
Sec. 5006. Determination of tax.
Sec. 5007. Collection of tax on distilled spirits.
Sec. 5008. Strip stamps for distilled spirits.
Sec. 5009. Stamps for distilled spirits withdrawn for exportation.
Sec. 5010. Miscellaneous stamp provisions.
Sec. 5011. Abatement, remission, refund, and allowance for loss or destruction of distilled spirits.
Sec. 5012. Drawback.

SEC. 5001. IMPOSITION, RATE AND ATTACHMENT OF TAX.

(a) RATE OF TAX—

(1) IN GENERAL.—There is hereby imposed on all distilled spirits in bond or produced in or imported into the United States

an internal revenue tax at the rate of $10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon. On and after April 1, 1955, the rate of tax imposed by this paragraph shall be $9 in lieu of $10.50.

(2) PRODUCTS CONTAINING DISTILLED SPIRITS.—All products of distillation, by whatever name known, which contain distilled spirits or alcohol, on which the tax imposed by law has not been paid, shall be considered and taxed as distilled spirits.

(3) IMPORTED PERFUMES CONTAINING DISTILLED SPIRITS.—There is hereby imposed on all perfumes imported into the United States containing distilled spirits a tax of $10.50 per wine gallon, and a proportionate tax at a like rate on all fractional parts of such wine gallon. On and after April 1, 1955, the rate of tax imposed by this paragraph shall be $9 in lieu of $10.50.

(4) ALCOHOLIC COMPOUNDS FROM PUERTO RICO AND VIRGIN ISLANDS.—

(A) PUERTO RICO.—Except as provided in section 5318, upon bay rum, or any article containing alcohol, brought from Puerto Rico into the United States for consumption or sale there is hereby imposed a tax on the spirits contained therein at the rate imposed on distilled spirits produced in the United States.

(B) VIRGIN ISLANDS.—

For provisions relating to tax on alcoholic compounds from the Virgin Islands, see section 7652 (b) (1).

(5) WINES CONTAINING MORE THAN 24 PERCENT ABSOLUTE ALCOHOL.—Wines containing more than 24 percent of absolute alcohol by volume shall be taxed as distilled spirits.

(6) DENATURED ALCOHOL, DENATURED RUM OR ARTICLES.—Any person who produces, withdraws, sells, transports, or uses, denatured alcohol, denatured rum, or articles in violation of laws or regulations now or hereafter in force pertaining thereto, and all such denatured alcohol, denatured rum, or articles shall be subject to all provisions of law pertaining to alcohol that is not denatured, including those requiring the payment of tax thereon; and the person so producing, withdrawing, selling, transporting, or using the denatured alcohol, denatured rum, or articles shall be required to pay such tax.

(7) FRUIT FLAVOR CONCENTRATES.—If any volatile fruit-flavor concentrate (or any fruit mash or juice from which such concentrate is produced) containing one-half of 1 percent or more of alcohol by volume, which is manufactured free from tax under section 5511, is sold, transported, or used by any person in violation of the provisions of this chapter or regulations promulgated thereunder, such person and such concentrate, mash, or juice shall be subject to all provisions of this chapter pertaining to distilled spirits and wines, including those requiring the payment of tax thereon; and the person so selling, transporting, or using such concentrate, mash, or juice shall be required to pay such tax.

(8) IMPORTED ALCOHOL WITHDRAWN FOR BEVERAGE PURPOSES.—On all alcohol imported under section 5311 without payment of the internal revenue tax, and withdrawn for beverage purposes, there shall be paid on such withdrawal an additional tax equal to

the duty which would have been paid had such spirits been imported for beverage purposes, less the duty already paid thereon.

(9) IMPORTED LIQUEURS AND CORDIALS.—Imported liqueurs and cordials, or similar compounds, containing distilled spirits, shall be taxed as distilled spirits.

(b) TIME OF ATTACHMENT ON DISTILLED SPIRITS.—The tax shall attach to distilled spirits, spirits, alcohol, or alcoholic spirits, within the meaning of section 5002 (b), as soon as this substance is in existence as such, whether it be subsequently separated as pure or impure spirits, or be immediately, or at any subsequent time, transferred into any other substance, either in the process of original production or by any subsequent process.

(c) CROSS REFERENCE.—

For penalty for tampering with a stamp machine, see section 5689.

SEC. 5002. DEFINITIONS.

(a) DISTILLER.—Every person who produces distilled spirits from any source or substance, or who brews or makes mash, wort, or wash, fit for distillation or for the production of spirits, or who, by any process of evaporization, separates alcoholic spirits from any fermented substance, or who, making or keeping mash, wort, or wash, has also in his possession or use a still, shall be regarded as a distiller.

(b) DISTILLED SPIRITS.—

(1) GENERAL DEFINITION.—For purposes of this chapter, distilled spirits, spirits, alcohol, and alcoholic spirits are that substance known as ethyl alcohol, hydrated oxide of ethyl, or spirits of wine, which is commonly produced by the fermentation of grain, starch, molasses, or sugar, including all dilutions and mixtures of this substance.

(2) PRODUCTS OF RECTIFICATION.—As used in section 5008 (b) the term "distilled spirits" includes products produced in such manner that the person producing them is a rectifier within the meaning of section 5082.

(c) PROOF SPIRITS.—For purposes of this chapter, the term "proof spirits" means that alcoholic liquor which contains one-half its volume of alcohol of a specific gravity of seven thousand nine hundred and thirty-nine ten-thousandths (.7939) at 60 degrees Fahrenheit.

(d) PROOF GALLON.—For purposes of this chapter, the term "proof gallon" means a gallon of proof spirits, according to the standard prescribed in subsection (c), set forth and declared for the inspection and gauging of spirits throughout the United States.

SEC. 5003. EXEMPTIONS.

(1) For provisions authorizing the withdrawal of alcohol free of tax for use by Federal or State agencies, see section 5310 (b).

(2) For provisions authorizing the withdrawal of alcohol free of tax for use in research, hospitals, or charitable clinics, see section 5310 (c).

(3) For provisions authorizing the importation of alcohol for industrial purposes without payment of tax, see section 5311.

(4) For provisions authorizing the withdrawal and denaturation of alcohol without payment of tax, see sections 5310 (a) and 5331 (a).

(5) For provisions authorizing the withdrawal and denaturation of rum without payment of tax, see section 5331 (c).

(6) For provisions authorizing the removal for denaturation or destruction without payment of tax of distillates containing aldehydes or fusel oil, see section 5194 (b).

(7) For provisions exempting distilled vinegar produced by the vaporizing process from tax, see section 5216.

(8) For provisions exempting from tax wine spirits withdrawn for the production of wine, see section 5373.

(9) For provisions exempting from tax volatile fruit-flavor concentrates, see section 5511.

(10) For provisions authorizing the withdrawal of distilled spirits in original casks or packages for export without payment of tax, see section 5247.

(11) For provisions authorizing the withdrawal of distilled spirits by distiller into metallic cans in wooden packages for exportation without payment of tax, see section 5193 (b).

(12) For provisions authorizing the transfer of distilled spirits into tanks, or tank cars for export without payment of tax, see section 5247 (d).

(13) For provisions authorizing withdrawal of distilled spirits to customs manufacturing bonded warehouses for export without payment of tax, see section 5522 (a).

(14) For provisions authorizing exportation of distilled spirits bottled in bond without payment of tax, see section 5243.

(15) For provisions relating to withdrawal of distilled spirits without payment of tax as supplies for certain vessels and aircraft, see 19 U. S. C. 1309.

(16) For provisions authorizing regulations for withdrawal of distilled spirits for use of United States free of tax, see section 7510.

(17) For provisions relating to withdrawal of distilled spirits without payment of tax to foreign trade zones, see 19 U. S. C. 81c.

SEC. 5004. LIEN FOR TAX.

(a) LIEN APPLICABLE TO DISTILLED SPIRITS.—

(1) PROPERTY SUBJECT TO LIEN.—The tax imposed by section 5001 (a) (1) shall be a first lien on the spirits distilled, the distillery used for distilling the same, the stills, vessels, fixtures, and tools therein, the lot or tract of land on which such distillery is situated, and on any building thereon, from the time such spirits are in existence as such until (except as provided in paragraph (3)) such tax is paid.

(2) EXCEPTION DURING TERM OF BONDS.—No lien shall attach to any lot or tract of land, distillery, building, or distilling apparatus, under this subsection, by reason of distilling done during any period included within the term of any bond taken under section 5177 (b) (3).

(3) EXTINGUISHMENT OF LIEN.—Any lien under paragraph (1) on any land or any building thereon shall be held to be extinguished if (A) such land and building are no longer used for distillery purposes, (B) there is no outstanding liability for taxes or penalties imposed by law on the distilled spirits produced therein, and (C) no litigation is pending in respect of any such tax or penalty.

(4) CERTIFICATE OF DISCHARGE.—Any person claiming any interest in any such land or building may apply to the Secretary or his delegate for a duly acknowledged certificate to the effect that such lien is discharged and, if the Secretary or his delegate determines that such lien is extinguished, the Secretary or his delegate shall issue such certificate, and any such certificate may be recorded.

(b) LIEN APPLICABLE TO ALCOHOL.—The tax imposed by law on alcohol shall be a first lien on such alcohol and the premises and plant in which such alcohol is produced or stored, together with all improvements and appurtenances thereunto belonging or in any wise appertaining.

(c) CROSS REFERENCES.—

(1) For provisions relating to transfer of lien to redistiller in case of redistillation, see section 5194 (f).

(2) For transfer of lien in cases of national emergency transfers, see section 5217 (a).

SEC. 5005. PERSONS LIABLE FOR TAX.

(a) GENERAL.—The internal revenue tax imposed by section 5001 (a) (1) on distilled spirits shall be paid by the distiller or importer.

(b) DOMESTIC DISTILLED SPIRITS.—Every proprietor or possessor of, and every person in any manner interested in the use of, any still, distillery, or distilling apparatus, shall be jointly and severally liable for the taxes imposed by law on the distilled spirits produced therefrom.

(c) ALCOHOL.—All proprietors of industrial alcohol plants and alcohol bonded warehouses shall be jointly and severally liable for any and all taxes on any and all alcohol produced thereat or stored therein.

(d) CROSS REFERENCES.—

(1) For provisions conditioning warehousing bonds on the payment of the tax as specified in the entry, and within 8 years from the date of original entry, see section 5232 (a).

(2) For provisions relating to transfer of tax liability to redistiller in case of redistillation, see section 5194 (f) and for transfer of liability in case of national emergency transfers, see section 5217 (a).

(3) For liability for tax on denatured alcohol, denatured rum, articles and volatile fruit-flavor concentrates, see section 5001 (a) (6) and (7).

(4) For liability of wine producer for unlawfully using wine spirits withdrawn for the production of wine, see section 5373.

SEC. 5006. DETERMINATION OF TAX.

(a) REQUIREMENTS.—

(1) IN GENERAL.—The internal revenue tax on distilled spirits shall be determined when the spirits are withdrawn from bond. Such tax shall be determined by such means as the Secretary or his delegate shall by regulations prescribe, and with the use of such devices and apparatus (including but not limited to storage, gauging, and bottling tanks and pipelines) as the Secretary or his delegate may require.

(2) DISTILLED SPIRITS DEPOSITED IN INTERNAL REVENUE BONDED WAREHOUSES.—The tax on distilled spirits entered for deposit in internal revenue bonded warehouses shall be determined at the time the same are withdrawn therefrom and within 8 years from the date of original entry for deposit therein (except that distilled spirits which on July 26, 1936, were 8 years of age or older and which were in bonded warehouses on that date, may remain therein).

(b) EXCESSIVE LOSS.—If it appears at any time that there has been a loss of distilled spirits from any cask or other package deposited in an internal revenue bonded warehouse, other than the loss provided for in section 5011 (a), which, in the opinion of the Secretary or his delegate, is excessive, he may require the withdrawal from the warehouse of such distilled spirits, and direct the officer designated by him to collect the tax accrued on the original quantity of distilled spirits entered into the warehouse in such cask or package, notwithstanding that the time specified in any bond given for the withdrawal of the spirits entered into warehouse in such cask or package has not expired. If such tax is not paid on demand it shall be assessed and collected as other taxes are assessed and collected.

(c) DISTILLED SPIRITS NOT BONDED.—The tax on any distilled spirits, removed from the place where they were distilled and (except as otherwise provided by law) not deposited in a bonded warehouse, shall, at any time within the period of limitation provided in section 6501, when knowledge of such fact is obtained by the Secretary or his delegate, be assessed on the distiller of such distilled spirits, and payment of such tax immediately demanded and, on the neglect or refusal of payment by the distiller, the Secretary or his delegate shall proceed to collect the same by distraint. This subsection shall not exclude any other remedy or proceeding provided by law.

(d) UNLAWFULLY IMPORTED DISTILLED SPIRITS.—Distilled spirits smuggled or brought into the United States unlawfully shall, for purposes of this chapter, be held to be imported into the United States, and the internal revenue tax shall be due and payable at the time of such importation.

(e) CROSS REFERENCES.—

(1) For provisions relating to removals of distilled spirits from a distillery for redistillation, denaturation, or on determination of tax, see section 5194.

(2) For provisions relating to removals of distilled spirits from a distillery as national emergency transfers, see section 5217 (a).

(3) For provisions relating to removals of distilled spirits from a distillery for exportation, see section 5247 (d).

(4) For provisions relating to removals of wine spirits from a distillery for fortification of wine, see section 5373 (b).

SEC. 5007. COLLECTION OF TAX ON DISTILLED SPIRITS.

(a) TAX ON DOMESTIC DISTILLED SPIRITS.—The tax on domestic distilled spirits shall be paid in accordance with section 5061.

(b) COLLECTION OF TAX ON IMPORTED DISTILLED SPIRITS AND PERFUMES CONTAINING DISTILLED SPIRITS.—

(1) DISTILLED SPIRITS.—The internal revenue tax imposed by section 5001 (a) (1) and (2) upon imported distilled spirits shall be collected by the Secretary or his delegate and deposited as internal revenue collections, under such regulations as the Secretary or his delegate may prescribe. Such tax shall be in addition to any customs duty imposed under the Tariff Act of 1930 (46 Stat. 590; 19 U. S. C., chapter 4), or any subsequent act. Section 5688 shall be applicable to the disposition of imported spirits.

(2) PERFUMES CONTAINING DISTILLED SPIRITS.—The internal revenue tax imposed by section 5001 (a) (3) upon imported perfumes containing distilled spirits shall be collected by the Secretary or his delegate and deposited as internal revenue collections, under such regulations as the Secretary or his delegate may prescribe.

(c) PAYMENT OF TAX ON ALCOHOLIC COMPOUNDS FROM PUERTO RICO AND VIRGIN ISLANDS.—The tax imposed by section 5001 (a) (4) shall be collected, under regulations prescribed by the Secretary or his delegate.

(d) PAYMENT OF TAX ON ALCOHOL.—The provisions of section 5061 relating to the taxpayment of distilled spirits and the penalty and forfeiture provisions applicable thereto shall, so far as applicable, extend to and include the taxpayment of alcohol produced in the United States, or imported under section 5311.

(e) ASSESSMENT FOR DEFICIENCIES IN PRODUCTION AND EXCESS OF MATERIALS USED.—

(1) REQUIREMENT.—On the receipt of the distiller's return in each month, the Secretary or his delegate shall inquire and determine whether the distiller has accounted for all the grain or molasses used, and all the spirits produced by him in the preceding month. If he is satisfied that the distiller has reported all the spirits produced by him, and the quantity so reported is found to be less than 80 percent of the producing capacity of the distillery as estimated according to law, he shall make an assessment for such deficiency at the rate of tax imposed by law for every proof gallon. In determining the quantity of grain used, 56 pounds shall be accounted as a bushel; and if the Secretary or his delegate finds that the distiller has used any grain or molasses in excess of the capacity of his distillery as estimated according to law, he shall make an assessment against the distiller at the rate imposed by law for every proof gallon of spirits that should have been produced from the grain or molasses so used in excess, which assessment shall be made whether the quantity of spirits reported is equal to or exceeds 80 percent of the producing capacity of the distillery. If the Secretary or his delegate finds that the distiller has not accounted for all the spirits produced by him, he shall, from all the evidence he can obtain, determine what quantity of spirits was actually produced by such distiller, and an assessment shall be made for the difference between the quantity reported and the quantity shown to have been actually produced, at the rate of tax imposed by law for every proof gallon: *Provided*, That the actual product shall be assumed to be in no case less than 80 percent of the producing capacity of the distillery as estimated according to law. All assessments made under this subsection shall be a lien on all distilled spirits on the distillery premises, the distillery used for distilling the same, the stills, vessels, fixtures, and tools therein, the tract of land whereon the said distillery is located, and any building thereon, from the time such assessment is made until the same shall have been paid.

(2) RELIEF FROM ASSESSMENT.—Whenever, under the provisions of this subsection, an assessment shall have been made against a distiller for a deficiency in not producing 80 percent of the producing capacity of his distillery as established by law, or for the tax upon the spirits that should have been produced from the grain or fruit or molasses found to have been used in excess of the capacity of his distillery for any month, as estimated according to law, such excessive use of grain or fruit or molasses having arisen from a failure on the part of the distiller to maintain the capacity required by law to enable him to use such grain or fruit or molasses without incurring liability to such assessment, and it shall be made to appear to the satisfaction of the Secretary or his delegate that said deficiency, or said failure, whereby such excessive use of grain, molasses, or fruit arose, was not occasioned by any want of diligence or by any fraudulent purpose on the part of the distiller, but from misunderstanding as to the requirements of the law and regulations in that respect or by reason of unavoidable accidents, then, and in such case, the Secretary or his delegate, subject to regulations pre-

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scribed by him, is authorized, on appeal made to him, to remit or refund such tax, or such part thereof as shall appear to him to be equitable and just in the premises. And the Secretary or his delegate, upon the production to him of satisfactory proof of the actual destruction, by accidental fire or other casualty, and without any fraud, collusion, or negligence of the distiller, of any spirits in process of manufacture or distillation, or before removal to the internal revenue bonded warehouse, shall not assess the distiller for a deficiency in not producing 80 percent of the producing capacity of his distillery as established by law when the deficiency is occasioned by such destruction, nor shall he, in such case, assess the tax on the spirits so destroyed: *Provided*, That no assessment shall be charged against any distiller of fruit for any failure to maintain the required capacity, unless the Secretary or his delegate shall, within 6 months after his receipt of each monthly report, notify such distiller of such failure to maintain the required capacity.

(f) CROSS REFERENCES.—

(1) For authority of the Secretary or his delegate to make determinations and assessments of internal revenue taxes and penalties, see section 6201 (a).

(2) For authority to assess tax on distilled spirits not bonded, see section 5006 (c).

(3) For provisions relating to payment of tax on denatured alcohol, denatured rum, articles and volatile fruit-flavor concentrates, see sections 5001 (a) (6) and (7).

(4) For authority of the Secretary or his delegate to waive provisions of law relating or incidental to survey requirements, see section 5179 (b).

SEC. 5008. STRIP STAMPS FOR DISTILLED SPIRITS.

(a) STAMPS FOR CONTAINERS OF DISTILLED SPIRITS BOTTLED IN BOND.—

(1) REQUIREMENTS.—Every bottle of distilled spirits bottled in bond in an internal revenue bonded warehouse when filled shall have affixed thereto in such manner as to be broken on opening the bottle, a stamp evidencing the bottling in bond of such spirits under the provisions of this subsection and section 5243, and of regulations prescribed thereunder.

(2) STAMP REGULATIONS.—The Secretary or his delegate shall prescribe regulations with respect to the supplying of stamps required under this subsection, the time and manner of applying for, issuing, affixing, and destroying such stamps, the form of such stamps and the information to be shown thereon, applications for the stamps, proof that applicants are entitled to such stamps, and the method of accounting for such stamps, and such other regulations as he may deem necessary for the enforcement of this subsection and section 5243.

(b) STAMPS FOR CONTAINERS OF OTHER DISTILLED SPIRITS.—

(1) REQUIREMENTS.—No person shall transport, possess, buy, sell, or transfer any distilled spirits, unless the immediate container thereof has affixed thereto in such manner as to be broken on opening the container, a stamp evidencing the tax or indicating compliance with the provisions of this chapter. The provisions of this subsection shall not apply to—

(A) distilled spirits placed in containers for immediate consumption on the premises or for preparation for such consumption;

(B) distilled spirits in bond or in customs custody;

(C) distilled spirits in immediate container required to be stamped under subsection (a) or under other provisions of internal revenue or customs law and regulations;

(D) distilled spirits in actual process of rectification, blending, or bottling, or in actual use in processes of manufacture;

(E) distilled spirits on which no internal revenue tax is required to be paid or which are bottled especially for export with benefit of drawback;

(F) distilled spirits not intended for sale; or for use in the manufacture or production of any article intended for sale; or

(G) any regularly established common carrier receiving, transporting, delivering, or holding for transportation or delivery distilled spirits in the ordinary course of its business as a common carrier.

(2) STAMP REGULATIONS.—The Secretary or his delegate shall prescribe regulations with respect to the supplying of stamps required under this subsection, the time and manner of applying for, issuing, affixing, and destroying such stamps, the form of such stamps and the information to be shown thereon, applications for the stamps, proof that applicants are entitled to such stamps, and the method of accounting for such stamps, and such other regulations as he may deem necessary for the enforcement of this subsection.

(3) DESTRUCTION OF STAMPS ON EMPTIED CONTAINERS.—Every person emptying any container stamped under the provisions of this subsection shall at the time of emptying such container destroy the stamp thereon.

SEC. 5009. STAMPS FOR DISTILLED SPIRITS WITHDRAWN FOR EXPORTATION.

(a) REQUIREMENTS.—All distilled spirits intended for export in the original casks or packages or in packages filled from the original packages, shall, before being removed from the internal revenue bonded warehouse, be marked as the Secretary or his delegate may by regulations prescribe, and shall have affixed to each cask or package a stamp indicative of such intention. Such stamps shall be used and accounted for, under regulations to be prescribed by the Secretary or his delegate.

(b) CROSS REFERENCES.—

(1) For applicability of this section to distilled spirits transferred into tanks or tank cars for export, see section 5247 (d).

(2) For authority of the Secretary or his delegate to prescribe regulations regarding stamps for distilled spirits withdrawn to manufacturing bonded warehouses, see section 5522 (a).

SEC. 5010. MISCELLANEOUS STAMP PROVISIONS.

(a) ISSUE FOR RESTAMPING.—The Secretary or his delegate, under regulations prescribed by him, may issue stamps for restamping packages of distilled spirits, which have been duly stamped but from which the stamps have been lost or destroyed by unavoidable accident.

(b) ACCOUNTABILITY.—All stamps relating to distilled spirits, shall be charged to the principal collection officer in each internal revenue district; and shall be used and accounted for under such regulations as the Secretary or his delegate may prescribe.

(c) EFFACEMENT OF STAMPS AND BRANDS ON EMPTIED PACKAGES.—Every person who empties or draws off, or causes to be emptied or drawn off, any distilled spirits from a cask or package bearing any mark, brand, or stamp, required by law, shall, at the time of emptying such cask or package, efface and obliterate said mark, stamp, or brand.

(d) CROSS REFERENCES.—

(1) For authority of the Secretary or his delegate to prescribe regulations relating to the stamping of packages of distilled spirits, see section 5194 (g).

(2) For general authority of the Secretary or his delegate to prescribe regulations relating to the establishment and alteration of stamps, marks, and brands, see section 6801.

(3) For provisions relating to stamping of distilled spirits removed from warehouses, see section 5250.

SEC. 5011. ABATEMENT, REMISSION, REFUND AND ALLOWANCE FOR LOSS OR DESTRUCTION OF DISTILLED SPIRITS.

(a) DISTILLED SPIRITS LOST OR DESTROYED IN BOND.—

(1) EXTENT OF LOSS ALLOWANCE.—No tax shall be collected in respect of distilled spirits lost or destroyed while in bond, except that such tax shall be collected—

(A) THEFT.—In the case of loss by theft, unless the Secretary or his delegate finds that the theft occurred without connivance, collusion, fraud, or negligence on the part of the distiller, warehouseman, owner, consignor, consignee, bailee, or carrier, or the employees of any of them; and

(B) VOLUNTARY DESTRUCTION.—In the case of voluntary destruction, unless such destruction is carried out under subsection (b).

(2) PROOF OF LOSS.—In any case in which spirits are lost or destroyed, whether by theft or otherwise, the Secretary or his delegate may require the distiller or warehouseman or other person responsible for the tax to file a claim for relief from the tax and submit proof as to the cause of such loss. In every case where it appears that the loss was by theft, the burden shall be upon the distiller or warehouseman or other person responsible for the tax to establish to the satisfaction of the Secretary or his delegate that such loss did not occur as the result of connivance, collusion, fraud, or negligence on the part of the distiller, warehouseman, owner, consignor, consignee, bailee, or carrier, or the employees of any of them.

(3) REFUND OF TAX.—In any case where the tax would not be collectible by virtue of subsection (a) (1), but such tax has been paid, the Secretary or his delegate shall refund such tax. No tax shall be remitted or refunded under this subsection where the loss occurred after the tax was determined (as provided in section 5006 (a)), and the spirits withdrawn from bond.

(4) INSURANCE COVERAGE.—The abatement or refund of taxes provided for by subsections (a) (1) and (3) in the case of loss of distilled spirits by theft shall only be allowed to the extent that the claimant is not indemnified against or recompensed for such loss.

(b) VOLUNTARY DESTRUCTION.—The distiller, warehouseman, or other person responsible for the tax imposed by this chapter with respect to any distilled spirits in bond may voluntarily destroy such

spirits, but only if such destruction is under such supervision, and under such regulations, as the Secretary or his delegate may prescribe.

(c) LOSS OR DESTRUCTION OF ALCOHOL.—Whenever any alcohol (produced at an industrial alcohol plant or imported under section 5311), is lost by evaporation or other shrinkage, leakage, casualty, or unavoidable cause during distillation, redistillation, denaturation, withdrawal, piping, shipment, warehousing, storage, packing, transfer, or recovery of any such alcohol, the Secretary or his delegate may remit or refund any tax incurred on such alcohol: *Provided*, That he is satisfied that the alcohol has not been diverted to any illegal use: *Provided further*, That such allowance shall not be granted if the person claiming same is indemnified against such loss by a valid claim of insurance.

(d) CROSS REFERENCES.—

(1) For provisions relating to losses of fruit brandies before blending in internal revenue bonded warehouse, see section 5023.

(2) For allowance of loss in case of national emergency transfers, see section 5217 (a).

SEC. 5012. DRAWBACK.

(a) DRAWBACK ON EXPORTATION OF DISTILLED SPIRITS IN DISTILLERS' ORIGINAL PACKAGES.—Distilled spirits on which all taxes have been paid may be exported, with the privilege of drawback, in distillers' original casks or packages containing not less than 20 wine gallons each, on application of the owner thereof to the Secretary or his delegate, under such regulations and on the filing of such bonds, reports, returns and applications and the keeping of such records as the Secretary or his delegate may prescribe. A drawback shall be allowed upon distilled spirits on which the tax has been paid and which have been exported to foreign countries under this section and shall include the taxes levied and paid on the distilled spirits exported. The rate of drawback shall be equal to the rate of the internal revenue tax paid in respect of the distilled spirits exported, as per gauge of such spirits as the Secretary or his delegate may require to be made before exportation. Such drawback shall be due and payable only after all requirements of law and regulations have been complied with and on filing with the Secretary or his delegate a proper claim and satisfactory evidence that the tax on the distilled spirits has been paid and that such distilled spirits have been exported; and the Secretary or his delegate shall prescribe such regulations in relation thereto as may be necessary to secure the Government against frauds.

(b) CROSS REFERENCES.—

(1) For provisions relating to drawback on distilled spirits packaged or bottled especially for export, see section 5062 (b).

(2) For provisions relating to drawback on designated non-beverage products, see section 5131 through 5134.

(3) For drawback on domestic alcohol used in flavoring extracts and medicinal toilet preparations exported, see sections 313 (d) of the Tariff Act of 1930 (46 Stat. 694; 19 U. S. C. 1313).

(4) For drawback on articles removed to foreign trade zones, see 19 U. S. C. 81c.

Subpart B—Rectification

Sec. 5021. Imposition and rate of tax.
Sec. 5022. Tax on cordials and liqueurs containing wine.
Sec. 5023. Tax on blending of beverage brandies.
Sec. 5024. Definitions.
Sec. 5025. Exemption from rectification tax.
Sec. 5026. Determination and collection of rectification tax.
Sec. 5027. Stamp provisions applicable to rectifiers.
Sec. 5028. Cross references.

SEC. 5021. IMPOSITION AND RATE OF TAX.

(a) RECTIFIED SPIRITS AND WINES.—In addition to the tax imposed by this chapter on distilled spirits and wines, there is hereby imposed (except as otherwise provided in this chapter) a tax of 30 cents on each proof gallon and a proportionate tax at a like rate on all fractional parts of such proof gallon on all distilled spirits or wines rectified, purified, or refined in such manner, and on all mixtures produced in such manner, that the person so rectifying, purifying, refining, or mixing the same is a rectifier (as defined in section 5082).

(b) CHANGE IN PROOF OR VOLUME.—When the process of rectification is completed and the taxes prescribed by this section have been determined, it shall be unlawful for the rectifier or other dealer to reduce in proof or increase in volume such spirits or wine by the addition of water or other substance. Nothing in this subsection shall prevent a rectifier from using again in the process of rectification spirits already rectified and on which the taxes have theretofore been determined.

SEC. 5022. TAX ON CORDIALS AND LIQUEURS CONTAINING WINE.

On all liqueurs, cordials, or similar compounds produced in the United States and not sold as wine, which contain more than 2½ percent by volume of wine of an alcoholic content in excess of 14 percent by volume (other than bottled cocktails), there shall be paid, in lieu of the tax imposed by section 5021, a tax at the rate of $1.92 per wine gallon and a proportionate tax at a like rate on all fractional parts of such wine gallon until April 1, 1955, and on or after April 1, 1955, at the rate of $1.60 per wine gallon and a proportionate tax at a like rate on all fractional parts of such wine gallon. All other provisions of law applicable to rectification shall apply to the products subject to tax under this section.

SEC. 5023. TAX ON BLENDING OF BEVERAGE BRANDIES.

Fruit brandies distilled from the same kind of fruit at not more than 170 degrees proof may, for the sole purpose of perfecting such brandies according to commercial standards, be mixed or blended with each other, or with any such mixture or blend, by the distiller thereof in any internal revenue bonded warehouse operated by him exclusively for the storage of brandy or wine spirits, and sections 5021, 5081, and 5082 relating to rectification or other internal revenue laws of the United States shall not be held to apply to or prohibit such mixing or blending, and brandies so mixed or blended may be packaged, stored, transported, transferred in bond, withdrawn from bond taxpaid or tax-free, or be otherwise disposed of, in the same manner as such brandies not so mixed or blended: *Provided*, That, in addition to the tax imposed by this chapter on the production of distilled spirits, there shall be paid a tax of 30 cents as to each proof gallon

(and a proportionate tax at a like rate on all fractional parts of such proof gallon) of brandy so mixed or blended (except when withdrawn tax-free and accounted for or when lost and allowance is made therefor), such tax to be determined at the time of withdrawal and paid under such regulations as the Secretary or his delegate shall prescribe. The Secretary or his delegate, under regulations prescribed by him, on the presentation of proof to his satisfaction of the loss by leakage, evaporation, theft, or otherwise, of fruit brandies so blended or mixed, not occurring as the result of any negligence, connivance, collusion, or fraud on the part of the warehouseman or his agents, is hereby authorized to remit or refund the taxes assessed or paid upon such lost brandies: *Provided, however*, That such remission or refund shall be allowed only to the extent that the warehouseman is not indemnified or recompensed for such tax, and that losses of fruit brandies occurring before any such mixing or blending shall be allowable in accordance with section 5011 (a). The term "distiller" as used in this section shall include any one or more distillers associated as members of any farm cooperative, or any one or more distillers affiliated within the meaning of section 17 (a) (5) of the Federal Alcohol Administration Act, as amended (49 Stat. 990; 27 U. S. C. 211), or any fruit distiller for whose account, recorded with the Secretary or his delegate at the time of production, the brandy to be blended was produced. The Secretary or his delegate may make such rules or regulations as he may deem necessary to carry this section into effect.

SEC. 5024. DEFINITIONS.

(1) For definition of "rectifier", see section 5082.
(2) For definition of "products of rectification" as "distilled spirits" for certain purposes, see section 5002 (b) (2).

SEC. 5025. EXEMPTION FROM RECTIFICATION TAX.

(a) ABSOLUTE ALCOHOL.—The process of extraction of water from high-proof spirits for the production of absolute alcohol shall not be deemed to be rectification within the meaning of sections 5081 and 5082, and absolute alcohol shall not be subject to the tax imposed by section 5021, but the production of such absolute alcohol shall be under such regulations as the Secretary or his delegate may prescribe.

(b) PRODUCTION OF GIN AND VODKA.—The tax imposed by section 5021 shall not apply to gin produced by the redistillation of a pure spirit over juniper berries and other aromatics or to vodka produced from pure spirits in the manner authorized at registered distilleries.

(c) REFINING SPIRITS IN COURSE OF ORIGINAL DISTILLATION.—The purifying or refining of spirits in the course of original and continuous distillation through any material which will not remain incorporated with such spirits when the manufacture thereof is complete shall not be held to be rectification within the meaning of sections 5021, 5081, or 5082, nor shall these sections be held to prohibit such purifying or refining.

(d) REDISTILLATION OF SPIRITS BY DISTILLERY.—Sections 5021, 5081 and 5082 shall not apply to the redistillation of spirits removed under the provisions of section 5194 (f).

(e) BLENDING STRAIGHT WHISKIES, FRUIT BRANDIES OR WINES.—The taxes imposed by this subpart shall not attach to blends made exclusively of two or more pure straight whiskies aged in wood for

a period not less than 4 years and without the addition of coloring or flavoring matter or any other substance than pure water and if not reduced below 80 proof; nor to blends made exclusively of two or more pure fruit brandies distilled from the same kind of fruit, aged in wood for a period not less than 2 years and without the addition of coloring or flavoring matter (other than caramel) or any other substance than pure water and if not reduced below 80 proof. Such blended whiskies and blended fruit brandies shall be exempt from tax under this subpart only when compounded under the immediate supervision of a revenue officer, in such tanks and under such conditions and supervision as the Secretary or his delegate may prescribe. Such tax shall not attach to the mixing and blending of wines, where such blending is for the sole purpose of perfecting such wines according to commercial standards.

(f) ADDITION OF CARAMEL TO BRANDY.—The addition of caramel to commercial brandy at the distillery where produced, or in the internal revenue bonded warehouse where stored, pursuant to regulations prescribed by the Secretary or his delegate, shall not be deemed to be rectification within the meaning of sections 5021, 5081, and 5082.

(g) APOTHECARIES.—The taxes imposed by this subpart and by part II of this subchapter shall not be imposed on apothecaries as to wines or spirituous liquors which they use exclusively in the preparation or making up of medicines unfit for use for beverage purposes.

(h) MANUFACTURERS OF CHEMICALS AND FLAVORING EXTRACTS.—The taxes imposed by this subpart and by part II of this subchapter shall not be imposed on manufacturing chemists or flavoring-extract manufacturers for recovering tax paid alcohol or spirituous liquors from dregs or marc of percolation, or extraction, if such recovered alcohol or spirituous liquors be again used in the manufacture of medicines or flavoring extracts of the kind in the production of which originally used.

(i) CROSS REFERENCES.—

(1) For provisions exempting industrial alcohol plants and warehouses, see section 5306.

(2) For provisions exempting the blending of beverage brandies in bonded warehouses, see section 5023.

(3) For provisions exempting distilled spirits and wines rectified in customs bonded manufacturing warehouses, see section 5523.

(4) For provisions exempting certain redistillation and mingling of spirits during national emergency, see section 5217 (a).

(5) For provisions exempting winemakers in the use or treatment of wines or wine spirits, see section 5392.

(6) For provisions exempting the manufacture of volatile fruit-flavor concentrates, see section 5511.

SEC. 5026. DETERMINATION AND COLLECTION OF RECTIFICATION TAX.

(a) DETERMINATION OF TAX.—

(1) GENERAL.—The taxes imposed by sections 5021 and 5022 shall be determined upon the completion of the process of rectification by such means as the Secretary or his delegate shall by regulations prescribe and with the use of such devices and apparatus (including but not limited to storage, gauging, and bottling tanks, and pipelines) as the Secretary or his delegate may require.

(2) UNAUTHORIZED RECTIFICATION.—In the case of taxable rectification on premises other than an authorized rectifying plant,

the tax imposed by sections 5021 and 5022 shall be due and payable at the time of such rectification.

(b) PAYMENT OF TAX ON RECTIFIED SPIRITS, WINES, AND CORDIALS OR LIQUEURS.—The taxes imposed by sections 5021 and 5022 shall be paid in accordance with section 5061.

SEC. 5027. STAMP PROVISIONS APPLICABLE TO RECTIFIERS.

(a) EXCHANGE OF WHOLESALE LIQUOR DEALERS' STAMPS FOR RECTIFIED SPIRITS STAMPS.—The Secretary or his delegate shall not furnish wholesale liquor dealers' stamps in lieu of and in exchange for stamps for rectified spirits unless the package covered by stamp for rectified spirits is to be broken into smaller packages.

(b) CROSS REFERENCES.—

(1) For provisions relating to stamps for immediate containers, see section 5008 (b).

(2) Provisions relating to the stamping of packages of rectified distilled spirits containing 5 wine gallons or more, see section 5282 (b) and (c).

SEC. 5028. CROSS REFERENCES.

For penalty provisions applicable to this subpart, see subchapter J.

Subpart C—Wines

Sec. 5041. Imposition and rate of tax.
Sec. 5042. Exemption from tax.
Sec. 5043. Collection of taxes on wines.
Sec. 5044. Refund of tax on unmerchantable wine.
Sec. 5045. Cross references.

SEC. 5041. IMPOSITION AND RATE OF TAX.

(a) IMPOSITION.—There is hereby imposed on all wines, including imitation, substandard or artificial wine, and compounds sold as wine, having not in excess of 24 percent of alcohol by volume, in bond in, produced in, or imported into, the United States, taxes at the rates shown in subsection (b), such taxes to be determined as of the time of removal for consumption or sale. All wines containing more than 24 percent of alcohol by volume shall be classed as distilled spirits and taxed accordingly.

(b) RATES OF TAX.—

(1) On still wines containing not more than 14 percent of alcohol by volume, 17 cents per wine gallon, except that on and after April 1, 1955, the rate shall be 15 cents per wine gallon;

(2) On still wines containing more than 14 percent and not exceeding 21 percent of alcohol by volume, 67 cents per wine gallon, except that on and after April 1, 1955, the rate shall be 60 cents a wine gallon;

(3) On still wines containing more than 21 percent and not exceeding 24 percent of alcohol by volume, $2.25 per wine gallon, except that on and after April 1, 1955, the rate shall be $2.00 per wine gallon;

(4) On champagne and other sparkling wines, $3.40 per wine gallon, except that on and after April 1, 1955, the rate shall be $3.00 per wine gallon; and

(5) On artificially carbonated wines, $2.40 per wine gallon, except that on and after April 1, 1955, the rate shall be $2.00 per wine gallon.

(c) WINE GALLON.—For the purpose of this chapter, the term "wine gallon" means a United States gallon of liquid measure equivalent to the volume of 231 cubic inches. On lesser quantities the tax shall be paid proportionately (fractions of less than one-tenth gallon being converted to the nearest one-tenth gallon, and five-hundredths gallon being converted to the next full one-tenth gallon).

(d) ILLEGALLY PRODUCED WINE.—Notwithstanding subsection (a), any wine produced in the United States at any place other than the bonded premises provided for in this chapter shall (except as provided in section 5042 in the case of tax-free production) be subject to tax at the rate prescribed in subsection (b) at the time of production and whether or not removed for consumption or sale.

SEC. 5042. EXEMPTION FROM TAX

(a) TAX-FREE PRODUCTION.—

(1) CIDER.—Subject to regulations prescribed by the Secretary or his delegate, the noneffervescent product of the normal alcoholic fermentation of apple juice only, which is produced at a place other than a bonded wine cellar and without the use of preservative methods or materials, and which is sold or offered for sale as cider and not as wine or as a substitute for wine, shall not be subject to tax as wine nor to the provisions of subchapter F.

(2) FAMILY WINE.—Subject to regulations prescribed by the Secretary or his delegate, the duly registered head of any family may, without payment of tax, produce for family use and not for sale an amount of wine not exceeding 200 gallons per annum.

(3) EXPERIMENTAL WINE.—Subject to regulations prescribed by the Secretary or his delegate, any scientific university, college of learning, or institution of scientific research may produce, receive, blend, treat, and store wine, without payment of tax, for experimental or research use but not for consumption (other than organoleptical tests) or sale, and may receive such wine spirits without payment of tax as may be necessary for such production.

(b) CROSS REFERENCES.—

(1) For provisions relating to exemption of tax on losses of wine (including losses by theft or authorized destruction), see section 5370.

(2) For provisions exempting from tax samples of wine, see section 5372.

(3) For provisions authorizing withdrawals of wine without payment of tax, see section 5362.

SEC. 5043. COLLECTION OF TAXES ON WINES.

(a) PERSONS LIABLE FOR PAYMENT.—The taxes on wine provided for in this subpart shall be paid—

(1) BONDED WINE CELLARS.—In the case of wines removed from any bonded wine cellar, by the proprietor of such bonded wine cellar: *Provided*, That, in the case of any withdrawal without payment of tax authorized under section 5362, such obligation, if any, shall become the obligation of the transferee, and the transferor shall thereupon be relieved of such obligation.

(2) FOREIGN WINE.—In the case of foreign wines, by the importer thereof.

(3) OTHER WINES.—In the case of any other wine or of any wine produced, imported, received, removed, or possessed otherwise than as authorized by law, by any person producing, importing,

receiving, removing, or possessing such wine; and all such persons shall be jointly and severally liable for such tax with each other as well as with any proprietor, transferee, or importer who may be liable for the tax under this subsection.

(b) COLLECTION OF TAX.—The taxes on wines shall be paid in accordance with the provisions of section 5061.

SEC. 5044. REFUND OF TAX ON UNMERCHANTABLE WINE.

In the case of any champagne or other sparkling wine or artificially carbonated wine produced in the United States and returned to a bonded wine cellar as unmerchantable under section 5361—

(1) any tax imposed by this chapter on or after the effective date of this chapter shall, if paid, be refunded or credited to the proprietor of the bonded wine cellar to which such champagne or wine is delivered; or

(2) if any tax so imposed has not been paid, the person liable for the tax may be relieved of liability therefor,

under such regulations as the Secretary or his delegate may prescribe. Such regulations may provide that claim for refund or credit under paragraph (1), or relief from liability under paragraph (2), may be made only with respect to minimum quantities specified in such regulations. The burden of proof in all such cases shall be on the applicant.

SEC. 5045. CROSS REFERENCES.

For provisions relating to the establishment and operation of wineries, see subchapter F, and for penalties pertaining to wine, see subchapter J.

Subpart D—Beer

Sec. 5051. Imposition and rate of tax.
Sec. 5052. Definitions.
Sec. 5053. Exemptions.
Sec. 5054. Persons liable for tax.
Sec. 5055. Determination and collection of tax on beer.
Sec. 5056. Drawback of tax.
Sec. 5057. Refund and credit of tax, or relief from liability.

SEC. 5051. IMPOSITION AND RATE OF TAX.

(a) RATE OF TAX.—There is hereby imposed on all beer, brewed or produced and sold, or removed for consumption or sale, within the United States, or imported into the United States, a tax of $9 for every barrel containing not more than 31 gallons, and at a like rate for any other quantity or for the fractional parts of a barrel authorized and defined by law. On and after April 1, 1955, the tax imposed by the preceding sentence shall be at the rate of $8 in lieu of $9. In estimating and computing such tax, the fractional parts of a barrel shall be halves, thirds, quarters, sixths, and eighths; and any fractional part of a barrel, containing less than one-eighth, shall be accounted one-eighth; more than one-eighth, and not more than one-sixth, shall be accounted one-sixth; more than one-sixth, and not more than one-fourth, shall be accounted one-fourth; more than one-fourth, and not more than one-third, shall be accounted one-third; more than one-third and not more than one-half, shall be accounted one-half; more than one-half and not more than one barrel, shall be accounted one barrel; and more than one barrel, and not more than

63 gallons, shall be accounted two barrels, or a hogshead. The provisions of this section requiring the accounting of hogsheads, barrels, and fractional parts of barrels at the next higher quantity shall not apply where the contents of such hogsheads, barrels, or fractional parts of barrels are within the limits of tolerance established by the Secretary or his delegate by regulations which he is hereby authorized to prescribe; and no assessment shall be made and no tax shall be collected for any excess in any case where the contents of the hogsheads, barrels, or fractional parts of barrels heretofore or hereafter used are within the limits of the tolerance so prescribed.

(b) ASSESSMENT ON MATERIALS USED IN PRODUCTION IN CASE OF FRAUD.—Nothing contained in this subpart or subchapter G shall be construed to authorize an assessment on the quantity of materials used in producing or purchased for the purpose of producing beer, nor shall the quantity of materials so used or purchased be evidence, for the purpose of taxation, of the quantity of beer produced; but the tax on all beer shall be paid as provided in section 5054, and not otherwise: *Provided,* That this subsection shall not apply to cases of fraud: *And provided further,* That nothing in this subsection shall have the effect to change the rules of law respecting evidence in any prosecution or suit.

SEC. 5052. DEFINITIONS.

(a) BEER.—For purposes of this chapter (except when used with reference to distilling or distilling material) the term "beer" means beer, ale, porter, stout and other similar fermented beverages (including saké or similar products) of any name or description containing one-half of 1 percent or more of alcohol by volume, brewed or produced from malt, wholly or in part, or from any substitute therefor.

(b) GALLON.—For purposes of this subpart, the term "gallon" means the liquid measure containing 231 cubic inches.

(c) BREWER.—

For definition of brewer, see section 5092.

SEC. 5053. EXEMPTIONS.

(a) REMOVALS FOR EXPORT.—Beer may be removed from the brewery, without payment of tax, for export to a foreign country, in such containers and under such regulations, and on the giving of such notices, entries, and bonds and other security, as the Secretary or his delegate may by regulations prescribe.

(b) REMOVALS WHEN UNFIT FOR BEVERAGE USE.—When beer has become sour or damaged, so as to be incapable of use as such, a brewer may remove the same from his brewery without payment of tax, for manufacturing purposes, under such regulations as the Secretary or his delegate may prescribe.

(c) REMOVALS FOR LABORATORY ANALYSIS.—Beer may be removed from the brewery, without payment of tax, for laboratory analysis, subject to such limitations and under such regulations as the Secretary or his delegate may prescribe.

(d) REMOVAL AS SUPPLIES FOR CERTAIN VESSELS AND AIRCRAFT.—

For exemption as to supplies for certain vessels and aircraft, see section 309 of the Tariff Act of 1930, as amended (19 U. S. C. 1309).

SEC. 5054. PERSONS LIABLE FOR TAX.

The tax on beer imposed by section 5051 shall be paid by the owner, agent, or superintendent of the brewery in which such beer is made, and in the manner and at the time provided in this subchapter.

SEC. 5055. DETERMINATION AND COLLECTION OF TAX ON BEER.

The tax on beer imposed by section 5051 shall be determined on sale or removal for consumption or sale and shall be paid by the brewer or importer thereof in accordance with section 5061. When the Secretary or his delegate finds it necessary for protection of the revenue, he may require stamps, or other devices, evidencing the tax or indicating a compliance with the provisions of this chapter, to be affixed to hogsheads, barrels, or kegs of beer at the time of removal. The Secretary or his delegate shall by regulations prescribe the manner by which such stamps or other devices shall be supplied, affixed, and accounted for. All administrative and penal provisions of this title, insofar as applicable, shall apply to any tax imposed by section 5051.

SEC. 5056. DRAWBACK OF TAX.

On the exportation of beer, brewed or produced in the United States, the brewer thereof shall be allowed a drawback equal in amount to the tax found to have been paid on such beer, to be paid on submission of such evidence, records and certificates indicating exportation, as the Secretary or his delegate may by regulations prescribe. For the purpose of this section, exportation shall include delivery for use as supplies on the vessels and aircraft described in section 309 of the Tariff Act of 1930, as amended (19 U. S. C. 1309).

SEC. 5057. REFUND AND CREDIT OF TAX, OR RELIEF FROM LIABILITY.

(a) BEER REMOVED FROM MARKET.—Any tax paid on or after the effective date of this chapter by any brewer on beer produced in the United States may be refunded or credited to him, or if the tax has not been paid, the brewer may be relieved of liability therefor, under such regulations as the Secretary or his delegate may prescribe, if such beer is removed from the market before the transfer of title thereto to any other person, and, such beer is returned to the brewery for reconditioning, for use as materials, or is destroyed under the supervision required by such regulations: *Provided*, That the tax imposed by section 5051 shall apply to the beer so reconditioned, such tax to be paid pursuant to section 5055.

(b) BEER LOST BY FIRE, CASUALTY, OR ACT OF GOD.—Subject to regulations prescribed by the Secretary or his delegate, the tax paid by any brewer on beer produced in the United States may be refunded or credited, or if the tax has not been paid, the liability may be remitted, if such beer is lost other than by theft, or is destroyed by fire, casualty, or act of God, before the transfer of title thereto to any other person.

(c) DATE OF FILING.—No claims under this section shall be allowed unless filed within 6 months after the date of such removal from the market, loss, or destruction, or if the claimant was indemnified by insurance or otherwise in respect of the tax.

Subpart E—General Provisions

Sec. 5061. Method of collecting tax.
Sec. 5062. Refund and drawback in case of exportation.
Sec. 5063. Floor stocks tax refunds on distilled spirits, wines, cordials, and beer.
Sec. 5064. Territorial extent of law.
Sec. 5065. Cross references.

SEC. 5061. METHOD OF COLLECTING TAX.

(a) COLLECTION BY RETURN.—The taxes on distilled spirits, wines, rectified distilled spirits and wines, and beer shall be paid by return. The Secretary or his delegate shall, by regulation, prescribe the period for which such return shall be filed, the time for filing such return, the information to be shown in such return and the time for payment of such tax: *Provided, however,* That, notwithstanding this subsection, the taxes shall continue to be paid by stamp until the Secretary or his delegate shall by regulations provide for the payment of the taxes by return.

(b) DISCRETIONARY METHOD OF COLLECTION.—Whether or not the method of collecting any tax imposed by this part is specifically provided in this part, any such tax may, under regulations prescribed by the Secretary or his delegate, be collected by stamp, coupon, serially-numbered ticket, or the use of tax-stamp machines, or by such other reasonable device or method as may be necessary or helpful in securing collection of the tax.

(c) APPLICABILITY OF OTHER PROVISIONS OF LAW.—All administrative and penalty provisions of this title, insofar as applicable, shall apply to the collection of any tax which the Secretary or his delegate determines or prescribes shall be collected in any manner provided in this section.

SEC. 5062. REFUND AND DRAWBACK IN CASE OF EXPORTATION.

(a) REFUND.—Under such regulations as the Secretary or his delegate may prescribe, the amount of any internal revenue tax erroneously or illegally collected in respect to exported articles may be refunded to the exporter of the article, instead of to the manufacturer, if the manufacturer waives any claim for the amount so to be refunded.

(b) DRAWBACK.—On the exportation of distilled spirits and wines manufactured or produced in the United States on which an internal revenue tax has been paid, and which are contained in any cask or package or in bottles, packed in cases or other containers, there shall be allowed, under regulations prescribed by the Secretary or his delegate, a drawback equal in amount to the tax found to have been paid on such distilled spirits and wines: *Provided,* That such distilled spirits and wines have been packaged or bottled especially for export, under regulations prescribed by the Secretary or his delegate. The Secretary or his delegate is authorized to prescribe regulations governing the determination and payment of drawback of internal revenue tax on domestic distilled spirits and wines, including the requirement of such notices, bonds, bills of lading, and other evidence of payment of tax and exportation as shall be deemed necessary.

SEC. 5063. FLOOR STOCKS TAX REFUNDS ON DISTILLED SPIRITS, WINES, CORDIALS AND BEER.

(a) GENERAL.—With respect to any article upon which tax is imposed under this part, upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed has been paid, and which, on April 1, 1955, is held by any person and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to such person (without interest) subject to such regulations as may be prescribed by the Secretary or his delegate an amount equal to the difference between the tax so paid and the rate made applicable to such articles on and after April 1, 1955, if claim for such credit or refund is filed with the Secretary or his delegate prior to May 1, 1955 or within 30 days from the promulgation of such regulations.

(b) LIMITATIONS ON ELIGIBILITY FOR CREDIT OR REFUND.—No person shall be entitled to credit or refund under subsection (a), unless such person, for such period or periods both before and after April 1, 1955 (but not extending beyond 1 year thereafter), as the Secretary or his delegate shall by regulations prescribe, makes and keeps, and files with the Secretary or his delegate, such records of inventories, sales, and purchases as may be prescribed in such regulations.

(c) OTHER LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of internal revenue taxes on distilled spirits, wines, liqueurs and cordials, imported perfumes containing distilled spirits, and beer shall, insofar as applicable and not inconsistent with this section, be applicable in respect of the credits and refunds provided for in this section to the same extent as if such credits or refunds constituted credits or refunds of such taxes.

SEC. 5064. TERRITORIAL EXTENT OF LAW.

The provisions of this part imposing taxes on distilled spirits, wines, and beer shall be held to extend to such articles produced anywhere within the exterior boundaries of the United States, whether the same be within an internal revenue district or not.

SEC. 5065. CROSS REFERENCES.

For general administrative provisions applicable to the assessment, collection, refund, etc., of taxes, see subtitle F.

PART II—OCCUPATIONAL TAX

Subpart A. Rectifier.
Subpart B. Brewer.
Subpart C. Manufacturers of stills.
Subpart D. Wholesale dealers.
Subpart E. Retail dealers.
Subpart F. Nonbeverage domestic Drawback claimants.
Subpart G. General provisions.

Subpart A—Rectifier

Sec. 5081. Imposition and rate of tax.
Sec. 5082. Definition of rectifier.
Sec. 5083. Exemptions.
Sec. 5084. Cross references.

SEC. 5081. IMPOSITION AND RATE OF TAX.

Every rectifier of distilled spirits or wines (as defined in section 5082) shall pay a special tax of $220 a year: *Provided*, That any

rectifier of less than 500 barrels a year, counting 40 gallons of proof spirits to the barrel, shall pay $110 a year.

SEC. 5082. DEFINITION OF RECTIFIER.

Every person who rectifies, purifies, or refines distilled spirits or wines by any process (other than by original and continuous distillation from mash, wort, or wash, through continuous closed vessels and pipes, until the manufacture thereof is complete), and every wholesale or retail liquor dealer who has in his possession any still or leach tub, or who keeps any other apparatus for the purpose of refining in any manner distilled spirits, and every person who, without rectifying, purifying, or refining distilled spirits, shall, by mixing such spirits, wine, or other liquor with any material, manufacture any spurious, imitation, or compound liquors for sale, under the name of whisky, brandy, gin, rum, wine, spirits, cordials, or wine bitters, or any other name, shall be regarded as a rectifier, and as being engaged in the business of rectifying.

SEC. 5083. EXEMPTIONS.

For exemptions from tax under section 5021 or 5081 in case of—

(1) Industrial alcohol plants and bonded warehouses, see section 5306
(2) Absolute alcohol, see section 5025 (a)
(3) Production of gin and vodka, see section 5025 (b)
(4) Refining spirits in course of original distillation, see section 5025 (c)
(5) Redistillation of spirits at distillery, see section 5025 (d)
(6) Redistillation and mingling of spirits during National Emergency, see section 5217 (a)
(7) Apothecaries, see section 5025 (g)
(8) Manufacturers of chemicals and flavoring extracts, see section 5025 (h)
(9) Distilled spirits and wines, rectified in customs bonded manufacturing warehouses, see section 5523
(10) Blending beverage brandies in internal revenue bonded warehouses, see section 5023
(11) Blending of straight whiskies, fruit brandies, or wines, see section 5025 (e)
(12) Addition of caramel to brandy, see section 5025 (f)
(13) Winemakers' use or treatment of wines or wine spirits, see section 5391.

SEC. 5084. CROSS REFERENCES.

(1) For provisions relating to the gallonage tax on rectification, see subpart B of part I of this subchapter.
(2) For provisions relating to the establishment and operation of rectifying plants, see subchapter D.
(3) For penalties, seizures, and forfeitures relating to rectifying and rectified products, see subchapter J.

Subpart B—Brewer

Sec. 5091. Imposition and rate of tax.
Sec. 5092. Definition of brewer.
Sec. 5093. Cross references.

SEC. 5091. IMPOSITION AND RATE OF TAX.

Every brewer shall pay $110 a year in respect of each brewery: *Provided*, That any brewer of less than 500 barrels a year shall pay the sum of $55 a year: *Provided further*, That any beer procured by a brewer in his own hogsheads, barrels, or kegs under the provisions of section 5413 shall be included in calculating the liability to brewers' special

tax of both the brewer who produces the same and the brewer who procures the same.

SEC. 5092. DEFINITION OF BREWER.

Every person who brews or produces beer for sale shall be deemed a brewer.

SEC. 5093. CROSS REFERENCES.

(1) For exemption of brewers selling at wholesale in hogsheads, barrels, and kegs from special tax as wholesale dealer, see section 5113 (b).

(2) For exemption of brewers selling in eighth-barrel kegs from special tax as retail dealer, see section 5123 (a).

(3) For exemption of brewer from special tax as wholesale or retail dealer in beer by reason of sales at different locations on contiguous brewery premises, see section 5144 (c).

(4) For exemption from special tax in case of sales made on purchaser dealers' premises, see section 5123 (b) (3).

Subpart C—Manufacturers of Stills

Sec. 5101. Imposition and rate of tax.
Sec. 5102. Definition of manufacturer of stills.
Sec. 5103. Exemptions.
Sec. 5104. Method of payment of tax on stills.
Sec. 5105. Notice of manufacture of and permit to set up still.
Sec. 5106. Drawback.

SEC. 5101. IMPOSITION AND RATE OF TAX.

Every manufacturer of stills shall pay a special tax of $55 a year, and $22 for each still or worm for distilling made by him.

SEC. 5102. DEFINITION OF MANUFACTURER OF STILLS.

Any person who manufactures any still or worm to be used in distilling shall be deemed a manufacturer of stills.

SEC. 5103. EXEMPTIONS.

For exemption of industrial alcohol plants from the special tax imposed by section 5101, see section 5306.

SEC. 5104. METHOD OF PAYMENT OF TAX ON STILLS.

The tax imposed on stills or worms by section 5101 shall be paid by stamp, denoting the tax, under such regulations as the Secretary or his delegate may prescribe.

SEC. 5105. NOTICE OF MANUFACTURE OF AND PERMIT TO SET UP STILL.

(a) REQUIREMENT.—Any person who manufactures any still, boiler, or other vessel to be used for the purpose of distilling shall, before the same is removed from the place of manufacture, notify the Secretary or his delegate, setting forth in writing, by whom it is to be used, its capacity, and the time when the same is to be removed from the place of manufacture; and no such still, boiler, or other vessel shall be set up without the permit in writing of the Secretary or his delegate for that purpose. The notice required by this section shall be submitted in such form and manner as the Secretary or his delegate may by regulations prescribe.

(b) PENALTY.—

(1) For penalty for failure to give notice of manufacture, or for setting up still without permit, see section 5602.

(2) Penalty for failure to register stills or distilling apparatus when set up, see section 5601.

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SEC. 5106. DRAWBACK.

Under regulations prescribed by the Secretary or his delegate, a drawback shall be allowed on all stills and worms manufactured for export (and actually exported) on which the tax has been paid.

Subpart D—Wholesale Dealers

Sec. 5111. Imposition and rate of tax.
Sec. 5112. Definitions of wholesale dealers.
Sec. 5113. Exemptions.
Sec. 5114. Records.
Sec. 5115. Marking and stamping packages filled on premises of wholesale dealers.
Sec. 5116. Sign required on premises.

SEC. 5111. IMPOSITION AND RATE OF TAX.

(a) WHOLESALE DEALERS IN LIQUORS.—

(1) GENERAL.—Every wholesale dealer in liquors shall pay a special tax of $200 a year.

(2) RETAILERS SELLING AT WHOLESALE.—A qualified retail dealer in liquors may not sell distilled spirits, wines, or beer in quantities of 5 wine gallons or more to the same person at the same time without incurring liability to special tax as a wholesale dealer in liquors. No retail dealer in liquors shall be held to be a wholesale dealer in liquors solely by reason of sales of 5 wine gallons or more to the same person at the same time if such sales are for immediate consumption on the premises where sold.

(b) WHOLESALE DEALERS IN BEER.—

(1) GENERAL.—Wholesale dealers in beer shall pay a special tax of $100 a year.

(2) RETAILERS SELLING AT WHOLESALE.—A qualified retail dealer in beer may not sell such beer in quantities of 5 gallons or more to the same person at the same time without incurring liability to special tax as a wholesale dealer in beer. No retail dealer in beer shall be held to be a wholesale dealer in beer solely by reason of sales of 5 gallons or more to the same person at the same time if such sales are for immediate consumption on the premises where sold.

SEC. 5112. DEFINITIONS OF WHOLESALE DEALERS.

(a) WHOLESALE DEALER IN LIQUORS.—Except as otherwise provided, every person who sells, or offers for sale, foreign or domestic distilled spirits, wines, or beer in quantities of 5 wine gallons or more to the same person at the same time shall be regarded as a wholesale dealer in liquors. The Secretary or his delegate may, by regulations, provide for the issuance of a stamp denoting payment of such special tax as a "wholesale dealer in wines" or a "wholesale dealer in wines and beer" if, as the case may be, wines only, or wines and beer only, are sold by a wholesale dealer in liquors.

(b) WHOLESALE DEALER IN BEER.—Except as otherwise provided, every person who sells, or offers for sale, beer in quantities of 5 gallons or more, to the same person at the same time, and who does not deal in distilled spirits or wines at wholesale, shall be regarded as a wholesale dealer in beer.

SEC. 5113. EXEMPTIONS.

(a) DISTILLERS SELLING SPIRITS OF OWN PRODUCTION.—No distiller who has given the required bond and who sells only distilled spirits of his own production after determination of the tax, at the place of manufacture, or at the place of storage in bond, in the original packages shall be required to pay the special tax of a wholesale dealer in liquors on account of such sales.

(b) BREWERS SELLING IN BARRELS, ETC.—No brewer shall be required to pay special tax as a dealer by reason of selling in hogsheads, barrels, or kegs, whether at the place of manufacture or elsewhere, beer manufactured by him, or purchased and procured by him in his own hogsheads, barrels, or kegs, under section 5413, but the quantity of beer so purchased shall be included in calculating the liability to brewers' special tax of both the brewer who manufactures and sells the same and the brewer who purchases the same.

(c) WINEMAKERS SELLING WINES OF OWN PRODUCTION.—Nothing in this chapter shall be construed to impose a special tax on winemakers who have qualified as such under the internal revenue laws and regulations, and who sell wines of their own production where the same are made or at the general business office of such winemaker: *Provided,* That no winemaker shall have more than one place of business for the sale of such wine that shall be exempt from the special tax.

(d) CASUAL SALES.—

(1) SALES BY CREDITORS, FIDUCIARIES AND OFFICERS OF COURT.—No special tax shall be imposed on a sale of distilled spirits, wines, or beer made by a person who is not otherwise a dealer in liquors, where such spirits, wines, or beer have been received by the person so selling as security for or in payment of a debt, or as executor, administrator, or other fiduciary, or have been levied on by any officer, under order or process of any court or magistrate, and where such liquors are sold by such person in one parcel only, or at public auction in parcels not less than 20 wine gallons.

(2) SALES BY RETIRING PARTNERS OR REPRESENTATIVES OF DECEASED PARTNERS TO INCOMING OR REMAINING PARTNERS.—No special tax shall be held to accrue on a sale of distilled spirits, wines, or beer made by a retiring partner, or the representatives of a deceased partner, to the incoming, remaining, or surviving partner or partners of a firm.

(e) CROSS REFERENCES.—

(1) For exemption of retail dealers selling in wholesale quantities for consumption on premises, see section 5111.

(2) For exemption of retail dealers selling in liquidation, see section 5123 (d).

SEC. 5114. RECORDS.

(a) REQUIREMENTS.—Every wholesale liquor dealer who sells, or offers for sale, distilled spirits in quantities of 5 wine-gallons or more to the same person at the same time shall keep daily a record of distilled spirits received and disposed of by him, in such form, at such place and containing such information as the Secretary or his delegate shall by regulations prescribe. Such wholesale liquor dealers shall also render such correct transcripts, summaries and copies of their records at such times and in such form and manner as the Secretary or his delegate may by regulations require. The records

required to be kept under the provisions of this section, and regulations issued pursuant thereto, shall be preserved for a period of 2 years, and during such period shall be available during business hours for inspection and the taking of abstracts therefrom by internal revenue officers.

(b) EXEMPTION OF STATES.—The provisions of subsection (a) shall not apply to States and liquor stores operated by such States that maintain and make available to inspection by internal revenue officers such records as will enable such officers to readily trace all distilled spirits received and disposed of by them: *Provided*, That such States, and the liquor stores operated by them, shall, upon the request of the Secretary or his delegate, furnish him such transcripts, summaries and copies of their records as he shall require.

(c) CROSS REFERENCES.—

(1) For provisions relating to the keeping of records by distillers as wholesalers, see section 5197 (a) (2).

(2) For provisions relating to the keeping of records by rectifiers as wholesalers, see section 5285 (b).

(3) For penalty for violation of subsection (a), see sections 5620 and 5621.

SEC. 5115. MARKING AND STAMPING PACKAGES FILLED ON PREMISES OF WHOLESALE DEALERS.

(a) REQUIREMENTS.—Every package of distilled spirits containing 5 wine gallons or more, filled on the premises of a wholesale liquor dealer who has paid the special tax required by law, shall be marked, branded, and stamped by such wholesale liquor dealer in such manner and under such rules and regulations as the Secretary or his delegate may prescribe.

(b) PENALTY.—

For penalty for failure to comply with subsection (a), see section 5631

SEC. 5116. SIGN REQUIRED ON PREMISES.

(a) REQUIREMENTS.—Every wholesale liquor dealer, shall, in the manner and form prescribed by regulations issued by the Secretary or his delegate, place and keep conspicuously on the outside of the place of such business a sign, exhibiting, in plain and legible letters, the name or firm of the wholesale dealer, with the words: "wholesale liquor dealer".

(b) PENALTY.—

For penalty for failure to post sign, or for posting sign without paying the special tax, see section 5681.

Subpart E—Retail Dealers

Sec. 5121. Imposition and rate of tax.
Sec. 5122. Definitions.
Sec. 5123. Exemptions.
Sec. 5124. Records.

SEC. 5121. IMPOSITION AND RATE OF TAX.

(a) RETAIL DEALERS IN LIQUORS.—

(1) GENERAL.—Except as provided in subsection (c), every retail dealer in liquors shall pay a special tax of $50 a year.

(2) WHOLESALERS SELLING AT RETAIL.—A qualified wholesale dealer in liquors may not sell distilled spirits, wines, or beer in

quantities of less than 5 wine gallons without incurring liability to special tax as a retail dealer in liquors.

(b) RETAIL DEALERS IN BEER.—

(1) GENERAL.—Retail dealers in beer shall pay a special tax of $22 a year.

(2) WHOLESALERS SELLING AT RETAIL.—A qualified wholesale dealer in beer may not sell such beer in quantities of less than 5 gallons without incurring liability to special tax as a retail dealer in beer.

(c) LIMITED DEALERS IN WINES AND BEER.—Notwithstanding the provisions of this part, each person making sales of beer or wine to the members, guests, or patrons of bona fide fairs, reunions, picnics, carnivals, or other similar outings, and each fraternal, civic, church, labor, charitable, benevolent, or ex-servicemen's organization, making sales of beer or wine on the occasion of any kind of entertainment, dance, picnic, bazaar, or festival held by it, if such person or organization is not otherwise engaged in business as a wholesale or retail liquor dealer or as a wholesale or retail beer dealer, shall pay, before any such sales are made and in lieu of the special taxes imposed by subsections (a) and (b), a special tax of $2.20 as a retail dealer in beer, if beer only is sold, or a special tax of $2.20 as a retail dealer in liquors if wine only, or wine and beer only are sold, for each calendar month in which any such sales are made.

SEC. 5122 DEFINITIONS.

(a) RETAIL DEALERS IN LIQUORS.—Except as otherwise provided, every person who sells, or offers for sale, foreign or domestic distilled spirits, wines, or beer in quantities of less than 5 wine gallons to the same person at the same time shall be regarded as a retail dealer in liquors: *Provided*, That the Secretary or his delegate may, by regulations, provide for the issuance of a stamp denoting payment of such special tax as a "retail dealer in wines" or a "retail dealer in wines and beer" if, as the case may be, wines only, or wines and beer only, are sold by a retail dealer in liquors.

(b) RETAIL DEALERS IN BEER.—Except as otherwise provided, every person who sells, or offers for sale, beer in less quantities than 5 gallons to the same person at the same time, and does not deal in distilled spirits or wines, shall be regarded as a retail dealer in beer.

(c) RETAIL DRUG STORES OR PHARMACIES.—The tax required to be paid by section 5121 (a) (1) shall, in the case of a retail drug store or pharmacy making sales of liquors through a duly licensed pharmacist, be designated as a "medicinal spirits stamp tax."

SEC. 5123. EXEMPTIONS.

(a) BREWERS SELLING IN EIGHTH-BARREL PACKAGES.—No collection of special tax as a retail dealer in beer shall be made from brewers for selling beer of their own manufacture in eighth-barrel packages.

(b) BUSINESS CONDUCTED IN MORE THAN ONE LOCATION.—

(1) RETAIL DEALERS AT LARGE.—Any retail dealer in liquors or retail dealer in beer whose business is such as to require him to travel from place to place in different States of the United States, may under regulations prescribed by the Secretary or his delegate, procure a special tax stamp "At Large" covering his activities throughout the United States with the payment of but one special

tax as a retail dealer in liquors or as a retail dealer in beer, as the case may be.

(2) RETAIL DEALERS ON TRAINS, AIRCRAFT, AND BOATS.—Nothing contained in this chapter shall prevent the issue, under such regulations as the Secretary or his delegate may prescribe, of special tax stamps to persons carrying on the business of retail dealers in liquors, or retail dealers in beer on trains, aircraft, boats or other vessels, engaged in the business of carrying passengers.

(3) DEALERS MAKING SALES ON PURCHASER DEALERS' PREMISES.—No wholesale or retail dealer in liquors or wholesale or retail dealer in beer who has paid the special tax as such a dealer shall again be required to pay special tax as such dealer on account of sales of beer to wholesale or retail dealers in liquors or wholesale or retail dealers in beer consummated at the purchaser's place of business.

(c) SALES BY RETAIL DEALERS IN LIQUIDATION.—The special tax of a wholesale dealer in liquors or wholesale dealer in beer shall not apply to a retail dealer in liquors or to a retail dealer in beer, because of such retail dealer selling out his entire stock of liquors in one parcel, or in parcels embracing not less than his entire stock of distilled spirits, of wines, or of beer.

(d) CROSS REFERENCES.—

(1) For exemption of winemakers selling wines of their own production from special tax, see section 5113 (c).

(2) For provisions relating to sales by creditors, fiduciaries, and officers of courts, see section 5113 (d) (1).

(3) For provisions relating to sales by retiring partners or representatives of deceased partners to incoming or remaining partners, see section 5113 (d) (2).

(4) For exemption from special tax as wholesale dealer of retail dealers making sales of 5 wine gallons or more for immediate consumption on premises where sold, see section 5111.

SEC. 5124. RECORDS.

(a) REQUIREMENT.—Each retail liquor dealer shall provide at his own expense, and keep in his place of business, a record in book form, or shall keep all invoices of, and bills for, all distilled spirits, wines, and beer received, the quantity thereof, and from whom and the date when received.

(b) INSPECTION.—Such records, invoices, and bills shall be open to inspection during the usual business hours of the retailer, by internal revenue officers, on identification and request.

(c) PRESERVATION.—Such records, invoices, and bills shall be kept for a period of 2 years after the time of the transactions to which they relate.

(d) PENALTY.—

For penalty relating to retail dealers' records, see section 5692.

Subpart F—Nonbeverage Domestic Drawback Claimants

Sec. 5131. Eligibility and rate of tax.
Sec. 5132. Registration and regulation.
Sec. 5133. Investigation of claims.
Sec. 5134. Drawback.

SEC. 5131. ELIGIBILITY AND RATE OF TAX.

(a) ELIGIBILITY FOR DRAWBACK.—Any person using distilled spirits, produced in a domestic registered distillery or industrial

alcohol plant and on which the tax has been determined, in the manufacture or production of medicines, medicinal preparations, food products, flavors, or flavoring extracts, which are unfit for beverage purposes, on payment of a special tax per annum, shall be eligible for drawback at the time when such distilled spirits are used in the manufacture of such products as provided for in this subpart.

(b) RATE OF TAX.—The special tax imposed by subsection (a) shall be graduated in amount as follows: (1) for total annual withdrawals not exceeding 25 proof gallons, $25 a year; (2) for total annual withdrawals not exceeding 50 proof gallons, $50 a year; (3) for total annual withdrawals of more than 50 proof gallons, $100 a year.

SEC. 5132. REGISTRATION AND REGULATION.

Every person claiming drawback under this subpart shall register annually with the Secretary or his delegate; keep such books and records as may be necessary to establish the fact that distilled spirits purchased by him and on which the tax has been determined were used in the manufacture or production of medicines, medicinal preparations, food products, flavors, or flavoring extracts which were unfit for use for beverage purposes; and be subject to such rules and regulations in relation thereto as the Secretary or his delegate shall prescribe to secure the Treasury against frauds.

SEC. 5133. INVESTIGATION OF CLAIMS.

The Secretary or his delegate, for the purpose of ascertaining the correctness of any claim filed under this subpart, is authorized, by any officer or employee of the Treasury Department, including the field service, designated by him for that purpose, to examine any books, papers, records, or memoranda bearing upon the matters required to be alleged in the claim, and may require the attendance of the person filing the claim or of any officer or employee of such person, or the attendance of any other person having knowledge in the premises, and may take his testimony with reference to any matter covered by the claim, with power to administer oaths to such person or persons.

SEC. 5134. DRAWBACK.

(a) In the case of distilled spirits on which the tax has been determined and used as provided in this subpart, a drawback shall be allowed—

(1) At the rate of $6 on each proof gallon upon which tax is paid at a rate of $9 per proof gallon prior to November 1, 1951;

(2) at the rate of $9.50 on each proof gallon upon which tax is determined at the rate of $10.50 per proof gallon on and after November 1, 1951;

(3) at the rate of $8 on each proof gallon upon which tax is determined at a rate of $9 per proof gallon after March 31, 1955.

(b) Such drawback shall be due and payable quarterly upon filing of a proper claim with the Secretary or his delegate; except that, where any person entitled to such drawback shall elect in writing to file monthly claims therefor, such drawback shall be due and payable monthly upon filing of a proper claim with the Secretary or his delegate: *Provided, however*, That the Secretary or his delegate may require persons electing to file monthly drawback claims to file with him a bond or other security in such amount and with such conditions as he shall by regulations prescribe. Any such election may be

revoked on filing of notice thereof with the Secretary or his delegate. No claim under this subpart shall be allowed unless filed with the Secretary or his delegate within the 3 months next succeeding the quarter in which the distilled spirits covered by the claim were used as provided in this subpart.

Subpart G—General Provisions

Sec. 5141. Registration.
Sec. 5142. Payment of tax.
Sec. 5143. Returns.
Sec. 5144. Provisions relating to liability for occupational taxes.
Sec. 5145. Supply of stamps.
Sec. 5146. Posting stamp in place of business.
Sec. 5147. List of special taxpayers for public inspection.
Sec. 5148. Application of State laws.
Sec. 5149. Application of subpart.

SEC. 5141. REGISTRATION.

For provisions relating to registration in the case of persons engaged in any trade or business on which a special tax is imposed, see section 7011 (a).

SEC. 5142. PAYMENT OF TAX.

(a) CONDITION PRECEDENT TO DOING BUSINESS.—No person shall be engaged in or carry on any trade or business subject to tax under this part until he has paid a special tax therefor in the manner provided in this part.

(b) DATE DUE.—All special taxes imposed by this part shall become due on the first day of July in each year, or on commencing any trade or business on which such tax is imposed. In the former case the tax shall be reckoned for 1 year, and in the latter case it shall be reckoned proportionately, from the first day of the month in which the liability to a special tax commenced, to and including the 30th day of June following.

(c) METHOD OF PAYMENT.—BY STAMP.—All special taxes imposed by this part shall be paid by stamps denoting the tax.

(d) PENALTY.—

For penalties and forfeitures for nonpayment of special taxes, see section 5691.

SEC. 5143. RETURNS.

(a) TIME FOR FILING.—Except as provided in section 6081, every special taxpayer referred to in this part shall render his return (duly signed and verified and accompanied by payment of the tax) to the Secretary or his delegate at such time during the calendar month in which the special tax liability commences as will enable the Secretary or his delegate to receive such return not later than the last day of such month.

(b) PENALTIES.—

For penalties imposed for failure to file returns or for making false or fraudulent returns, see sections 6651 and 6653.

SEC. 5144. PROVISIONS RELATING TO LIABILITY FOR OCCUPATIONAL TAXES.

(a) PARTNERS.—Any number of persons doing business in copartnership at any one place shall be required to pay but one special tax.

(b) DIFFERENT BUSINESSES OF SAME OWNERSHIP AND LOCATION.—Whenever more than one of the pursuits or occupations described in this part are carried on in the same place by the same person at the same time, except as otherwise provided in this part, the tax shall be paid for each according to the rates severally prescribed.

(c) BUSINESSES IN MORE THAN ONE LOCATION.—The payment of the special tax imposed by this part shall not exempt from an additional special tax the person carrying on a trade or business in any other place than that stated in the register of the principal collection officer in such district; but nothing contained in this subsection shall require a special tax for the storage of goods, wares, or merchandise in other places than the place of business, nor, except as provided in this chapter for the sale by manufacturers or producers of their own goods, wares, and merchandise, at the place of production or manufacture, and at their principal office or place of business, provided no goods, wares, or merchandise shall be kept except as samples at said office or place of business: *Provided*, That, by place of business is meant the entire office, plant or area of the business in any one location under the same proprietorship, and passageways, streets, highways, rail crossings, waterways, or partitions dividing the premises shall not be deemed sufficient separation to require additional special tax, if the various divisions of the premises are otherwise contiguous.

(d) DEATH OR CHANGE OF LOCATION.—When any person who has paid the special tax for any trade or business dies, his wife or child, or executors or administrators or other legal representatives, may occupy the house or premises, and in like manner carry on, for the residue of the term for which the tax is paid, the same trade or business as the deceased before carried on, in the same house and upon the same premises, without the payment of any additional tax. And when any person removes from the house or premises for which any trade or business was taxed to any other place, he may carry on the trade or business specified in the register of the principal collection officer, at the place to which he removes, without the payment of any additional tax: *Provided*, That all cases of death, change, or removal, as aforesaid, with the name of the successor to any person deceased, or of the person making such change or removal, shall be registered in accordance with the provisions of section 7011 (b).

(e) FEDERAL AGENCIES OR INSTRUMENTALITIES.—Any tax imposed by this part shall apply to any agency or instrumentality of the United States unless such agency or instrumentality is granted by statute a specific exemption from such tax.

SEC. 5145. SUPPLY OF STAMPS.

The Secretary or his delegate is required to procure appropriate stamps for the payment of all special taxes imposed by this part, including the tax on stills or worms; and all provisions of law relating to the preparation and issue of stamps shall, so far as applicable, extend to and include such stamps for special taxes; and the Secretary or his delegate shall have authority to make all needful regulations relative thereto.

SEC. 5146. POSTING STAMP IN PLACE OF BUSINESS.

(1) For provisions relating to posting of special tax stamp, see section 6806 (a); and

(2) For penalty relating to failure to post special tax stamps, see section 7273 (a).

SEC. 5147. LIST OF SPECIAL TAXPAYERS FOR PUBLIC INSPECTION.

For provisions relating to the keeping of a list of special taxpayers for public inspection, see section 6107.

SEC. 5148. APPLICATION OF STATE LAWS.

The payment of any tax imposed by this part for carrying on any trade or business shall not exempt any person from any penalty or punishment provided by the laws of any State for carrying on such trade or business within such State, or in any manner to authorize the commencement or continuance of such trade or business contrary to the laws of such State or in places prohibited by municipal law; nor shall the payment of any such tax be held to prohibit any State from placing a duty or tax on the same trade or business, for State or other purposes.

SEC. 5149. APPLICATION OF SUBPART.

The provisions of this subpart, so far as applicable, shall extend to and apply to the special taxes imposed by the other subparts of this part and by chapter 53, and to the persons on whom such taxes are imposed.

Subchapter B—Distilleries

Part I. Establishment.
Part II. Operation.
Part III. General provisions relating to distilleries and distilled spirits.

Part I—ESTABLISHMENT

Sec. 5171. Premises prohibited for distilling.
Sec. 5172. Conditions precedent to carrying on business of distilling.
Sec. 5173. Distillery fixtures and equipment.
Sec. 5174. Registry of stills.
Sec. 5175. Notice of business of distiller.
Sec. 5176. Distiller's bond.
Sec. 5177. Conditions of approval of distiller's bond.
Sec. 5178. Plan of distillery.
Sec. 5179. Survey of distillery.
Sec. 5180. Sign required on premises.

SEC. 5171. PREMISES PROHIBITED FOR DISTILLING.

(a) GENERAL.—No person shall use any still, boiler, or other vessel for the purpose of distilling, in any dwelling house, or in any shed, yard, or inclosure connected with any dwelling house, or on board of any vessel or boat, or on any premises where beer, wines, or vinegar are manufactured or produced, or where sugars or sirups are refined, or where liquors of any description are retailed, or where any other business is carried on, except that the Secretary or his delegate may by regulations authorize such other business to be carried on by a distiller on the distillery premises as the Secretary or his delegate finds will not jeopardize the revenue: *Provided*, That saleratus may be manufactured, or meal or flour ground from grain, in any building or on any premises where spirits are distilled; but such meal or flour shall be used only for distillation on the premises: *Provided further*, That any boiler used in generating steam or heating water to be used in any distillery may be located in any other building or on any other premises to be connected with such still or boiling tubs, by suitable pipes or other apparatus, or the steam from such boiler in the distillery may be conveyed to other premises to be used for manufacturing or other purposes. This section shall not prohibit the use of any still, boiler, or other vessel by a rectifier (as defined by section 5082) in a rectifying plant qualified under this chapter.

(b) PENALTY.—

For penalty for violation of subsection (a), see section 5607.

SEC. 5172. CONDITIONS PRECEDENT TO CARRYING ON BUSINESS OF DISTILLING.

It shall not be lawful for any distiller to commence the business of distilling until he has given the bond required by law and complied with the provisions of law, relating to the registration of distilleries, and the arrangement and construction of distilleries and the premises connected therewith.

SEC. 5173. DISTILLERY FIXTURES AND EQUIPMENT.

(a) REQUIREMENTS AS TO FERMENTING AND DISTILLING EQUIPMENT, FIXED PIPES AND VESSELS.—The door of the furnace, or the steam or fuel line, of every still or boiler used in any distillery shall be so constructed that it may be securely fastened and locked. The fermenting and distilling equipment, and all fixed pipes and vessels, shall be constructed, arranged and identified in such manner as the Secretary or his delegate may by regulations prescribe.

(b) RECEIVING CISTERNS.—The proprietor of any distillery shall erect, in a room or building to be provided and used for that purpose, and for no other, and to be constructed in the manner to be prescribed by regulations issued by the Secretary or his delegate, two or more receiving cisterns into which all spirits produced in the distillery shall be deposited when the manufacture thereof is complete. Such cisterns and the room in which they are contained shall be equipped for locking with Government locks. The cisterns shall, as prescribed by regulations issued by the Secretary or his delegate, be connected with the outlet of the worm or condenser by suitable pipes or other apparatus, so constructed as always to be exposed to the view of the Government officer, and so connected and constructed as to prevent the abstraction of the spirits while passing from the worm or condenser back to the still or doubler, or forward to the receiving cistern.

(c) CHANGES IN APPARATUS AND FASTENINGS.—The Secretary or his delegate is authorized to order and require such changes of or additions to distilling apparatus, connecting pipes, pumps, or cisterns, or any machinery connected with or used in or on the distillery premises, or may require to be put on any of the stills, tubs, cisterns, pipes, or other vessels, such fastenings, locks or seals as he may deem necessary.

(d) CROSS REFERENCES.—

(1) For provisions authorizing the Secretary or his delegate to require installation of meters, tanks, and other apparatus, see section 5552.

(2) For penalties for failure of distiller to paint or identify fixed pipes, see section 5618.

SEC. 5174. REGISTRY OF STILLS.

(a) REQUIREMENT.—Every person having in his possession or custody, or under his control, any still or distilling apparatus set up, shall register such still or apparatus with the Secretary or his delegate immediately on its being set up, by subscribing and filing with the Secretary or his delegate a statement, in writing, setting forth the particular place where such still or distilling apparatus is set up, the kind of still and its cubic contents, the owner thereof, his place of residence, and the purpose for which said still or distilling apparatus has been or is intended to be used: *Provided*, That stills or distilling apparatus not used or intended to be used for the distillation, redistillation, or recovery of distilled spirits are not required to be registered under this section.

(b) PENALTY.—

For penalty and forfeiture provisions pertaining to unregistered stills, see section 5601.

SEC. 5175. NOTICE OF BUSINESS OF DISTILLER.

(a) REQUIREMENTS.—Every person engaged in, or intending to be engaged in, the business of a distiller, shall give notice in writing, subscribed by him, to the Secretary or his delegate, stating his name

and residence, and if a company or firm, the name and residence of each member thereof, the name and residence of every person interested or to be interested in the business, and the precise place where said business is to be carried on; and if such business is carried on in a city, the residence and place of business shall be indicated by the name of the street and number of the building. The notice shall also state a particular description of the lot or tract of land on which the distillery is situated, and of the buildings thereon, including their size, material, and construction, that said distillery premises are not on any qualified rectifying plant premises, and such additional particulars, as the Secretary or his delegate shall, by regulations, prescribe. In case of any change in the location, form, capacity, ownership, agency, superintendency, or in the persons interested in the business of such distillery, notice thereof in writing, shall be given to the Secretary or his delegate. Every notice required by this section shall be in such form, contain such additional particulars, and be submitted at such time or times, as the Secretary or his delegate shall, by regulations, prescribe.

(b) PENALTY.—

For penalty for failure or refusal of distiller to give notice as required by subsection (a) or for giving false notice, see section 5603.

SEC. 5176. DISTILLER'S BOND.

(a) FORM AND APPROVAL.—Every person intending to commence or to continue the business of a distiller shall, on filing with the Secretary or his delegate his notice of such intention, and before proceeding with such business, and on the first day of May of each succeeding year, execute a bond in the form prescribed by the Secretary or his delegate, conditioned that he shall faithfully comply with all the provisions of law relating to the duties and business of distillers, and shall pay all penalties incurred or fines imposed on him for a violation of any of the said provisions; and that he shall not suffer the lot or tract of land on which the distillery stands, or any part thereof, or any of the distilling apparatus, to be incumbered by mortgage, judgment, or other lien, during the time in which he shall carry on said business. Such bond shall be with such sureties, approved by the Secretary or his delegate, and for a penal sum not less than the amount of tax on the spirits that can be distilled in his distillery during a period of 15 days. Such bond shall not exceed the sum of $100,000.

(b) ADDITIONAL BOND.—No distilled spirits, other than distilled spirits authorized by law to be withdrawn without payment of tax, shall be withdrawn from a distillery except on the payment of tax at the time of withdrawal, unless the distiller has furnished such bond (in addition to the bond required by subsection (a)) to secure payment of the tax, in such form and in such penal sum, and has complied with such other requirements, as the Secretary or his delegate may, by regulations, prescribe.

(c) NEW BONDS.—New bonds shall be required in case of the death, insolvency, or removal of any surety, and may be required in any other contingency at the discretion of the Secretary or his delegate.

(d) WHEN EXEMPT FROM SURVEY REQUIREMENTS.—Whenever, under authority of law, the Secretary shall relieve a distiller from the survey requirements of section 5179, he may likewise by regulation

fix the penal sum of the distiller's bond, but in no case shall the amount of the minimum bond required under subsection (a) be less than $5,000 nor the amount of the maximum bond so required be greater than $100,000.

(e) CROSS REFERENCES.—

For deposit of United States bonds or notes in lieu of sureties, see 6 U. S. C. 15, and for penalty and forfeiture for failure or refusal to give bond or for giving false, forged or fraudulent bond, see section 5604, and for carrying on the business of a distiller without giving bond, see section 5606.

SEC. 5177. CONDITIONS OF APPROVAL OF DISTILLER'S BOND.

(a) GENERAL.—No officer shall approve the bond of any distiller until all the requirements of the law and all regulations made by the Secretary or his delegate in relation to distilleries, in pursuance thereof, have been complied with.

(b) OWNERSHIP, CONSENT OF OWNER, OR INDEMNITY BOND.—No bond of a distiller shall be approved unless—

(1) The distiller is the owner in fee, unencumbered by any mortgage, judgment, or other lien, of the lot or tract of land on which the distillery is situated; or

(2) The distiller files with the officer designated for the purpose by the Secretary or his delegate, in connection with his notice, the written consent of the owner of the fee, and of any mortgagee, judgment creditor, or other person having a lien, thereon, duly acknowledged, that the premises may be used for the purpose of distilling spirits, subject to the provisions of law, and expressly stipulating that the lien of the United States for taxes and penalties shall have priority of such mortgage, judgment, or other encumbrance, and that in the case of the forfeiture of the distillery premises, or any part thereof, the title to the same shall vest in the United States, discharged from such mortgage, judgment, or other encumbrance; or

(3) If consent as required under paragraph (2) cannot be obtained, the distiller, with the approval of the Secretary or his delegate, files with the officer designated by the Secretary or his delegate a bond, approved by the Secretary or his delegate, in the penal sum equal to the appraised value of the lot or tract of land on which the distillery is situated, the distillery, the buildings, and the distilling apparatus. Such value shall be determined, and such bond shall be executed, in such form and with such sureties, and filed with the officer designated by the Secretary or his delegate, under such regulations as the Secretary or his delegate shall prescribe.

(4) In the case of any distillery sold at judicial or other sale in favor of the United States, a bond may be taken at the discretion of the Secretary or his delegate, in lieu of the written consent required by this subsection, and the person giving such bond may be allowed to operate such distillery during the existence of the right of redemption from such sale, on complying with all the other provisions of law.

(c) SITUATION OF DISTILLERY.—The officer designated by the Secretary or his delegate may refuse to approve the bond of a distillery when, in his judgment, the situation of the distillery is such

as would enable the distiller to defraud the United States; and in case of such refusal the distiller may appeal to the Secretary or his delegate, whose decision in the matter shall be final.

(d) PENALTY.—

For penalty for improper approval of distiller's bond, see section 5605, and for general provisions relating to approval, disapproval and appeal on bonds, see section 5551.

SEC. 5178. PLAN OF DISTILLERY.

Every distiller and every person intending to engage in the business of a distiller shall, previous to the approval of his bond, submit an accurate plan and description of the distillery and its equipment, and disclosing such information, in such detail, and in the number of copies as the Secretary or his delegate shall by regulations prescribe. One copy of such plan and description shall be kept in the distillery available for examination by government officers. The accuracy of every such plan and description shall be verified by the Secretary or his delegate, the draftsman, and the distiller; and no alteration shall be made in such distillery without the consent, in advance, of the Secretary or his delegate. Any alteration so made shall be shown on the original, or by a supplemental plan and description, as the Secretary or his delegate may direct; and any such supplemental plan and description shall be executed and preserved in the same manner as the original.

SEC. 5179. SURVEY OF DISTILLERY.

(a) REQUIREMENTS.—On receipt of notice that any person, firm, or corporation wishes to commence the business of distilling, the Secretary or his delegate shall proceed in person, at the expense of the United States, for the purpose of making surveys of distilleries in that district, to make a survey of such distillery for the purpose of estimating and determining its true spirit-producing capacity for a day of 24 hours. In all surveys 45 gallons of mash or beer brewed or fermented from grain shall represent not less than one bushel of grain, and 7 gallons of mash or beer brewed or fermented from molasses shall represent not less than one gallon of molasses; except that in distilleries operated on the sour-mash principle, 60 gallons of beer brewed or fermented from grain shall represent not less than one bushel of grain; and except that in distilleries where the filtration-aeration process is used with the approval of the Secretary or his delegate (that is, where the mash after it leaves the mash tub is passed through a filtering machine before it is run into the fermenting tub, and only the filtered liquor passes into the fermenting tub) there shall be no limitation on the number of gallons of water which may be used in the process of mashing or filtration for fermentation; but the Secretary or his delegate in order to protect the revenue, shall be authorized to prescribe by regulation such character of survey as he may find suitable for distilleries using such filtration-aeration process. The provisions hereof relating to filtration-aeration process shall apply only to sweet-mash distilleries. A written report of such survey shall be made of which one copy shall be delivered to the distiller and one copy shall be retained by the officer designated by the Secretary or his delegate and the survey shall take effect upon the delivery of such copy to the distiller. Whenever the Secretary or his delegate is satisfied that any report of the capacity of a distillery is incorrect or needs a revision, he shall direct an officer to make in like manner another survey of

said distillery, and the report thereof shall be made and deposited as hereinbefore required: *Provided*, That the survey of any distillery estimated and stated by the distiller, in his notice of intention to distill, as capable of distilling not more than 150 proof gallons of distilled spirits every 24 hours may be made by the Secretary or his delegate without the aid of an assistant; and that all surveys made for the purpose of correcting clerical errors or errors of computation existing in the report of a previous survey, and all surveys made for the purpose of changing the true spirit producing capacity of any distillery for a day of 24 hours as estimated and determined by a previous survey, but which surveys do not require the remeasuring of the fermenting tubs in a grain or molasses distillery, or the still or stills in a distillery of apples, peaches, or grapes exclusively, may be made without taking the measurements of the fermenting tubs or stills, as the case may be, and without revisiting the distillery: *And provided further*, That the Secretary or his delegate may, whenever he shall deem it proper, designate an officer to make, with or without the aid of a designated assistant, the surveys and resurveys hereinabove provided for.

(b) WAIVER OF REQUIREMENTS.—The Secretary or his delegate in the case of any distillery may, under regulations, waive such of the requirements of this section as he determines may be waived without danger to the revenue. Whenever the Secretary or his delegate, by authority of this subsection, waives any or all of the requirements of this section, he may, by regulation, relieve the distiller from such requirements of sections 5007 (e) and 5191 (a) and of such other provisions of law relating or incidental to survey requirements as the Secretary or his delegate determines may be waived without danger to the revenue.

SEC. 5180. SIGN REQUIRED ON PREMISES.

(a) REQUIREMENT.—Every person engaged in distilling shall, in such manner and form as the Secretary or his delegate may by regulations prescribed, place and keep conspicuously on the outside of the place of such business a sign, exhibiting in plain and legible letters the name or firm of the distiller, with the words: "registered distillery."

(b) PENALTY.—

For penalty relating to failure to post sign or improperly posting such sign, see section 5681.

PART II—OPERATION

Sec. 5191. Commencement, suspension, and resumption of operations.
Sec. 5192. Supervision of operations by storekeeper-gaugers.
Sec. 5193. Drawing, gauging, and marking of distilled spirits.
Sec. 5194. Transfer of spirits at registered distilleries.
Sec. 5195. Restrictions relating to operations.
Sec. 5196. Entry and examination of distillery and premises.
Sec. 5197. Distiller's records and returns.

SEC. 5191. COMMENCEMENT, SUSPENSION, AND RESUMPTION OF OPERATIONS.

(a) COMMENCEMENT, SUSPENSION AND RESUMPTION.—No distiller whose bond has been approved shall commence operations until a storekeeper-gauger has been assigned to the distillery. Any distiller desiring to suspend work in his distillery shall give notice in writing to the Secretary or his delegate, stating when he will suspend work;

and on the day mentioned in said notice a government officer shall adopt such means, by locks and otherwise, as the Secretary or his delegate may, by regulations, prescribe to prevent the use of the stills. No distiller, after having given such notice, shall, after the time stated therein, carry on the business of a distiller on said premises until he gives another notice in writing to the Secretary or his delegate, stating the time when he will resume work; and at the time so stated for resuming work a government officer shall attend at the distillery to release the stills for use; and thereupon, and not before, work may be resumed in said distillery. The notices submitted under this section shall be in such form and submitted in such manner as the Secretary or his delegate may by regulations require. Nothing in this section shall apply to suspensions caused by unavoidable accidents; and the Secretary shall prescribe regulations to govern such cases of involuntary suspension.

(b) WAIVER OF REQUIREMENTS.—

For authority to relieve distillers of the requirements of this section, see section 5179 (b).

SEC. 5192. SUPERVISION OF OPERATIONS BY STOREKEEPER-GAUGERS.

(a) ASSIGNMENT OF GAUGERS.—The Secretary or his delegate shall assign to each distillery such number of storekeeper-gaugers as he deems necessary for the proper supervision of the operations conducted on the premises thereof.

(b) CISTERN ROOM.—The receiving cisterns in each distillery and the room in which they are contained shall be in charge of a storekeeper-gauger and shall be under such supervision by him as the Secretary or his delegate may, by regulations, prescribe.

(c) USE OF MATERIALS AND REMOVAL OF SPIRITS.—The use of materials for the purpose of making mash, wort, or beer or for the production of spirits, and the removal of distilled spirits shall be under such supervision by storekeeper-gaugers as the Secretary or his delegate shall, by regulations, prescribe.

(d) STOREKEEPER-GAUGERS' RECORDS.—The storekeeper-gauger assigned to any distillery shall, in addition to all other duties required to be performed by him, keep such records and submit such reports as the Secretary or his delegate shall, by regulations, prescribe.

(e) PENALTY.—

For penalty for use of materials or removal of spirits in violation of subsection (c), see section 5612.

SEC. 5193. DRAWING, GAUGING, AND MARKING OF DISTILLED SPIRITS.

(a) GENERAL RULE.—On or before the third working day after distilled spirits are deposited into receiving cisterns, such spirits shall be drawn off and removed as provided by law. Except as otherwise provided by law, all distilled spirits shall be drawn from receiving cisterns into casks or packages, and thereupon shall be gauged and marked under the supervision of a storekeeper-gauger, and immediately removed into an internal revenue bonded warehouse. The Secretary or his delegate is hereby empowered to prescribe all necessary regulations relating to the drawing off, gauging, and packaging of distilled spirits; the marking, branding, numbering, and stamping of such

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packages; and the transfer and transportation to, and the storage of such spirits in, internal revenue bonded warehouses.

(b) IN WOODEN PACKAGES CONTAINING METALLIC CANS.—On the application of the distiller and under such regulations as the Secretary or his delegate may prescribe, distilled spirits may be drawn into wooden packages, each containing two or more metallic cans, which cans shall each have a capacity of not less than 5 gallons, wine measure. Such packages shall be filled and used only for exportation from the United States.

(c) STANDARDS OF FILL.—The Secretary or his delegate may by regulations prescribe the standards of fill of casks or packages of distilled spirits at each distillery.

(d) MARKING AND BRANDING BY DISTILLERS.—The Secretary or his delegate may by regulations require a distiller, at his expense and under the supervision of a storekeeper-gauger, to do such gauging, marking, and branding, and such mechanical labor pertaining to gauging, required under this section as the Secretary or his delegate deems proper and determines may be done without danger to the revenue.

SEC. 5194. TRANSFER OF SPIRITS AT REGISTERED DISTILLERIES.

(a) REQUIREMENTS.—Subject to the provisions of existing law, spirits of 160 degrees of proof or more produced at registered distilleries, including registered fruit distilleries, may be transferred by means of pipelines from receiving cisterns in the distillery direct to storage tanks in the internal revenue bonded warehouse located on the bonded premises where produced or located contiguous thereto, and be warehoused in such storage tanks, or they may be withdrawn from the receiving cisterns, without, or after, reduction in proof, into approved containers and transferred to any internal revenue bonded warehouse for storage therein, or they may, on determination of tax, be withdrawn in such approved containers from the cistern rooms of distilleries without being entered into an internal revenue bonded warehouse. Such spirits may be drawn into approved containers from storage tanks in an internal revenue bonded warehouse. Spirits of 160 degrees of proof, or more, may be transferred in bond in tank cars or tank trucks from cistern rooms of distilleries or from storage tanks in an internal revenue bonded warehouse and be deposited in storage tanks in any internal revenue bonded warehouse. Such spirits in tanks in internal revenue bonded warehouses distilled at or above 190 degrees of proof may be reduced to not less than 111 degrees prior to being drawn into packages. Such spirits, on determination of tax, may be withdrawn in approved containers, including pipelines to contiguous premises. Except as provided in subsections (b) and (c), such spirits may not be withdrawn for denaturation.

(b) DISTILLATES CONTAINING ALDEHYDES OR FUSEL OIL.—Under rules and regulations to be prescribed by the Secretary or his delegate, distillers may collect, in locked tanks, distillates containing one-half of 1 percent or more of aldehydes or 1 percent or more of fusel oil (heads and tails) removed in the course of distillation. The distillates so collected may, under regulations prescribed by the Secretary or his delegate, be removed from such distillery for denaturation or be destroyed in the manner prescribed by the Secretary or his delegate,

under the supervision of an internal revenue officer to be designated by the Secretary or his delegate, and when so denatured or destroyed shall not be subject to the tax imposed by law upon distilled spirits. Such distillates so collected in registered fruit distilleries may, under regulations to be prescribed by the Secretary or his delegate, be drawn into approved casks, barrels, or other containers and stored in the brandy deposit room of the registered fruit distillery where produced pending removal for denaturation or destruction.

(c) TRANSFER OF RUM FOR DENATURATION.—Rum of not less than 150 degrees of proof may be transferred by pipeline for denaturation from receiving cisterns in the cistern room of any distillery to a denaturing bonded warehouse on the distillery premises or to storage tanks situated in the internal revenue bonded warehouse located on the distillery premises, or from such storage tanks to a denaturing bonded warehouse on the distillery premises.

(d) TRANSFER OF WINE SPIRITS.—Wine spirits withdrawn without payment of tax under section 5373, or transferred between any registered fruit distillery and any internal revenue bonded warehouse, may be transferred by pipeline, tank car, tank truck, or other approved containers, as provided by regulations prescribed by the Secretary or his delegate.

(e) TRANSFER OF GIN AND VODKA.—

(1) TO CONTIGUOUS PREMISES.—Gin and vodka of any proof may be transferred in bond by means of pipelines from receiving cisterns in distilleries direct to storage tanks in the internal revenue bonded warehouse located on the bonded premises where produced, or located contiguous thereto, and be warehoused in such storage tanks. On determination of tax, gin and vodka of any proof may be transferred by pipeline from receiving cisterns in distilleries, or from storage tanks in internal revenue bonded warehouses located on or contiguous to the bonded premises of the producing distillery, to a contiguous tax-paid bottling house or rectifying plant.

(2) TO OTHER PREMISES.—Gin and vodka of any proof may be transferred in bond in tank cars or tank trucks from cistern rooms of distilleries or from storage tanks in an internal revenue bonded warehouse and be deposited in storage tanks in any internal revenue bonded warehouse or removed therefrom upon determination of tax in approved containers including tank cars and tank trucks.

(f) REDISTILLATION OF SPIRITS.—Distilled spirits of any proof may be transferred in any approved container from a distillery or an internal revenue bonded warehouse to any distillery for redistillation. Such spirits may be transferred by pipeline to a distillery for redistillation from tanks in an internal revenue bonded warehouse located on such distillery premises or located contiguous thereto, or from receiving tanks in a distillery to a contiguous distillery. On removal of distilled spirits to any distillery for redistillation, the consignee distiller shall assume the liability for the payment of the tax on the spirits from the time they leave the internal revenue bonded warehouse or distillery, and the tax liability on the producing distillery or the internal revenue bonded warehouseman, and the liens on the premises of the producing distiller shall cease, and the tax and liens shall become the liability of the consignee distiller: *Provided*, That on redistillation the redistilled spirits shall be treated the same as

if the spirits had been originally produced by the redistiller, and all prior obligations as to taxes and liens shall be superseded.

(g) REGULATIONS.—The Secretary or his delegate is hereby empowered to prescribe all necessary regulations relating to the drawing off, transferring, gauging, storing, redistilling, and transporting of the spirits; the records to be kept and returns to be made; the size and kind of containers to be used; the marking, branding, numbering, and stamping of such containers; and the kind of bond and the penal sum thereof.

(h) EFFECT ON OTHER LAWS.—Nothing contained in this section shall be construed as restricting or limiting the provisions of other sections of the internal revenue laws relating to internal revenue bonded warehouses, distilleries, and bonded wineries.

SEC. 5195. RESTRICTIONS RELATING TO OPERATIONS.

(a) PROHIBITED HOURS FOR DISTILLING.—Except as provided in section 5306, no malt, corn, grain, or other material shall be mashed, nor any mash, wort, or beer, brewed or made, nor any still used by a distiller, at any time between 11 p. m. on any Saturday and 1 a. m. on the next succeeding Monday.

(b) PROHIBITED HOURS FOR REMOVAL OF SPIRITS.—No person shall remove any distilled spirits at any other time than after sunrising and before sun-setting in any cask or package containing more than 10 gallons from any premises or building in which the same may have been distilled, redistilled, rectified, compounded, manufactured, or stored.

(c) CROSS REFERENCES—

(1) For restrictions relating to the production, removal, etc., of mash, wort or wash, see section 5216.

(2) For limitation on the restrictions in subsection (b) in case of National Emergency transfers of distilled spirits, see section 5217.

(3) For penalty for distilling during prohibited hours, see section 5613, and for penalty for removal of spirits during prohibited hours, see section 5614.

SEC. 5196. ENTRY AND EXAMINATION OF DISTILLERY AND PREMISES

(a) KEEPING DISTILLERY ACCESSIBLE.—Every distiller shall furnish the Secretary or his delegate such keys as may be required for internal revenue officers to gain access to the distillery premises and structures, at any time, and the distillery shall always be kept accessible to any officer having such keys.

(b) RIGHT OF ENTRY AND EXAMINATION.—It shall be lawful for any revenue officer at all times, as well by night as by day, to enter into any distillery or building or place used for the business of distilling, or used in connection therewith for storage or other purposes, and to examine, gauge, measure, and take an account of every still or other vessel or utensil of any kind, and of all low wines, and of the quantity and gravity of all mash, wort, or beer, and of all yeast, or other compositions for exciting or producing fermentation in any mash or beer, of all spirits and of all materials for making or distilling spirits, which may be in any such distillery or premises, or in possession of the distiller. Whenever any officer, having demanded admittance into a distillery or distillery premises, and having declared his name and office, is not admitted into such distillery or premises by the distiller or other person having charge thereof, it shall be lawful for such officer at all times, as well by night as by day, to break open by

force any of the doors or windows, or to break through any of the walls of such distillery or premises necessary to be broken open or through, to enable him to enter such distillery or premises.

(c) FURNISHING FACILITIES AND ASSISTANCE.—On the demand of any internal revenue officer or agent, every distiller shall furnish strong, safe, and convenient ladders of sufficient length to enable the officer or agent to examine and gauge any vessel or utensil in such distillery or premises; and shall, at all times when required, supply all assistance, lights, ladders, tools, staging, or other things necessary for inspecting the premises, stock, tools, and apparatus belonging to such person, and shall open all doors, and open for examination all boxes, packages, and all casks, barrels, and other vessels not under the control of the revenue officer in charge.

(d) AUTHORITY TO BREAK UP GROUNDS OR WALLS.—It shall be lawful for any revenue officer, and any person acting in his aid, to break up the ground on any part of a distillery, or premises of a distiller, or any ground adjoining or near to such distillery or premises, or any wall or partition thereof, or belonging thereto, or other place, to search for any pipe, cock, private conveyance, or utensil; and, upon finding any such pipe or conveyance leading therefrom or thereto, to break up any ground, house, wall, or other place through or into which such pipe or other conveyance leads, and to break or cut away such pipe or other conveyance, and turn any cock, or to examine whether such pipe or other conveyance conveys or conceals any mash, wort, or beer, or other liquor, which may be used for the distillation of low wines or spirits, from the sight or view of the officer, so as to prevent or hinder him from taking a true account thereof.

(e) WORM TUBS OR CONDENSERS.—Whenever any officer or internal revenue agent requires the water contained in any worm tub in a distillery, at any time when the still is not at work, to be drawn off, and the tub and worm cleansed, the water shall forthwith be drawn off, and the tub and worm cleansed by the distiller, or his workmen, accordingly; and the water shall be kept out of such worm tub for the period of 2 hours, or until the officer or agent has finished his examination thereof. It shall be lawful for the officer or agent to draw off such water, or any portion of it, and to keep the same drawn off for so long a time as he shall think necessary.

(f) PENALTIES.—

(1) For penalty for failure to keep distillery accessible, see section 5617.

(2) For penalty for obstructing or refusing to admit officer to distillery premises, see section 5616.

(3) For penalty for refusal of distillers to give assistance to officers, see section 5615.

(4) For penalty for refusal or neglect to comply with subsection (e), see section 5619.

SEC. 5197. DISTILLER'S RECORDS AND RETURNS.

(a) RECORDS.—

(1) GENERAL.—

(A) REQUIREMENTS.—Every person who makes or distills spirits, or owns any still, boiler, or other vessel used for the purpose of distilling spirits, or who has such still, boiler, or other vessel so used under his superintendence, either as agent or owner,

or who uses any such still, boiler, or other vessel, shall keep a record, in the form and manner prescribed by regulations issued by the Secretary or his delegate, of the receipt on the distillery premises, and the use thereon, of materials intended for use in the distillation of spirits, the kind and quantity of distilled spirits produced, the kind and quantity of distilled spirits removed from the distillery premises, and such additional particulars as may be required by such regulations.

(B) PRESERVATION AND INSPECTION.—The records of every distiller required by subparagraph (A) shall be kept at the distillery and be available at all times for inspection by any internal revenue officer, and shall be preserved by the distiller for a period of not less than 2 years.

(2) RECORDS OF DISTILLERS AS WHOLESALE DEALERS.—Every distiller shall keep daily a record of distilled spirits of his own production disposed of by him, in such form, at such place and containing such information as the Secretary or his delegate shall by regulations prescribe. Such distillers shall also render such correct transcripts, summaries, and copies of their records at such times and in such form and manner as the Secretary or his delegate may by regulations require. The records required to be kept under this paragraph, and regulations prescribed pursuant thereto, shall be preserved for a period of 2 years, and during such period shall be available during business hours for inspection and the taking of abstracts therefrom by the Secretary or his delegate.

(b) MONTHLY RETURN OF DISTILLER.—On the first day of each month or within 5 days thereafter, every distiller shall render to the Secretary or his delegate a monthly return of the operations of the preceding month taken from his records, such returns to be in such form and manner, and contain such information as the Secretary or his delegate may by regulations require.

(c) PENALTIES AND FORFEITURES.—

(1) For penalty for using unregistered materials, see section 5610.
(2) For penalty and forfeiture for false or omitted entries in distiller's books, see section 5620.
(3) For penalty relating to records and returns of distiller as wholesale dealer, see section 5621.

PART III—GENERAL PROVISIONS RELATING TO DISTILLERIES AND DISTILLED SPIRITS

Sec. 5211. Detention of cases, packages, or containers on suspicion.
Sec. 5212. Prevention and detection of fraud.
Sec. 5213. Return of materials used in the manufacture of distilled spirits.
Sec. 5214. Regulation of traffic in containers of distilled spirits.
Sec. 5215. Exemption of distillers of fruit brandy from certain requirements.
Sec. 5216. Mash, wort, and vinegar; vinegar factories.
Sec. 5217. Exemptions relating to national emergency transfers.

SEC. 5211. DETENTION OF CASKS, PACKAGES, OR CONTAINERS ON SUSPICION.

It shall be lawful for any internal revenue officer to detain any cask, package, or other container containing, or supposed to contain, distilled spirits, when he has reason to believe that the tax imposed by

law on such distilled spirits has not been paid or determined as required by law, or that such cask, package, or other container is being removed in violation of law; and every such cask, package, or other container, may be held by him at a safe place until it shall be determined whether the property so detained is liable by law to be proceeded against for forfeiture; but such summary detention shall not continue in any case longer than 48 hours without process of law or intervention of the officer to whom such detention is to be reported.

SEC. 5212. PREVENTION AND DETECTION OF FRAUD.

(a) GENERAL.—For the prevention and detection of frauds, the Secretary or his delegate may prescribe for use such hydrometers, saccharometers, weighing and gauging instruments, or other means for ascertaining the quantity, gravity, and producing capacity of any mash, wort, or beer used, or to be used, in the production of distilled spirits, and the strength and quantity of spirits subject to tax, as he may deem necessary; and he may prescribe regulations to secure a uniform and correct system of inspection, weighing, marking, and gauging of spirits.

(b) CROSS REFERENCES.—

For other provisions relating to gauging and marking of spirits in case of—
(1) Transfers at registered distilleries, see section 5194.
(2) Withdrawals from receiving cisterns for transfer to internal revenue bonded warehouses, see section 5193.
(3) Removals from internal revenue bonded warehouses, see section 5250.
(4) Spirits intended to be rectified or received from rectification, see section 5282 (b).
(5) Packages filled on premises of wholesale dealers, see section 5115 (a).

SEC. 5213. RETURN OF MATERIALS USED IN THE MANUFACTURE OF DISTILLED SPIRITS.

(a) REQUIREMENT.—Every person disposing of any substance of the character used in the manufacture of distilled spirits shall, when required by the Secretary or his delegate, render a correct return, in such form and manner as the Secretary or his delegate may by regulations prescribe, showing the names and addresses of the persons to whom such disposition was made, with such details, as to the quantity so disposed of or other information which the Secretary or his delegate may require as to each such disposition, as will enable the Secretary or his delegate to determine whether all taxes due with respect to any distilled spirits manufactured from such substances have been paid. As used in this section—

(1) the term "distilled spirits" includes all products referred to in section 5002 (b); and

(2) the term "substance of the character used in the manufacture of distilled spirits" includes, but not by way of limitation, molasses, corn sugar, cane sugar, and malt sugar.

(b) PENALTY.—

For penalty for violation of subsection (a), see section 5609.

SEC. 5214. REGULATION OF TRAFFIC IN CONTAINERS OF DISTILLED SPIRITS.

(a) REQUIREMENTS.—Whenever in his judgment such action is necessary to protect the revenue, the Secretary or his delegate is

authorized, by the regulations prescribed by him, and permits issued thereunder if required by him—

(1) to regulate the size, branding, marking, sale, resale, possession, use, and re-use of containers (of a capacity of not more than 5 wine gallons) designed or intended for use for the sale of distilled spirits (within the meaning of such term as it is used in section 5002 (b) (1) and (2)) for other than industrial use; and

(2) to require, of persons manufacturing, dealing in, or using any such containers, the submission to such inspection, the keeping of such records, and the filing of such reports as may be deemed by him reasonably necessary in connection therewith. Any requirements imposed under this section shall be in addition to any other requirements imposed by, or pursuant to, law and shall apply as well to persons not liable for tax under the internal revenue laws as to persons so liable.

(b) PENALTY.—

For penalty for violation of subsection (a), see section 5642.

SEC. 5215. EXEMPTION OF DISTILLERS OF FRUIT BRANDY FROM CERTAIN REQUIREMENTS.

The Secretary or his delegate may by regulation exempt brandy or wine spirits produced (with or without the use of water to facilitate extraction and distillation) exclusively from fresh or dried fruit, or their residues, or the wine or wine residues therefrom, or any person responsible therefor, from any provision of the internal revenue laws relating to the production, storage, or withdrawal of spirits applicable to such brandy or wine spirits, except as to the tax thereon, when in his judgment it may seem expedient to do so: *Provided*, That where, in the production of natural wine, sugar has been used, the wine or the residuum thereof may, if the unfermented sugars therein are not refermented, be used in the distillation of brandy or wine spirits, and such use shall not prevent the Secretary or his delegate, from exempting such brandy or wine spirits, or persons, from any provision of the internal revenue laws relating to the production, storage or withdrawal of spirits, except as to the tax thereon, when in his judgment it may seem expedient to do so: *Provided further*, That any scientific university, college of learning, or institution of scientific research may, as authorized by regulation and on filing of bond with adequate surety in amount equal to the tax on the maximum quantity received or possessed during any calendar month (but in no case less than $500), produce, receive, blend, treat, and store brandy or wine spirits, without payment of tax, for experimental or research use but not for consumption (other than organoleptical tests) or sale, in such quantities as may be reasonably necessary for such purposes.

SEC. 5216. MASH, WORT AND VINEGAR; VINEGAR FACTORIES.

(a) GENERAL.—

(1) No mash, wort or wash, fit for distillation or for the production of spirits or alcohol, shall be made or fermented in any building or on any premises other than a distillery duly authorized according to law; and no mash, wort, or wash so made and fermented shall be sold or removed from any distillery before being distilled; and no person, other than an authorized distiller, shall, by distillation,

or by any other process, separate the alcoholic spirits from any fermented mash, wort, or wash; and no person shall use spirits or alcohol in manufacturing vinegar or any other article, or in any process of manufacture whatever, unless the spirits or alcohol so used shall have been produced in an authorized distillery and (except in the case of vinegar) the tax thereon paid or determined as provided by law. Nothing in this section shall be construed to apply to fermented liquors, or to fermented liquids used for the manufacture of vinegar exclusively. But no worm, goose-neck, pipe, conductor, or contrivance of any description whatsoever whereby vapor might in any manner be conveyed away and converted into distilled spirits, shall be used or employed or be fastened to or connected with any vaporizing apparatus used for the manufacture of vinegar; nor shall any worm be permitted on or near the premises where such vaporizing process is carried on. It shall be lawful for manufacturers of vinegar to separate, by a vaporizing process, the alcoholic property from the mash produced by them, and condense the same by introducing it into the water or other liquid used in making vinegar.

(2) No person, however, shall remove, or cause to be removed, from any vinegar factory or place where vinegar is made, any vinegar or other fluid or material containing a greater proportion than 2 percent of proof spirits.

(3) Section 5196 (b), (c), and (d) shall apply to all premises on which vinegar is manufactured and to all manufacturers of vinegar and their workmen or other persons employed by them.

(4) Notwithstanding paragraph (1), when authorized by regulations prescribed by the Secretary or his delegate, fermented material may be removed from a distillery before being distilled if made and fermented in carrying on a business (other than distilling) authorized by regulations prescribed under section 5171 (a).

(b) PENALTY.—

For penalty for violation of subsection (a), see section 5608.

SEC. 5217. EXEMPTIONS RELATING TO NATIONAL EMERGENCY TRANSFERS.

(a) TRANSFERS OF DISTILLED SPIRITS.—Under regulations prescribed by the Secretary or his delegate, distilled spirits of any proof including alcohol (the term "distilled spirits" or "spirits" as hereinafter used in this section shall include alcohol) may be removed in bond in approved containers and pipelines from any registered distillery including a registered fruit distillery (such registered distillery and registered fruit distillery hereinafter referred to in this section as "distillery"), internal revenue bonded warehouse, industrial alcohol plant, or industrial alcohol bonded warehouse to any distillery, internal revenue bonded warehouse, industrial alcohol plant, or industrial alcohol bonded warehouse for redistillation, or storage, or any other purpose deemed necessary to meet the requirements of the national defense: *Provided*, That any such distilled spirits may be stored in approved tanks in, or constituting a part of, any internal revenue bonded warehouse or industrial alcohol bonded warehouse: *Provided further*, That any such distilled spirits removed to an industrial alcohol plant or industrial alcohol bonded warehouse may be withdrawn therefrom if of a proof of 160 degrees or more for any tax-free

purpose, or on payment of tax for any purpose, authorized by subchapter E; and any such distilled spirits removed to a distillery or internal revenue bonded warehouse may be withdrawn therefrom if of a proof of 160 degrees or more for any tax-free purpose authorized by subchapter E or for any purpose authorized in the case of like spirits produced at a distillery: *Provided further*, That any such distilled spirits, upon removal from a distillery or internal revenue bonded warehouse for transfer to an industrial alcohol plant or industrial alcohol bonded warehouse or for any tax-free purpose authorized by subchapter E shall be subject to the provisions of part I of subchapter E: *Provided further*, That when any distilled spirits are removed under the provisions of this section to a distillery, industrial alcohol plant, or industrial alcohol bonded warehouse, the tax liability of the proprietor of the distillery, internal revenue bonded warehouse, industrial alcohol plant, or industrial alcohol bonded warehouse from which the spirits are removed, and the liens on such distillery, industrial alcohol plant, or industrial alcohol bonded warehouse, shall cease; and at and from the time the distilled spirits leave the distillery, internal revenue bonded warehouse, industrial alcohol plant, or industrial alcohol bonded warehouse, the tax shall be the liability of the proprietor of, and the liens shall be transferred to the premises of, the distillery, industrial alcohol plant, or industrial alcohol bonded warehouse to which the distilled spirits are transferred: *Provided further*, That when any distilled spirits are removed under the provisions of this section to an internal revenue bonded warehouse the proprietor of such warehouse shall be primarily liable for the tax on the spirits at and from the time the spirits leave the premises from which transferred: *Provided further*, That section 5011 (a) shall apply in respect of losses of any distilled spirits transferred, or removed for transfer, under this section to a distillery or internal revenue bonded warehouse; and section 5011 (c) shall apply in respect of losses of any distilled spirits transferred, or removed for transfer, under this section to an industrial alcohol plant or industrial alcohol bonded warehouse: *And provided further*, That section 5195 (a) and (b) shall not apply to the production or redistillation and removal of any such spirits; nor shall sections 5021 and 5081 apply to the redistillation or to the mingling at a distillery or an internal revenue bonded warehouse or in the course of removal, of any such spirits.

(b) EXEMPTION FROM STATUTORY REQUIREMENTS.—The Secretary or his delegate may temporarily exempt proprietors of distilleries, internal revenue bonded warehouses, industrial alcohol plants, or industrial alcohol bonded warehouses from any provision of the internal revenue laws relating to distilled spirits, except those requiring payment of the tax thereon, whenever in his judgment it may seem expedient to do so to meet the requirements of the national defense. Whenever the Secretary or his delegate shall exercise the authority conferred by this subsection he may prescribe such regulations as may be necessary to accomplish the purpose which caused him to grant the exemption.

(c) TERMINATION OF SECTION.—The authority conferred upon the Secretary or his delegate by this section shall expire at the close of July 11, 1956.

Subchapter C—Internal Revenue Bonded Warehouses

Part I. Establishment.
Part II. Operation.

PART I—ESTABLISHMENT

Sec. 5231. Authority to establish.
Sec. 5232. Bond requirements.
Sec. 5233. Establishment of bottling in bond department.

SEC. 5231. AUTHORITY TO ESTABLISH.

The Secretary or his delegate is authorized, in his discretion, and upon the execution of such bonds as he may prescribe, to establish warehouses, to be designated as internal revenue bonded warehouses, to be used exclusively for the storage of spirits distilled at a registered distillery, including a registered fruit distillery. No dwelling house shall be used for such a warehouse, and no door, window, or other opening shall be made or permitted in the walls of such warehouse leading into a distillery. The sole type and kind of bonded warehouse under the internal revenue laws for the storage of spirits distilled at a registered distillery, including a fruit distillery, on which the tax has not been paid, shall be an internal revenue bonded warehouse. The establishment and construction of such internal revenue bonded warehouses shall be under such regulations as the Secretary or his delegate shall prescribe.

SEC. 5232. BOND REQUIREMENTS.

(a) GENERAL.—The Secretary or his delegate shall, by regulations, prescribe the form and penal sums of bonds covering distilled spirits in internal revenue bonded warehouses and in transit to and between such warehouses: *Provided*, That the penal sums of such bonds covering distilled spirits shall not exceed in the aggregate $200,000 for each such warehouse. Such bonds shall be conditioned (1) on the withdrawal of the spirits from the internal revenue bonded warehouse within 8 years from the date of original entry for deposit; (2) on payment of the tax on the spirits as determined on withdrawal from the internal revenue bonded warehouse; and (3) on compliance with all provisions of law and regulations relating to the business of warehousing distilled spirits.

(b) ADDITIONAL BOND.—No distilled spirits, other than distilled spirits authorized by law to be withdrawn without payment of tax, shall be withdrawn from an internal revenue bonded warehouse except on the payment of the tax at the time of withdrawal unless the warehouseman has furnished such bond (in addition to that required in subsection (a)) to secure payment of the tax in such form and in such penal sum, and has complied with such other requirements, as the Secretary or his delegate may by regulations prescribe.

(c) RENEWAL REQUIRED IN CERTAIN CASES.—New bonds shall be required in case of the death, insolvency, or removal of the surety or

sureties, and may be required in any other contingency affecting its validity or impairing its efficiency, at the discretion of the Secretary or his delegate. In case the warehouseman fails or refuses to give the bond required, or to renew the same, or neglects to immediately withdraw the spirits and pay the tax thereon, or if he neglects to withdraw any bonded spirits and pay the tax thereon before the expiration of the time limited in the bond, the Secretary or his delegate shall proceed to collect the tax.

(d) CROSS REFERENCE.—

For deposit of United States bonds or notes in lieu of sureties, see section 6 U. S. C. 15.

SEC. 5233. ESTABLISHMENT OF BOTTLING IN BOND DEPARTMENT.

For provisions relating to establishment of a separate part of internal revenue bonded warehouse for bottling of distilled spirits in bond, see section 5243.

PART II—OPERATION

Sec. 5241. Supervision of operations.
Sec. 5242. Deposit of spirits in warehouses.
Sec. 5243. Bottling of distilled spirits in bond.
Sec. 5244. Withdrawal of spirits on determination of tax.
Sec. 5245. Withdrawal of spirits on original gauge.
Sec. 5246. Transfers of spirits in bond.
Sec. 5247. Withdrawal of spirits for exportation.
Sec. 5248. Withdrawal of spirits without payment of tax.
Sec. 5249. Prohibited hours for removal of spirits.
Sec. 5250. Gauging, stamping, and branding of spirits removed from warehouse.
Sec. 5251. Blending of beverage brandies in internal revenue bonded warehouses.
Sec. 5252. Discontinuance of warehouse and transfer of merchandise.

SEC. 5241. SUPERVISION OF OPERATIONS.

(a) MAINTENANCE AND SUPERVISION.—The maintenance and supervision of internal revenue bonded warehouses shall be under such regulations as the Secretary or his delegate may prescribe.

(b) ASSIGNMENT OF GAUGERS.—Storekeeper-gaugers shall be assigned by the Secretary or his delegate to internal revenue bonded warehouses established by law. Such warehouses shall be under the control of the officer designated by the Secretary or his delegate, and shall be in the joint custody of the storekeeper-gauger or such other officer and the proprietor thereof, and kept securely locked, and shall at no time be unlocked or opened or remain open except in the presence of such storekeeper-gauger or other person who may be designated to act for him.

(c) STOREKEEPER-GAUGERS' RECORDS AND RETURNS.—Every storekeeper-gauger in charge of an internal revenue bonded warehouse shall keep records, in the form and manner prescribed by regulations issued by the Secretary or his delegate, of all distilled spirits deposited in the warehouse, indicating the date thereof, by whom manufactured or produced, the description of the containers and the number and contents thereof, and such additional particulars as may be required by such regulations; and he shall keep records, in the form and manner prescribed by such regulations, of all distilled spirits removed from the warehouse, indicating the date of removal, the description of the containers and the number and contents thereof, the purpose of removal,

and such additional particulars as may be required by such regulations. The storekeeper-gauger shall submit such reports, in such form and manner, and at such times, as the Secretary or his delegate may, by regulations, require. All records and reports required by this section, or regulations prescribed under this section, shall be open to the examination of any revenue officer.

(d) CROSS REFERENCES.—

(1) For provisions relating to gauging, stamping, and branding packages of distilled spirits on determination of tax, and removal from internal revenue bonded warehouses, see section 5250.

(2) For provisions relating to supervision of certain operations in bottling in bond department, see section 5243 (a).

SEC. 5242. DEPOSIT OF SPIRITS IN WAREHOUSES.

(a) GENERAL.—The distillers of all spirits removed to an internal revenue bonded warehouse shall enter the same for deposit in such warehouse, under such regulations as the Secretary or his delegate may prescribe. Said entry shall be in such form as the Secretary or his delegate shall prescribe.

(b) CROSS REFERENCES.—

(1) For provisions relating to transfer of distilled spirits in packages from registered distilleries to internal revenue bonded warehouses, and for authority of the Secretary or his delegate to prescribe regulations relating to transportation to and storage in such warehouses, see section 5193 (a).

(2) For provisions relating to transfer of distilled spirits from distilleries to internal revenue bonded warehouses by pipeline, or in approved containers, see section 5194.

(3) For provisions relating to National Emergency transfers of distilled spirits, see section 5217.

(4) For provisions authorizing transfers in bond between internal revenue bonded warehouses, see section 5246 (a).

(5) For provisions requiring that all distilled spirits entered for deposit in internal revenue bonded warehouses be withdrawn within 8 years from date of entry for deposit, see section 5006 (a).

SEC. 5243. BOTTLING OF DISTILLED SPIRITS IN BOND.

(a) GENERAL REQUIREMENTS.—Whenever any distilled spirits deposited in the internal revenue bonded warehouse have been duly entered for withdrawal for bottling in bond before tax payment or for export in bond, such spirits shall be dumped, gauged, bottled, packed, and cased in the manner which the Secretary or his delegate shall by regulations prescribe. The bottling of distilled spirits in bond shall be conducted in a separate portion of such warehouse, which shall be set apart and used exclusively for that purpose. For convenience in such process any number of packages of spirits of the same kind, differing only in proof, but produced at the same distillery by the same distiller, may be mingled together in a cistern provided for that purpose, but nothing herein shall authorize or permit any mingling of different products, or of the same products of different distilling seasons, or the addition or subtraction of any substance or material or the application of any method or process to alter or change in any way the original condition or character of the product except as authorized in this section. The tax on the distilled spirits bottled in bond shall be paid upon the actual quantity of spirits withdrawn from bond except as otherwise provided in section 5011 (a) and (b). The Secretary or his delegate may by regulations prescribe the mode of separating and securing the additional warehouse or portion of

the warehouse required in this subsection to be set apart, the manner in which the business of bottling spirits in bond shall be carried on, the notices, bonds, and returns to be given and accounts and records to be kept by the persons conducting such business, the mode and time of inspection of such spirits, the accounts and records to be kept and returns made by the Government officers, and all such other matters and things, as in his discretion he may deem requisite for a secure and orderly supervision of said business; and he may also prescribe and issue the stamps required.

(b) BOTTLING REQUIREMENTS.—The warehouseman may, under the supervision of the storekeeper-gauger, remove by straining through cloth, felt, or other like material any charcoal, sediment, or other like substance, found therein, and may whenever necessary reduce such spirits as are withdrawn for bottling purposes by the addition of pure water only to 100 percent proof for spirits for domestic use, or to not less than 80 percent proof for spirits for export purposes, under such regulations as may be prescribed by the Secretary or his delegate; but no spirits (except gin for export) shall be bottled in bond until they have remained in bond in wooden containers for at least 4 years from the date of original gauge as to fruit brandy, or original entry as to all other spirits: *Provided*, That nothing in this subchapter shall authorize the labeling of spirits in bottles contrary to regulations issued pursuant to the Federal Alcohol Administration Act (49 Stat. 977; 27 U. S. C., chapter 8), or any amendment thereof. Distilled spirits, known commercially as gin, of not less than 80 percent proof may at any time within 8 years after entry in bond be bottled in bond for export without the payment of tax, under such regulations as the Secretary or his delegate may prescribe.

(c) TRADE MARKS ON BOTTLES.—No trade-marks shall be put on any bottle unless the real name of the actual bona fide distiller, or the name of the individual, firm, partnership, corporation, or association in whose name the spirits were produced and warehoused, shall also be placed conspicuously on such bottle.

(d) MARKS AND BRANDS FOR CASES.—There shall be plainly burned, embossed, stenciled, or printed on the side of each case, to be known as the Government side, such marks, brands, and stamps to denote the bottling in bond of the distilled spirits packed therein as the Secretary or his delegate may by regulations prescribe.

(e) EXPORTATION OF SPIRITS BOTTLED IN BOND.—All distilled spirits intended for export under this section shall be inspected, bottled, cased, weighed, marked, labeled, stamped, or sealed in such manner and at such time as the Secretary or his delegate may by regulations prescribe; and the Secretary or his delegate may prescribe such regulations for the transportation, entry, reinspection, and lading of such spirits for export as may from time to time be deemed necessary; and all provisions of law relating to the exportation of distilled spirits in bond, so far as applicable, and all penalties therein imposed, are extended and made applicable to distilled spirits bottled for export under this section, but no drawback shall be allowed or paid upon any spirits bottled under this section.

(f) EFFECT ON STATE LAWS.—Nothing in this section shall be construed to exempt spirits bottled under this section from the operation of the Act of August 8, 1890 (26 Stat. 313; 27 U. S. C. 121).

(g) CROSS REFERENCE.—

For provisions relating to stamps and stamping of bottled in bond spirits, see section 5008 (a).

SEC. 5244. WITHDRAWAL OF SPIRITS ON DETERMINATION OF TAX.

Any distilled spirits may, on determination of the tax thereon, be withdrawn from warehouse on application to the Secretary or his delegate in such form and manner as the Secretary or his delegate may by regulations prescribe.

SEC. 5245. WITHDRAWAL OF SPIRITS ON ORIGINAL GAUGE.

Under such regulations as the Secretary or his delegate may prescribe, distilled spirits deposited in internal revenue bonded warehouses may, upon application, be withdrawn therefrom on the original gauge.

SEC. 5246. TRANSFERS OF SPIRITS IN BOND.

(a) GENERAL.—Distilled spirits may be transferred in bond between internal revenue bonded warehouses in original packages or in such other packages or containers and under such regulations as the Secretary or his delegate may by regulations prescribe.

(b) CROSS REFERENCES.—

(1) For provisions relating to transfers of distilled spirits from internal revenue bonded warehouses to other bonded premises, see section 5194.

(2) For provisions relating to National Emergency transfers, see section 5217.

SEC. 5247. WITHDRAWAL OF SPIRITS FOR EXPORTATION.

(a) ENTRIES, BONDS, AND BILLS OF LADING.—Distilled spirits may be withdrawn from internal revenue bonded warehouses, at the instance of the owner of the spirits, for exportation in the original casks or packages, or in packages filled from such original casks or packages, without the payment of tax, after making such entries and executing and filing with the Secretary or his delegate such bonds and bills of lading, and giving such other additional security as the Secretary or his delegate may by regulations prescribe. The bonds given under this section shall be canceled or credited upon the submission of such evidence, records and certificates indicating exportation as the Secretary or his delegate by regulations may prescribe.

(b) MARKS AND PERMITS.—When the owner of the spirits shall have made the proper entries, filed the bonds, and otherwise complied with all the requirements of the law and regulations, the Secretary or his delegate shall issue to him a permit for the removal and transportation of such spirits to the collector of the port from which they are to be exported, accurately describing the spirits to be shipped, the amount of tax thereon, the State and district from which the spirits are to be shipped, the name of the distiller by whom distilled, the collector of the port to whom the spirits are to be consigned, and the routes over which they are to be sent to the port of shipment. Such shipments shall be made over bonded routes whenever practicable. The collector of the port shall receive such spirits, and permit the exportation thereof, under the same regulations as are prescribed for the exportation of spirits on which the tax has been paid.

(c) TRANSPORTATION BOND.—Whenever the owner or owners of distilled spirits shall desire to withdraw such spirits from any internal revenue bonded warehouse for exportation, such owner or owners may

at their option, in lieu of executing an export bond as provided by law, give a transportation bond with sureties satisfactory to the Secretary or his delegate and under such regulations as he may prescribe, conditioned for the due delivery thereof on board an export carrier at a port of exportation to be named therein, and for the due performance on the part of the exporter or owner at the port of export of all the requirements in regard to notice of export, entry, and the giving of bond hereinafter specified in this subsection. In such case, on arrival of the spirits at the port of export, the exporter or owner at that port shall immediately notify the collector of the port of the fact, setting forth his intention to export such spirits, and the designation of the carrier on which such spirits are to be laden, and the port to which they are intended to be exported. He shall, after the quantity of spirits has been determined by inspection or by gauge as regulations prescribed by the Secretary or his delegate shall require, file with the collector of the port an export entry. The Secretary or his delegate may, by regulations, require the exporter or owner also to give bond to the United States, conditioned that the principal named in said bond will export the spirits as specified in such entry to the port designated in such entry, or to some other port without the jurisdiction of the United States. On the lading of such spirits, the collector of the port, after the filing of such bonds as the Secretary or his delegate may, by regulations, require, by the exporter or owner at the port of shipment thereof, shall transmit to the Secretary or his delegate a clearance certificate and a report of the inspection or gauge. Whenever a warehouseman of spirits in bond desires to change the packages in which such spirits are contained, for exportation, the Secretary or his delegate may, under regulations prescribed by him, and on the execution of proper bonds with sufficient sureties, permit the withdrawal of so much spirits from bond and in such packages as the warehouseman desires to export.

(d) IN TANKS OR TANK CARS.—Under such regulations as the Secretary or his delegate may prescribe, alcohol or other distilled spirits intended for export free of tax may be drawn from receiving cisterns at any distillery, or from storage tanks in any internal revenue bonded warehouse, for transfer to tanks or tank cars for export from the United States, and all provisions of law relating to the exportation of distilled spirits not inconsistent herewith shall apply to spirits removed for export under this section.

(e) LOSSES.—Section 5011 (a) shall apply to spirits withdrawn for exportation under this section.

SEC. 5248. WITHDRAWAL OF SPIRITS WITHOUT PAYMENT OF TAX.

(1) For provisions relating to withdrawal of spirits, without payment of tax, to manufacturing bonded warehouses, see section 5522.

(2) For provisions relating to withdrawal of spirits, without payment of tax, as supplies for certain vessels and aircraft, see 19 U. S. C. 1309.

(3) For provisions authorizing regulations for withdrawal of spirits, without payment of tax, for use of United States, see section 7510.

(4) For provisions relating to withdrawal of distilled spirits, without payment of tax, to foreign-trade zones, see 19 U. S. C. 81c.

(5) For provisions relating to withdrawal of wine spirits, without payment of tax, for addition to wine, section 5373.

(6) For provisions relating to withdrawal of rum, without payment of tax, for denaturation, see section 5331 (c).

SEC. 5249. PROHIBITED HOURS FOR REMOVAL OF SPIRITS.

For provisions prohibiting removal of distilled spirits from internal revenue bonded warehouses during certain hours, see section 5195 (b).

SEC. 5250. GAUGING, STAMPING AND BRANDING OF SPIRITS REMOVED FROM WAREHOUSE.

(a) Except as provided by section 5245, or under section 5006 (a), whenever an application is received for the removal from any internal revenue bonded warehouse of any cask or package of distilled spirits on which the tax is to be paid, the storekeeper-gauger shall inspect and gauge such distilled spirits and determine the tax thereon, and shall, before such cask or package has left the warehouse, place on such cask or package such marks, brands, and stamps as the Secretary or his delegate may by regulations prescribe, which marks, brands, and stamps shall be defaced when such cask or package is emptied.

(b) The Secretary or his delegate may by regulations from time to time require any proprietor, at the proprietor's expense and under supervision of a storekeeper-gauger, to do such marking and branding and stamping and such mechanical labor pertaining to gauging required under this section as the Secretary or his delegate deems proper and determines may be done without danger to the revenue.

SEC. 5251. BLENDING OF BEVERAGE BRANDIES IN INTERNAL REVENUE BONDED WAREHOUSES.

For provisions relating to the blending of beverage brandies in internal revenue bonded warehouses, see section 5023.

SEC. 5252. DISCONTINUANCE OF WAREHOUSE AND TRANSFER OF MERCHANDISE.

Whenever, in the opinion of the Secretary or his delegate, any internal revenue bonded warehouse is unsafe or unfit for use, or the merchandise therein is liable to loss or great wastage, he may discontinue such warehouse and require the merchandise therein to be transferred to such other warehouse as he may designate, and within such time as he may prescribe. Such transfer shall be made under the supervision of such officer as may be designated by the Secretary or his delegate and the expense thereof shall be paid by the owner of the merchandise. Whenever the owner of such merchandise fails to make such transfer within the time prescribed, or to pay the just and proper expense of such transfer, as ascertained and determined by the Secretary or his delegate, such merchandise may be seized and sold by the Secretary or his delegate in the same manner as goods are sold on distraint for taxes, and the proceeds of such sale shall be applied to the payment of the taxes due thereon and the cost and expenses of such sale and removal, and the balance paid over to the owner of such merchandise.

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Subchapter D—Rectifying Plants

Part I. Establishment.
Part II. Operation.

PART I—ESTABLISHMENT

Sec. 5271. Notice of business of rectifier.
Sec. 5272. Bond.
Sec. 5273. Premises.
Sec. 5274. Sign required on premises.
Sec. 5275. Cross references.

SEC. 5271. NOTICE OF BUSINESS OF RECTIFIER.

(a) REQUIREMENTS.—Every person engaged in, or intending to be engaged in, the business of a rectifier, shall give notice in writing, subscribed by him, to the Secretary or his delegate, stating his name and residence, and if a company or firm, the name and residence of each member thereof, and the name and residence of every person interested or to be interested in the business, the precise place where such business is to be carried on; and if such business is carried on in a city, the residence and place of business shall be indicated by the name of the street and number of the building. The notice shall also state the process by which the applicant intends to rectify, purify or refine distilled spirits, that such rectifying premises are not on the premises of any distillery registered for the distillation of spirits, and such additional particulars, as the Secretary or his delegate may by regulations prescribe. In case of any change in the location, form, capacity, ownership, agency, superintendency, or in the persons interested in the business of such rectifying establishment, notice thereof, in writing, shall be given to the Secretary or his delegate. Every notice required by this section shall be in such form, contain such additional particulars, and be submitted at such time or times, as the Secretary or his delegate may by regulations prescribe.

(b) PENALTY.—

For penalty for violation of this section, see section 5603.

SEC. 5272. BOND.

(a) REQUIREMENT.—The business of a rectifier of spirits shall be carried on, and the tax on rectified spirits and wines shall be paid, under such bonds as the Secretary or his delegate may by regulations prescribe.

(b) APPROVAL OF BOND AS CONDITION TO COMMENCING BUSINESS.—

For provisions relating to approval of bond as condition to commencing business of a rectifier, see section 5551.

SEC. 5273. PREMISES.

(a) GENERAL.—The premises of a rectifier shall be as described in his notice and, whether they consist of an entire building or of rooms in a building, shall have means of ingress from and egress into a public street or yard, or into a public hall or elevator shaft leading into a

public street or yard, and shall be used exclusively for the business of rectification and the bottling of liquors rectified by him thereon, and the bottling of wines and spirits without rectification.

(b) CROSS REFERENCES.—

(1) For provisions authorizing the Secretary or his delegate to require installation of meters, tanks, and other apparatus, see section 5552.

(2) For penalty for unlawful use of rectifying premises, see section 5627.

SEC. 5274. SIGN REQUIRED ON PREMISES.

(a) REQUIREMENT.—Every person engaged in rectifying spirits shall, in such manner and form as the Secretary or his delegate may by regulations prescribe, place and keep conspicuously on the outside of the place of such business a sign exhibiting in plain and legible letters the name or firm of the rectifier, with the words: "rectifier of spirits".

(b) PENALTY.—

For penalty for failure to post sign or improperly posting such sign, see section 5681.

SEC. 5275. CROSS REFERENCES.

(1) For provisions requiring the registration of stills, see section 5174.

(2) For provisions requiring permit to set up still, boiler, or other vessel, for distilling, see section 5105.

(3) For provisions requiring payment of special (occupational) tax as rectifier, see section 5081, and as wholesale liquor dealer, see section 5111, and as retail liquor dealer, see section 5121.

PART II—OPERATION

Sec. 5281. Regulation of business of rectifier.
Sec. 5282. Rectification of spirits.
Sec. 5283. Examination of premises.
Sec. 5284. Prohibited hours for removal of distilled spirits.
Sec. 5285. Records and returns.

SEC. 5281. REGULATION OF BUSINESS OF RECTIFIER.

(a) GENERAL.—The business of a rectifier shall be carried on under such regulations as the Secretary or his delegate may prescribe. The Secretary or his delegate may prescribe such regulations under this part and subpart B of part I of subchapter A as he deems necessary. All distilled spirits or wines taxable under sections 5021 and 5022 shall be subject to regulations prescribed by the Secretary or his delegate concerning the use thereof in the manufacture, blending, compounding, mixing, marking, branding, and sale of rectified products.

(b) CROSS REFERENCES.—

(1) For requirement that the premises of a rectifier be used exclusively for rectification and bottling of spirits and wines, see section 5273 (a).

(2) For provisions requiring the blending of straight whiskies and pure fruit brandies to be under supervision of a revenue officer and under conditions prescribed by regulations, see section 5025 (e).

SEC. 5282. RECTIFICATION OF SPIRITS.

(a) NOTICE OF INTENTION TO RECTIFY.—When any rectifier intends to rectify or compound any distilled spirits he shall, before dumping any distilled spirits for that purpose, give notice to the Secretary or his delegate of his intention so to rectify. Such notice shall be

made in such form and contain such particulars as the Secretary or his delegate may by regulations prescribe.

(b) GAUGING, BRANDING, AND STAMPING RECTIFIED SPIRITS.—Whenever any cask or package of distilled spirits containing 5 wine gallons or more is dumped by a rectifier for rectification, or filled and received from rectification for sale, shipment, or delivery, the same shall be gauged, marked, branded and stamped by a storekeeper-gauger, whose duty it shall be to mark and brand the same and place thereon a stamp, which shall be in such form and shall show such information as the Secretary or his delegate may by regulations prescribe; but the Secretary or his delegate may by regulations provide that the gauging, marking, stamping, and branding of such packages so dumped for rectification, or received therefrom, be done by the rectifier instead of by a storekeeper-gauger.

(c) AFFIXING STAMPS.—The stamps required by this section shall in every case be affixed to a smooth surface of the cask or other package, which surface shall not have been previously painted or covered with any substance, and so as to fasten the same securely to the cask or package, and shall be duly canceled, and shall then be immediately covered with a coating of transparent varnish or other substance, so as to protect them from removal or damage by exposure; and such affixing, cancellation, and covering shall be done in such manner as the Secretary or his delegate may by regulations prescribe.

(d) PENALTY.—

For penalty for violation of subsections (a) and (b), see section 5630.

SEC. 5283. EXAMINATION OF PREMISES.

The provisions of section 5196 (c) requiring the giving of assistance to revenue officers for the examination of the premises and section 5196 (d) authorizing revenue officers to break up grounds or walls shall apply in like manner to rectifiers and rectifying premises.

SEC. 5284. PROHIBITED HOURS FOR REMOVAL OF DISTILLED SPIRITS.

For provisions prohibiting the removal during certain hours of distilled spirits in any cask or package containing more than 10 gallons, see section 5195 (b).

SEC. 5285. RECORDS AND RETURNS.

(a) MONTHLY RETURNS.—Every person engaged in rectifying or compounding distilled spirits shall, on or before the 10th day of every month, render to the Secretary or his delegate a monthly return of the operations of the preceding month, taken from his records, in such form and manner, and containing such information, as the Secretary or his delegate may by regulations prescribe.

(b) RECORD OF RECTIFIER AS WHOLESALE DEALER.—Every rectifier who sells, or offers for sale, distilled spirits in quantities of 5 wine-gallons or more to the same person at the same time shall keep daily a record of distilled spirits received and disposed of by him, in such form, at such place and containing such information as the Secretary or his delegate may by regulations prescribe. Such rectifiers shall also render such correct transcripts, summaries, and copies of their records at such times and in such form and manner as the Secretary or his delegate may by regulations require. The records required to be kept under this section, and regulations issued pursuant thereto, shall be

preserved for a period of 2 years, and during such period shall be available during business hours for inspection and the taking of abstracts therefrom by the Secretary or his delegate.

(c) PENALTY.—

For penalty for refusal or neglect of rectifier to keep records required under subsection (b), or for false entries therein, etc., see section 5621.

Subchapter E—Industrial Alcohol Plants, Bonded Warehouses, Denaturing Plants, and Denaturation

Part I. Industrial alcohol plants, bonded warehouses, and denaturing plants.
Part II. Denaturation.

PART I—INDUSTRIAL ALCOHOL PLANTS, BONDED WAREHOUSES, AND DENATURING PLANTS

Sec. 5301. Establishment of industrial alcohol plants.
Sec. 5302. Establishment of industrial alcohol bonded warehouses.
Sec. 5303. Establishment of industrial alcohol denaturing plants.
Sec. 5304. Alcohol permits.
Sec. 5305. Regulations for establishing, bonding, and operation of plants and warehouses.
Sec. 5306. Exemption of industrial alcohol plants and warehouses from certain laws.
Sec. 5307. Production, use, or sale of alcohol.
Sec. 5308. Transfer of alcohol to other plants or warehouses.
Sec. 5309. Withdrawal of fermented liquors to industrial alcohol plants.
Sec. 5310. Withdrawal of alcohol free of tax.
Sec. 5311. Importation of alcohol for industrial purposes.
Sec. 5312. Remission and refund of tax on alcohol for loss or leakage.
Sec. 5313. Powers and duties of persons enforcing this part.
Sec. 5314. Officers and agents authorized to investigate, issue search warrants, and prosecute for violations.
Sec. 5315. Compliance with court subpoena as to testifying or producing records.
Sec. 5316. Form of affidavit, information, or indictment.
Sec. 5317. Applicability of other laws.
Sec. 5318. Application of part to Puerto Rico and Virgin Islands.
Sec. 5319. Definitions, etc.
Sec. 5320. Cross references.

SEC. 5301. ESTABLISHMENT OF INDUSTRIAL ALCOHOL PLANTS.

Any person establishing a plant for the production of industrial alcohol shall before operation, make application to the Secretary or his delegate for registration of his plant, file bond, and receive permit for the operation of such plant.

SEC. 5302. ESTABLISHMENT OF INDUSTRIAL ALCOHOL BONDED WAREHOUSES.

Warehouses for the storage and distribution of alcohol may be established on filing of application and bond and issuance of permit at such places, either in connection with the manufacturing plant or elsewhere, as the Secretary or his delegate may determine; the entry and storage of alcohol therein and the withdrawals of alcohol therefrom shall be made in such containers and by such means as the Secretary or his delegate by regulation may prescribe. Permanent tanks and other structures located on the industrial alcohol plant premises and approved by the Secretary or his delegate shall be deemed to be warehouses within the meaning of this section.

SEC. 5303. ESTABLISHMENT OF INDUSTRIAL ALCOHOL DENATURING PLANTS.

On the filing of application and bond and issuance of permit, denaturing plants may be established on the premises of any industrial alcohol plant, or elsewhere, and shall be used exclusively for the denaturation of alcohol by the admixture of such denaturing materials as shall render the alcohol, or any compound in which it is authorized to be used, unfit for use as an intoxicating beverage.

SEC. 5304. ALCOHOL PERMITS.

(a) GENERAL RULE.—

(1) PERMIT REQUIRED.—No one shall manufacture alcohol, procure it tax-free, denature it, deal in or use specially denatured alcohol, recover completely or specially denatured alcohol, or transport specially denatured or tax-free alcohol, without first obtaining a permit from the Secretary or his delegate so to do. All such permits may be issued for 1 year, and shall expire on the 31st day of December next succeeding the issuance thereof: *Provided*, That the Secretary or his delegate may without formal application or new bond extend any permit granted under this part after August 31 in any year to December 31 of the succeeding year.

(2) AUTHORITY TO PRESCRIBE REGULATIONS.—Permits to purchase or procure specially denatured alcohol and tax-free alcohol shall be issued in such terms and under such conditions as the Secretary or his delegate may by regulation prescribe.

(3) RESTRICTION ON ISSUANCE OF PERMITS.—No permit shall be issued to any person who, within 1 year before the application therefor or issuance thereof, shall not in good faith have conformed to the provisions of this chapter, or shall have violated the terms of any permit issued under this section, or made any false statement in the application therefor, or willfully failed to disclose any information required by regulation to be furnished, or violated any law of the United States relating to intoxicating liquor, or willfully violated any law of any State, Territory, or possession of the United States or of the District of Columbia relating to intoxicating liquor.

(4) FORM OF APPLICATION AND PERMIT.—Every permit shall be in writing, dated when issued, and signed by the Secretary or his delegate. It shall give the name and address of the person to whom it is issued and shall designate and limit the acts that are permitted and the time when and place where such acts may be performed. No permit shall be issued until a verified, written application shall have been made therefor, setting forth the qualification of the applicant and the purpose for which the alcohol or denatured alcohol is to be used. The Secretary or his delegate may prescribe the form of all permits and applications and the facts to be set forth therein.

(5) BOND REQUIREMENT.—Before any permit is granted, the Secretary or his delegate may require a bond, in such form and amount as he may prescribe, to insure compliance with the terms of the permit and the provisions of this chapter.

(6) REVIEW OF DISAPPROVAL.—In the event of the refusal by the Secretary or his delegate of any application for a permit, the applicant may have a review of his decision before a court with equity jurisdiction, in the manner provided in subsection (c).

(b) REVOCATION OF PERMIT.—If at any time there shall be filed with the Secretary or his delegate a complaint under oath setting forth facts showing, or if the Secretary or his delegate has reason to believe, that any person who has a permit is not in good faith conforming to the provisions of this chapter, or has violated the terms of such permit, or has made any false statement in the application therefor, or has willfully failed to disclose any information required by regulation to be furnished, or has violated any law of the United States, or of any State, Territory, or possession of the United States, or of the District of Columbia, relating to intoxicating liquor, the Secretary or his delegate shall immediately issue an order citing such person to appear before him on a day named not more than 30 nor less than 15 days from the date of service on such permittee of a copy of the citation, which citation shall be accompanied by a copy of such complaint, or in the event that the proceedings be initiated by the Secretary or his delegate, with a statement of the facts constituting the violation charged, at which time a hearing shall be had unless continued for cause. Such hearing shall be held within the judicial district and within 50 miles of the place where the offense is alleged to have occurred unless the parties agree on another place. If it be found that such person is not in good faith conforming to the provisions of this chapter or has violated the terms of his permit, or made any false statement in the application therefor, or willfully failed to disclose any information required by regulation to be furnished, or violated any law of the United States relating to intoxicating liquor, or willfully violated any law of any State, Territory, or possession of the United States or of the District of Columbia relating to intoxicating liquor, such permit shall be revoked, and no permit shall be granted to such person within 1 year thereafter. Should the permit be revoked by the Secretary or his delegate, the permittee may have a review of his decision before a court with equity jurisdiction in the manner provided in subsection (c). During the pendency of such action such permit shall be temporarily revoked.

(c) INACCURATE DESCRIPTION OF DENATURED ARTICLES.—Whenever the Secretary or his delegate has reason to believe that denatured alcohol, denatured rum, or articles do not correspond with the descriptions and limitation as to such alcohol, rum, or articles provided by law and regulations, he shall cause an analysis of such alcohol, rum, or articles to be made, and if on such analysis the Secretary or his delegate shall find that such alcohol, rum, or articles do not so correspond, he shall give not less than 15 days' notice in writing to the person who is the manufacturer thereof to show cause why such alcohol, rum, or articles should not be dealt with as other distilled spirits, such notice to be served personally or by registered mail, as the Secretary or his delegate may determine, and shall specify the time when, the place where, and the name of the agent or official before whom, such person is required to appear. If the manufacturer of such alcohol, rum, or articles fails to show to the satisfaction of the Secretary or his delegate that the alcohol, rum, or articles manufactured by him correspond to the descriptions and limitations as to such alcohol, rum, or articles provided by law and regulations, his permit to manufacture and sell the same shall be revoked. The manufacturer may by appropriate proceeding in a court with equity jurisdiction have the action

of the Secretary or his delegate reviewed, and the court may affirm, modify, or reverse the finding of the Secretary or his delegate as the facts and law of the case may warrant, and during the pendency of such proceeding, may restrain the manufacture, sale, or other disposition of such alcohol, rum, or articles.

(d) PROVISIONS RELATING TO VENUE.—In case of a sale of liquor or denatured alcohol or denatured rum, where the delivery thereof was made by a common or other carrier, the sale and delivery for purposes of prosecution or revocation of any permit shall be deemed to be made in the county or district wherein the delivery was made by such carrier to the consignee, his agent or employee, or in the county or district wherein the sale was made, or from which the shipment was made, and prosecution for such sale or delivery may be had in any such county or district.

SEC. 5305. REGULATIONS FOR ESTABLISHING, BONDING, AND OPERATION OF PLANTS AND WAREHOUSES.

The Secretary or his delegate shall issue regulations respecting the establishment, bonding, and operation of industrial alcohol plants, denaturing plants, and bonded warehouses authorized by this subchapter, and the distribution, sale, export, and use of alcohol which may be necessary, advisable, or proper, to secure the revenue, to prevent diversion of the alcohol to illegal uses, and to place the nonbeverage alcohol industry and other industries using such alcohol as a chemical raw material or for other lawful purpose on the highest possible plane of scientific and commercial efficiency consistent with the interests of the Government, and which shall insure an ample supply of such alcohol and promote its use in scientific research and the development of fuels, dyes, and other lawful products.

SEC. 5306. EXEMPTION OF INDUSTRIAL ALCOHOL PLANTS AND WAREHOUSES FROM CERTAIN LAWS.

Industrial alcohol plants and bonded warehouses established under this part shall be exempt from section 5082 and the special taxes imposed by part II of subchapter A and from sections 5116, 5171, 5172, 5173 (a) and (b), 5174, 5175, 5176, 5178, 5179, 5180, 5191, 5192 (b), (c) and (d), 5193, 5195, 5196 (a) and (e), 5197, 5231, 5232, 5241 (c), 5242, 5244, 5250, 5271, 5274, 5551, 5625 and 5640, and from such other provisions of law relating to distilleries and bonded warehouses as may by regulations be deemed inapplicable to industrial alcohol plants and bonded warehouses established under this part. Regulations may be made embodying any provisions of part II of subchapter A or of the sections above enumerated.

SEC. 5307. PRODUCTION, USE OR SALE OF ALCOHOL.

Alcohol may be produced at any industrial alcohol plant established under this part, from any raw materials or by any processes suitable for the production of alcohol, and, under regulations, may be used at any industrial alcohol plant or bonded warehouse or sold or disposed of for any lawful purpose.

SEC. 5308. TRANSFER OF ALCOHOL TO OTHER PLANTS OR WAREHOUSES.

Alcohol produced at any registered industrial alcohol plant or stored in any bonded warehouse may be transferred, under regulations, to any other registered industrial alcohol plant or bonded warehouse for any lawful purpose.

SEC. 5309. WITHDRAWAL OF FERMENTED LIQUORS TO INDUSTRIAL ALCOHOL PLANTS.

Fermented liquors may be conveyed without payment of tax from the brewery premises where produced to a contiguous industrial alcohol plant, to be used as distilling material, and the residue from such distillation, containing less than one-half of 1 percent of alcohol by volume, which is to be used in making beverages, may be manipulated by cooling, flavoring, carbonating, settling, and filtering on the distillery premises or elsewhere. The removal of the taxable fermented liquor from the brewery to the industrial alcohol plant and the operation of such plant and removal of the residue therefrom shall be under the supervision of such officer or officers as the Secretary or his delegate shall deem proper, and the Secretary or his delegate is hereby authorized to make such regulations as may be necessary to give force and effect to this section and to safeguard the revenue.

SEC. 5310. WITHDRAWAL OF ALCOHOL FREE OF TAX.

(a) FOR DENATURATION.—Alcohol produced at any industrial alcohol plant or stored in any bonded warehouse may, under regulations, be withdrawn tax-free, as provided by existing law from any such plant or warehouse for transfer to any denaturing plant for denaturation, or may, under regulations, before or after denaturation, be removed from any such plant or warehouse for any lawful tax-free purpose. Alcohol lawfully denatured may, under regulations, be sold free of tax either for domestic use or for export.

(b) FOR USE BY FEDERAL OR STATE AGENCIES.—Alcohol may be withdrawn tax-free, under regulations, from any industrial alcohol plant or bonded warehouse by the United States or any governmental agency thereof, or by the several States and Territories or any municipal subdivision thereof or by the District of Columbia. Alcohol may be withdrawn tax-free from customs custody by the United States or any governmental agency thereof for its own use, under such regulations as may be prescribed.

(c) USE IN RESEARCH, HOSPITALS, OR FOR CHARITABLE CLINICS.—Alcohol may be withdrawn, under regulations, from any industrial alcohol plant or bonded warehouse tax-free for the use of any scientific university or college of learning, for any laboratory for use exclusively in scientific research, or for use in any hospital or sanitarium, or for the use of any clinic operated for charity and not for profit, including use in the compounding of bona fide medicines for treatment outside of such clinics of patients thereof, but not for sale.

(d) CONDITIONS OF EXEMPTIONS.—Any person permitted to obtain alcohol tax-free, except the United States and the several States and Territories and subdivisions thereof, and the District of Columbia, shall first apply for and secure a permit to purchase the same and give the bonds prescribed under section 5304, but alcohol withdrawn for nonbeverage purposes for use of the United States and the several States, Territories, and subdivisions thereof, and the District of Columbia may be purchased and withdrawn subject only to such regulations as may be prescribed.

SEC. 5311. IMPORTATION OF ALCOHOL FOR INDUSTRIAL PURPOSES.

Under regulations, and subject from the time of its withdrawal from customs custody to all the applicable provisions of this part, alcohol of 160 proof, or greater, may be imported into the United

States and be withdrawn, in bond, from customs custody, without payment of the internal revenue tax imposed by section 5001 upon the act of importing such alcohol, for transfer to industrial alcohol plants, alcohol bonded warehouses, and denaturing plants for redistillation or denaturation and withdrawal, or withdrawal without redistillation or denaturation, tax-free or taxpaid, as the case may be, for all the purposes authorized by this part.

SEC. 5312. REMISSION AND REFUND OF TAX ON ALCOHOL FOR LOSS OR LEAKAGE.

For provisions relating to remission or refund of tax on alcohol for loss or leakage, see section 5011 (c).

SEC. 5313. POWERS AND DUTIES OF PERSONS ENFORCING THIS PART.

(a) SECRETARY AND OTHER PERSONS.—The Secretary, his assistants, agents, and inspectors, and all other officers, employees, or agents of the United States, whose duty it is to enforce criminal laws, shall have all the rights, privileges, powers, and protection in the enforcement of the provisions of this part or section 5686 which are conferred by law for the enforcement of any laws in respect of the taxation, importation, exportation, transportation, manufacture, possession, or use of, or traffic in, intoxicating liquors.

(b) POWER TO SECURE RECORDS.—All records and reports kept or filed under this part, and all liquor or property to which such records or reports relate, shall be subject to inspection at any reasonable hour by the Secretary or any of his agents or by any public prosecutor or by any person designated by him, or by any peace officer in the State where records or reports are kept, and copies of such records and reports duly certified by the person with whom kept or filed may be introduced in evidence with like effect as the originals thereof, and verified copies of such records shall be furnished to the Secretary or his delegate when called for.

SEC. 5314. OFFICERS AND AGENTS AUTHORIZED TO INVESTIGATE, ISSUE SEARCH WARRANTS, AND PROSECUTE FOR VIOLATIONS.

The Secretary, his assistants, agents, and inspectors, shall investigate and report violations of this chapter or of section 7302 to the United States Attorney for the district in which committed, who is hereby charged with the duty of prosecuting the offenders, subject to the direction of the Attorney General, as in the case of other offenses against the laws of the United States; and the Secretary, his assistants, agents, and inspectors, may swear out warrants before United States commissioners or other officers or courts authorized to issue warrants for the apprehension of such offenders, and may, subject to the control of such United States attorney, conduct the prosecution at the committing trial for the purpose of having the offenders held for the action of a grand jury. Section 3041 of title 18 of the United States Code is hereby made applicable in the enforcement of this chapter and section 7302. Officers mentioned in section 3041 are authorized to issue search warrants under the limitations provided in chapter 205 of title 18 of the United States Code, and the Federal Rules of Criminal Procedure.

SEC. 5315. COMPLIANCE WITH COURT SUBPOENA AS TO TESTIFYING OR PRODUCING RECORDS.

No person shall be excused, on the ground that it may tend to incriminate him or subject him to a penalty or forfeiture, from attending and testifying, or producing books, papers, documents, and other evidence in obedience to a subpoena of any court in any suit or proceeding based on or growing out of any alleged violation of this part or section 5686; but no natural person shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing as to which, in obedience to a subpoena and under oath, he may so testify or produce evidence, but no person shall be exempt from prosecution and punishment for perjury committed in so testifying.

SEC. 5316. FORM OF AFFIDAVIT, INFORMATION, OR INDICTMENT.

In any affidavit, information, or indictment for the violation of this subchapter, or of section 5686, separate offenses may be united in separate counts, and the defendant may be tried on all such offenses at one trial and the penalty for all offenses may be imposed. It shall not be necessary in any affidavit, information, or indictment to give the name of the purchaser or to include any defensive negative averments, but it shall be sufficient to state that the act complained of was then and there prohibited and unlawful, but this provision shall not preclude the trial court from directing the furnishing to the defendant of a bill of particulars when it deems it proper to do so.

SEC. 5317. APPLICABILITY OF OTHER LAWS.

(a) INTERNAL REVENUE LAWS.—All administrative provisions of internal revenue law, including those relating to assessment, collection, abatement, and refund of taxes and penalties, and the seizure and forfeiture of property, shall apply to this part and section 5686 insofar as they are not inconsistent with the provisions thereof.

(b) FEDERAL TRADE COMMISSION ACT.—The provisions, including penalties, of sections 9 and 10 of the Federal Trade Commission Act (U. S. C., title 15, secs. 49, 50), as now or hereafter amended, shall apply to the jurisdiction, powers, and duties of the Secretary under this part, and section 5686, and to any person (whether or not a corporation) subject to the provisions of this part or section 5686.

SEC. 5318. APPLICATION OF PART TO PUERTO RICO AND VIRGIN ISLANDS.

This part, sections 5001 (a) (6), (8), and (b), 5004 (b), 5005 (c), 5007 (d), 5011 (c), 5686, and 7302, the penalties of special application thereto, and all provisions of the internal revenue laws relating to the enforcement thereof shall extend and apply to Puerto Rico and the Virgin Islands. The respective insular governments shall advance to the Treasury of the United States such funds as may be required from time to time by the Secretary or his delegate for the purpose of defraying all expenses incurred by the Treasury Department in connection with the enforcement in Puerto Rico and the Virgin Islands of this part, sections 5001 (a) (6), (8), and (b), 5004 (b), 5005 (c), 5007 (d), 5011 (c), 5686, and 7302, and regulations promulgated thereunder. The funds so advanced shall be deposited in a separate trust fund in the Treasury of the United States and shall be available to the Treasury Department for the purposes of this section.

SEC. 5319. DEFINITIONS, ETC.

For purposes of this part or section 5686—

(1) The term "alcohol" means that substance known as ethyl alcohol, hydrated oxide of ethyl, or spirit of wine, from whatever source or whatever processes produced. Spirits of proof of less than 160 degrees may under regulations be deemed to be alcohol for the purpose of denaturation.

(2) The term "container" includes any receptacle, vessel, or form of package, tank, or conduit used, or capable of use, for holding, storing, transferring, or shipping alcohol.

(3) The term "application" means a formal written request supported by a verified statement of facts, showing that the Secretary or his delegate may grant the request.

(4) The term "permit" means a formal written authorization by the Secretary or his delegate, setting forth specifically therein the things that are authorized.

(5) The term "bond" means an obligation authorized or required by or under this part or under part II of subchapter C of chapter 26 of the Internal Revenue Code of 1939, or any regulation thereunder, executed in such form and for such penal sum as may have been or shall be required by the Secretary or his delegate or prescribed by regulations.

(6) The term "regulation" means any regulation prescribed by the Secretary or his delegate for carrying out the provisions of this part, and the Secretary or his delegate is authorized to make such regulations.

(7) The term "articles" means any substance or preparation in the manufacture of which denatured alcohol or denatured rum is used. This definition shall also apply to the term "articles" as used in section 5001 (a) (6).

(8) The term "person" means and includes natural persons, firms, partnerships, corporations, and associations.

SEC. 5320. CROSS REFERENCES.

(1) For provisions relating to liability of proprietors of industrial alcohol plants and bonded warehouses, see section 5005 (c).

(2) For provisions relating to attachment of lien in case of alcohol, see section 5004 (b).

(3) For provisions relating to penalties and forfeitures, see subchapter J.

PART II—DENATURATION

Sec. 5331. Withdrawal from bond free of tax.
Sec. 5332. Recovery of spirits for reuse in manufacturing.
Sec. 5333. Sale of abandoned spirits for denaturation without collection of tax.
Sec. 5334. Cross references.

SEC. 5331. WITHDRAWAL FROM BOND FREE OF TAX.

(a) FOR INDUSTRIAL USE.—

(1) DENATURATION REQUIRED.—Domestic alcohol of such degree of proof as may be prescribed by the Secretary or his delegate, may be withdrawn from bond without the payment of internal revenue tax, for use in the arts and industries, and for fuel, light, and power, provided such alcohol shall have been mixed in the presence and

under the direction of an authorized Government officer, after withdrawal from the distillery warehouse, with methyl alcohol or other denaturing material or materials, or admixture of the same, suitable to the use for which the alcohol is withdrawn, but which destroys its character as a beverage and renders it unfit for liquid medicinal purposes; such denaturing to be done on the application of any registered distillery in denaturing bonded warehouses specially designated or set apart for denaturing purposes only, and under conditions prescribed by the Secretary or his delegate.

(2) DENATURING MATERIALS.—The character and quantity of such denaturing material and the conditions under which such alcohol may be withdrawn free of tax shall be prescribed by the Secretary or his delegate, who shall make all necessary regulations for carrying into effect the provisions of this section.

(3) RECORDS.—Distillers, manufacturers, dealers, and all other persons furnishing, handling, or using alcohol withdrawn from bond under this section shall keep such books and records, execute such bonds, and render such returns as the Secretary or his delegate may by regulations require. Such books and records shall be open at all times to the inspection of any internal revenue officer or agent.

(b) FOR USE IN MANUFACTURE OF CHEMICALS.—Notwithstanding anything contained in subsection (a), domestic alcohol when suitably denatured may be withdrawn from bond without the payment of internal revenue tax and used in the manufacture of ether and chloroform and other definite chemical substances where said alcohol is changed into some other chemical substance and does not appear in the finished product as alcohol.

(c) WITHDRAWAL OF RUM.—Rum of not less than 150 degrees proof may be withdrawn, for denaturation only, in accordance with subsection (a).

SEC. 5332. RECOVERY OF SPIRITS FOR REUSE IN MANUFACTURING.

Manufacturers employing processes in which alcohol or rum, used free of tax under section 5331, is expressed or evaporated from the articles manufactured, shall be permitted to recover such alcohol or rum and to have such alcohol or rum restored to a condition suitable solely for reuse in manufacturing processes under such regulations as the Secretary or his delegate may prescribe.

SEC. 5333. SALE OF ABANDONED SPIRITS FOR DENATURATION WITHOUT COLLECTION OF TAX.

Notwithstanding any other provision of law, any distilled spirits abandoned to the United States may be sold, in such cases as the Secretary or his delegate may by regulation provide, to the proprietor of any industrial alcohol plant for denaturation, or redistillation and denaturation, without the payment of the internal revenue tax thereon.

SEC. 5334. CROSS REFERENCES.

(1) For penalty for unlawful use or concealment of denatured alcohol, see section 5647.

(2) For applicability of all provisions of law relating to alcohol that is not denatured, including those requiring payment of tax, to denatured alcohol, denatured rum or articles produced, withdrawn, sold, transported, or used in violation of law or regulations, see section 5001 (a) (6).

Subchapter F—Bonded and Taxpaid Wine Premises

Part I. Establishment.
Part II. Operations.
Part III. Cellar treatment and classification of wine.
Part IV. General.

PART I—ESTABLISHMENT

Sec. 5351. Bonded wine cellar.
Sec. 5352. Taxpaid wine bottling house.
Sec. 5353. Bonded wine warehouse.
Sec. 5354. Bond.
Sec. 5355. General provisions relating to bonds.
Sec. 5356. Application.
Sec. 5357. Premises.

SEC. 5351. BONDED WINE CELLAR.

Any person establishing premises for the production, blending, cellar treatment, storage, bottling, packaging, or repackaging of untaxpaid wine (other than wine produced exempt from tax under section 5042), including the use of wine spirits in wine production, shall, before commencing operations, make application to the Secretary or his delegate and file bond and receive permission to operate. Such premises shall be known as "bonded wine cellars": *Provided,* That any such premises engaging in production operations may, in the discretion of the Secretary or his delegate, be designated as a "bonded winery".

SEC. 5352. TAXPAID WINE BOTTLING HOUSE.

Any person bottling, packaging, or repackaging taxpaid wines at premises other than a rectifying plant or a taxpaid distilled spirits bottling house shall, before commencing such operations, make application to the Secretary or his delegate and receive permission to operate. Such premises shall be known as "taxpaid wine bottling houses".

SEC. 5353. BONDED WINE WAREHOUSE.

Any responsible warehouse company or other responsible person may, upon filing application with the Secretary or his delegate and consent of the proprietor and the surety on the bond of any bonded wine cellar, under regulations prescribed by the Secretary or his delegate, establish on such premises facilities for the storage of wines and allied products for credit purposes, to be known as a "bonded wine warehouse". The proprietor of the bonded wine cellar shall remain responsible in all respects for operations in the warehouse and the tax on the wine or wine spirits stored therein.

SEC. 5354. BOND.

The bond for a bonded wine cellar shall be in such form, on such conditions, and with such adequate surety, as regulation issued by the Secretary or his delegate shall prescribe, and shall be in a penal sum not less than the tax on any wine or wine spirits possessed or in

transit at any one time, but not less than $1,000 nor more than $50,000: *Provided*, That where the tax on such wine and on such wine spirits exceeds $250,000, the penal sum of the bond shall be not more than $100,000: *And provided further*, That where additional liability arises as a result of deferral of payment of tax payable on any return, the Secretary or his delegate may require the proprietor to file a supplemental bond in such amount as may be necessary to protect the revenue. The liability of any person on any such bond shall apply whether the transaction or operation on which the liability of the proprietor is based occurred on or off the proprietor's premises.

SEC. 5355. GENERAL PROVISIONS RELATING TO BONDS.

The provisions of section 5551 (relating to bonds) shall be applicable to the bonds required under section 5354.

SEC. 5356. APPLICATION.

The application required by this part shall disclose, as regulations issued by the Secretary or his delegate shall provide, such information as may be necessary to enable the Secretary or his delegate to determine the location and extent of the premises, the type of operations to be conducted on such premises, and whether the operations will be in conformity with law and regulations.

SEC. 5357. PREMISES.

Bonded wine cellar premises, including noncontiguous portions thereof, shall be so located, constructed and equipped, as to afford adequate protection to the revenue, as regulations prescribed by the Secretary or his delegate may provide.

PART II—OPERATIONS

Sec. 5361. Bonded wine cellar operations.
Sec. 5362. Removals of wine from bonded premises.
Sec. 5363. Taxpaid wine bottling house operations.
Sec. 5364. Standard wine premises.
Sec. 5365. Segregation of operations.
Sec. 5366. Supervision.
Sec. 5367. Records.
Sec. 5368. Gauging, marking, and stamping.
Sec. 5369. Inventories.
Sec. 5370. Losses.
Sec. 5371. Insurance coverage.
Sec. 5372. Sampling.
Sec. 5373. Wine spirits.

SEC. 5361. BONDED WINE CELLAR OPERATIONS.

In addition to the operations described in section 5351, the proprietor of a bonded wine cellar may, subject to regulations prescribed by the Secretary or his delegate, on such premises receive unmerchantable taxpaid wine for return to bond, reconditioning, or destruction; prepare for market and store commercial fruit products and by-products not taxable as wines; produce or receive distilling material or vinegar stock; produce or receive heavy bodied blending wines, Spanish-type blending sherries, and similar wine products made from fruit, with or without added wine spirits, and without added sugar, subject to tax as wine but not for sale or consumption as beverage wine; and such other operations as may be conducted in a manner that will not jeopardize the revenue or conflict with wine operations.

SEC. 5362. REMOVALS OF WINE FROM BONDED PREMISES.

Wine may be removed from bonded wine cellars subject to payment of the tax. Wine may also be removed from the premises without liability for tax being incurred by reason of such removal, under such regulations and bonds as the Secretary or his delegate may deem necessary to protect the revenue, for the following purposes:

(1) transfer to any bonded wine cellar;
(2) export by the proprietor or by any authorized exporter;
(3) transfer to any foreign trade zone;
(4) use on vessels and aircraft;
(5) transfer to any class 6 customs manufacturing warehouse;
(6) use in the production of vinegar;
(7) distillation in any registered fruit distillery, registered distillery or industrial alcohol plant;
(8) experimental or research purposes by any scientific university, college of learning, or institution of scientific research;
(9) use by or for the account of the proprietor or his agents for analysis or testing, organoleptically or otherwise; and
(10) use by the Government of the United States or any agency thereof, and for use for analysis, testing, research, or experimentation by the governments of the several States and Territories and the District of Columbia or of any subdivision thereof or by any agency of such governments. No bond shall be required of any such government or agency under this paragraph.

SEC. 5363. TAXPAID WINE BOTTLING HOUSE OPERATIONS.

In addition to the operations described in section 5352, the proprietor of a taxpaid wine bottling house may, subject to regulations issued by the Secretary or his delegate, on such premises mix wine of the same kind and taxable grade to facilitate handling; preserve, filter, or clarify wine; and conduct operations not involving wine where such operations will not jeopardize the revenue or conflict with wine operations. This subchapter shall apply to any wine received in any rectifying plant or taxpaid distilled spirits bottling house for bottling, packaging, or repackaging, and to all operations relative thereto: *Provided*, That any blending, mixing, or treatment of taxpaid wine, other than as provided in this section or in section 5025 (e), shall constitute taxable rectification.

SEC. 5364. STANDARD WINE PREMISES.

Except as otherwise specifically provided in this subchapter, no proprietor of a bonded wine cellar or taxpaid wine bottling house engaged in producing, receiving, storing or using any standard wine, shall produce, receive, store, or use any wine other than standard wine. The limitation contained in the preceding sentence shall not prohibit the production or receipt of heavy bodied blending wine, Spanish-type blending sherry or similar wine products, high fermentation wines, distilling material, or vinegar stock in any bonded wine cellar, as authorized by section 5361.

SEC. 5365. SEGREGATION OF OPERATIONS.

The Secretary or his delegate may require by regulations such segregation of operations within the premises, by partitions or otherwise, as may be necessary to prevent jeopardy to the revenue, to prevent confusion between untaxpaid wine operations and such other

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operations as are authorized in this subchapter, or to prevent substitution with respect to the several methods of producing effervescent wines.

SEC. 5366. SUPERVISION.

The Secretary or his delegate may by regulations require that operations at a bonded wine cellar or taxpaid wine bottling house be supervised by a Government officer where necessary for the protection of the revenue or for the proper enforcement of this subchapter.

SEC. 5367. RECORDS.

The proprietor of a bonded wine cellar or a taxpaid wine bottling house shall keep such records and file such returns, in such form and containing such information, as the Secretary or his delegate may by regulations provide.

SEC. 5368. GAUGING, MARKING, AND STAMPING.

(a) GAUGING AND MARKING.—All wine or wine spirits shall be locked, sealed, gauged, marked, branded, labeled, or otherwise identified, in such manner as the Secretary or his delegate may by regulations prescribe.

(b) STAMPING.—Wines shall be removed in such containers (including vessels, vehicles and pipelines) bearing such marks, labels and stamps, evidencing compliance with this chapter, as the Secretary or his delegate may by regulations prescribe.

SEC. 5369. INVENTORIES.

Each proprietor of premises subject to the provisions of this subchapter shall take and report such inventories as the Secretary or his delegate may by regulations prescribe.

SEC. 5370. LOSSES.

(a) GENERAL.—Notwithstanding section 5041, no such tax shall be collected in respect of any wines lost or destroyed while in bond, except that such tax shall be collected—

(1) THEFT.—In the case of loss by theft, unless the Secretary or his delegate shall find that the theft occurred without connivance, collusion, fraud, or negligence on the part of the proprietor or other person responsible for the tax, or the owner, consignor, consignee, bailee, or carrier, or the agents or employees of any of them; and

(2) VOLUNTARY DESTRUCTION.—In the case of voluntary destruction, unless the wine was destroyed under Government supervision, or on such adequate notice to, and approval by, the Secretary or his delegate as regulations shall provide.

(b) PROOF OF LOSS.—In any case in which the wine is lost or destroyed, whether by theft or otherwise, the Secretary or his delegate may require by regulations the proprietor of the bonded wine cellar or other person responsible for the tax to file a claim for relief from the tax and submit proof as to the cause of such loss. In every case where it appears that the loss was by theft, the burden shall be on the proprietor or other person responsible for the tax to establish to the satisfaction of the Secretary or his delegate, that such loss did not occur as the result of connivance, collusion, fraud, or negligence on the part of the proprietor, owner, consignor, consignee, bailee, or carrier or the agents, or employees of any of them.

SEC. 5371. INSURANCE COVERAGE.

Any remission, abatement, refund, or credit of, or other relief from, taxes on wines or wine spirits authorized by law shall be allowed only to the extent that the claimant is not indemnified or recompensed for the tax.

SEC. 5372. SAMPLING.

Under regulations prescribed by the Secretary or his delegate, wine may be utilized in any bonded wine cellar for testing, tasting, or sampling, free of tax.

SEC. 5373. WINE SPIRITS.

(a) IN GENERAL.—The wine spirits authorized for use in wine production shall include spirits or brandy produced from the distilling material authorized for use in fruit distillery operations under section 5215, but shall not be reduced with water from distillation proof, nor be distilled, unless regulations otherwise provide, at less than 140 degrees proof: *Provided*, That commercial brandy aged in wood for a period of not less than 2 years and barreled at not less than 100 degrees proof shall be deemed wine spirits for the purpose of this subsection.

(b) WITHDRAWAL OF WINE SPIRITS.—

(1) The proprietor of any bonded wine cellar may withdraw and receive wine spirits without payment of tax from any registered fruit distillery or internal revenue bonded warehouse, or from any bonded wine cellar as provided in paragraph (2), for use in the production of natural wine, for addition to concentrated or unconcentrated juice for use in wine production, or for such other uses as may be authorized in this subchapter.

(2) Wine spirits so withdrawn, and not used in wine production or as otherwise authorized in this subchapter, may, as provided by regulations prescribed by the Secretary or his delegate, be transferred to any internal revenue bonded warehouse or bonded wine cellar, or may be tax paid and removed as provided by law.

(3) On such use, transfer, or taxpayment, the Secretary or his delegate shall credit the proprietor with the amount of wine spirits so used or transferred or taxpaid and, in addition, with such portion of wine spirits so withdrawn, as may have been lost either in transit or on the bonded wine cellar premises, to the extent allowable under section 5011 (a). Where the proprietor has used wine spirits in actual wine production but in violation of the requirements of this subchapter, the Secretary or his delegate shall also extend such credit to the wine spirits so used if the proprietor satisfactorily shows that such wine spirits were not knowingly used in violation of law.

(4) Suitable samples of brandy or wine spirits may, under regulations prescribed by the Secretary or his delegate, be withdrawn free of tax from any registered fruit distillery, internal revenue bonded warehouse, bonded wine cellar, or authorized experimental premises, for analysis or testing.

PART III—CELLAR TREATMENT AND CLASSIFICATION OF WINE

Sec. 5381. Natural wine.
Sec. 5382. Cellar treatment of natural wine.
Sec. 5383. Amelioration and sweetening limitations for natural grape wines.
Sec. 5384. Amelioration and sweetening limitations for natural fruit and berry wines.
Sec. 5385. Specially sweetened natural wines.
Sec. 5386. Special natural wines.
Sec. 5387. Agricultural wines.
Sec. 5388. Designation of wines.

SEC. 5381. NATURAL WINE.

Natural wine is the product of the juice or must of sound, ripe grapes or other sound, ripe fruit, made with such cellar treatment as may be authorized under section 5382 and containing not more than 21 percent by weight of total solids. Any wine conforming to such definition except for having become substandard by reason of its condition shall be deemed not to be natural wine and shall, unless the condition is corrected, be removed in due course for distillation, destroyed under Government supervision, or transferred to premises in which wines other than natural wine may be stored or used.

SEC. 5382. CELLAR TREATMENT OF NATURAL WINE.

(a) GENERAL.—Proper cellar treatment of natural wine constitutes those practices and procedures in the United States and elsewhere, whether historical or newly developed, of using various methods and materials to correct or stabilize the wine, or the fruit juice from which it is made, so as to produce a finished product acceptable in good commercial practice. Where a particular treatment has been used in customary commercial practice, it shall continue to be recognized as a proper cellar treatment in the absence of regulations prescribed by the Secretary or his delegate finding such treatment not to be a proper cellar treatment within the meaning of this subsection.

(b) SPECIFICALLY AUTHORIZED TREATMENTS.—The practices and procedures specifically enumerated in this subsection shall be deemed proper cellar treatment for natural wine:

(1) The preparation and use of pure concentrated or unconcentrated juice or must. Concentrated juice or must reduced with water to its original density or to not less than 22 degrees Brix or unconcentrated juice or must reduced with water to not less than 22 degrees Brix shall be deemed to be juice or must, and shall include such amounts of water to clear crushing equipment as regulations prescribed by the Secretary or his delegate may provide;

(2) The addition to natural wine, or to concentrated or unconcentrated juice or must, from one kind of fruit, of wine spirits (whether or not taxpaid) distilled in the United States from the same kind of fruit: *Provided*, That the wine, juice, or concentrate shall not have an alcoholic content in excess of 24 percent by volume after the addition of wine spirits, and that, in the case of still wines, wine spirits may be added only to natural wines of the winemaker's own production made without added sugar or reserved as provided in sections 5383 (b) and 5384 (b).

(3) Amelioration and sweetening of natural grape wines in accordance with section 5383.

(4) Amelioration and sweetening of natural wines from fruits other than grapes in accordance with section 5384.

(5) In the case of effervescent wines such preparations for refermentation and for dosage as may be acceptable in good commercial practice: *Provided*, That the alcoholic content of the finished product shall not exceed 14 percent by volume.

(6) The natural darkening of the sugars or other elements in juice, must or wine due to storage, concentration, heating processes, or natural oxidation.

(7) The blending of natural wines with each other or with heavy-bodied blending wine, concentrated or unconcentrated juice containing wine spirits, from the same kind of fruit.

(8) The use of acids to correct natural deficiencies and to stabilize the wine as may be acceptable in good commercial practice.

(c) OTHER AUTHORIZED TREATMENT.—The Secretary or his delegate may by regulations prescribe limitations on the preparation and use of clarifying, stabilizing, preserving, fermenting, and corrective methods or materials, to the extent that such preparation or use is not acceptable in good commercial practice.

SEC. 5383. AMELIORATION AND SWEETENING LIMITATIONS FOR NATURAL GRAPE WINES.

(a) SWEETENING OF GRAPE WINES.—Any natural grape wine made under this section may, if not in reserve inventory as hereinafter provided, be sweetened after fermentation and before taxpayment with pure dry sugar if the sugar solids content of the finished wine does not exceed 10 percent of the weight of the wine and the alcoholic content of the finished wine after sweetening is less than 14 percent by volume.

(b) HIGH ACID WINES.—

(1) Any natural grape wine of a winemaker's own production may, under this subsection, be ameliorated to correct high acid content, and, whether or not ameliorated, may be reserved as herein provided.

(2) To wines produced under this subsection there may be added to the juice or to the wine, or both, before or during fermentation (including wines held pursuant to regulation in intermediate storage for completion of amelioration), ameliorating material consisting of either water, or pure dry sugar, or a combination of water and pure dry sugar, in such total volume as may be necessary to reduce the natural fixed acid content of the mixture of juice and such ameliorating material to a minimum of 5 parts per thousand (calculated before fermentation and as tartaric acid), but in no event shall the volume of such ameliorating material exceed 35 percent of the total volume of such ameliorated juice (calculated exclusive of pulp); and the wine so made shall be transferred to a reserve inventory established as regulation issued by the Secretary or his delegate shall require: *Provided*, That such wine containing less than 14 percent alcohol by volume after complete fermentation or after complete fermentation and sweetening, need not be transferred into reserve inventory if all claim to further amelioration is waived.

(3) The wines in the reserve inventory may be sweetened with dry sugar in an amount not exceeding, for the aggregate of the inventory—

(i) the dry sugar equivalent of any volume of authorized ameliorating material not used for wine so transferred, plus

(ii) nine-tenths pound of dry sugar for each gallon of wine so transferred and such unused ameliorating material combined.

(4) Wines so reserved may be blended together, sweetened with pure dry sugar to the extent provided in paragraph (3) or with concentrated or unconcentrated grape juice, and may have wine spirits added if such wine contains less than 14 percent of alcohol by volume at the time of such addition (unless wine spirits were previously added). Any wines withdrawn from reserve inventory shall have an alcoholic content of less than 14 percent by volume and a total solids content not exceeding 21 percent by weight, except that, if wine spirits have been added and the alcoholic content is 14 percent by volume or more, the sugar solids content shall not exceed 15 percent by weight.

(5) The winemaker shall maintain and balance for his reserve inventory such accounts as regulations issued by the Secretary or his delegate shall prescribe.

SEC. 5384. AMELIORATION AND SWEETENING LIMITATIONS FOR NATURAL FRUIT AND BERRY WINES.

(a) IN GENERAL.—To natural wine made from berries or fruit other than grapes, pure dry sugar may be added to the juice in the fermenter, or to the wine after fermentation: *Provided*, That such wine shall have less than 14 percent alcohol by volume after complete fermentation or after complete fermentation and sweetening, and a total solids content not in excess of 21 percent by weight.

(b) RESERVE FRUIT AND BERRY WINES.—

(1) Any natural fruit or berry wine (other than grape wine) of a winemaker's own production may, if not made under subsection (a) of this section, be ameliorated to correct high acid content, and, whether or not ameliorated, may be reserved as herein provided. Separate reserve inventories shall be established for wines made from each different kind of fruit.

(2) To wines made under this subsection there may be added, for the purpose of correcting natural deficiencies, sufficient pure dry sugar to adjust the juice to a total solids content, prior to fermentation, of not more than 23 degrees (Brix). Thereafter the wine shall be treated and accounted for as provided in section 5383 (b), covering the production of reserved high acid grape wines, except that—

(A) Natural fixed acid shall be calculated as malic acid for apple wine and as citric acid for other fruit and berry wines, instead of tartaric acid;

(B) Juice adjusted with pure dry sugar as provided in this paragraph shall be treated in the same manner as original natural juice under the provisions of section 5383 (b);

(C) Wines made under this subsection may be withdrawn from reserve inventory with a total solids content of not more than 21 percent by weight, whether or not wine spirits have been added;

(D) Wines made exclusively from loganberries, currants, or gooseberries, shall be entitled to a volume of ameliorating material not in excess of 60 percent (in lieu of 35 percent).

SEC. 5385. SPECIALLY SWEETENED NATURAL WINES.

(a) Specially sweetened natural wine is the product made by adding to natural wine of the winemaker's own production a sufficient quantity of pure dry sugar, or juice or concentrated juice from the same kind of fruit, separately or in combination, to produce a finished product having a sugar solids content in excess of 15 percent by weight and an alcoholic content of less than 14 percent by volume, and shall include extra sweet kosher wine and similarly heavily sweetened wines.

(b) The winemaker may blend specially sweetened natural wine from the same kind of fruit either before or after the special sweetening, or with additional natural wine or heavy bodied blending wine from the same kind of fruit in the further production of specially sweetened natural wine only, and may cellar treat any such wines as provided in section 5382 (c). Wine spirits may not be added to specially sweetened natural wine, nor may such wine be blended except to produce a specially sweetened natural wine.

SEC. 5386. SPECIAL NATURAL WINES.

(a) Special natural wines are the products made, pursuant to a formula approved under this section, from a base of natural wine (including heavy bodied blending wine) exclusively, with the addition, before, during or after fermentation, of natural herbs, spices, fruit juices, aromatics, essences, and other natural flavorings in such quantities or proportions as to enable such products to be distinguished from any natural wine not so treated, and with or without carbon dioxide naturally or artificially added, and with or without the addition, separately or in combination, of pure dry sugar or a solution of pure dry sugar and water, or caramel. No added wine spirits or alcohol or other spirits shall be used in any wine under this section except as may be contained in the natural wine (including heavy bodied blending wine) used as a base or except as may be necessary in the production of approved essences or similar approved flavorings. The Brix degree of any solution of pure dry sugar and water used may be limited by regulations prescribed by the Secretary or his delegate in accordance with good commercial practice.

(b) Special natural wines may be cellar treated as provided in section 5382 (c).

SEC. 5387. AGRICULTURAL WINES.

(a) Wines made from agricultural products other than the juice of fruit shall be made in accordance with good commercial practice as may be prescribed by the Secretary or his delegate by regulations. Wines made in accordance with such regulations shall be classed as "standard agricultural wines". Wines made under this section may be cellar treated as provided in section 5382 (c).

(b) No wine spirits may be added to wines produced under this section, nor shall any coloring material or herbs or other flavoring material (except hops in the case of honey wine) be used in their production.

(c) Wine from different agricultural commodities shall not be blended together.

SEC. 5388. DESIGNATION OF WINES.

(a) Standard wines may be removed from premises subject to the provisions of this subchapter and be marked, transported, and sold under their proper designation as to kind and origin, or, if there is no such designation known to the trade or consumers, then under a truthful and adequate statement of composition.

(b) Wines other than standard wines may be removed for consumption or sale and be marked, transported or sold only under such designation as to kind and origin as adequately describe the true composition of such products and as adequately distinguish them from standard wines, as regulations prescribed by the Secretary or his delegate shall provide.

PART IV—GENERAL

Sec. 5391. Exemption from rectifying and spirits taxes.
Sec. 5392. Definitions.

SEC. 5391. EXEMPTION FROM RECTIFYING AND SPIRITS TAXES.

Notwithstanding any other provision of law, the taxes imposed by sections 5001 and 5021 on distilled spirits generally and on rectified spirits and wines shall not, except as provided in this subchapter, be assessed, levied, or collected from the proprietor of any bonded wine cellar with respect to his use or treatment of wine, or use of wine spirits in wine production, in such premises: *Provided*, That whenever wine or wine spirits are used in violation of this subchapter the appropriate tax shall be collected unless the proprietor satisfactorily shows that such wine or wine spirits were not knowingly used in violation of law.

SEC. 5392. DEFINITIONS.

(a) STANDARD WINE.—For purposes of this subchapter the term "standard wine" means natural wine, specially sweetened natural wine, special natural wine and standard agricultural wine, produced in accordance with the provisions of sections 5381, 5385, 5386, and 5387, respectively.

(b) HEAVY BODIED BLENDING WINE.—For purposes of this subchapter the term "heavy bodied blending wine" means wine made from fruit without added sugar, and with or without added wine spirits, and conforming to the definition of natural wine in all respects except as to maximum total solids content.

(c) PURE SUGAR.—For purposes of this subchapter the term "pure sugar" means pure refined cane or beet sugar, or pure refined anhydrous or monohydrate dextrose sugar, of not less than 95 percent purity calculated on a dry basis: *Provided*, That invert sugar syrup produced from such pure sugar by recognized methods of inversion may be used to prepare any sugar syrup, or solution of water and pure sugar, authorized in this subchapter.

(d) TOTAL SOLIDS.—For purposes of this subchapter the term "total solids", in the case of wine, means the degrees Brix of the dealcoholized wine.

(e) SAME KIND OF FRUIT.—For purposes of this subchapter the term "same kind of fruit" includes, in the case of grapes, all of the several species and varieties of grapes. In the case of fruits other

than grapes, this term includes all of the several species and varieties of any given kind: *Provided*, That this shall not preclude a more precise identification of the composition of the product for the purpose of its designation.

(f) OWN PRODUCTION.—For purposes of this subchapter the term "own production", when used with reference to wine in a bonded wine cellar, means wine produced by fermentation in the same bonded wine cellar.

Subchapter G—Breweries

Part I. Establishment.
Part II. Operations.

PART I—ESTABLISHMENT

Sec. 5401. Qualifying documents.
Sec. 5402. Definitions.
Sec. 5403. Cross references.

SEC. 5401. QUALIFYING DOCUMENTS.

(a) NOTICE.—Every brewer shall, before commencing or continuing business, file with the officer designated for that purpose by the Secretary or his delegate a notice in writing, in such form and containing such information as the Secretary or his delegate shall by regulations prescribe as necessary to protect and insure collection of the revenue.

(b) BONDS.—Every brewer, on filing notice as provided by subsection (a) of his intention to commence business, shall execute a bond to the United States in such reasonable penal sum as the Secretary or his delegate shall by regulation prescribe as necessary to protect and insure collection of the revenue. The bond shall be conditioned that the brewer shall pay, or cause to be paid, as herein provided, the tax required by law on all beer, including all beer removed for transfer to the brewery from other breweries owned by him as provided in section 5414; and that he shall pay or cause to be paid the tax on all beer removed free of tax for export as provided in section 5053 (a), which beer is not exported or returned to the brewery; and that he shall in all respects faithfully comply, without fraud or evasion, with all requirements of law relating to the production and sale of any beer aforesaid. Once in every 4 years, or whenever required so to do by the Secretary or his delegate, the brewer shall execute a new bond in the penal sum prescribed in pursuance of this section, and conditioned as above provided, which bond shall be in lieu of any former bond or bonds of such brewer in respect to all liabilities accruing after its approval.

SEC. 5402. DEFINITIONS.

(a) BREWERY.—The brewery shall consist of the land and buildings described in the brewer's notice.

(b) BREWER.—

For definition of brewer, see section 5092.

SEC. 5403. CROSS REFERENCES.

(1) For authority of Secretary or his delegate to disapprove brewers' bonds, see section 5551.

(2) For authority of Secretary to require the installation and use of meters, tanks, and other apparatus, see section 5552.

(3) For deposit of United States bonds or notes in lieu of sureties, see 6 U. S. C. 15.

PART II—OPERATIONS

Sec. 5411. Use of brewery.
Sec. 5412. Removal of beer in containers or by pipeline.
Sec. 5413. Brewers procuring beer from other brewers.
Sec. 5414. Removals from one brewery to another belonging to the same brewer.
Sec. 5415. Records and returns.
Sec. 5416. Definitions of bottle and bottling.

SEC. 5411. USE OF BREWERY.

The brewery shall be used under regulations to be prescribed by the Secretary or his delegate only for the purpose of producing beer, cereal beverages containing less than one-half of 1 percent of alcohol by volume, vitamins, ice, malt, malt sirup, and other by-products; of bottling beer and cereal beverages; of drying spent grain from the brewery; of recovering carbon dioxide and yeast; of producing and bottling soft drinks; and for such other purposes as the Secretary or his delegate by regulation may find will not jeopardize the revenue. The bottling of beer and cereal beverages shall be conducted only in the brewery bottle house which shall consist of a separate portion of the brewery designated for that purpose.

SEC. 5412. REMOVAL OF BEER IN CONTAINERS OR BY PIPELINE.

Beer may be removed from the brewery for consumption or sale only in hogsheads, barrels, kegs, bottles, and similar containers, marked, branded, and labeled in such manner as the Secretary or his delegate may by regulation require: *Provided*, That beer may be removed from the brewery by pipeline to contiguous industrial alcohol plants under section 5309.

SEC. 5413. BREWERS PROCURING BEER FROM OTHER BREWERS.

A brewer, under such regulations as the Secretary or his delegate shall prescribe, may obtain beer in his own hogsheads, barrels, and kegs, marked with his name and address, from another brewer, with taxpayment thereof to be by the producer in the manner prescribed by section 5055.

SEC. 5414. REMOVALS FROM ONE BREWERY TO ANOTHER BELONGING TO THE SAME BREWER.

Beer may be removed from one brewery to another brewery belonging to the same brewer, without payment of tax, and may be mingled with the beer of the second brewery, subject to such conditions, including payment of tax, and in such containers, as the Secretary or his delegate by regulations shall prescribe.

SEC. 5415. RECORDS AND RETURNS.

(a) RECORDS.—Every brewer shall keep records, in such form and containing such information as the Secretary or his delegate shall prescribe by regulation as necessary for protection of the revenue. These records shall be preserved for a period of at least two years after the date of the transactions to which they relate, and shall be available during business hours for examination and taking of abstracts therefrom by any internal revenue officer.

(b) RETURNS.—Every brewer shall make true and accurate returns of his operations and transactions in the form, at the times, and for such periods as the Secretary or his delegate shall by regulation prescribe.

SEC. 5416. DEFINITIONS OF BOTTLE AND BOTTLING.

For purposes of this subchapter, the word "bottle" means a bottle, can, or similar container, and the word "bottling" means the filling of bottles, cans, and similar containers.

Subchapter H—Miscellaneous Plants and Warehouses

Part I. Vinegar factories.
Part II. Volatile fruit-flavor concentrate plants.
Part III. Manufacturing bonded warehouses.

PART I—VINEGAR FACTORIES

Sec. 5501. Establishment and operation.
Sec. 5502. Distilled vinegar.

SEC. 5501. ESTABLISHMENT AND OPERATION.

For provisions pertaining to the establishment and operation of vinegar factories, see section 5216.

SEC. 5502. DISTILLED VINEGAR.

Nothing in this chapter shall require manufacturers of distilled vinegar to raise the proof of any alcohol used in such manufacture or to denature the same.

PART II—VOLATILE FRUIT-FLAVOR CONCENTRATE PLANTS

Sec. 5511. Establishment and operation.
Sec. 5512. Control of products after tax-free manufacture.

SEC. 5511. ESTABLISHMENT AND OPERATION.

This chapter (other than sections 5171, 5173 (c), and 5174 and other than sections 5196 (b), (c), and (d), and 5552) shall not be applicable with respect to the manufacture, by any process which includes evaporations from the mash or juice of any fruit, of any volatile fruit-flavor concentrate if—

(1) such concentrate, and the mash or juice from which it is produced, contains no more alcohol than is reasonably unavoidable in the manufacture of such concentrate; and

(2) such concentrate is rendered unfit for use as a beverage before removal from the place of manufacture; and

(3) the manufacturer thereof keeps such records, renders such reports, files such bonds, and complies with such other regulations with respect to the production, removal, sale, transportation, and use of such concentrate and of the mash or juice from which such concentrate is produced, as the Secretary or his delegate may prescribe as necessary for the protection of the revenue imposed by this chapter.

SEC. 5512. CONTROL OF PRODUCTS AFTER TAX-FREE MANUFACTURE.

For applicability of all provisions of this chapter pertaining to distilled spirits and wines, including those requiring payment of tax, to volatile fruit-flavor concentrates sold, transported, or used in violation of law or regulations, see section 5001 (a) (7).

PART III—MANUFACTURING BONDED WAREHOUSES

Sec. 5521. Establishment and operation.
Sec. 5522. Withdrawal of distilled spirits to manufacturing bonded warehouse.
Sec. 5523. Special provisions relating to distilled spirits and wines rectified in manufacturing bonded warehouses.

SEC. 5521. ESTABLISHMENT AND OPERATION.

(a) ESTABLISHMENT.—All medicines, preparations, compositions, perfumery, cosmetics, cordials, and other liquors manufactured wholly or in part of domestic spirits, intended for exportation, as provided by law, in order to be manufactured and sold or removed, without being charged with duty and without having a stamp affixed thereto, shall, under such regulations as the Secretary or his delegate may prescribe, be made and manufactured in warehouses similarly constructed to those known and designated in Treasury regulations as bonded warehouses, class six: *Provided*, That such manufacturer shall first give satisfactory bonds to the Secretary or his delegate for the faithful observance of all the provisions of law and the regulations as aforesaid, in amount not less than half of that required by the regulations of the Secretary or his delegate from persons allowed bonded warehouses.

(b) SUPERVISION.—All labor performed and services rendered under this section shall be under the supervision of an officer of the customs, and at the expense of the manufacturer.

(c) MATERIALS FOR MANUFACTURE.—

(1) EXPORTABLE FREE OF TAX.—Any manufacturer of the articles specified in subsection (a), or of any of them, having such bonded warehouse, shall be at liberty, under such regulations as the Secretary or his delegate may prescribe, to convey therein any materials to be used in such manufacture which are allowed by the provisions of law to be exported free from tax or duty, as well as the necessary materials, implements, packages, vessels, brands, and labels for the preparation, putting up, and export of such manufactured articles; and every article so used shall be exempt from the payment of stamp and excise duty by such manufacturer. Articles and materials so to be used may be transferred from any bonded warehouse under such regulations as the Secretary or his delegate may prescribe, into any bonded warehouse in which such manufacture may be conducted, and may be used in such manufacture, and when so used shall be exempt from stamp and excise duty; and the receipt of the officer in charge shall be received as a voucher for the manufacture of such articles.

(2) IMPORTED MATERIALS.—Any materials imported into the United States may, under such regulations as the Secretary or his delegate may prescribe, and under the direction of the proper officer, be removed in original packages from on shipboard, or from the bonded warehouse in which the same may be, into the bonded warehouse in which such manufacture may be carried on, for the purpose of being used in such manufacture, without payment of duties thereon, and may there be used in such manufacture. No article so removed, nor any article manufactured in said bonded warehouse, shall be taken therefrom except for exportation, under the direction

of the proper officer having charge thereof, whose certificate, describing the articles by their mark or otherwise, the quantity, the date of importation, and name of vessel, with such additional particulars as may from time to time be required, shall be received by the collector of customs in cancellation of the bond, or return of the amount of foreign import duties.

(d) REMOVALS.—

(1) IN GENERAL.—Such goods, when manufactured in such warehouses, may be removed for exportation under the direction of the proper officer having charge thereof, who shall be designated by the Secretary or his delegate, without being charged with duty and without having a stamp affixed thereto.

(2) TRANSPORTATION FOR EXPORT.—Any article manufactured in a bonded warehouse established under subsection (a) may be removed therefrom for transportation to a customs bonded warehouse at any port, for the purpose only of being exported therefrom, under such regulations and on the execution of such bonds or other security as the Secretary or his delegate may prescribe.

SEC. 5522. WITHDRAWAL OF DISTILLED SPIRITS TO MANUFACTURING BONDED WAREHOUSES.

(a) AUTHORIZATION.—Under such regulations and requirements as to stamps, bonds, and other security as shall be prescribed by the Secretary or his delegate, any manufacturer of medicines, preparations, compositions, perfumeries, cosmetics, cordials, and other liquors, for export, manufacturing the same in a duly constituted manufacturing warehouse, shall be authorized to withdraw, from any internal revenue bonded warehouse, so much distilled spirits as he may require for such purpose, without the payment of the internal revenue tax thereon.

(b) ALLOWANCE FOR LOSS OR LEAKAGE.—Section 5011 (a) (relating to distilled spirits lost or destroyed in bond) shall apply to spirits withdrawn for transportation to manufacturing bonded warehouses under subsection (a).

SEC. 5523. SPECIAL PROVISIONS RELATING TO DISTILLED SPIRITS AND WINES RECTIFIED IN MANUFACTURING BONDED WAREHOUSES.

Distilled spirits and wines which are rectified in manufacturing bonded warehouses, class six, and distilled spirits which are reduced in proof and bottled or packaged in such warehouses, shall be deemed to have been manufactured within the meaning of section 311 of the Tariff Act of 1930 (19 U. S. C. 1311), and may be withdrawn as provided in such section, and likewise for shipment in bond to Puerto Rico, subject to the provisions of such section, and under such regulations as the Secretary or his delegate may prescribe, there to be withdrawn for consumption or be rewarehoused and subsequently withdrawn for consumption: *Provided*, That no internal revenue tax shall be imposed on distilled spirits and wines rectified in class six warehouses if such distilled spirits and wines are exported or shipped in accordance with such section, and that no person rectifying distilled spirits or wines in such warehouses shall be subject by reason of such rectification to the payment of special tax as a rectifier.

Subchapter I—Miscellaneous General Provisions

Sec. 5551. General provisions relating to bonds.
Sec. 5552. Installation of meters, tanks, and other apparatus.
Sec. 5553. Supervision of premises and operations.
Sec. 5554. Pilot plant operations.
Sec. 5555. Records, statements, and returns.
Sec. 5556. Regulations.
Sec. 5557. Other provisions applicable.

SEC. 5551. GENERAL PROVISIONS RELATING TO BONDS.

(a) APPROVAL AS CONDITION TO COMMENCING BUSINESS.—No individual, firm, partnership, corporation, or association, intending to commence or to continue the business of a distiller, rectifier, brewer, or winemaker, shall commence or continue the business of a distiller, rectifier, brewer, or winemaker until all bonds in respect of such a business, required by any provision of law, have been approved by the Secretary or the officer designated by him.

(b) DISAPPROVAL.—The Secretary or any officer designated by him may disapprove any such bond or bonds if the individual, firm, partnership, corporation, or association giving such bond or bonds, or owning, controlling, or actively participating in the management of the business of the individual or firm, partnership, corporation, or association giving such bond or bonds, shall have been previously convicted, in a court of competent jurisdiction, of—

(1) any fraudulent noncompliance with any provision of any law of the United States, if such provision related to internal-revenue or customs taxation of distilled spirits, wines, or beer, or if such an offense shall have been compromised with the individual, firm, partnership, corporation, or association on payment of penalties or otherwise, or

(2) any felony under a law of any State, Territory, or the District of Columbia, or the United States, prohibiting the manufacture, sale, importation, or transportation of distilled spirits, wine, beer, or other intoxicating liquor.

(c) APPEAL FROM DISAPPROVAL.—In case the disapproval is by an officer designated by the Secretary to approve or disapprove such bonds, the individual, firm, partnership, corporation, or association giving the bond may appeal from such disapproval to the Secretary or an officer designated by him to hear such appeals, and the disapproval of the bond by the Secretary or officer designated to hear such appeals shall be final.

SEC. 5552. INSTALLATION OF METERS, TANKS, AND OTHER APPARATUS.

The Secretary or his delegate is authorized to require at distilleries, breweries, rectifying plants, and at any other premises established pursuant to this chapter as in his judgment may be deemed advisable, the installation of meters, tanks, pipes, or any other apparatus for the purpose of protecting the revenue, and such meters, tanks, and pipes and all necessary labor incident thereto shall be at the expense of the

person on whose premises the installation is required. Any such person refusing or neglecting to install such apparatus when so required by the Secretary or his delegate shall not be permitted to conduct business on such premises.

SEC. 5553. SUPERVISION OF PREMISES AND OPERATIONS.

(a) ASSIGNMENT OF STOREKEEPER-GAUGERS.—The Secretary or his delegate is authorized to assign to any premises established under the provisions of this chapter such number of storekeeper-gaugers as may be deemed necessary.

(b) FUNCTIONS OF STOREKEEPER-GAUGER.—When used in this chapter, the term "storekeeper-gauger" means the internal revenue officer assigned by the Secretary or his delegate to duties at premises established and operated under the provisions of this chapter.

SEC. 5554. PILOT PLANT OPERATIONS.

For the purpose of facilitating the development and testing of improved methods of governmental supervision (necessary for the protection of the revenue) over distilleries, internal revenue bonded warehouses, rectifying plants, industrial alcohol plants, industrial alcohol bonded warehouses, industrial alcohol denaturing plants, or similar premises established under this chapter or of chapter 26 of the Internal Revenue Code of 1939, the Secretary or his delegate is authorized to waive any regulatory provisions of this chapter for temporary pilot or experimental operations. Nothing in this section shall be construed as authority to waive the filing of any bond or the payment of any tax provided for in this chapter. The authority under this section shall terminate on December 31, 1955.

SEC. 5555. RECORDS, STATEMENTS, AND RETURNS.

(a) GENERAL.—Every person liable to any tax imposed by this chapter, or for the collection thereof, or for the affixing of any stamp required to be affixed by this chapter, shall keep such records, render such statements, make such returns, and comply with such rules and regulations, as the Secretary or his delegate may prescribe.

(b) AUTHORITY TO WAIVE.—Whenever in this chapter any record is required to be made or kept, or statement or return is required to be made by any person, the Secretary or his delegate may by regulation waive, in whole or in part, such requirement when he deems such requirement to no longer serve a necessary purpose: *Provided*, That this subsection shall not be construed as authorizing the waiver of the payment of any tax.

SEC. 5556. REGULATIONS.

The Secretary or his delegate shall prescribe all regulations necessary for the enforcement of this chapter.

SEC. 5557. OTHER PROVISIONS APPLICABLE.

All provisions of subtitle F, insofar as applicable (and not inconsistent with the provisions of this subtitle), are hereby extended to and made a part of this subtitle.

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Subchapter J—Penalties, Seizures, and Forfeitures Relating to Liquors

Part I. Penalty, seizure, and forfeiture provisions applicable to distilling, rectifying, and distilled and rectified products.
Part II. Penalty and forfeiture provisions applicable to wine and wine production.
Part III. Penalty, seizure, and forfeiture provisions applicable to beer and brewing.
Part IV. Penalty, seizure, and forfeiture provisions common to liquors.
Part V. Penalties and forfeitures applicable to occupational taxes.

PART I—PENALTY, SEIZURE, AND FORFEITURE PROVISIONS APPLICABLE TO DISTILLING, RECTIFYING, AND DISTILLED AND RECTIFIED PRODUCTS

Sec. 5601. Penalty and forfeiture for possession of unregistered still or distilling apparatus.
Sec. 5602. Penalty and forfeiture for setting up still without permit.
Sec. 5603. Penalty for failure or refusal of distiller or rectifier to give notice of intention to engage in such business.
Sec. 5604. Penalty and forfeiture for failure or refusal of distiller to give bond.
Sec. 5605. Penalty for improper approval of distiller's bond.
Sec. 5606. Penalty and forfeiture for distilling without giving bond.
Sec. 5607. Penalty for distilling on prohibited premises.
Sec. 5608. Penalty for making or fermenting mash on unauthorized premises; illegal use of spirits; unlawful removal of vinegar; etc.
Sec. 5609. Penalty relating to return of materials used in the manufacture of distilled spirits.
Sec. 5610. Penalty for using unregistered materials for producing spirits.
Sec. 5611. Penalty for using false weights and measures.
Sec. 5612. Penalty for using material or removing spirits without supervision.
Sec. 5613. Penalty for distilling during prohibited hours.
Sec. 5614. Penalty and forfeiture for removal of spirits during prohibited hours.
Sec. 5615. Penalty for refusal or neglect of distillers and rectifiers to give assistance to officers.
Sec. 5616. Penalty for obstructing or refusing to admit officer to distillery premises.
Sec. 5617. Penalty for failure to keep distillery accessible.
Sec. 5618. Penalty for failure of distiller to identify fixed pipes.
Sec. 5619. Penalty for refusal or neglect to draw off water and clean condensers or worm tanks.
Sec. 5620. Penalty and forfeiture for false or omitted entries in distiller's books and records.
Sec. 5621. Penalty relating to records and returns of distiller as wholesaler dealers, rectifiers, and wholesale dealers.
Sec. 5622. Disposal of forfeited equipment and material for distilling.
Sec. 5623. Destruction of distilling apparatus.
Sec. 5624. Release of distillery before judgment.
Sec. 5625. Forfeiture of tax-paid distilled spirits remaining on distillery premises.
Sec. 5626. Penalty and forfeiture for tax fraud by distiller.

Sec. 5627. Penalty for unlawful use of rectifying premises.
Sec. 5628. Penalty for rectification without payment of tax, increasing volume, etc.
Sec. 5629. Penalty for unlawful rectifying.
Sec. 5630. Penalty for noncompliance by rectifiers with provisions relating to rectifying, gauging, branding, and stamping.
Sec. 5631. Penalty and forfeiture for failure to comply with warehousing and removal requirements.
Sec. 5632. Penalty and forfeiture for unlawful removal or concealment of spirits.
Sec. 5633. Penalty of officer in charge of warehouse for unlawful removal of spirits.
Sec. 5634. Penalty and forfeiture for creation of fictitious proof.
Sec. 5635. Penalty for buying or selling used casks bearing inspection marks.
Sec. 5636. Penalty and forfeiture for failure to efface, etc., stamps and brands on emptied packages.
Sec. 5637. Penalty for changing stamps or shifting spirits.
Sec. 5638. Penalty and forfeiture for affixing imitation stamps on packages of distilled spirits.
Sec. 5639. Forfeiture of distilled spirits in unstamped casks or packages.
Sec. 5640. Forfeiture of spirits in unstamped containers.
Sec. 5641. Penalty and forfeiture relating to containers of distilled spirits.
Sec. 5642. Penalties for transporting, possessing, etc., distilled spirits in unstamped containers, or counterfeiting of stamps, etc.
Sec. 5643. Penalty and forfeiture for reuse of stamps or bottles, tampering and unlawful removal.
Sec. 5644. Penalty for counterfeiting bottled in bond stamps.
Sec. 5645. Penalty for unlawful affixing, cancelling, or issue of stamps by officer.
Sec. 5646. Penalty for evasion of distilled spirits tax.
Sec. 5647. Penalty and forfeiture for unlawful use or concealment of denatured alcohol.
Sec. 5648. Penalty and forfeiture for fraudulent claims for export drawback or unlawful relanding.
Sec. 5649. Burden of proof in case of seizure of spirits.
Sec. 5650. Penalty and forfeiture for operating distillery after giving notice of suspension.

SEC. 5601. PENALTY AND FORFEITURE FOR POSSESSION OF UNREGISTERED STILL OR DISTILLING APPARATUS.

Every still or distilling apparatus not registered as required by section 5174, together with all personal property in the possession or custody, or under the control of the person required by section 5174 to register the still or distilling apparatus, and found in the building, or in any yard or inclosure connected with the building in which the same may be set up, shall be forfeited. Every person having in his possession or custody, or under his control, any still or distilling apparatus set up which is not registered, as required by section 5174, shall pay a penalty of $500, and shall be fined not more than $1,000, and imprisoned not more than 2 years.

SEC. 5602. PENALTY AND FORFEITURE FOR SETTING UP STILL WITHOUT PERMIT.

Any person who sets up any still, boiler, or other vessel, to be used for the purpose of distilling spirits, without first obtaining a permit from the Secretary or his delegate, as required by section 5105 (a), or who fails to give the notice required by such section, shall pay in either case the sum of $500, and shall forfeit the distilling apparatus thus removed or set up in violation of law.

SEC. 5603. PENALTY FOR FAILURE OR REFUSAL OF DISTILLER OR RECTIFIER TO GIVE NOTICE OF INTENTION TO ENGAGE IN SUCH BUSINESS.

Every person engaged in, or intending to be engaged in, the business of a distiller or rectifier, who fails or refuses to give notice, as required by sections 5175 (a) and 5271 (a), shall pay a penalty of $1,000 and shall be fined not more than $2,000; and every person who gives a false or fraudulent notice shall, in addition to such penalty or fine, be imprisoned not more than 2 years.

SEC. 5604. PENALTY AND FORFEITURE FOR FAILURE OR REFUSAL OF DISTILLER TO GIVE BOND.

Every person who fails or refuses to give the bond required by section 5176 (a), or to renew the same, or who gives any false, forged, or fraudulent bond, shall forfeit the distillery, distilling apparatus, and all real estate and premises connected therewith, and shall be fined not more than $5,000, and imprisoned not more than 2 years.

SEC. 5605. PENALTY FOR IMPROPER APPROVAL OF DISTILLER'S BOND.

Every officer who approves the bond of any distiller in violation of section 5177 (a) shall forfeit and pay $2,000, and be dismissed from office.

SEC. 5606. PENALTY AND FORFEITURE FOR DISTILLING WITHOUT GIVING BOND.

Any person who shall carry on the business of a distiller without having given bond as required by law, or who shall engage in or carry on the business of a distiller with intent to defraud the United States of the tax on the spirits distilled by him, or any part thereof, shall, for every such offense, be fined not more than $5,000 and imprisoned not more than 2 years. All distilled spirits or wines, and all stills or other apparatus, fit or intended to be used for the distillation or rectification of spirits, or for the compounding of liquors, owned by such person, wherever found, and all distilled spirits or wines and personal property found in the distillery or in any building, room, yard, or inclosure connected therewith, and used with or constituting a part of the premises, and all the right, title, and interest of such person in the lot or tract of land on which such distillery is situated, and all right, title, and interest therein of every person, who knowingly has suffered or permitted the business of a distiller to be there carried on, or has connived at the same; and all personal property owned by or in possession of any person who has permitted or suffered any building, yard, or inclosure, or any part thereof, to be used for purposes of ingress or egress to or from such distillery, which shall be found in any such building, yard, or inclosure, and all the right, title, and interest of every person in any premises used for ingress or egress to or from such distillery, who has knowingly suffered or permitted such premises to be used for such ingress or egress, shall be forfeited to the United States.

SEC. 5607. PENALTY FOR DISTILLING ON PROHIBITED PREMISES.

Every person who does any of the acts prohibited by section 5171 (a), or aids or assists therein, or causes or procures the same to be done, shall be fined $1,000, and imprisoned not more than 2 years, in the discretion of the court, for each such offense.

SEC. 5608. PENALTY FOR MAKING OR FERMENTING MASH ON UNAUTHORIZED PREMISES; ILLEGAL USE OF SPIRITS; UNLAWFUL REMOVAL OF VINEGAR; ETC.

(a) VIOLATION OF SECTION 5216.—Every person who violates any provision of section 5216 shall be fined for each offense not more than $5,000, and be imprisoned not more than 2 years.

(b) UNLAWFUL REMOVAL OF VINEGAR.—Every person, who shall remove, or cause to be removed, from any vinegar factory or place where vinegar is made, any vinegar or other fluid or material containing a greater proportion than 2 percent of proof spirits shall incur a forfeiture of the vinegar, fluid, or material containing such proof spirits.

(c) APPLICABILITY OF SECTIONS 5615 AND 5616 TO MANUFACTURERS OF VINEGAR.—The penalties provided in sections 5615 and 5616 shall apply to persons carrying on the operations described in section 5216.

SEC. 5609. PENALTY RELATING TO RETURN OF MATERIALS USED IN THE MANUFACTURE OF DISTILLED SPIRITS.

Any person who willfully violates any provision of section 5213 (a), or of any rules or regulations issued thereunder, and any officer, director, or agent of any such person who knowingly participates in such violation, shall upon conviction be fined not more than $500 or be imprisoned for not more than 1 year, or both.

SEC. 5610. PENALTY FOR USING UNREGISTERED MATERIALS FOR PRODUCING SPIRITS.

Any person who uses any molasses, beer, or other substance, whether fermented on the premises or elsewhere, for the purpose of producing spirits, without recording the receipt thereof as required under section 5197 (a) (1) (A), shall forfeit and pay the sum of $1,000 for each such offense.

SEC. 5611. PENALTY FOR USING FALSE WEIGHTS AND MEASURES.

Every person who knowingly uses any false weights or measures in ascertaining, weighing, or measuring the quantities of grain, meal, or vegetable materials, molasses, beer, or other substances to be used for distillation, shall be fined not more than $5,000, and imprisoned not more than 3 years.

SEC. 5612. PENALTY FOR USING MATERIAL OR REMOVING SPIRITS WITHOUT SUPERVISION.

Every distiller or person employed in any distillery who uses, or causes or permits to be used, any material for the purpose of making mash, wort, or beer, or for the production of spirits, or removes any spirits, in the absence of such supervision by storekeeper-gaugers as may be prescribed under section 5192 (c), shall forfeit and pay double the amount of taxes on the spirits so produced, distilled, or removed, and in addition thereto be liable to a penalty of $1,000.

SEC. 5613. PENALTY FOR DISTILLING DURING PROHIBITED HOURS.

Every person who violates the provisions of section 5195 (a) shall be liable to a penalty of $1,000.

SEC. 5614. PENALTY AND FORFEITURE FOR REMOVAL OF SPIRITS DURING PROHIBITED HOURS.

Every person who violates section 5195 (b) shall be liable to a penalty of $100 for each cask, barrel, or package of spirits so removed; and such spirits, together with any package containing the same, and

any vessel, vehicle or aircraft used in the removal thereof, shall be forfeited to the United States.

SEC. 5615. PENALTY FOR REFUSAL OR NEGLECT OF DISTILLERS AND RECTIFIERS TO GIVE ASSISTANCE TO OFFICERS.

Every distiller or rectifier who, on the demand of any internal revenue officer or agent, neglects or refuses to furnish facilities and give assistance for examination of premises as required by section 5196 (c) shall pay a penalty of $500 for every refusal or neglect so to do.

SEC. 5616. PENALTY FOR OBSTRUCTING OR REFUSING TO ADMIT OFFICER TO DISTILLERY PREMISES.

Whenever any internal revenue officer, or any person called by him to his aid, is hindered, obstructed, or prevented by any distiller or by any workman, or other person acting for such distiller, or in his employ, from entering into any distillery or building or place which such officer is authorized to enter under section 5196 (b); or having demanded admittance and declared his name and office, is not admitted into the distillery or premises by the distiller or other person having charge thereof; or any such officer is by the distiller, or his workman, or any person in his employ, prevented or hindered from, or opposed, or obstructed, or molested in the performance of his duty under the internal revenue laws, in any respect, the distiller shall forfeit a sum of not more than $1,000.

SEC. 5617. PENALTY FOR FAILURE TO KEEP DISTILLERY ACCESSIBLE.

Every person who violates any of the provisions of section 5196 (a) by negligence or refusal, or otherwise, shall pay a penalty of $500.

SEC. 5618. PENALTY FOR FAILURE OF DISTILLER TO IDENTIFY FIXED PIPES.

Whenever any distiller uses fixed pipes which are not identified as required by section 5173 (a), or regulations issued thereunder, he shall forfeit the sum of $1,000.

SEC. 5619. PENALTY FOR REFUSAL OR NEGLECT TO DRAW OFF WATER AND CLEAN CONDENSERS OR WORM TANKS.

For any refusal or neglect to comply with any provision of section 5196 (e) the distiller shall forfeit a sum of not more than $1,000.

SEC. 5620. PENALTY AND FORFEITURE FOR FALSE OR OMITTED ENTRIES IN DISTILLER'S BOOKS AND RECORDS.

Whenever any false entry is made in, or any entry required to be made is omitted from the records required under section 5197 (a) (1) with intent to defraud or to conceal from the revenue officers any fact or particular required to be stated and entered in such records, or to mislead in reference thereto; or any distiller omits or refuses to provide such records, or cancels, obliterates, or destroys any part of such records or any entry therein, with intent to defraud, or permits the same to be done, or willfully refuses to produce such records when required by any revenue officer, the distillery, distilling apparatus, and the lot or tract of land on which it stands, and all personal property on said premises used in the business there carried on, shall be forfeited to the United States. And every person who makes such false entry, or omits to make any entry required to be made, with intent aforesaid, or who causes or procures the same to be done, or fraudulently cancels, obliterates, or destroys any part of said records,

or any entry therein, or willfully fails to produce such records, shall be fined not more than $5,000, and imprisoned not more than 2 years.

SEC. 5621. PENALTY RELATING TO RECORDS AND RETURNS OF DISTILLER AS WHOLESALE DEALERS, RECTIFIERS, AND WHOLESALE DEALERS.

Every distiller, rectifier, and wholesale liquor dealer who refuses or neglects to keep the records required under sections 5197 (a) (2), 5285 (b) or 5114 (a) in the form prescribed by the Secretary or his delegate, or to make entries therein, or cancels, alters, or obliterates any entry therein (except for the purpose of correcting errors) or destroys any part of such records, or any entry therein, or makes any false entry therein, or hinders or obstructs any internal revenue officer from inspecting such records or taking any abstracts therefrom, or neglects or refuses to preserve or produce such records as required by this chapter or by regulations issued pursuant thereto, shall pay a penalty of $100 and, on conviction, shall be fined not more than $5,000, and imprisoned not more than 3 years. Every distiller, rectifier, and wholesale liquor dealer who refuses or neglects to render transcripts or summaries of such records in the form required by the Secretary or his delegate shall, upon conviction, be fined not more than $100 for each such neglect or refusal.

SEC. 5622. DISPOSAL OF FORFEITED EQUIPMENT AND MATERIAL FOR DISTILLING.

All boilers, stills, or other vessels, tools and implements, used in distilling or rectifying, and forfeited under any of the provisions of this chapter, and all condemned material, together with any engine or other machinery connected therewith, and all empty barrels, and all grain or other material suitable for distillation, shall, under the direction of the court in which the forfeiture is recovered, be sold at public auction, and the proceeds thereof, after deducting the expenses of sale, shall be disposed of according to law.

SEC. 5623. DESTRUCTION OF DISTILLING APPARATUS.

When a judgment of forfeiture, in any case of seizure, is recovered against any distillery used or fit for use in the production of distilled spirits, because no bond has been given, or against any distillery used or fit for use in the production of spirits, having a registered producing capacity of less than 150 gallons a day, for any violation of law, of whatever nature, every still, doubler, worm, worm tub, mash tub, and fermenting tub therein shall be so destroyed as to prevent the use of the same or of any part thereof for the purpose of distilling; and the materials shall be sold as in case of other forfeited property. In case of seizure of a still, doubler, worm, worm tub, mash tub, fermenting tub, or other distilling apparatus, for any offense involving forfeiture of the same, where it shall be impracticable to remove the same to a place of safe storage from the place where seized, the seizing officer is authorized to destroy the same only so far as to prevent the use thereof, or any part thereof, for the purpose of distilling (except in the case of a registered distillery). Such destruction shall be in the presence of at least one credible witness, and such witness shall unite with the said officer in a duly sworn report of said seizure and destruction, to be made to the Secretary or his delegate, in which report they shall set forth the grounds of the claim of forfeiture, the reasons for such seizure and destruction, their

estimate of the fair cash value of the apparatus destroyed, and also of the materials remaining after such destruction, and a statement that, from facts within their own knowledge, they have no doubt whatever that said distilling apparatus was set up for use for distillation, redistillation or recovery of distilled spirits and not registered, or had been used in the unlawful distillation of spirits, and that it was impracticable to remove the same to a place of safe storage. Within 1 year after such destruction the owner of the apparatus so destroyed may make application to the Secretary or his delegate for reimbursement of the value of the same; and, unless it shall be made to appear to the satisfaction of the Secretary or his delegate that said apparatus had been used in the unlawful distillation of spirits, the Secretary or his delegate shall make an allowance to said owner, not exceeding the value of said apparatus, less the value of said materials as estimated in said report; and if the claimant shall thereupon satisfy the Secretary or his delegate that said unlawful use of the apparatus had been without his consent or knowledge, he shall still be entitled to such compensation, but not otherwise. In case of a wrongful seizure and destruction of property under this section, the owner thereof shall have right of action on the official bond of the officer who occasioned the destruction for all damages caused thereby.

SEC. 5624. RELEASE OF DISTILLERY BEFORE JUDGMENT.

Any distillery or distilling apparatus seized for any violation of law may, in the discretion of the court, be released before final judgment to a receiver appointed by the court to operate such distillery or apparatus. Such receiver shall give bond, which shall be approved in open court, with two or more competent personal sureties, or one approved corporate surety, for the full appraised value of all the property seized, to be ascertained by three competent appraisers designated and appointed by the court. Funds obtained from such operation shall be impounded as the court shall direct pending such final judgment.

SEC. 5625. FORFEITURE OF TAXPAID DISTILLED SPIRITS REMAINING ON DISTILLERY PREMISES.

No distilled spirits on which the tax has been paid shall be stored or allowed to remain on any distillery or internal revenue bonded warehouse premises, under the penalty of a forfeiture of all spirits so found.

SEC. 5626. PENALTY AND FORFEITURE FOR TAX FRAUD BY DISTILLER.

Whenever any person engaged in carrying on the business of a distiller defrauds or attempts to defraud the United States of the tax on the spirits distilled by him, or of any part thereof, he shall—

(1) forfeit the distillery and distilling apparatus used by him, and all distilled spirits and all raw materials for the production of distilled spirits found in the distillery and on the distillery premises, and—

(2) be fined not more than $5,000, and imprisoned not more than 3 years.

No discontinuance or nolle prosequi of any prosecution under this subsection shall be allowed without the permission in writing of the Attorney General.

SEC. 5627. PENALTY FOR UNLAWFUL USE OF RECTIFYING PREMISES.

Any rectifier who uses his rectifying premises contrary to the provisions of section 5273 (a) shall be fined not more than $50 with respect to each day upon which any such use occurs, but shall not, on account of such use, be subject to the penalties prescribed in section 5628.

SEC. 5628. PENALTY FOR RECTIFICATION WITHOUT PAYMENT OF TAX, INCREASING VOLUME, ETC.

Except as provided in section 5627, whoever violates any of the provisions of section 5021, 5022, 5272 or 5281 (a), or regulations issued thereunder, shall upon conviction, be fined not more than $1,000, or imprisoned not more than 2 years, and shall, in addition, be liable to double the tax evaded, together with the tax, to be collected by assessment or on any bond given.

SEC. 5629. PENALTY FOR UNLAWFUL RECTIFYING.

Every person who engages in, or carries on, the business of a rectifier with intent to defraud the United States of the tax on the spirits rectified by him, or any part thereof, or with intent to aid, abet, or assist any person or persons in defrauding the United States of the tax on any distilled spirits, or who shall purchase or receive or rectify any distilled spirits which have been removed from a distillery to a place other than the internal revenue bonded warehouse provided by law, knowing or having reasonable grounds to believe that the tax on said spirits has not been determined or paid as required by law, shall, for every such offense, be fined not more than $5,000, and imprisoned not more than 2 years.

SEC. 5630. PENALTY FOR NONCOMPLIANCE BY RECTIFIERS WITH PROVISIONS RELATING TO RECTIFYING, GAUGING, BRANDING AND STAMPING.

Every rectifier or wholesale liquor dealer who refuses or willfully neglects to comply with the requirements of sections 5282 (a) and (b) and 5115 (a) as to giving the notice or the return specified in such sections, and as to marking, branding, and stamping, in accordance with the law and the regulations made in pursuance thereof, the packages of spirits filled on his premises as aforesaid shall, for each such offense, be fined not more than $1,000.

SEC. 5631. PENALTY AND FORFEITURE FOR FAILURE TO COMPLY WITH WAREHOUSING AND REMOVAL REQUIREMENTS.

In case any distilled spirits removed from an internal revenue bonded warehouse for deposit in another internal revenue bonded warehouse shall fail to be so deposited or if any distilled spirits deposited in any internal revenue bonded warehouse shall be taken therefrom, for export or otherwise, without full compliance with the provisions of subchapter C (except section 5243), and with the requirements of any regulations made thereunder, and with the terms of any bond given on such removal, or if any distilled spirits which have been deposited in an internal revenue bonded warehouse shall be found elsewhere, not having been removed therefrom according to law, any person who shall be guilty of such failure, or any person who shall in any manner violate any provision of subchapter C (except section 5243), shall be subject, on conviction, to a fine of not more than $5,000, or to imprisonment for not more than 3 years for each such

failure or violation; and the spirits as to which such failure or violation or unlawful removal shall take place shall be forfeited to the United States.

SEC. 5632. PENALTY AND FORFEITURE FOR UNLAWFUL REMOVAL OR CONCEALMENT OF SPIRITS.

All distilled spirits found elsewhere than in a distillery or internal revenue bonded warehouse, not having been removed therefrom according to law, shall be forfeited to the United States. Whenever any person removes, or aids or abets in the removal of, any distilled spirits on which the tax has not been determined or paid, to a place other than the internal revenue bonded warehouse provided by law, or conceals or aids in the concealment of any spirits so removed, or removes, or aids or abets in the removal of, any distilled spirits from any such warehouse authorized by law, in any manner other than as provided by law, or conceals or aids in the concealment of any spirits so removed, he shall be liable to a penalty of double the tax imposed on such distilled spirits so removed or concealed, and shall be fined not more than $5,000, and imprisoned not more than 3 years.

SEC. 5633. PENALTY OF OFFICER IN CHARGE OF WAREHOUSE FOR UNLAWFUL REMOVAL OF SPIRITS.

Whenever any storekeeper-gauger or other person in the employment of the United States, having charge of a bonded warehouse, removes or allows to be removed therefrom any cask or other package, or removes or allows to be removed any part of the contents of any cask or package deposited therein, otherwise than as provided by law, he shall be immediately dismissed from office or employment, and be fined not more than $2,000, and imprisoned not more than 2 years.

SEC. 5634. PENALTY AND FORFEITURE FOR CREATION OF FICTITIOUS PROOF.

Every person who adds, or causes to be added, any ingredient or substance to any distilled spirits before the tax is paid thereon, or determined as provided by law, for the purpose of creating a fictitious proof, shall be fined not more than $1,000 for each cask or package so adulterated, and imprisoned not more than 2 years; and every such cask or package, with its contents, shall be forfeited to the United States.

SEC. 5635. PENALTY FOR BUYING OR SELLING USED CASKS BEARING INSPECTION MARKS.

Whenever any person knowingly purchases or sells, with inspection marks thereon, any cask or package, after the same has been used for distilled spirits, he shall forfeit and pay the sum of $200 for every such cask so purchased or sold.

SEC. 5636. PENALTY AND FORFEITURE FOR FAILURE TO EFFACE, ETC. STAMPS AND BRANDS ON EMPTIED PACKAGES.

Every cask or package from which the mark, brand, or stamp is not effaced and obliterated as required by section 5010 (c) shall be forfeited to the United States, and may be seized by any officer of internal revenue, wherever found. And every railroad company or other transportation company, or person who receives or transports, or has in possession with intent to transport, or with intent to cause or procure to be transported, any such empty cask or package, or any part thereof, having thereon any brand, mark, or stamp, required by

law to be placed on any cask or package containing distilled spirits, shall forfeit $300 for each such cask or package, or any part thereof, so received or transported, or had in possession with the intent aforesaid; and every vessel, aircraft, railroad car, or other vehicle, and draft animal used in carrying or transporting the same, shall be forfeited to the United States. Every person who fails to efface and obliterate said mark, stamp, or brand, at the time of emptying such cask or package, or who receives any such cask or package, or any part thereof, with the intent aforesaid, or who transports the same, or knowingly aids or assists therein, or who removes any stamp provided by law from any cask or package containing, or which had contained, distilled spirits, without defacing and destroying the same at the time of such removal, or who aids or assists therein, or who has in his possession any such stamp so removed as aforesaid, or has in his possession any canceled stamp, or any stamp which has been used, or which purports to have been used, upon any cask or package of distilled spirits, shall be deemed guilty of a felony, and shall be fined not more than $10,000, and imprisoned not more than 5 years.

SEC. 5637. PENALTY FOR CHANGING STAMPS OR SHIFTING SPIRITS.

Whenever any person changes or alters any stamp, mark, or brand on any cask or package containing distilled spirits, or puts into any cask or package spirits of greater strength than is indicated by the inspection-mark thereon, or fraudulently uses any cask or package having any inspection-mark or stamp thereon, for the purpose of selling other spirits, or spirits of quantity or quality different from the spirits previously inspected therein, he shall forfeit and pay the sum of $200 for every cask or package on which the stamp or mark is so changed or altered, or which is so fraudulently used, and shall be fined for each such offense not more than $1,000, and imprisoned not more than 1 year.

SEC. 5638. PENALTY AND FORFEITURE FOR AFFIXING IMITATION STAMPS ON PACKAGES OF DISTILLED SPIRITS.

If any person shall affix, or cause to be affixed, to or upon any cask or package containing, or intended to contain, distilled spirits, any imitation stamp or other engraved, printed, stamped, or photographed label, device, or token, whether the same be designed as a trade mark, caution notice, caution, or otherwise, and which shall be in the similitude or likeness of, or shall have the resemblance or general appearance of, any internal revenue stamp required by law to be affixed to or upon any cask or package containing distilled spirits, he shall, for each offense, be liable to a penalty of $100, and, on conviction, shall be fined not more than $1,000, and imprisoned not more than 3 years, and the cask or package with its contents shall be forfeited to the United States.

SEC. 5639. FORFEITURE OF DISTILLED SPIRITS IN UNSTAMPED CASKS OR PACKAGES.

All distilled spirits found in any cask or package containing 5 gallons or more, without having thereon each mark and stamp required therefor by law, shall be forfeited to the United States.

SEC. 5640. FORFEITURE OF SPIRITS IN UNSTAMPED CONTAINERS.

All distilled spirits found in any container required by this chapter to bear a stamp, which container is not stamped in compliance with

this chapter and regulations issued thereunder, shall be forfeited to the United States.

SEC. 5641. PENALTY AND FORFEITURE RELATING TO CONTAINERS OF DISTILLED SPIRITS.

Whoever willfully violates the provisions of any regulation prescribed, or the terms or conditions of any permit issued, pursuant to the authorization contained in section 5214, and any officer, director, or agent of any corporation who knowingly participates in such violation, shall, upon conviction, be fined not more than $1,000, or be imprisoned not more than 2 years, or both; and, notwithstanding any criminal conviction, the containers involved in such violation shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for forfeitures, seizures, and condemnations for violations of the internal revenue laws, and any such containers so seized and condemned shall be destroyed and not sold.

SEC. 5642. PENALTIES FOR TRANSPORTING, POSSESSING, ETC. DISTILLED SPIRITS IN UNSTAMPED CONTAINERS OR COUNTERFEITING OF STAMPS, ETC.

Any person who violates any provision of section 5008 (b), or who, with intent to defraud, falsely makes, forges, alters, or counterfeits any stamp made or used under such section, or who uses, sells, or has in his possession any such forged, altered, or counterfeited stamp, or any plate or die used or which may be used in the manufacture thereof, or any stamp required to be destroyed by such section, or who makes, uses, sells, or has in his possession any paper in imitation of the paper used in the manufacture of any such stamp, or who reuses any stamp required to be destroyed by such section, or who places any distilled spirits in any bottle which has been filled and stamped under such section without destroying the stamp previously affixed to such bottle, or who affixes any stamp issued under such section to any container of distilled spirits on which any tax due is undetermined or unpaid, or who makes any false statement in any application for stamps under such section, or who has in his possession any such stamps obtained by him otherwise than as provided in section 5008 (b) (2), shall on conviction be punished by a fine of not more than $1,000, or by imprisonment at hard labor for not more than 5 years, or both. Any officer authorized to enforce any provision of law relating to internal revenue stamps is authorized to enforce this section and section 5644 (relating to the bottling of distilled spirits in bond).

SEC. 5643. PENALTY AND FORFEITURE FOR REUSE OF STAMPS OR BOTTLES, TAMPERING AND UNLAWFUL REMOVAL.

Any person who shall reuse any stamp provided under sections 5008 and 5243 after the same shall have been once affixed to a bottle as provided therein, or who shall reuse a bottle for the purpose of containing distilled spirits which has once been filled and stamped under the provisions of such sections without removing and destroying the stamp so previously affixed to such bottle, or who shall, contrary to the provisions of such sections or of the regulations issued thereunder remove or cause to be removed from any bonded warehouse any distilled spirits inspected or bottled under the provisions of such sections or who shall bottle or case any such spirits in violation of such sections or of any regulation issued thereunder, or who shall,

during the transportation and before the exportation of any such spirits, open or cause to be opened any case or bottle containing such spirits, or who shall willfully remove, change, or deface any stamp, brand, label, or seal affixed to any such case or to any bottle contained therein, shall for each such offense be fined not more than $1,000, and imprisoned not more than 2 years, in the discretion of the court, and such spirits shall be forfeited to the United States.

SEC. 5644. PENALTY FOR COUNTERFEITING BOTTLED IN BOND STAMPS.

Every person who, with intent to defraud, falsely makes, forges, alters, or counterfeits any stamp made or used under any provision of sections 5008 (a) and 5243 or who uses, sells, or has in his possession any such forged, altered, or counterfeited stamp, or any plate or die used or which may be used in the manufacture thereof, or who shall make, use, sell, or have in his possession any paper in imitation of the paper used in the manufacture of any stamp required by such sections, shall on conviction be punished by a fine of not more than $1,000, or by imprisonment at hard labor not more than 5 years, or both.

SEC. 5645. PENALTY FOR UNLAWFUL AFFIXING, CANCELLING, OR ISSUE OF STAMPS BY OFFICER.

Whenever any revenue officer affixes or cancels, or causes or permits to be affixed or canceled, any stamp relating to distilled spirits provided for by law, in any other manner or in any other place, or issues the same to any other person than as provided by law, or by regulation made in pursuance thereof, or knowingly affixes, or permits to be affixed, any such stamp to any cask or package of spirits of which the whole or any part has been distilled, rectified, compounded, removed, or sold, in violation of law, or which has in any manner escaped payment of tax due thereon, he shall, for every such offense, be fined not more than $3,000, and imprisoned not more than 3 years.

SEC. 5646. PENALTY FOR EVASION OF DISTILLED SPIRITS TAX.

Whenever any person evades, or attempts to evade, the payment of the tax on any distilled spirits, in any manner whatever, he shall forfeit and pay double the amount of the tax so evaded or attempted to be evaded.

SEC. 5647. PENALTY AND FORFEITURE FOR UNLAWFUL USE OR CONCEALMENT OF DENATURED ALCOHOL.

Any person who withdraws alcohol free of tax under the provisions of section 5331 (a) and regulations made in pursuance thereof, and who removes or conceals same, or is concerned in removing, depositing, or concealing same for the purpose of preventing the same from being denatured under governmental supervision, and any person who uses alcohol withdrawn from bond under the provisions of said section for manufacturing any beverage or liquid medicinal preparation, or knowingly sells any beverage or liquid medicinal preparation made in whole or in part from such alcohol, or knowingly violates any of the provisions of section 5331 (a) or 5332, or (except as provided in section 5332) who shall recover or attempt to recover by redistillation or by any other process or means, any alcohol rendered unfit for beverage or liquid medicinal purposes under the provisions of section 5331 (a), or who knowingly uses, sells, conceals, or otherwise disposes of alcohol so recovered or redistilled, shall on conviction of each

offense be fined not more than $5,000, or imprisoned not more than 5 years, or both, and shall, in addition, forfeit to the United States all personal property used in connection with his business, together with the buildings and lots or parcels of ground constituting the premises on which said unlawful acts are performed or permitted to be performed.

SEC. 5648. PENALTY AND FORFEITURE FOR FRAUDULENT CLAIMS FOR EXPORT DRAWBACK OR UNLAWFUL RELANDING.

(a) FRAUDULENT CLAIM FOR DRAWBACK.—Every person who fraudulently claims, or seeks, or obtains an allowance of drawback on any distilled spirits, or fraudulently claims any greater allowance or drawback than the tax actually paid thereon, shall forfeit and pay to the Government of the United States triple the amount wrongfully and fraudulently sought to be obtained, and shall be imprisoned not more than 10 years; and every owner, agent, or master of any vessel or other person who knowingly aids or abets in the fraudulent collection or fraudulent attempts to collect any drawback upon, or knowingly aids or permits any fraudulent change in the spirits so shipped, shall be fined not exceeding $5,000 and imprisoned not more than 1 year, and the ship or vessel on board of which such shipment was made or pretended to be made shall be forfeited to the United States, whether a conviction of the master or owner be had or otherwise, and proceedings may be had in admiralty by libel for such forfeiture.

(b) UNLAWFUL RELANDING.—Every person who intentionally relands within the jurisdiction of the United States any distilled spirits which have been shipped for exportation under the provisions of this chapter, or who receives such relanded distilled spirits, and every person who aids or abets in such relanding or receiving of such spirits, shall be fined not exceeding $5,000 and imprisoned not more than 3 years; and all distilled spirits so relanded, together with the vessel from which the same were relanded within the jurisdiction of the United States, and all vessels, vehicles, or aircraft used in relanding and removing such distilled spirits, shall be forfeited to the United States.

SEC. 5649. BURDEN OF PROOF IN CASES OF SEIZURE OF SPIRITS.

Whenever seizure is made of any distilled spirits found elsewhere than in a distillery or internal revenue bonded warehouse or other warehouse authorized by law, or than in the store or place of business of a rectifier, or of a wholesale liquor dealer, or than in transit from any one of said places; or of any distilled spirits found in any one of the places aforesaid, or in transit therefrom, which have not been received into or sent out therefrom in conformity to law, or in regard to which any of the entries required by law to be made in the books or records of the owner of such spirits, or of the storekeeper-gauger, wholesale dealer, or rectifier, have not been made at the time or in the manner required, or in respect to which the owner or person having possession, control, or charge of said spirits, has omitted to do any act required to be done, or has done or committed any act prohibited in regard to said spirits, the burden of proof shall be upon the claimant of said spirits to show that no fraud has been committed, and that all the requirements of the law in relation to the payment of the tax have been complied with.

SEC. 5650. PENALTY AND FORFEITURE FOR OPERATING DISTILLERY AFTER GIVING NOTICE OF SUSPENSION.

Every distiller who, after the time fixed in the notice given under section 5191 (a) declaring his intention to suspend work, carries on the business of a distiller in the distillery covered by such notice, or has mash, wort, or beer in such distillery, or on any premises connected therewith, or has in his possession or under his control any mash, wort, or beer, with intent to distill the same on said premises, shall incur the forfeitures and be subject to the same punishment as provided for persons who carry on the business of a distiller without having given the bonds required by law.

PART II—PENALTY AND FORFEITURE PROVISIONS APPLICABLE TO WINE AND WINE PRODUCTION

Sec. 5661. Penalty and forfeiture for violation of laws and regulations relating to wine.
Sec. 5662. Penalty for alteration of wine labels.
Sec. 5663. Cross reference.

SEC. 5661. PENALTY AND FORFEITURE FOR VIOLATION OF LAWS AND REGULATIONS RELATING TO WINE.

(a) FRAUDULENT OFFENSES.—Whoever, with intent to defraud the United States, fails to pay any tax imposed upon wine or violates, or fails to comply with, any requirement of subchapter F or subpart C of part I of subchapter A, or regulations issued pursuant thereto, or recovers or attempts to recover any spirits from wine, shall, on conviction, be punished for each such offense by a fine not exceeding $5,000, or imprisonment for not more than 5 years, or both, and in addition thereto by a penalty of double the tax due, to be assessed, levied and collected in the same manner as taxes are collected, and all products and materials used in any such violation shall be forfeited to the United States.

(b) OTHER OFFENSES.—Any proprietor of premises subject to the provisions of subchapter F, or any employee or agent of such proprietor, or any other person, who otherwise than with intent to defraud the United States violates or fails to comply with any provision of subchapter F or subpart C of part I of subchapter A, or of any regulations issued thereunder, or who aids or abets in any such violation, shall, upon conviction, be punished for each such offense by a fine not exceeding $1,000, or imprisonment for not more than 1 year, or both.

SEC. 5662. PENALTY FOR ALTERATION OF WINE LABELS.

Any person who, without the permission of the Secretary or his delegate, so alters as to materially change the meaning of any mark, brand, label, or stamp required to appear upon any wine upon its removal from premises subject to the provisions of subchapter F, or from customs custody, or who, after such removal, represents any wine, whether in its original containers or otherwise, to be of an identity or origin other than its proper identity or origin as shown by such brand, mark, label, or stamp, shall upon conviction, be punished for each such offense by a fine not exceeding $1,000, or imprisonment for not more than 1 year, or both.

SEC. 5663. CROSS REFERENCE.

For penalties of common application pertaining to liquors, including wines, see part IV and for penalties for rectified products, see part I.

PART III—PENALTY, SEIZURE, AND FORFEITURE PROVISIONS APPLICABLE TO BEER AND BREWING

Sec. 5671. Penalty and forfeiture for evasion of beer tax and fraudulent noncompliance with requirements.
Sec. 5672. Penalty for failure of brewer to comply with requirements and to keep records and file returns.
Sec. 5673. Forfeiture for flagrant and willful removal of beer without tax payment.
Sec. 5674. Penalty for unlawful removal of beer.
Sec. 5675. Penalty for intentional removal or defacement of brewer's marks and brands.
Sec. 5676. Penalties relating to beer stamps.

SEC. 5671. PENALTY AND FORFEITURE FOR EVASION OF BEER TAX AND FRAUDULENT NONCOMPLIANCE WITH REQUIREMENTS.

Whoever evades or attempts to evade any tax imposed by sections 5051 and 5091, or fraudulently neglects or refuses to keep and file true and accurate records and returns as required by section 5415, shall, on conviction, be punished for each such offense by a fine of not exceeding $5,000, or imprisonment for not more than 5 years, or both, and shall forfeit for every such offense all the beer made by him or for him, and all the vessels, utensils, and apparatus used in making the same.

SEC. 5672. PENALTY FOR FAILURE OF BREWER TO COMPLY WITH REQUIREMENTS AND TO KEEP RECORDS AND FILE RETURNS.

Every brewer who, without intent to defraud, neglects or refuses to keep the records and file the returns required by section 5415, or refuses to permit the proper officer to inspect his records in the manner provided, or violates any of the provisions of subchapter G or regulations issued pursuant thereto shall, on conviction, be punished for each such offense by a fine of not exceeding $1,000, or imprisonment of not more than 1 year, or both.

SEC. 5673. FORFEITURE FOR FLAGRANT AND WILLFUL REMOVAL OF BEER WITHOUT TAXPAYMENT.

For flagrant and willful removal of taxable beer for consumption or sale, with intent to defraud the United States of the tax thereon, all the right, title, and interest of each person who has knowingly suffered or permitted such removal, or has connived at the same, in the lands and buildings constituting the brewery shall be forfeited by a proceeding in rem in the District Court of the United States having jurisdiction thereof.

SEC. 5674. PENALTY FOR UNLAWFUL REMOVAL OF BEER.

Any brewer or other person who removes or in any way aids in the removal from any brewery of beer without complying with requirements of section 5055 or regulations issued pursuant thereto shall be fined not more than $1,000, or imprisoned not more than 1 year, or both.

SEC. 5675. PENALTY FOR INTENTIONAL REMOVAL OR DEFACEMENT OF BREWER'S MARKS AND BRANDS.

Every person other than the owner, or his agent authorized so to do, who intentionally removes or defaces the marks and brands required by section 5412 shall be liable to a penalty of $50 for each barrel or

other container from which the marks or brands are so removed or defaced.

SEC. 5676. PENALTIES RELATING TO BEER STAMPS.

If stamps or other devices evidencing the tax on beer or indicating compliance with the provisions of this chapter, are required by the Secretary under section 5055, the following subsections shall apply—

(1) PENALTY FOR SALE, REMOVAL, OR RECEIPT WITHOUT PROPER STAMP OR DEVICE.—Any brewer, or other person who sells, removes, receives, or purchases, or in any way aids in the sale, removal, receipt, or purchase of, any beer contained in any hogshead, barrel, keg, or other container from any brewery upon which the stamp, or device, in case of removal, has not been affixed, or on which a false or fraudulent stamp, or device, in case of removal, is affixed with knowledge that it is such, or on which a stamp, or device, in case of removal, once cancelled, is used a second time, shall be fined not more than $1,000, or imprisoned for not more than 1 year, or both.

(2) PENALTY FOR WITHDRAWAL FROM IMPROPERLY STAMPED CONTAINERS OR WITHOUT DESTROYING STAMPS OR DEVICES.—Any person who withdraws or aids in the withdrawal of any beer from any hogshead, barrel, keg, or other container, without destroying or defacing the stamp or device affixed thereon, or withdraws or aids in the withdrawal of any beer from any hogshead, barrel, keg, or other container, upon which the proper stamp or device has not been affixed or on which a false or fraudulent stamp or device is affixed, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both.

(3) PENALTY FOR COUNTERFEITING STAMPS AND DEVICES AND TRAFFICKING IN USED STAMPS, OR DEVICES.—Every person who makes, sells, or uses any false or counterfeit stamp or device, or die for printing or making stamps or devices, which is in imitation of or purports to be a lawful stamp or device, or die of the kind mentioned in section 5055, or regulations issued pursuant thereto, or who procures the same to be done, and every person who shall remove, or cause to be removed, from any hogshead, barrel, keg, or other container of beer, any stamp or device required by regulations issued pursuant to section 5055, with intent to reuse such stamp or device, or who, with intent to defraud the revenue, knowingly uses, or permits to be used, any stamp or device removed from another hogshead, barrel, keg, or other container, or receives, buys, sells, gives away, or has in his possession any such stamp or device so removed, or makes any fraudulent use of any such stamp or device for beer, shall be fined not more than $5,000 or imprisoned not more than 5 years, or both.

(4) FORFEITURE OF UNSTAMPED CONTAINERS.—The ownership or possession by any person of any beer in hogsheads, barrels, kegs, or other similar containers which do not bear the stamps or devices required by regulations issued pursuant to section 5055 shall render such hogsheads, barrels, kegs and other similar containers, and the beer contained therein, liable to seizure wherever found and to forfeiture.

(5) PENALTY FOR REMOVAL OR DEFACEMENT OF STAMPS, DEVICES OR LABELS.—Every person who intentionally removes, alters or defaces any stamp, device or label required by section 5055 or

regulations issued thereunder to be placed on containers of beer, other than in the manner and at the time required by law or regulations issued by the Secretary or his delegate, shall be liable to a fine of not more than $500 for each such container from which the stamp, device or label is removed, altered or defaced.

PART IV—PENALTY, SEIZURE, AND FORFEITURE PROVISIONS COMMON TO LIQUORS

Sec. 5681. Penalty and forfeiture for failure to post or unlawfully posting signs of distillers, rectifiers or wholesale liquor dealers.
Sec. 5682. Penalty for breaking locks or gaining access.
Sec. 5683. Penalty and forfeiture for removal of liquors or wines under improper brands.
Sec. 5684. Penalties relating to the payment and collection of liquor taxes.
Sec. 5685. Penalty and forfeiture relating to possession of devices for emitting gas, smoke, etc., explosives and firearms, when violating liquor laws.
Sec. 5686. Miscellaneous penalties.
Sec. 5687. Penalties and forfeitures applicable to distillers, rectifiers and wholesale liquor dealers for offenses not specifically covered.
Sec. 5688. Disposition and release of seized property.
Sec. 5689. Penalty and forfeiture for tampering with a stamp machine.
Sec. 5690. Definition of the term "person".

SEC. 5681. PENALTY AND FORFEITURE FOR FAILURE TO POST OR UNLAWFULLY POSTING SIGNS OF DISTILLERS, RECTIFIERS OR WHOLESALE LIQUOR DEALERS.

Every person engaged in distilling or rectifying spirits, and every wholesale liquor dealer, who fails or refuses to post the sign required by sections 5116, 5180, or 5274 shall pay a penalty of $500. Every person, other than a rectifier or wholesale liquor dealer who has paid the special tax, or a distiller who has given bond as required by law, who puts up or keeps up the sign required by such sections, or any sign indicating that he may lawfully carry on the business of a distiller, rectifier, or wholesale liquor dealer, shall forfeit and pay $1,000, and shall be imprisoned not more than 6 months. Every person who works in any distillery, rectifying establishment, or wholesale liquor store, on which no such sign is placed and kept, as required by law, and every person who knowingly receives at, or carries or conveys any distilled spirits to or from, any such distillery, rectifying establishment, warehouse, or store, or who knowingly carries and delivers any grain, molasses, or other raw material to any distillery on which such sign is not placed and kept, shall forfeit all vehicles, aircraft or vessels used in carrying or conveying such property, and shall be fined not more than $1,000, or imprisoned not more than 6 months.

SEC. 5682. PENALTY FOR BREAKING LOCKS OR GAINING ACCESS.

Every person who destroys, breaks, injures, or tampers with any lock or seal which may be placed on any room, building, tank, vessel or apparatus, by the duly authorized officers of the revenue, or opens said lock, seal, room, building, tank, vessel or apparatus, or in any manner gains access to the contents therein, in the absence of the proper officer, or otherwise than as authorized by law, shall be fined not more than $5,000 and imprisoned not more than 3 years.

SEC. 5683. PENALTY AND FORFEITURE FOR REMOVAL OF LIQUORS OR WINES UNDER IMPROPER BRANDS.

Whenever any person ships, transports, or removes any spirituous liquors or beer or wines, under any other than the proper name or brand known to the trade as designating the kind and quality of the contents of the casks or packages containing the same, or causes such act to be done, he shall forfeit such liquors or beer or wines, and casks or packages, and be subject to pay a fine of $500.

SEC. 5684. PENALTIES RELATING TO THE PAYMENT AND COLLECTION OF LIQUOR TAXES.

(a) Any person required to pay, or to collect, account for and pay over any tax on distilled spirits, wines, or beer, or required by law or regulations made under authority thereof to make a return or supply any information for the purposes of the computation, assessment or collection of any such tax, who fails to pay, collect, or truly account for and pay over any such tax, make any such return or supply any such information at the time or times required by law or regulation shall in addition to other penalties provided by law be subject to a penalty of not more than $1,000.

(b) Any person who willfully refuses to pay, collect, or truly account for and pay over any such tax, make such return or supply such information at the time or times required by law or regulation, or who willfully attempts in any manner to evade such tax shall be guilty of a misdemeanor and in addition to other penalties provided by law shall be fined not more than $10,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

(c) Any person who willfully refuses to pay, collect, or truly account for and pay over any such tax shall in addition to other penalties provided by law be liable to a penalty of the amount of the tax evaded, or not paid, collected, or accounted for and paid over, to be assessed and collected in the same manner as taxes are assessed and collected: *Provided, however,* That no penalty shall be assessed under this subsection for any offense for which a penalty may be assessed under authority of section 5628, or 5661, or 6651 (a), or 6653 (b), or for any offense for which a penalty has been recovered under section 5646.

SEC. 5685. PENALTY AND FORFEITURE RELATING TO POSSESSION OF DEVICES FOR EMITTING GAS, SMOKE, ETC., EXPLOSIVES AND FIREARMS, WHEN VIOLATING LIQUOR LAWS.

(a) PENALTY FOR POSSESSION OF DEVICES FOR EMITTING GAS, SMOKE, ETC.—Whoever, when violating any law of the United States, or of any Territory or possession of the United States, or of the District of Columbia, in regard to the manufacture, taxation, or transportation of or traffic in distilled spirits, wines, or beer, or when aiding in any such violation, has in his possession or in his control any device capable of causing emission of smoke, gas, or fumes, and which may be used for the purpose of hindering, delaying, or preventing pursuit or capture, any explosive, or any firearm (as defined in section 5848), except a machine gun, or a shotgun or rifle having a barrel or barrels less than 18 inches in length, shall be fined not more than $5,000 or imprisoned not more than 10 years, or both, and all persons engaged in any such violation or in aiding in any such violation

shall be held to be in possession or control of such device, firearm, or explosive.

(b) PENALTY FOR POSSESSION OF MACHINE GUN, ETC.—Whoever, when violating any such law, has in his possession or in his control a machine gun, or any shotgun or rifle having a barrel or barrels less than 18 inches in length, shall be punished by imprisonment for not more than 20 years; and all persons engaged in any such violation or in aiding in any such violation shall be held to be in possession and control of such machine gun, shotgun, or rifle.

(c) FORFEITURE OF FIREARMS, DEVICES, ETC.—Every such firearm or device for emitting gas, smoke, or fumes, and every such explosive, machine gun, shotgun, or rifle, in the possession or control of any person when violating any such law, shall be seized and shall be forfeited and disposed of in the manner provided by section 5862.

(d) DEFINITION OF MACHINE GUN.—As used in this section the term "machine gun" means any weapon which shoots, or is designed to shoot, automatically or semiautomatically, more than one shot, without manual reloading, by a single function of the trigger.

SEC. 5686. MISCELLANEOUS PENALTIES.

(a) FOR OFFENSES AS TO OPERATION OF INDUSTRIAL ALCOHOL OR DENATURING PLANTS OR UNLAWFUL WITHDRAWAL OF TAXABLE ALCOHOL.—Whoever operates an industrial alcohol plant or a denaturing plant without complying with the provisions of part I of subchapter E and lawful regulations made thereunder, or whoever withdraws or attempts to withdraw or secure tax-free any alcohol subject to tax, or whoever otherwise violates any of the provisions of such part or of regulations lawfully made thereunder, shall be liable to a fine not to exceed $5,000, or to imprisonment for not more than 1 year, or both. It shall be lawful for the Secretary or his delegate in all cases of second or cognate offense to refuse to issue for a period of 1 year a permit for the manufacture or use of alcohol upon the premises of any person responsible in any degree for the violation. Any person violating the provisions of such part I of subchapter E or of any regulations issued thereunder, for which offense a special penalty is not prescribed, shall be liable to the penalty or penalties prescribed in this subsection.

(b) PENALTY FOR HAVING, POSSESSING OR USING LIQUOR OR PROPERTY INTENDED TO BE USED IN VIOLATING PROVISIONS OF THIS CHAPTER.—It shall be unlawful to have or possess any liquor or property intended for use in violating the provisions of this chapter, or regulations prescribed thereunder, or which has been so used, and every person so having or possessing or using such liquor or property, shall be liable to a fine not to exceed $5,000, or to imprisonment for not more than 1 year, or both.

(c) CROSS REFERENCE.—

For seizure and forfeiture of liquor and property had, possessed or used in violation of subsections (a) and (b), see section 7302.

SEC. 5687. PENALTIES AND FORFEITURES APPLICABLE TO DISTILLERS, RECTIFIERS AND WHOLESALE LIQUOR DEALERS FOR OFFENSES NOT SPECIFICALLY COVERED.

If any distiller, rectifier, or wholesale liquor dealer, shall knowingly or willfully omit, neglect or refuse to do or cause to be done any of the things required by law in the carrying on or conducting of his

business, or shall do anything by this title prohibited, if there be no specific penalty or punishment imposed by any other section of this title for the neglecting, omitting or refusing to do, or for the doing or causing to be done the thing required or prohibited, he shall pay a penalty of $1,000; and all distilled spirits or liquors owned by him or in which he has any interest as owner, shall be forfeited to the United States.

SEC. 5688. DISPOSITION AND RELEASE OF SEIZED PROPERTY.

(a) FORFEITURE.—

(1) DELIVERY.—All distilled spirits, wine, and beer forfeited, summarily or by order of court, under any law of the United States, shall be delivered to the Administrator of General Services to be disposed of as hereinafter provided.

(2) DISPOSAL.—The Administrator of General Services shall dispose of all distilled spirits, wine, and beer which have been delivered to him pursuant to paragraph (1)—

(A) by delivery to such Government agencies as, in his opinion, have a need for such distilled spirits, wine, or beer for medicinal, scientific, or mechanical purposes; or

(B) by gifts to such eleemosynary institutions as, in his opinion, have a need for such distilled spirits, wine, or beer for medicinal purposes; or

(C) by destruction.

(3) LIMITATION ON DISPOSAL.—Except as otherwise provided by law, no distilled spirits, wine, or beer which have been seized under any law of the United States may be disposed of in any manner whatsoever except after forfeiture and as provided in this subsection.

(4) REGULATIONS.—The Administrator of General Services is authorized to make all rules and regulations necessary to carry out the provisions of this subsection.

(5) REMISSION OR MITIGATION OF FORFEITURES.—Nothing in this section shall affect the authority of the Secretary or his delegate, under the customs or internal revenue laws, to remit or mitigate the forfeiture, or alleged forfeiture, of such distilled spirits, wine, or beer, or the authority of the Secretary or his delegate, to compromise any civil or criminal case in respect of such distilled spirits, wines, or beer prior to commencement of suit thereon, or the authority of the Secretary or his delegate to compromise any claim under the customs laws in respect to such distilled spirits, wines, or beer.

(b) DISTRAINT OR JUDICIAL PROCESS.—Except as provided in section 5333, all distilled spirits sold by order of court, or under process of distraint, shall be sold subject to tax; and the purchaser shall immediately, and before he takes possession of said spirits, pay the tax thereon, pursuant to the applicable provisions of this chapter and in accordance with regulations to be prescribed by the Secretary or his delegate.

(c) RELEASE OF SEIZED VESSELS OR VEHICLES BY COURTS.—Notwithstanding any provisions of law relating to the return on bond of any vessel or vehicle seized for the violation of any law of the United States, the court having jurisdiction of the subject matter may, in its discretion and upon good cause shown by the United States, refuse to order such return of any such vessel or vehicle to the claimant thereof.

As used in this subsection, the word "vessel" includes every description of watercraft used, or capable of being used, as a means of transportation in water or in water and air; and the word "vehicle" includes every animal and description of carriage or other contrivance used, or capable of being used, as a means of transportation on land or through the air.

(d) RELEASE OF SEIZED PROPERTY BY SECRETARY OR HIS DELEGATE.—When any property is seized for violation of part I of subchapter E, it may be released to the claimant or to any intervening party, in the discretion of the Secretary or his delegate, on a bond given and approved.

SEC. 5689. PENALTY AND FORFEITURE FOR TAMPERING WITH A STAMP MACHINE.

Whoever manufactures, procures, possesses, uses, or tampers with a tax-stamp machine which may be required under section 5061 (b) with intent to evade the internal revenue tax imposed upon alcohol, distilled spirits, rectified spirits, wines and beer, and whoever, with intent to defraud, makes, alters, simulates, or counterfeits any stamp of the character imprinted by such stamp machines, or who procures, possesses, uses, or sells any forged, altered, counterfeited, or simulated tax stamp, or any plate, die, or device intended for use in forging, altering, counterfeiting, or simulating any such stamps, shall pay a penalty of $5,000, and shall be fined not more than $10,000 or imprisoned not more than 5 years, or both, and any machine, device, equipment, or materials used in violation of this section shall be forfeited to the United States and after condemnation shall be destroyed. But this provision shall not exclude any other penalty or forfeiture provided by law.

SEC. 5690. DEFINITION OF THE TERM "PERSON".

The term "person", as used in this subchapter, includes an officer or employee of a corporation or a member or employee of a partnership, who as such officer, employee, or member is under a duty to perform the act in respect of which the violation occurs.

PART V—PENALTIES AND FORFEITURES APPLICABLE TO OCCUPATIONAL TAXES

Sec. 5691. Penalties and forfeitures for nonpayment of special taxes relating to liquors.
Sec. 5692. Penalty relating to records of retail liquor dealers.
Sec. 5693. Penalties relating to posting of special tax stamps.

SEC. 5691. PENALTIES AND FORFEITURES FOR NONPAYMENT OF SPECIAL TAXES RELATING TO LIQUORS.

Any person who shall carry on the business of a brewer, rectifier, wholesale dealer in liquors, retail dealer in liquors, wholesale dealer in beer, retail dealer in beer, or manufacturer of stills, and willfully fails to pay the special tax as required by law, shall, for every such offense, be fined not more than $5,000, and imprisoned not more than 2 years. All distilled spirits or wines, and all stills or other apparatus, fit or intended to be used for the distillation or rectification of spirits, or for the compounding of liquors, owned by such person, wherever found, and all distilled spirits or wines and personal

property found in the distillery or rectifying establishment, or in any building, room, yard, or enclosure connected therewith and used with or constituting a part of the premises, shall be forfeited to the United States.

SEC. 5692. PENALTY RELATING TO RECORDS OF RETAIL LIQUOR DEALERS.

For each willful violation of the provisions of section 5124 the retailer shall be subject to a fine of $25.

SEC. 5693. PENALTIES RELATING TO POSTING OF SPECIAL TAX STAMPS.

For penalty for failure to post special tax stamps, see section 7273 (a).

CHAPTER 52—TOBACCO, CIGARS, CIGARETTES, AND CIGARETTE PAPERS AND TUBES

SUBCHAPTER A. Definitions; rate and payment of tax; exemption from tax; and refund and drawback of tax.
SUBCHAPTER B. Qualification requirements for manufacturers of articles and dealers in tobacco materials.
SUBCHAPTER C. Operations by manufacturers of articles.
SUBCHAPTER D. Operations by dealers in tobacco materials.
SUBCHAPTER E. Records of manufacturers of articles and dealers in tobacco materials.
SUBCHAPTER F. General provisions.
SUBCHAPTER G. Fines, penalties and forfeitures.

Subchapter A—Definitions; Rate and Payment of Tax; Exemption From Tax; and Refund and Drawback of Tax

Sec. 5701. Rate of tax.
Sec. 5702. Definitions.
Sec. 5703. Liability for tax and method of payment.
Sec. 5704. Exemption from tax.
Sec. 5705. Refund or allowance of tax.
Sec. 5706. Drawback of tax.
Sec. 5707. Floor stocks refund on cigarettes.

SEC. 5701. RATE OF TAX.

(a) TOBACCO.—On tobacco, manufactured in or imported into the United States, there shall be imposed a tax of 10 cents per pound.

(b) CIGARS.—On cigars, manufactured in or imported into the United States, there shall be imposed the following taxes:

(1) SMALL CIGARS.—On cigars, weighing not more than 3 pounds per thousand, 75 cents per thousand;

(2) LARGE CIGARS.—On cigars, weighing more than 3 pounds per thousand;

(A) If removed to retail at not more than 2½ cents each, $2.50 per thousand;

(B) If removed to retail at more than 2½ cents each and not more than 4 cents each, $3 per thousand;

(C) If removed to retail at more than 4 cents each and not more than 6 cents each, $4 per thousand;

(D) If removed to retail at more than 6 cents each, and not more than 8 cents each, $7 per thousand;

(E) If removed to retail at more than 8 cents each and not more than 15 cents each, $10 per thousand;

(F) If removed to retail at more than 15 cents each and not more than 20 cents each, $15 per thousand;

(G) If removed to retail at more than 20 cents each, $20 per thousand.

In determining the retail price, for tax purposes, regard shall be had to the ordinary retail price of a single cigar in its principal market.

(c) CIGARETTES.—On cigarettes, manufactured in or imported into the United States, there shall be imposed the following taxes:

(1) SMALL CIGARETTES.—On cigarettes, weighing not more than 3 pounds per thousand, $4 per thousand until April 1, 1955, and $3.50 per thousand on and after April 1, 1955;

(2) LARGE CIGARETTES.—On cigarettes, weighing more than 3 pounds per thousand, $8.40 per thousand; except that, if more than 6½ inches in length, they shall be taxable at the rate prescribed for cigarettes weighing not more than 3 pounds per thousand, counting each 2¾ inches, or fraction thereof, of the length of each as one cigarette.

(d) CIGARETTE PAPERS.—On cigarette papers, manufactured in or imported into the United States, there shall be imposed, on each package, book, or set containing more than 25 papers, a tax of ½ cent for each 50 papers or fractional part thereof; except that, if cigarette papers measure more than 6½ inches in length, they shall be taxable at the rate prescribed, counting each 2¾ inches, or fraction thereof, of the length of each as one cigarette paper.

(e) CIGARETTE TUBES.—On cigarette tubes, manufactured in or imported into the United States, there shall be imposed a tax of 1 cent for each 50 tubes or fractional part thereof, except that if cigarette tubes measure more than 6½ inches in length, they shall be taxable at the rate prescribed, counting each 2¾ inches, or fraction thereof, of the length of each as one cigarette tube.

(f) IMPORTED ARTICLES.—The taxes imposed on articles by this section shall be in addition to any import duties imposed on such articles.

SEC. 5702. DEFINITIONS.

(a) MANUFACTURED TOBACCO.—"Manufactured tobacco" means all tobacco, other than cigars and cigarettes, prepared, processed, manipulated, or packaged for consumption by smoking or for use in the mouth or nose. Any other tobacco not exempt from tax under this chapter, which is sold or delivered to any person contrary to this chapter and regulations prescribed thereunder, shall be regarded as manufactured tobacco.

(b) MANUFACTURER OF TOBACCO.—"Manufacturer of tobacco" means any person who manufactures tobacco by any method of preparing, processing, or manipulating, except for his own personal consumption or use; or who packages any tobacco for consumption by smoking or for use in the mouth or nose; or who sells or delivers any tobacco, not exempt from tax under this chapter, to any person, contrary to the provisions of this chapter and regulations prescribed thereunder. The term "manufacturer of tobacco" shall not include—

(1) a farmer or grower of tobacco who sells leaf tobacco of his own growth or raising, or a bona fide association of farmers or growers of tobacco which sells only leaf tobacco grown by farmer or grower members, if the tobacco so sold is in the condition as cured on the farm; or

(2) a dealer in tobacco materials who handles tobacco solely for sale, shipment, or delivery, in bulk, to another dealer in such materials or to a manufacturer of tobacco products, or to a foreign country, Puerto Rico, the Virgin Islands, or a possession of the United States.

(c) CIGAR.—"Cigar" means any roll of tobacco wrapped in tobacco.

(d) CIGARETTE.—"Cigarette" means any roll of tobacco, wrapped in paper or any substance other than tobacco.

(e) MANUFACTURER OF CIGARS AND CIGARETTES.—"Manufacturer of cigars and cigarettes" means every person who produces cigars or cigarettes, except for his own personal consumption.

(f) TOBACCO PRODUCTS.—"Tobacco products" means manufactured tobacco, cigars, and cigarettes.

(g) CIGARETTE PAPER.—"Cigarette paper" means paper, or any other material except tobacco, prepared for use as a cigarette wrapper.

(h) CIGARETTE TUBE.—"Cigarette tube" means cigarette paper made into a hollow cylinder for use in making cigarettes.

(i) MANUFACTURER OF CIGARETTE PAPERS AND TUBES.—"Manufacturer of cigarette papers and tubes" means any person who makes up cigarette paper into packages, books, sets, or tubes, except for his own personal use or consumption.

(j) ARTICLES.—"Articles" means manufactured tobacco, cigars, cigarettes, and cigarette papers and tubes.

(k) TOBACCO MATERIALS.—"Tobacco materials" means tobacco in process, leaf tobacco, and tobacco scraps, cuttings, clippings, siftings, dust, stems, and waste.

(l) DEALER IN TOBACCO MATERIALS.—"Dealer in tobacco materials" means any person who handles tobacco materials for sale, shipment, or delivery solely to another dealer in such materials, to a manufacturer of tobacco products, or to a foreign country, Puerto Rico, the Virgin Islands, or a possession of the United States, but shall not include—

(1) an operator of a warehouse who stores tobacco materials solely for a dealer in tobacco materials, for a manufacturer of tobacco products, for a farmer or grower of tobacco, or for a bona fide association of farmers or growers of tobacco; or

(2) a farmer or grower of tobacco who sells leaf tobacco of his own growth or raising, or a bona fide association of farmers or growers of tobacco which sells only leaf tobacco grown by farmer or grower members, if the tobacco so sold is in the condition as cured on the farm.

(m) REMOVAL OR REMOVE.—"Removal" or "remove" means removal of articles from the factory or from internal revenue bond, as the Secretary or his delegate shall, by regulation, prescribe, or from customs custody, and shall also include the smuggling or other unlawful importation of articles into the United States.

(n) IMPORTER.—"Importer" means any person in the United States to whom nontaxpaid articles manufactured in a foreign country, Puerto Rico, the Virgin Islands, or a possession of the United States are shipped or consigned, and any person who smuggles or otherwise unlawfully brings such nontaxpaid articles into the United States.

SEC. 5703. LIABILITY FOR TAX AND METHOD OF PAYMENT.

(a) PERSONS LIABLE TO MAKE RETURN AND PAY TAX.—The taxes imposed by section 5701 shall be determined at the time of removal of the articles and shall be paid by the manufacturer or the importer thereof by return. The Secretary or his delegate shall, by regulation, prescribe the period for which the return shall be made, the information to be furnished on such return, the time for making such return,

and the time for payment of such tax: *Provided, however,* That notwithstanding the provisions of this section the tax shall continue to be paid by stamp until the Secretary or his delegate shall, by regulation, provide for the payment of the tax by return. All administrative and penal provisions of this title, insofar as applicable, shall apply to any tax imposed by section 5701.

(b) STAMPS TO EVIDENCE THE TAX.—If the Secretary or his delegate shall, by regulation, require the use of stamps to evidence the tax or indicate compliance with this chapter, the Secretary or his delegate shall cause to be prepared suitable stamps to be issued to manufacturers and importers of articles, to be used and accounted for, in accordance with such regulations as the Secretary or his delegate shall prescribe.

(c) USE OF GOVERNMENT DEPOSITARIES.—The Secretary or his delegate may authorize Federal Reserve banks, and incorporated banks or trust companies which are depositaries or financial agents of the United States, to receive any tax imposed by this chapter, in such manner, at such times, and under such conditions as he may prescribe; and he shall prescribe the manner, time, and condition under which the receipt of such tax by such banks and trust companies is to be treated as payment for tax purposes.

(d) ASSESSMENT.—Whenever any tax required to be paid by this chapter is not paid in full at the time required for such payment, it shall be the duty of the Secretary or his delegate, subject to the limitations prescribed in section 6501, on proof satisfactory to him, to determine the amount of tax which has been omitted to be paid, and to make an assessment therefor against the person liable for the tax. The tax so assessed shall be in addition to the penalties imposed by law for failure to pay such tax when required: *Provided, however,* That no such assessment shall be made until and after the person liable for the tax has been afforded reasonable notice and opportunity to show cause, in writing, against such assessment.

SEC. 5704. EXEMPTION FROM TAX.

(a) TOBACCO PRODUCTS FURNISHED FOR EMPLOYEE USE OR EXPERIMENTAL PURPOSES.—Tobacco products may be furnished by a manufacturer of such products, without payment of tax, for use or consumption by employees or for experimental purposes, in such quantities, and in such manner as the Secretary or his delegate shall, by regulation, prescribe.

(b) ARTICLES TRANSFERRED OR REMOVED IN BOND FROM DOMESTIC FACTORIES.—A manufacturer may transfer articles produced by him, without payment of tax, to the bonded premises of another manufacturer, or remove such articles, without payment of tax, for use of the United States, or for shipment to a foreign country, Puerto Rico, the Virgin Islands, or a possession of the United States, or for consumption beyond the jurisdiction of the internal revenue laws of the United States, in accordance with such regulations and upon the filing of such bonds as the Secretary or his delegate shall prescribe.

(c) TOBACCO MATERIALS SHIPPED OR DELIVERED IN BOND.—A dealer in tobacco materials or a manufacturer of tobacco products may ship or deliver tobacco materials, without payment of tax, to another such dealer or manufacturer, or to a foreign country, Puerto Rico, the Virgin Islands, or a possession of the United States, in

accordance with such regulations and upon the filing of such bonds as the Secretary or his delegate shall prescribe.

(d) ARTICLES AND TOBACCO MATERIALS RELEASED IN BOND FROM CUSTOMS CUSTODY.—Articles and tobacco materials imported or brought into the United States may be released from customs custody, without payment of tax, for delivery to the bonded premises of a manufacturer of articles and such tobacco materials may be similarly released for delivery to the bonded premises of a dealer in tobacco materials, in accordance with such regulations and upon the filing of such bond as the Secretary or his delegate shall prescribe.

SEC. 5705. REFUND OR ALLOWANCE OF TAX.

(a) REFUND.—Refund of any tax imposed by this chapter shall be made to the manufacturer or importer on proof satisfactory to the Secretary or his delegate that the claimant manufacturer or importer has paid the tax on articles withdrawn by him from the market; or on articles which are lost (otherwise than by theft) or destroyed, by fire, casualty, or act of God, while in the possession or ownership of the claimant; or where the tax has been paid in error.

(b) ALLOWANCE.—If the tax has not yet been paid on articles proved to have been lost or destroyed as aforesaid, relief from the tax on such articles may be extended upon the filing, with the return, of a claim for allowance of loss in the same manner as a claim for refund.

(c) LIMITATION.—Claims for refund of tax imposed by this chapter shall be filed within 3 years of the date of payment of tax, and shall be in such form and contain such information as the Secretary or his delegate shall by regulation prescribe.

SEC. 5706. DRAWBACK OF TAX.

There shall be an allowance of drawback of tax paid on articles, when shipped from the United States, in accordance with such regulations and upon the filing of such bond as the Secretary or his delegate shall prescribe.

SEC. 5707. FLOOR STOCKS REFUND ON CIGARETTES.

(a) IN GENERAL.—With respect to cigarettes, weighing not more than 3 pounds per thousand, upon which the tax imposed by subsection (c) (1) of section 5701 has been paid, and which, on April 1, 1955, are held by any person and intended for sale, or are in transit from foreign countries or insular possessions of the United States to any person in the United States for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as shall be prescribed by the Secretary or his delegate, an amount equal to the difference between the tax paid on such cigarettes and the tax made applicable to such articles on April 1, 1955, if claim for such credit or refund is filed with the Secretary or his delegate before July 1, 1955.

(b) LIMITATIONS ON ELIGIBILITY FOR CREDIT OR REFUND.—No person shall be entitled to credit or refund under subsection (a) of this section unless such person, for such period or periods both before and after April 1, 1955 (but not extending beyond 1 year thereafter), as the Secretary or his delegate shall, by regulation, prescribe, makes and keeps, and files with the Secretary or his delegate such records of inventories, sales, and purchases as shall be prescribed in such regulations.

(c) PENALTY AND ADMINISTRATIVE PROCEDURES.—All provisions of law, including penalties, applicable in respect of internal revenue taxes on cigarettes shall, insofar as applicable and not inconsistent with this section, be applicable in respect of the credits and refunds provided for in this section to the same extent as if such credits or refunds constituted credits or refunds of such taxes.

Subchapter B—Qualification Requirements for Manufacturers of Articles and Dealers in Tobacco Materials

Sec. 5711. Bond.
Sec. 5712. Application for permit.
Sec. 5713. Permit.

SEC. 5711. BOND.

(a) WHEN REQUIRED.—Every person, before commencing business as a manufacturer of articles or dealer in tobacco materials, shall file such bond, conditioned upon compliance with this chapter and regulations issued thereunder, in such form, amount, and manner as the Secretary or his delegate shall by regulation prescribe. A new or additional bond may be required whenever the Secretary or his delegate considers such action necessary for the protection of the revenue.

(b) APPROVAL OR DISAPPROVAL.—No person shall engage in such business until he receives notice of approval of such bond. A bond may be disapproved, upon notice to the principal on the bond, if the Secretary or his delegate determines that the bond is not adequate to protect the revenue.

(c) CANCELLATION.—Any bond filed hereunder may be canceled, upon notice to the principal on the bond, whenever the Secretary or his delegate determines that the bond no longer adequately protects the revenue.

SEC. 5712. APPLICATION FOR PERMIT.

Every person, before commencing business as a manufacturer of articles or dealer in tobacco materials, and at such other time as the Secretary or his delegate shall by regulation prescribe, shall make application for the permit provided for in section 5713. The application shall be in such form as the Secretary or his delegate shall prescribe and shall set forth, truthfully and accurately, the information called for on the form. Such application may be rejected and the permit denied if the Secretary or his delegate, after notice and opportunity for hearing, finds that—

(1) the premises on which it is proposed to conduct the business are not adequate to protect the revenue; or

(2) such person (including, in the case of a corporation, any officer, director, or principal stockholder and, in the case of a partnership, a partner) is, by reason of his business experience, financial standing, or trade connections, not likely to maintain operations in compliance with this chapter, or has failed to disclose any material information required or made any material false statement in the application therefor.

No person subject to this section, who is engaged in business on the effective date of this chapter, shall be denied the right to carry on such business pending reasonable opportunity to make application for permit and final action thereon.

SEC. 5713. PERMIT.

(a) ISSUANCE.—A person shall not engage in business as a manufacturer of articles or dealer in tobacco materials without a permit or permits to engage in such business. Such permit, conditioned upon compliance with this chapter and regulations issued thereunder, shall be issued in such form and in such manner as the Secretary or his delegate shall by regulation prescribe, to every person properly qualified under sections 5711 and 5712. A new permit may be required at such other time as the Secretary or his delegate shall by regulation prescribe.

(b) POSTING.—Such permit shall be posted in accordance with such regulations as the Secretary or his delegate shall prescribe.

(c) REVOCATION.—If the Secretary or his delegate has reason to believe that any person holding a permit has not in good faith complied with this chapter, or with any other provision of this title involving intent to defraud, or has violated the conditions of such permit, failed to disclose any material information required or made any material false statement in the application for such a permit, or has failed to maintain his premises in such manner as to protect the revenue, the Secretary or his delegate shall issue an order, stating the facts charged, citing such person to show cause why his permit should not be suspended or revoked. If, after hearing, the Secretary or his delegate finds that such person has not in good faith complied with this chapter, or with other provisions of this title involving intent to defraud, or has violated the conditions of such permit, failed to disclose any material information required or made any material false statement in the application therefor, or has failed to maintain his premises in such manner as to protect the revenue, such permit shall be revoked or suspended for such period as to the Secretary or his delegate may seem proper.

(d) LIMITATION.—No permit shall be issued to any person within 1 year after revocation of an existing permit or after rejection of an application.

Subchapter C—Operations by Manufacturers of Articles

Sec. 5721. Inventories.
Sec. 5722. Reports.
Sec. 5723. Packages, labels, notices, and stamps.

SEC. 5721. INVENTORIES.

Every manufacturer of articles shall make a true and accurate inventory at the time of commencing business, at the time of concluding business, and at such other times, in such manner and form, and to include such items, as the Secretary or his delegate shall by regulation prescribe. Such inventories shall be subject to verification by any revenue officer.

SEC. 5722. REPORTS.

Every manufacturer of articles shall make reports containing such information, in such form, at such times, and for such periods as the Secretary or his delegate shall by regulation prescribe.

SEC. 5723. PACKAGES, LABELS, NOTICES, AND STAMPS.

(a) PACKAGES, LABELS, NOTICES, AND STAMPS.—All articles shall, before removal, be put up in packages having such labels, notices, and stamps as the Secretary or his delegate shall by regulation prescribe.

(b) LOTTERY FEATURES.—No certificate, coupon, or other device purporting to be or to represent a ticket, chance, share, or an interest in, or dependent on, the event of a lottery shall be contained in, attached to, or stamped, marked, written, or printed on any package of articles.

(c) INDECENT OR IMMORAL MATERIAL PROHIBITED.—No indecent or immoral picture, print, or representation shall be contained in, attached to, or stamped, marked, written, or printed on any package of articles.

(d) EXCEPTIONS.—Tobacco products furnished for employee use or consumption or for experimental purposes, and articles removed for shipment to a foreign country, Puerto Rico, the Virgin Islands, or a possession of the United States, and so shipped, may be exempted from subsections (a) and (b) in accordance with such regulations as the Secretary or his delegate shall prescribe.

Subchapter D—Operations by Dealers in Tobacco Materials

Sec. 5731. Shipments and deliveries restricted.
Sec. 5732. Statement of shipments and deliveries.

SEC. 5731. SHIPMENTS AND DELIVERIES RESTRICTED.

Every dealer in tobacco materials shall make all shipments or deliveries of tobacco materials in accordance with such regulations as the Secretary or his delegate shall prescribe. Tobacco materials shipped or delivered in violation of such regulations shall be regarded as manufactured tobacco and subject to tax, and the dealer shipping or delivering the same shall be regarded as a manufacturer of tobacco and subject, as such, to this chapter.

SEC. 5732. STATEMENT OF SHIPMENTS AND DELIVERIES.

A dealer in tobacco materials shall furnish, upon demand of any revenue officer, a true and complete statement of the quantity of such materials shipped or delivered to any person named in such demand.

Subchapter E—Records of Manufacturers of Articles and Dealers in Tobacco Materials

Sec. 5741. Records to be maintained.

SEC. 5741. RECORDS TO BE MAINTAINED.

Every manufacturer of articles and dealer in tobacco materials shall keep such records in such form as the Secretary or his delegate shall by regulation prescribe.

Subchapter F—General Provisions

Sec. 5751. Purchase, receipt, possession, or sale of articles, after removal, not exempt from tax.
Sec. 5752. Restrictions relating to used labels, stamps, and packages.
Sec. 5753. Disposal of forfeited, condemned, and abandoned articles and tobacco materials.

SEC. 5751. PURCHASE, RECEIPT, POSSESSION, OR SALE OF ARTICLES, AFTER REMOVAL, NOT EXEMPT FROM TAX.

(a) RESTRICTION.—No person shall purchase, receive, possess, sell, or offer for sale any articles not exempt from tax, after removal, which are not put up in packages bearing the labels, notices, or stamps, prescribed by the Secretary or his delegate: *Provided, however*, That this section is not intended to prevent the sale of articles at retail, directly from proper packages, nor to apply to such articles when so sold.

(b) LIABILITY TO TAX.—Any person who possesses articles in violation of subsection (a) of this section, shall incur liability to the tax thereon in addition to the penalties prescribed elsewhere in this title.

SEC. 5752. RESTRICTIONS RELATING TO USED LABELS, STAMPS, AND PACKAGES.

If the Secretary or his delegate shall, by regulation, prescribe that a label or stamp be affixed to any package of articles, no person shall—

(1) empty any such package without destroying such label or stamp; or

(2) remove, or cause to be removed, any such label or stamp, or purchase, receive, possess, sell, or dispose of, by gift or otherwise, any such label or stamp which has been so removed; or

(3) purchase, receive, possess, sell, or dispose of, by gift or otherwise, any such package which has been emptied, upon which the label or stamp has not been destroyed.

SEC. 5753. DISPOSAL OF FORFEITED, CONDEMNED, AND ABANDONED ARTICLES AND TOBACCO MATERIALS.

If it appears that any forfeited, condemned, or abandoned articles and tobacco materials, when offered for sale, will not bring a price equal to the tax due and payable thereon, and the expenses incident to the sale thereof, such articles and tobacco materials shall not be sold for consumption in the United States but shall be disposed of in accordance with such regulations as the Secretary or his delegate shall prescribe.

Subchapter G—Fines, Penalties, and Forfeitures

Sec. 5761. Civil penalties.
Sec. 5762. Criminal penalties.
Sec. 5763. Forfeitures.

SEC. 5761. CIVIL PENALTIES.

(a) OMITTING THINGS REQUIRED OR DOING THINGS FORBIDDEN.—Whoever willfully omits, neglects, or refuses to comply with any duty imposed upon him by this chapter, or to do, or cause to be done, any of the things required by this chapter, or does anything prohibited by this chapter, shall, in addition to any other penalty provided in this title, be liable to a penalty of $1,000, to be recovered, with costs of suit, in a civil action, except where a penalty under subsection (b) of this section or under section 6651, 6652, or 6653 may be collected from such person by assessment.

(b) WILLFULLY FAILING TO PAY TAX.—Whoever willfully omits, neglects, or refuses to pay any tax imposed by this chapter, or attempts in any manner to evade or defeat any such tax or the payment thereof, shall, in addition to any other penalty provided in this title, be liable to a penalty of the amount of tax evaded, or not paid, which penalty shall be added to the tax and assessed and collected at the same time, in the same manner, and as a part of the tax.

(c) FAILING TO PAY TAX.—Whoever fails to pay tax at the time prescribed shall, in addition to any other penalty provided in this title, be liable to a penalty of 5 percent of the tax due but unpaid, together with interest at the rate of 6 percent per annum upon such tax from the time the tax became due; but no interest for a fraction of a month shall be demanded. The penalties provided in this subsection shall be added to the tax and assessed and collected at the same time, in the same manner, and as a part of the tax.

SEC. 5762. CRIMINAL PENALTIES.

(a) Whoever, with intent to defraud the United States—

(1) ENGAGING IN BUSINESS UNLAWFULLY.—Engages in business as a manufacturer of articles or dealer in tobacco materials without filing the bond and obtaining the permit required by this chapter or regulations thereunder; or

(2) FAILING TO FURNISH INFORMATION OR FURNISHING FALSE INFORMATION.—Fails to keep or make any record, return, report, inventory, or statement, or keeps or makes any false or fraudulent record, return, report, inventory, or statement, required by this chapter or regulations thereunder; or

(3) REFUSING TO PAY OR EVADING TAX.—Refuses to pay any tax imposed by this chapter, or attempts in any manner to evade or defeat the tax or the payment thereof; or

(4) REMOVING ARTICLES UNLAWFULLY.—Removes any articles subject to tax under this chapter, contrary to this chapter or regulations thereunder; or

(5) PURCHASING, RECEIVING, POSSESSING, OR SELLING ARTICLES UNLAWFULLY.—Purchases, receives, possesses, or sells articles not exempt from tax under this chapter, upon which the tax has not been paid in the manner and at the time prescribed by this chapter or regulations thereunder, or which, after removal, are not put up in packages bearing proper labels, stamps, or notices, prescribed; or

(6) AFFIXING IMPROPER LABELS OR STAMPS.—Affixes to any package containing articles subject to tax any improper or counterfeit label or stamp, or a label or stamp, prescribed by this chapter or regulations thereunder, which has been previously used on a package; or

(7) PACKAGING WITH IMPROPER NOTICES.—Puts articles subject to tax into any package bearing an improper notice to evidence the tax; or

(8) REFILLING PACKAGES BEARING LABELS, STAMPS, OR NOTICES.—Puts articles subject to tax into any package which previously contained such articles, without destroying the label, stamp, or notice, prescribed by this chapter or regulations thereunder, and affixing a new one thereto; or

(9) REMOVING LABELS OR STAMPS OR POSSESSING USED LABELS OR STAMPS.—Removes, or causes to be removed, from any package any label or stamp, prescribed by this chapter or regulations thereunder, or purchases, receives, or has in his possession any such label or stamp which has been so removed, with intent to reuse the same; or

(10) POSSESSING EMPTIED PACKAGES BEARING LABELS, STAMPS, OR NOTICES.—Purchases, receives, or has in his possession any emptied package which previously contained articles subject to tax, upon which the label, stamp, or notice, prescribed by this chapter or regulations thereunder, has not been destroyed, with intent to reuse the same,

shall, for each such offense, be fined not more than $10,000, or imprisoned not more than 5 years, or both.

(b) Whoever otherwise violates any provision of this chapter, or of regulations prescribed thereunder, shall, for each such offense, be fined not more than $1,000, or imprisoned not more than 1 year, or both.

SEC. 5763. FORFEITURES.

(a) ARTICLES UNLAWFULLY POSSESSED.—All articles not exempt from tax which, after removal, are possessed with intent to defraud, or which, regardless of intent, are not put up in packages bearing proper labels, notices, and stamps, prescribed pursuant to section 5723, shall be forfeited to the United States: *Provided, however*, That this section shall not apply to articles sold at retail directly from proper packages.

(b) PERSONAL PROPERTY OF QUALIFIED MANUFACTURERS AND DEALERS WITH INTENT TO DEFRAUD.—All articles, tobacco materials, packages, internal revenue stamps, machinery, fixtures, equipment, and all other materials and personal property on the premises of any qualified manufacturer of articles or dealer in tobacco materials who, with intent to defraud, fails to keep or make any record, return, report, inventory, or statement, or keeps or makes any false or fraudulent record, return, report, inventory, or statement, required by this chapter; or refuses to pay any tax imposed by this chapter, or at-

tempts in any manner to evade or defeat the tax or the payment thereof; or removes any articles subject to tax under this chapter, contrary to any provision of this chapter, shall be forfeited to the United States.

(c) REAL AND PERSONAL PROPERTY OF ILLICIT OPERATORS.—All articles, tobacco materials, machinery, fixtures, equipment, and other materials and personal property on the premises of any person engaged in business as a manufacturer of articles or dealer in tobacco materials, without filing the bond and obtaining the permit required by this chapter, together with all his right, title, and interest in the building in which such business is conducted, and the lot or tract of ground on which the building is located, shall be forfeited to the United States.

(d) GENERAL.—All property intended for use in violating the provisions of this chapter, or which has been so used, shall be forfeited to the United States as provided in section 7302.

temple in any manner to evade or defeat the tax or the payment thereof; or removes any articles subject to tax under this chapter, contrary to any provision of this chapter, shall be forfeited to the United States.

(c) REAL AND PERSONAL PROPERTY OR ILLICIT OPERATIONS.—All articles, tobacco materials, machinery, fixtures, equipment, and other materials and personal property on the premises of any person engaged in business as a manufacturer of articles or dealer in tobacco materials, without filing the bond and obtaining the permit required by this chapter, together with all his right, title, and interest in the building in which such business is conducted, and the lot or tract of ground on which the building is located, shall be forfeited to the United States.

(d) GENERAL.—All property intended for use in violating the provisions of this chapter, or which has been so used, shall be forfeited to the United States as provided in section 7302.

CHAPTER 53—MACHINE GUNS AND CERTAIN OTHER FIREARMS

SUBCHAPTER A. Taxes.
SUBCHAPTER B. General provisions.
SUBCHAPTER C. Unlawful acts.
SUBCHAPTER D. Penalties and forfeitures.

Subchapter A—Taxes

Part I. Special (occupational) taxes.
Part II. Transfer tax.
Part III. Tax on making firearms.
Part IV. Other taxes.

PART I—SPECIAL (OCCUPATIONAL) TAXES

Sec. 5801. Tax.
Sec. 5802. Registration.
Sec. 5803. Exemptions.

SEC. 5801. TAX.

(a) RATE.—On first engaging in business, and thereafter on or before the first day of July of each year, every importer, manufacturer, and dealer in firearms shall pay a special tax at the following rates:

(1) IMPORTERS OR MANUFACTURERS.—Importers or manufacturers, $500 a year;

(2) DEALERS OTHER THAN PAWNBROKERS.—Dealers, other than pawnbrokers, $200 a year;

(3) PAWNBROKERS.—Pawnbrokers, $300 a year:

Provided, That manufacturers and dealers in guns with combination shotgun and rifle barrels, 12 inches or more but less than 18 inches in length, from which only a single discharge can be made from either barrel without manual reloading, guns designed to be held in one hand when fired and having a barrel 12 inches or more but less than 18 inches in length, from which only a single discharge can be made without manual reloading, or guns of both types, shall pay the following taxes: Manufacturers, $25 a year; dealers, $1 a year.

(b) COMPUTATION OF TAX.—Where the tax is payable on the first day of July in any year it shall be computed for 1 year; where the tax is payable on any other day it shall be computed proportionately from the first day of the month in which the liability to the tax accrued to the first day of July following.

(c) CROSS REFERENCE.—

For license to transport, ship, or receive firearms or ammunition under the Federal Firearms Act, see section 3 of the Act of June 30, 1938 (52 Stat. 1251; 15 U. S. C. 903).

SEC. 5802. REGISTRATION.

IMPORTERS, MANUFACTURERS, AND DEALERS.—On first engaging in business, and thereafter on or before the first day of July of each

year, every importer, manufacturer, and dealer in firearms shall register with the Secretary or his delegate in each internal revenue district in which such business is to be carried on his name or style, principal place of business, and places of business in such district.

SEC. 5803. EXEMPTIONS.

For provisions exempting certain transfers, see section 5812.

PART II—TRANSFER TAX

Sec. 5811. Tax.
Sec. 5812. Exemptions.
Sec. 5813. Stamps.
Sec. 5814. Order forms.

SEC. 5811. TAX.

(a) RATE.—There shall be levied, collected, and paid on firearms transferred in the United States a tax at the rate of $200 for each firearm: *Provided*, That the transfer tax on any gun with combination shotgun and rifle barrels, 12 inches or more but less than 18 inches in length, from which only a single discharge can be made from either barrel without manual reloading, or any gun designed to be held in one hand when fired and having a barrel 12 inches but less than 18 inches in length from which only a single discharge can be made without manual reloading, shall be at the rate of $1. The tax imposed by this section shall be in addition to any import duty imposed on such firearm.

(b) BY WHOM PAID.—Such tax shall be paid by the transferor.

(c) HOW PAID.—

(1) STAMPS.—Payment of the tax herein provided shall be represented by appropriate stamps to be provided by the Secretary or his delegate.

(d) CROSS REFERENCE.—

(1) For assessment in case of omitted taxes payable by stamp, see sections 6155 (a), 6201 (a) (2) (A), 6601 (c) (4), and 6201 (a).

(2) For requirements as to registration and special tax, see sections 5801 and 5802.

(3) For excise tax on pistols, revolvers, and firearms, see section 4181.

SEC. 5812. EXEMPTIONS.

(a) TRANSFERS EXEMPT.—This chapter shall not apply to the transfer of firearms—

(1) to the United States Government, any State, Territory, or possession of the United States, or to any political subdivision thereof, or to the District of Columbia;

(2) to any peace officer or any Federal officer designated by regulations of the Secretary or his delegate;

(3) to the transfer of any firearm which is unserviceable and which is transferred as a curiosity or ornament.

(b) NOTICE OF EXEMPTION.—If the transfer of a firearm is exempted as provided in subsection (a), the person transferring such firearm shall notify the Secretary or his delegate of the name and address of the applicant, the number or other mark identifying such firearm, and the date of its transfer, and shall file with the Secretary or his delegate such documents in proof thereof as the Secretary or his delegate may by regulations prescribe.

(c) EXEMPTION FROM OTHER TAXES.—

For exemption from excise tax on pistols, revolvers, and firearms, see section 4182(a).

SEC. 5813. STAMPS.

(a) AFFIXING.—The stamps provided for in section 5811 (c) (1) shall be affixed to the order for such firearm, provided for in section 5814.

(b) OTHER LAWS APPLICABLE.—

For provisions relating to the engraving, issuance, sale, accountability, cancellation, and distribution of taxpaid stamps, see section 5846.

SEC. 5814. ORDER FORMS.

(a) GENERAL REQUIREMENTS.—It shall be unlawful for any person to transfer a firearm except in pursuance of a written order from the person seeking to obtain such article, on an application form issued in blank in duplicate for that purpose by the Secretary or his delegate. Such order shall identify the applicant by such means of identification as may be prescribed by regulations under this chapter: *Provided*, That, if the applicant is an individual, such identification shall include fingerprints and a photograph thereof.

(b) CONTENTS OF ORDER FORM.—Every person so transferring a firearm shall set forth in each copy of such order the manufacturer's number or other mark identifying such firearm, and shall forward a copy of such order to the Secretary or his delegate. The original thereof, with stamp affixed, shall be returned to the applicant.

(c) DOCUMENTS TO ACCOMPANY TRANSFERS.—No person shall transfer a firearm unless such person, in addition to complying with subsection (b), transfers therewith (in compliance with such regulations as may be prescribed under this chapter for proof of payment of all taxes on such firearm)—

(1) for each prior transfer of such firearm which was subject to the tax imposed by section 5811(a), the stamp-affixed order provided in this section, and

(2) for any making of such firearm which was subject to the tax imposed by section 5821(a), the stamp-affixed declaration provided in section 5821.

(d) EXEMPTION IN CASE OF REGISTERED IMPORTERS, MANUFACTURERS, AND DEALERS.—Importers, manufacturers, and dealers who have registered and paid the tax as provided for in this chapter shall not be required to conform to the provisions of this section with respect to transactions in firearms with dealers or manufacturers if such dealers or manufacturers have registered and have paid such tax, but shall keep such records and make such reports regarding such transactions as may be prescribed by regulations under this chapter.

(e) SUPPLY.—The Secretary or his delegate shall cause suitable forms to be prepared for the purposes of subsection (a), and shall cause the same to be distributed to officers designated by him.

PART III.—TAX ON MAKING FIREARMS

Sec. 5821. Rate, exceptions, etc.

SEC. 5821. RATE, EXCEPTIONS, ETC.

(a) RATE.—There shall be levied, collected, and paid upon the making in the United States of any firearm (whether by manufacture, putting together, alteration, any combination thereof, or otherwise) a tax at that rate provided in section 5811 (a) which would apply to any transfer of the firearm so made.

(b) EXCEPTIONS.—The tax imposed by subsection (a) shall not apply to the making of a firearm—

(1) by any person who is engaged within the United States in the business of manufacturing firearms;

(2) from another firearm with respect to which a tax has been paid, prior to such making, under either section 5811 (a) or under subsection (a) of this section; or

(3) for the use of—

(A) the United States Government, any State, Territory, or possession of the United States, any political subdivision thereof, or the District of Columbia, or

(B) any peace officer or any Federal officer designated by regulations of the Secretary or his delegate.

Any person who makes a firearm in respect of which the tax imposed by subsection (a) does not apply by reason of the preceding sentence shall make such report in respect thereof as the Secretary or his delegate may by regulations prescribe.

(c) BY WHOM PAID; WHEN PAID.—The tax imposed by subsection (a) shall be paid by the person making the firearm. Such tax shall be paid in advance of the making of the firearm.

(d) HOW PAID.—Payment of the tax imposed by subsection (a) shall be represented by appropriate stamps to be provided by the Secretary or his delegate.

(e) DECLARATION.—It shall be unlawful for any person subject to the tax imposed by subsection (a) to make a firearm unless, prior to such making, he has declared in writing his intention to make a firearm, has affixed the stamp described in subsection (d) to the original of such declaration, and has filed such original and a copy thereof. The declaration required by the preceding sentence shall be filed at such place, and shall be in such form and contain such information, as the Secretary or his delegate may by regulations prescribe. The original of the declaration, with the stamp affixed, shall be returned to the person making the declaration. If the person making the declaration is an individual, there shall be included as part of the declaration the fingerprints and a photograph of such individual.

PART IV—OTHER TAXES

SEC. 5831. CROSS REFERENCE.

For excise tax on pistols, revolvers, and firearms, see section 4181.

Subchapter B—General Provisions

Sec. 5841. Registration of persons in general.
Sec. 5842. Books, records and returns.
Sec. 5843. Identification of firearms.
Sec. 5844. Exportation.
Sec. 5845. Importation.
Sec. 5846. Other laws applicable.
Sec. 5847. Regulations.
Sec. 5848. Definitions.

SEC. 5841. REGISTRATION OF PERSONS IN GENERAL.

Every person possessing a firearm shall register, with the Secretary or his delegate, the number or other mark identifying such firearm, together with his name, address, place where such firearm is usually kept, and place of business or employment, and, if such person is other than a natural person, the name and home address of an executive officer thereof. No person shall be required to register under this section with respect to a firearm which such person acquired by transfer or importation or which such person made, if provisions of this chapter applied to such transfer, importation, or making, as the case may be, and if the provisions which applied thereto were complied with.

SEC. 5842. BOOKS, RECORDS AND RETURNS.

Importers, manufacturers, and dealers shall keep such books and records and render such returns in relation to the transactions in firearms specified in this chapter as the Secretary or his delegate may by regulations require.

SEC. 5843. IDENTIFICATION OF FIREARMS.

Each manufacturer and importer of a firearm shall identify it with a number or other identification mark approved by the Secretary or his delegate, such number or mark to be stamped or otherwise placed thereon in a manner approved by the Secretary or his delegate.

SEC. 5844. EXPORTATION.

Under such regulations as the Secretary or his delegate may prescribe, and upon proof of the exportation of any firearm to any foreign country (whether exported as part of another article or not) with respect to which the transfer tax under section 5811 has been paid by the manufacturer, the Secretary or his delegate shall refund to the manufacturer the amount of the tax so paid, or, if the manufacturer waives all claim for the amount to be refunded, the refund shall be made to the exporter.

SEC. 5845. IMPORTATION.

No firearm shall be imported or brought into the United States or any territory under its control or jurisdiction, except that, under regulations prescribed by the Secretary or his delegate, any firearm may be so imported or brought in when—

(1) the purpose thereof is shown to be lawful and

(2) such firearm is unique or of a type which cannot be obtained within the United States or such territory.

SEC. 5846. OTHER LAWS APPLICABLE.

All provisions of law (including those relating to special taxes, to the assessment, collection, remission, and refund of internal revenue taxes, to the engraving, issuance, sale, accountability, cancellation, and distribution of taxpaid stamps provided for in the internal revenue laws, and to penalties) applicable with respect to the taxes imposed by sections 4701 and 4721, and all other provisions of the internal revenue laws shall, insofar as not inconsistent with the provisions of this chapter, be applicable with respect to the taxes imposed by sections 5811 (a), 5821 (a) and 5801.

SEC. 5847. REGULATIONS.

The Secretary or his delegate shall prescribe such regulations as may be necessary for carrying the provisions of this chapter into effect.

SEC. 5848. DEFINITIONS.

For purposes of this chapter—

(1) FIREARM.—The term "firearm" means a shotgun or rifle having a barrel of less than 18 inches in length, or any other weapon, except a pistol or revolver, from which a shot is discharged by an explosive if such weapon is capable of being concealed on the person, or a machine gun, and includes a muffler or silencer for any firearm whether or not such firearm is included within the foregoing definition, but does not include any rifle which is within the foregoing provisions solely by reason of the length of its barrel if the caliber of such rifle is .22 or smaller and if its barrel is 16 inches or more in length.

(2) MACHINE GUN.—The term "machine gun" means any weapon which shoots, or is designed to shoot, automatically or semiautomatically, more than one shot, without manual reloading, by a single function of the trigger.

(3) RIFLE.—The term "rifle" means a weapon designed or redesigned, made or remade, and intended to be fired from the shoulder and designed and made to use the energy of the explosive in a fixed metallic cartridge to fire only a single projectile through a rifled bore for each single pull of the trigger.

(4) SHOTGUN.—The term "shotgun" means a weapon designed or redesigned, made or remade, and intended to be fired from the shoulder and designed and made to use the energy of the explosive in a fixed shotgun shell to fire through a smooth bore either a number of ball shot or a single projectile for each single pull of the trigger.

(5) ANY OTHER WEAPON.—The term "any other weapon" means any weapon or device capable of being concealed on the person from which a shot can be discharged through the energy of an explosive, but such term shall not include pistols or revolvers or weapons designed, made or intended to be fired from the shoulder and not capable of being fired with fixed ammunition.

(6) IMPORTER.—The term "importer" means any person who imports or brings firearms into the United States for sale.

(7) MANUFACTURER.—The term "manufacturer" means any person who is engaged within the United States in the manufacture of firearms, or who otherwise produces therein any firearm for sale or disposition.

(8) DEALER.—The term "dealer" means any person not a manufacturer or importer, engaged within the United States in the business of selling firearms. The term "dealer" shall include wholesalers, pawnbrokers, and dealers in used firearms.

(9) INTERSTATE COMMERCE.—The term "interstate commerce" means transportation from any State or Territory or District, or any insular possession of the United States, to any other State or to the District of Columbia.

(10) TO TRANSFER OR TRANSFERRED.—The term "to transfer" or "transferred" shall include to sell, assign, pledge, lease, loan, give away, or otherwise dispose of.

(11) PERSON.—The term "person" includes a partnership, company, association, or corporation, as well as a natural person.

Subchapter C—Unlawful Acts

Sec. 5851. Possessing firearms unlawfully transferred or made.
Sec. 5852. Removing or changing identification marks.
Sec. 5853. Importing firearms illegally.
Sec. 5854. In case of failure to register and pay special tax.

SEC. 5851. POSSESSING FIREARMS UNLAWFULLY TRANSFERRED OR MADE.

It shall be unlawful for any person to receive or possess any firearm which has at any time been transferred in violation of sections 5811, 5812 (b), 5813, 5814, 5844, or 5846, or which has at any time been made in violation of section 5821. Whenever on trial for a violation of this section the defendant is shown to have or to have had possession of such firearm, such possession shall be deemed sufficient evidence to authorize conviction, unless the defendant explains such possession to the satisfaction of the jury.

SEC. 5852. REMOVING OR CHANGING IDENTIFICATION MARKS.

It shall be unlawful for anyone to obliterate, remove, change, or alter the number or other identification mark required by section 5843. Whenever on trial for a violation of this section the defendant is shown to have or to have had possession of any firearm upon which such number or mark shall have been obliterated, removed, changed, or altered, such possession shall be deemed sufficient evidence to authorize conviction, unless the defendant explains such possession to the satisfaction of the jury.

SEC. 5853. IMPORTING FIREARMS ILLEGALLY.

It shall be unlawful—

(1) fraudulently or knowingly to import or bring any firearm into the United States or any territory under its control or jurisdiction, in violation of the provisions of this chapter; or

(2) knowingly to assist in so doing; or

(3) to receive, conceal, buy, sell, or in any manner facilitate the transportation, concealment, or sale of any such firearm after being imported or brought in, knowing the same to have been imported or brought in contrary to law.

Whenever on trial for a violation of this section the defendant is shown to have or to have had possession of such firearm, such possession shall be deemed sufficient evidence to authorize conviction, unless the defendant explains such possession to the satisfaction of the jury.

SEC. 5854. IN CASE OF FAILURE TO REGISTER AND PAY SPECIAL TAX.

(a) IMPORTATION, MANUFACTURE OR DEALING IN FIREARMS.—It shall be unlawful for any person required to register under the provisions of section 5802 to import, manufacture, or deal in firearms without having registered and paid the tax imposed by section 5801.

(b) TRANSPORTATION IN INTERSTATE COMMERCE.—It shall be unlawful for any person who is required to register as provided in section 5841 and who shall not have so registered, or any other person who has not in his possession a stamp-affixed order as provided in section 5814 or a stamp-affixed declaration as provided in section 5821, to ship, carry, or deliver any firearm in interstate commerce.

Subchapter D—Penalties and Forfeitures

Sec. 5861. Penalties.
Sec. 5862. Forfeitures.

SEC. 5861. PENALTIES.

Any person who violates or fails to comply with any of the requirements of this chapter shall, upon conviction, be fined not more than $2,000, or be imprisoned for not more than 5 years, or both, in the discretion of the court.

SEC. 5862. FORFEITURES.

(a) LAWS APPLICABLE.—Any firearm involved in any violation of the provisions of this chapter or any regulation promulgated thereunder shall be subject to seizure and forfeiture, and (except as provided in subsection (b)) all the provisions of internal revenue laws relating to searches, seizures, and forfeiture of unstamped articles are extended to and made to apply to the articles taxed under this chapter, and the persons to whom this chapter applies.

(b) DISPOSAL.—In the case of the forfeiture of any firearm by reason of a violation of this chapter: No notice of public sale shall be required; no such firearm shall be sold at public sale; if such firearm is forfeited for a violation of this chapter and there is no remission or mitigation of forfeiture thereof, it shall be delivered by the Secretary or his delegate to the Administrator of General Services, General Services Administration, who may order such firearm destroyed or may sell it to any State, Territory, or possession, or political subdivision thereof, or the District of Columbia, or at the request of the Secretary or his delegate may authorize its retention for official use of the Treasury Department, or may transfer it without charge to any executive department or independent establishment of the Government for use by it.

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Subtitle F—Procedure and Administration

CHAPTER 61. Information and returns.
CHAPTER 62. Time and place for paying tax.
CHAPTER 63. Assessment.
CHAPTER 64. Collection.
CHAPTER 65. Abatements, credits, and refunds.
CHAPTER 66. Limitations.
CHAPTER 67. Interest.
CHAPTER 68. Additions to the tax, additional amounts, and assessable penalties.
CHAPTER 69. General provisions relating to stamps.
CHAPTER 70. Jeopardy, bankruptcy and receiverships.
CHAPTER 71. Transferees and fiduciaries.
CHAPTER 72. Licensing and registration.
CHAPTER 73. Bonds.
CHAPTER 74. Closing agreements and compromises.
CHAPTER 75. Crimes, other offenses, and forfeitures.
CHAPTER 76. Judicial proceedings.
CHAPTER 77. Miscellaneous provisions.
CHAPTER 78. Discovery of liability and enforcement of title.
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CHAPTER 61—INFORMATION AND RETURNS

SUBCHAPTER A. Returns and records.
SUBCHAPTER B. Miscellaneous provisions.

Subchapter A—Returns and Records

Part I. Records, statements, and special returns.
Part II. Tax returns or statements.
Part III. Information returns.
Part IV. Signing and verifying of returns and other documents.
Part V. Time for filing returns and other documents.
Part VI. Extension of time for filing returns.
Part VII. Place for filing returns or other documents.

PART I—RECORDS, STATEMENTS, AND SPECIAL RETURNS

Sec. 6001. Notice or regulations requiring records, statements, and special returns.

SEC. 6001. NOTICE OR REGULATIONS REQUIRING RECORDS, STATEMENTS, AND SPECIAL RETURNS.

Every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary or his delegate may from time to time prescribe. Whenever in the judgment of the Secretary or his delegate it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary or his delegate deems sufficient to show whether or not such person is liable for tax under this title.

PART II—TAX RETURNS OR STATEMENTS

Subpart A. General requirement.
Subpart B. Income tax returns.
Subpart C. Estate and gift tax returns.
Subpart D. Miscellaneous provisions.

Subpart A—General Requirement

Sec. 6011. General requirement of return, statement, or list.

SEC. 6011. GENERAL REQUIREMENT OF RETURN, STATEMENT, OR LIST.

(a) GENERAL RULE.—When required by regulations prescribed by the Secretary or his delegate any person made liable for any tax imposed by this title, or for the collection thereof, shall make a return or statement according to the forms and regulations prescribed by the Secretary or his delegate. Every person required to make a return or statement shall include therein the information required by such forms or regulations.

(b) IDENTIFICATION OF TAXPAYER.—The Secretary or his delegate is authorized to require such information with respect to persons subject to the taxes imposed by chapter 21 or chapter 24 as is necessary or helpful in securing proper identification of such persons.

(c) INCOME, ESTATE, AND GIFT TAXES.—

For requirement that returns of income, estate, and gift taxes be made whether or not there is tax liability, see sections 6012 to 6019, inclusive.

Subpart B—Income Tax Returns

Sec. 6012. Persons required to make returns of income.
Sec. 6013. Joint returns of income tax by husband and wife.
Sec. 6014. Income tax return—tax not computed by taxpayer.
Sec. 6015. Declaration of estimated income tax by individuals.
Sec. 6016. Declarations of estimated income tax by corporations.
Sec. 6017. Self-employment tax returns.

SEC. 6012. PERSONS REQUIRED TO MAKE RETURNS OF INCOME.

(a) GENERAL RULE.—Returns with respect to income taxes under subtitle A shall be made by the following:

(1) Every individual having for the taxable year a gross income of $600 or more (except that any individual who has attained the age of 65 before the close of his taxable year shall be required to make a return only if he has for the taxable year a gross income of $1,200 or more);

(2) Every corporation subject to taxation under subtitle A;

(3) Every estate the gross income of which for the taxable year is $600 or more;

(4) Every trust having for the taxable year any taxable income, or having gross income of $600 or over, regardless of the amount of taxable income; and

(5) Every estate or trust of which any beneficiary is a nonresident alien;

except that subject to such conditions, limitations, and exceptions and under such regulations as may be prescribed by the Secretary or his delegate, nonresident alien individuals subject to the tax imposed by section 871 and foreign corporations subject to the tax imposed by

section 881 may be exempted from the requirement of making returns under this section.

(b) RETURNS MADE BY FIDUCIARIES AND RECEIVERS—

(1) RETURNS OF DECEDENTS.—If an individual is deceased, the return of such individual required under subsection (a) shall be made by his executor, administrator, or other person charged with the property of such decedent.

(2) PERSONS UNDER A DISABILITY.—If an individual is unable to make a return required under subsection (a) or section 6015 (a), the return of such individual shall be made by a duly authorized agent, his committee, guardian, fiduciary or other person charged with the care of the person or property of such individual. The preceding sentence shall not apply in the case of a receiver appointed by authority of law in possession of only a part of the property of an individual.

(3) RECEIVERS, TRUSTEES AND ASSIGNEES FOR CORPORATIONS.—In a case where a receiver, trustee in bankruptcy, or assignee, by order of a court of competent jurisdiction, by operation of law or otherwise, has possession of or holds title to all or substantially all the property or business of a corporation, whether or not such property or business is being operated, such receiver, trustee, or assignee shall make the return of income for such corporation in the same manner and form as corporations are required to make such returns.

(4) RETURNS OF ESTATES AND TRUSTS.—Returns of an estate or a trust shall be made by the fiduciary thereof.

(5) JOINT FIDUCIARIES.—Under such regulations as the Secretary or his delegate may prescribe, a return made by one of two or more joint fiduciaries shall be sufficient compliance with the requirements of this section. A return made pursuant to this paragraph shall contain a statement that the fiduciary has sufficient knowledge of the affairs of the person for whom the return is made to enable him to make the return, and that the return is, to the best of his knowledge and belief, true and correct.

(c) CONSOLIDATED RETURNS.—

For provisions relating to consolidated returns by affiliated corporations, see chapter 6.

SEC. 6013. JOINT RETURNS OF INCOME TAX BY HUSBAND AND WIFE.

(a) JOINT RETURNS.—A husband and wife may make a single return jointly of income taxes under subtitle A, even though one of the spouses has neither gross income nor deductions, except as provided below:

(1) no joint return shall be made if either the husband or wife at any time during the taxable year is a nonresident alien;

(2) no joint return shall be made if the husband and wife have different taxable years; except that if such taxable years begin on the same day and end on different days because of the death of either or both, then the joint return may be made with respect to the taxable year of each. The above exception shall not apply if the surviving spouse remarries before the close of his taxable year, nor if the taxable year of either spouse is a fractional part of a year under section 443 (a) (1);

(3) in the case of death of one spouse or both spouses the joint return with respect to the decedent may be made only by his executor or administrator; except that in the case of the death of one spouse the joint return may be made by the surviving spouse with respect to both himself and the decedent if no return for the taxable year has been made by the decedent, no executor or administrator has been appointed, and no executor or administrator is appointed before the last day prescribed by law for filing the return of the surviving spouse. If an executor or administrator of the decedent is appointed after the making of the joint return by the surviving spouse, the executor or administrator may disaffirm such joint return by making, within 1 year after the last day prescribed by law for filing the return of the surviving spouse, a separate return for the taxable year of the decedent with respect to which the joint return was made, in which case the return made by the survivor shall constitute his separate return.

(b) JOINT RETURN AFTER FILING SEPARATE RETURN.—

(1) IN GENERAL.—Except as provided in paragraph (2), if an individual has filed a separate return for a taxable year for which a joint return could have been made by him and his spouse under subsection (a) and the time prescribed by law for filing the return for such taxable year has expired, such individual and his spouse may nevertheless make a joint return for such taxable year. A joint return filed by the husband and wife under this subsection shall constitute the return of the husband and wife for such taxable year, and all payments, credits, refunds, or other repayments made or allowed with respect to the separate return of either spouse for such taxable year shall be taken into account in determining the extent to which the tax based upon the joint return has been paid. If a joint return is made under this subsection, any election (other than the election to file a separate return) made by either spouse in his separate return for such taxable year with respect to the treatment of any income, deduction, or credit of such spouse shall not be changed in the making of the joint return where such election would have been irrevocable if the joint return had not been made. If a joint return is made under this subsection after the death of either spouse, such return with respect to the decedent can be made only by his executor or administrator.

(2) LIMITATIONS FOR MAKING OF ELECTION.—The election provided for in paragraph (1) may not be made—

(A) unless there is paid in full at or before the time of the filing of the joint return the amount shown as tax upon such joint return; or

(B) after the expiration of 3 years from the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse); or

(C) after there has been mailed to either spouse, with respect to such taxable year, a notice of deficiency under section 6212, if the spouse, as to such notice, files a petition with the Tax Court of the United States within the time prescribed in such section; or

(D) after either spouse has commenced a suit in any court for the recovery of any part of the tax for such taxable year; or

(E) after either spouse has entered into a closing agreement under section 7121 with respect to such taxable year, or after any civil or criminal case arising against either spouse with respect to such taxable year has been compromised under section 7122.

(3) WHEN RETURN DEEMED FILED.—

(A) ASSESSMENT AND COLLECTION.—For purposes of section 6501 (relating to periods of limitations on assessment and collection), and for purposes of section 6651 (relating to delinquent returns), a joint return made under this subsection shall be deemed to have been filed—

(i) Where both spouses filed separate returns prior to making the joint return—on the date the last separate return was filed (but not earlier than the last date prescribed by law for filing the return of either spouse);

(ii) Where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had less than $600 of gross income ($1,200 in case such spouse was 65 or over) for such taxable year—on the date of the filing of such separate return (but not earlier than the last date prescribed by law for the filing of such separate return); or

(iii) Where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had gross income of $600 or more ($1,200 in case such spouse was 65 or over) for such taxable year—on the date of the filing of such joint return.

(B) CREDIT OR REFUND.—For purposes of section 6511, a joint return made under this subsection shall be deemed to have been filed on the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse).

(4) ADDITIONAL TIME FOR ASSESSMENT.—If a joint return is made under this subsection, the periods of limitations provided in sections 6501 and 6502 on the making of assessments and the beginning of levy or a proceeding in court for collection shall with respect to such return include one year immediately after the date of the filing of such joint return (computed without regard to the provisions of paragraph (3)).

(5) ADDITIONS TO THE TAX AND PENALTIES.—

(A) ADDITIONS TO THE TAX.—Where the amount shown as the tax by the husband and wife on a joint return made under this subsection exceeds the aggregate of the amounts shown as the tax upon the separate return of each spouse—

(i) NEGLIGENCE.—If any part of such excess is attributable to negligence or intentional disregard of rules and regulations (but without intent to defraud) at the time of the making of such separate return, then 5 percent of the total amount of such excess shall be added to the tax;

(ii) FRAUD.—If any part of such excess is attributable to fraud with intent to evade tax at the time of the making of such separate return, then 50 percent of the total amount of such excess shall be added to the tax.

(B) CRIMINAL PENALTY.—For purposes of section 7206 (1) and (2) and section 7207 (relating to criminal penalties in the case of fraudulent returns) the term "return" includes a separate return filed by a spouse with respect to a taxable year for which a joint return is made under this subsection after the filing of such separate return.

(c) TREATMENT OF JOINT RETURN AFTER DEATH OF EITHER SPOUSE.—For purposes of sections 21, 443, and 7851 (a) (1) (A), where the husband and wife have different taxable years because of the death of either spouse, the joint return shall be treated as if the taxable years of both spouses ended on the date of the closing of the surviving spouse's taxable year.

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

(1) the status as husband and wife of two individuals having taxable years beginning on the same day shall be determined—

(A) if both have the same taxable year—as of the close of such year; and

(B) if one dies before the close of the taxable year of the other—as of the time of such death; and

(2) an individual who is legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married; and

(3) if a joint return is made, the tax shall be computed on the aggregate income and the liability with respect to the tax shall be joint and several.

SEC. 6014. INCOME TAX RETURN—TAX NOT COMPUTED BY TAXPAYER.

(a) ELECTION BY TAXPAYER.—An individual entitled to elect to pay the tax imposed by section 3 whose gross income is less than $5,000 and includes no income other than remuneration for services performed by him as an employee, dividends or interest, and whose gross income other than wages, as defined in section 3401 (a), does not exceed $100, shall at his election not be required to show on the return the tax imposed by section 1. Such election shall be made by using the form prescribed for purposes of this section and shall constitute an election to pay the tax imposed by section 3. In such case the tax shall be computed by the Secretary or his delegate who shall mail to the taxpayer a notice stating the amount determined as payable. In determining the amount payable, the credit against such tax provided for by section 34 or 37 shall not be allowed. In the case of a head of household (as defined in section 1 (b)) or a surviving spouse (as defined in section 2 (b)) electing the benefits of this subsection, the tax shall be computed by the Secretary or his delegate without regard to the taxpayer's status as a head of household or as a surviving spouse.

(b) REGULATIONS.—The Secretary or his delegate shall prescribe regulations for carrying out this section, and such regulations may provide for the application of the rules of this section to cases where the gross income includes items other than those enumerated by subsection (a), to cases where the gross income from sources other than wages on which the tax has been withheld at the source is more than $100 but not more than $200, and to cases where the gross income is $5,000 or more but not more than $5,200. Such regulations

shall provide for the application of this section in the case of husband and wife, including provisions determining when a joint return under this section may be permitted or required, whether the liability shall be joint and several, and whether one spouse may make return under this section and the other without regard to this section.

SEC. 6015. DECLARATION OF ESTIMATED INCOME TAX BY INDIVIDUALS.

(a) REQUIREMENT OF DECLARATION.—Every individual (other than a nonresident alien with respect to whose wages, as defined in section 3401 (a), withholding under chapter 24 is not made applicable, but including every alien individual who is a resident of Puerto Rico during the entire taxable year) shall make a declaration of his estimated tax for the taxable year if—

(1) the gross income for the taxable year can reasonably be expected to consist of wages (as defined in section 3401 (a)) and of not more than $100 from sources other than such wages, and can reasonably be expected to exceed—

(A) $5,000, in the case of a single individual other than a head of a household (as defined in section 1 (b) (2)) or a surviving spouse (as defined in section 2 (b)) or in the case of a married individual not entitled to file a joint declaration with his spouse;

(B) $10,000, in the case of a head of a household (as defined in section 1 (b) (2)) or a surviving spouse (as defined in section 2 (b)); or

(C) $5,000 in the case of a married individual entitled under subsection (b) to file a joint declaration with his spouse, and the aggregate gross income of such individual and his spouse for the taxable year can reasonably be expected to exceed $10,000; or

(2) the gross income can reasonably be expected to include more than $100 from sources other than wages (as defined in section 3401 (a)) and can reasonably be expected to exceed the sum of—

(A) the amount obtained by multiplying $600 by the number of exemptions to which he is entitled under section 151 plus

(B) $400.

(b) JOINT DECLARATION BY HUSBAND AND WIFE.—In the case of a husband and wife, a single declaration under this section may be made by them jointly, in which case the liability with respect to the estimated tax shall be joint and several. No joint declaration may be made if either the husband or the wife is a nonresident alien, if they are separated under a decree of divorce or of separate maintenance, or if they have different taxable years. If a joint declaration is made but a joint return is not made for the taxable year, the estimated tax for such year may be treated as the estimated tax of either the husband or the wife, or may be divided between them.

(c) ESTIMATED TAX.—For purposes of this title, in the case of an individual, the term "estimated tax" means the amount which the individual estimates as the amount of the income tax imposed by chapter 1 for the taxable year, minus the amount which the individual estimates as the sum of any credits against tax provided by part IV of subchapter A of chapter 1.

(d) CONTENTS OF DECLARATION.—The declaration shall contain such pertinent information as the Secretary or his delegate may by forms or regulations prescribe.

(e) AMENDMENT OF DECLARATION.—An individual may make amendments of a declaration filed during the taxable year under regulations prescribed by the Secretary or his delegate.

(f) RETURN AS DECLARATION OR AMENDMENT.—If on or before January 31 (or February 15, in the case of an individual referred to in section 6073 (b), relating to income from farming) of the succeeding taxable year the taxpayer files a return, for the taxable year for which the declaration is required, and pays in full the amount computed on the return as payable, then, under regulations prescribed by the Secretary or his delegate—

(1) if the declaration is not required to be filed during the taxable year, but is required to be filed on or before January 15, such return shall be considered as such declaration; and

(2) if the tax shown on the return (reduced by the sum of the credits against tax provided by part IV of subchapter A of chapter 1) is greater than the estimated tax shown in a declaration previously made, or in the last amendment thereof, such return shall be considered as the amendment of the declaration permitted by subsection (e) to be filed on or before January 15.

(g) SHORT TAXABLE YEARS.—An individual with a taxable year of less than 12 months shall make a declaration in accordance with regulations prescribed by the Secretary or his delegate.

(h) ESTATES AND TRUSTS.—The provisions of this section shall not apply to an estate or trust.

(i) APPLICABILITY.—This section shall be applicable only with respect to taxable years beginning after December 31, 1954; and sections 58, 59, and 60 of the Internal Revenue Code of 1939 shall continue in force with respect to taxable years beginning before January 1, 1955.

SEC. 6016. DECLARATIONS OF ESTIMATED INCOME TAX BY CORPORATIONS.

(a) REQUIREMENT OF DECLARATION.—Every corporation subject to taxation under section 11 or 1201 (a), or subchapter L of chapter 1 (relating to insurance companies), shall make a declaration of estimated tax under chapter 1 for the taxable year if its income tax imposed by section 11 or 1201 (a), or such subchapter L, for such taxable year, reduced by the credits against tax provided by part IV of subchapter A of chapter 1, can reasonably be expected to exceed $100,000.

(b) ESTIMATED TAX.—For purposes of this title, in the case of a corporation, the term "estimated tax" means the excess of—

(1) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

(2) the sum of—

(A) $100,000, and

(B) the amount which the corporation estimates as the sum of any credits against tax provided by part IV of subchapter A of chapter 1.

(c) CONTENTS OF DECLARATION.—The declaration shall contain such pertinent information as the Secretary or his delegate may by forms or regulations prescribe.

(d) AMENDMENT OF DECLARATION.—A corporation may make amendments of a declaration filed during the taxable year under regulations prescribed by the Secretary or his delegate.

(e) SHORT TAXABLE YEAR.—A corporation with a taxable year of less than 12 months shall make a declaration in accordance with regulations prescribed by the Secretary or his delegate.

(f) APPLICABILITY.—This section shall apply only with respect to taxable years ending on or after December 31, 1955.

SEC. 6017. SELF-EMPLOYMENT TAX RETURNS.

Every individual (other than a nonresident alien individual) having net earnings from self-employment of $400 or more for the taxable year shall make a return with respect to the self-employment tax imposed by chapter 2. In the case of a husband and wife filing a joint return under section 6013, the tax imposed by chapter 2 shall not be computed on the aggregate income but shall be the sum of the taxes computed under such chapter on the separate self-employment income of each spouse.

Subpart C—Estate and Gift Tax Returns

Sec. 6018. Estate tax returns.
Sec. 6019. Gift tax returns.

SEC. 6018. ESTATE TAX RETURNS.

(a) RETURNS BY EXECUTOR.—

(1) CITIZENS OR RESIDENTS.—In all cases where the gross estate at the death of a citizen or resident exceeds $60,000, the executor shall make a return with respect to the estate tax imposed by subtitle B.

(2) NONRESIDENTS NOT CITIZENS OF THE UNITED STATES.—In the case of the estate of every nonresident not a citizen of the United States if that part of the gross estate which is situated in the United States exceeds $2,000, the executor shall make a return with respect to the estate tax imposed by subtitle B.

(b) RETURNS BY BENEFICIARIES.—If the executor is unable to make a complete return as to any part of the gross estate of the decedent, he shall include in his return a description of such part and the name of every person holding a legal or beneficial interest therein. Upon notice from the Secretary or his delegate such person shall in like manner make a return as to such part of the gross estate.

SEC. 6019. GIFT TAX RETURNS.

(a) IN GENERAL.—Any individual who in any calendar year makes any transfers by gift (except those which under section 2503 (b) are not to be included in the total amount of gifts for such year) shall make a return with respect to the gift tax imposed by subtitle B.

(b) TENANCY BY THE ENTIRETY.—

For provisions relating to requirement of return in the case of election as to the treatment of gift by creation of tenancy by the entirety, see section 2515 (c).

Subpart D—Miscellaneous Provisions

Sec. 6020. Returns prepared for or executed by Secretary.
Sec. 6021. Listing by Secretary of taxable objects owned by nonresidents of internal revenue districts.

SEC. 6020. RETURNS PREPARED FOR OR EXECUTED BY SECRETARY.

(a) PREPARATION OF RETURN BY SECRETARY.—If any person shall fail to make a return required by this title or by regulations prescribed thereunder, but shall consent to disclose all information necessary for the preparation thereof, then, and in that case, the Secretary or his delegate may prepare such return, which, being signed by such person, may be received by the Secretary or his delegate as the return of such person.

(b) EXECUTION OF RETURN BY SECRETARY.—

(1) AUTHORITY OF SECRETARY TO EXECUTE RETURN.—If any person fails to make any return (other than a declaration of estimated tax required under section 6015 or 6016) required by any internal revenue law or regulation made thereunder at the time prescribed therefor, or makes, willfully or otherwise, a false or fraudulent return, the Secretary or his delegate shall make such return from his own knowledge and from such information as he can obtain through testimony or otherwise.

(2) STATUS OF RETURNS.—Any return so made and subscribed by the Secretary or his delegate shall be prima facie good and sufficient for all legal purposes.

SEC. 6021. LISTING BY SECRETARY OF TAXABLE OBJECTS OWNED BY NONRESIDENTS OF INTERNAL REVENUE DISTRICTS.

Whenever there are in any internal revenue district any articles subject to tax, which are not owned or possessed by or under the care or control of any person within such district, and of which no list has been transmitted to the Secretary or his delegate, as required by law or by regulations prescribed pursuant to law, the Secretary or his delegate shall enter the premises where such articles are situated, shall make such inspection of the articles as may be necessary and make lists of the same, according to the forms prescribed. Such lists, being subscribed by the Secretary or his delegate, shall be sufficient lists of such articles for all purposes.

PART III—INFORMATION RETURNS

Subpart A. Information concerning persons subject to special provisions.
Subpart B. Information concerning transactions with other persons.
Subpart C. Information regarding wages paid employees.

Subpart A—Information Concerning Persons Subject to Special Provisions

Sec. 6031. Return of partnership income.
Sec. 6032. Returns of banks with respect to common trust funds.
Sec. 6033. Returns by exempt organizations.
Sec. 6034. Returns by trusts claiming charitable deductions under section 642 (c).
Sec. 6035. Returns of officers, directors, and shareholders of foreign personal holding companies.
Sec. 6036. Notice of qualification as executor or receiver.
Sec. 6037. Cross references.

SEC. 6031. RETURN OF PARTNERSHIP INCOME.

Every partnership (as defined in section 761 (a)) shall make a return for each taxable year, stating specifically the items of its gross income and the deductions allowable by subtitle A, and such other information for the purpose of carrying out the provisions of subtitle A as the Secretary or his delegate may by forms and regulations prescribe, and shall include in the return the names and addresses of the individuals who would be entitled to share in the taxable income if distributed and the amount of the distributive share of each individual.

SEC. 6032. RETURNS OF BANKS WITH RESPECT TO COMMON TRUST FUNDS.

Every bank (as defined in section 581) maintaining a common trust fund shall make a return for each taxable year, stating specifically, with respect to such fund, the items of gross income and the deductions allowed by subtitle A, and shall include in the return the names and addresses of the participants who would be entitled to share in the taxable income if distributed and the amount of the proportionate share of each participant. The return shall be executed in the same manner as a return made by a corporation pursuant to the requirements of sections 6012 and 6062.

SEC. 6033. RETURNS BY EXEMPT ORGANIZATIONS.

(a) GENERAL.—Every organization, except as hereinafter provided, exempt from taxation under section 501 (a) shall file an annual return, stating specifically the items of gross income, receipts, and disbursements, and such other information for the purpose of carrying out the provisions of subtitle A as the Secretary or his delegate may by forms or regulations prescribe, and shall keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations, as the Secretary or his delegate may from time to time prescribe, except that, in the discretion of the Secretary or his delegate, an organization described in section 401 (a) may be relieved from stating in its return any information which is reported in returns filed by the employer which established such organization. No such annual return need be filed under this subsection by any organization exempt from taxation under the provisions of section 501 (a)—

(1) which is a religious organization described in section 501 (c) (3); or

(2) which is an educational organization described in section 501 (c) (3), if such organization normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on; or

(3) which is a charitable organization, or an organization for the prevention of cruelty to children or animals, described in section 501 (c) (3), if such organization is supported, in whole or in part, by funds contributed by the United States or any State or political subdivision thereof, or is primarily supported by contributions of the general public; or

(4) which is an organization described in section 501 (c) (3), if such organization is operated, supervised, or controlled by or in connection with a religious organization described in paragraph (1); or

(5) which is an organization described in section 501 (c) (8); or

(6) which is an organization described in section 501 (c) (1), if such organization is a corporation wholly owned by the United States or any agency or instrumentality thereof, or a wholly-owned subsidiary of such a corporation.

(b) CERTAIN ORGANIZATIONS DESCRIBED IN SECTION 501 (c) (3).—Every organization described in section 501 (c) (3) which is subject to the requirements of subsection (a) shall furnish annually information, at such time and in such manner as the Secretary or his delegate may by forms or regulations prescribe, setting forth—

(1) its gross income for the year,

(2) its expenses attributable to such income and incurred within the year,

(3) its disbursements out of income within the year for the purposes for which it is exempt,

(4) its accumulation of income within the year,

(5) its aggregate accumulations of income at the beginning of the year,

(6) its disbursements out of principal in the current and prior years for the purposes for which it is exempt, and

(7) a balance sheet showing its assets, liabilities, and net worth as of the beginning of such year.

(c) CROSS REFERENCE.—

For provisions relating to statements, etc., regarding exempt status of organizations, see section 6001.

SEC. 6034. RETURNS BY TRUSTS CLAIMING CHARITABLE DEDUCTIONS UNDER SECTION 642 (c).

(a) GENERAL RULE.—Every trust claiming a charitable, etc., deduction under section 642 (c) for the taxable year shall furnish such information with respect to such taxable year as the Secretary or his delegate may by forms or regulations prescribe, setting forth—

(1) the amount of the charitable, etc., deduction taken under section 642 (c) within such year (showing separately the amount of such deduction which was paid out and the amount which was permanently set aside for charitable, etc., purposes during such year),

(2) the amount paid out within such year which represents amounts for which charitable, etc., deductions under section 642 (c) have been taken in prior years,

(3) the amount for which charitable, etc., deductions have been taken in prior years but which has not been paid out at the beginning of such year,

(4) the amount paid out of principal in the current and prior years for charitable, etc., purposes,

(5) the total income of the trust within such year and the expenses attributable thereto, and

(6) a balance sheet showing the assets, liabilities, and net worth of the trust as of the beginning of such year.

(b) EXCEPTION.—This section shall not apply in the case of a taxable year if all the net income for such year, determined under the applicable principles of the law of trusts, is required to be distributed currently to the beneficiaries.

SEC. 6035. RETURNS OF OFFICERS, DIRECTORS, AND SHAREHOLDERS OF FOREIGN PERSONAL HOLDING COMPANIES.

(a) OFFICERS AND DIRECTORS.—

(1) MONTHLY RETURNS.—On the 15th day of each month each individual who on such day is an officer or a director of a foreign corporation which, with respect to its taxable year preceding the taxable year in which such month occurs, was a foreign personal holding company (as defined in section 552), shall make a return setting forth with respect to the preceding calendar month the name and address of each shareholder, the class and number of shares held by each, together with any changes in stockholdings during such period, the name and address of any holder of securities convertible into stock of such corporation, and such other information with respect to the stock and securities of the corporation as the Secretary or his delegate shall by forms or regulations prescribe as necessary for carrying out the provisions of this title. The Secretary or his delegate may by regulations prescribe, as the period with respect to which returns shall be made, a longer period than a month. In such case the return shall be due on the 15th day of the succeeding period, and shall be made by the individuals who on such day are officers or directors of the corporation.

(2) ANNUAL RETURNS.—On the 60th day after the close of the taxable year of a foreign personal holding company (as defined in section 552), each individual who on such 60th day is an officer or director of the corporation shall make a return setting forth—

(A) in complete detail the gross income, deductions and credits, taxable income, and undistributed foreign personal holding company income of such foreign personal holding company for such taxable year; and

(B) the same information with respect to such taxable year as is required in paragraph (1), except that if all the required returns with respect to such year have been filed under paragraph (1), no information under this subparagraph need be set forth in the return filed under this paragraph.

(b) SHAREHOLDERS.—

(1) MONTHLY RETURNS.—On the 15th day of each month each United States shareholder, by or for whom 50 percent or more in

value of the outstanding stock of a foreign corporation is owned directly or indirectly (including, in the case of an individual, stock owned by the members of his family as defined in section 544 (a) (2)), if such foreign corporation with respect to its taxable year preceding the taxable year in which such month occurs was a foreign personal holding company (as defined in section 552), shall make a return setting forth with respect to the preceding calendar month the name and address of each shareholder, the class and number of shares held by each, together with any changes in stockholdings during such period, the name and address of any holder of securities convertible into stock of such corporation, and such other information with respect to the stock and securities of the corporation as the Secretary or his delegate shall by forms or regulations prescribe as necessary for carrying out the provisions of this title. The Secretary or his delegate may by regulations prescribe, as the period with respect to which returns shall be made, a longer period than a month. In such case the return shall be due on the 15th day of the succeeding period, and shall be made by the persons who on such day are United States shareholders.

(2) ANNUAL RETURNS.—On the 60th day after the close of the taxable year of a foreign personal holding company (as defined in section 552) each United States shareholder by or for whom on such 60th day 50 percent or more in value of the outstanding stock of such company is owned directly or indirectly (including, in the case of an individual, stock owned by members of his family as defined in section 544 (a) (2)) shall make a return setting forth the same information with respect to such taxable year as is required in paragraph (1), except that, if all the required returns with respect to such year have been made under paragraph (1), no return shall be required under this paragraph.

SEC. 6036. NOTICE OF QUALIFICATION AS EXECUTOR OR RECEIVER.

Every receiver, trustee in bankruptcy, assignee for benefit of creditors, or other like fiduciary, and every executor (as defined in section 2203), shall give notice of his qualification as such to the Secretary or his delegate in such manner and at such time as may be required by regulations of the Secretary or his delegate. The Secretary or his delegate may by regulation provide such exemptions from the requirements of this section as the Secretary or his delegate deems proper.

SEC. 6037. CROSS REFERENCES.

(1) For the notice required of persons acting in a fiduciary capacity for taxpayers or for transferees, see sections 6212, 6901 (g), and 6903.

(2) For application by executor for determination of tax and discharge from personal liability therefor, see section 2204.

(3) For the notice required of taxpayers for redetermination of taxes claimed as credits, see sections 905 (c) and 2016.

(4) For exemption certificates required to be furnished to employers by employees, see section 3402 (f) (2), (3), (4), and (5).

(5) For receipts, constituting information returns, required to be furnished to employees, see section 6051.

(6) For the requirement to print the price of an admission on a ticket, see section 4234.

(7) For information required with respect to the redemption of stamps, see section 6805.

(8) For the statement required to be filed by a corporation expecting a net operating loss carryback or unused excess profits credit carryback, see section 6164.

(9) For the application, which a taxpayer may file for a tentative carryback adjustment of income taxes, see section 6411.

Subpart B—Information Concerning Transactions With Other Persons

Sec. 6041. Information at source.
Sec. 6042. Returns regarding corporate dividends, earnings, and profits.
Sec. 6043. Return regarding corporate dissolution or liquidation.
Sec. 6044. Returns regarding patronage dividends.
Sec. 6045. Returns of brokers.
Sec. 6046. Returns as to formation or reorganization of foreign corporations.

SEC. 6041. INFORMATION AT SOURCE.

(a) PAYMENTS OF $600 OR MORE.—All persons engaged in a trade or business and making payment in the course of such trade or business to another person, of rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income (other than payments described in section 6042 (1) or section 6045), of $600 or more in any taxable year, or, in the case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for, shall render a true and accurate return to the Secretary or his delegate, under such regulations and in such form and manner and to such extent as may be prescribed by the Secretary or his delegate, setting forth the amount of such gains, profits, and income, and the name and address of the recipient of such payment.

(b) COLLECTION OF FOREIGN ITEMS.—In the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest upon the bonds of and dividends from foreign corporations by any person undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange, such person shall make a return according to the forms or regulations prescribed by the Secretary or his delegate, setting forth the amount paid and the name and address of the recipient of each such payment.

(c) PAYMENTS OF INTEREST BY CORPORATIONS.—Every corporation making payments of interest, regardless of amounts, shall, when required by regulations of the Secretary or his delegate, make a return according to the forms or regulations prescribed by the Secretary or his delegate, setting forth the amount paid and the name and address of the recipient of each such payment.

(d) RECIPIENT TO FURNISH NAME AND ADDRESS.—When necessary to make effective the provisions of this section, the name and address of the recipient of income shall be furnished upon demand of the person paying the income.

SEC. 6042. RETURNS REGARDING CORPORATE DIVIDENDS, EARNINGS, AND PROFITS.

Every corporation shall, when required by the Secretary or his delegate—

(1) Make a return of its payments of dividends, stating the name and address of, the number of shares owned by, and the amount of dividends paid to, each shareholder;

(2) Furnish to the Secretary or his delegate a statement of such facts as will enable him to determine the portion of the earnings or profits of the corporation (including gains, profits, and income not taxed) accumulated during such periods as the Secretary or his delegate may specify, which have been distributed or ordered to be distributed, respectively, to its shareholders during such taxable years as the Secretary or his delegate may specify; and

(3) Furnish to the Secretary or his delegate a statement of its accumulated earnings and profits and the names and addresses of the individuals or shareholders who would be entitled to such accumulated earnings and profits if divided or distributed, and of the amounts that would be payable to each.

SEC. 6043. RETURN REGARDING CORPORATE DISSOLUTION OR LIQUIDATION.

Every corporation shall—

(1) Within 30 days after the adoption by the corporation of a resolution or plan for the dissolution of the corporation or for the liquidation of the whole or any part of its capital stock, make a return setting forth the terms of such resolution or plan and such other information as the Secretary or his delegate shall by forms or regulations prescribe; and

(2) When required by the Secretary or his delegate, make a return regarding its distributions in liquidation, stating the name and address of, the number and class of shares owned by, and the amount paid to, each shareholder, or, if the distribution is in property other than money, the fair market value (as of the date the distribution is made) of the property distributed to each shareholder.

SEC. 6044. RETURNS REGARDING PATRONAGE DIVIDENDS.

(a) PAYMENTS OF $100 OR MORE.—Any corporation allocating amounts as patronage dividends, rebates, or refunds (whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the amount of such dividend, refund, or rebate) shall make a return showing—

(1) The name and address of each patron to whom it has made such allocations amounting to $100 or more during the calendar year; and

(2) The amount of such allocations to each patron.

(b) PAYMENTS REGARDLESS OF AMOUNT.—If required by the Secretary or his delegate, any such corporation shall make a return of all patronage dividends, rebates, or refunds made during the calendar year to its patrons.

(c) EXCEPTIONS.—This section shall not apply in the case of any corporation (including any cooperative or nonprofit corporation engaged in rural electrification) described in section 501 (c) (12) or (15)

which is exempt from tax under section 501 (a), or in the case of any corporation subject to a tax imposed by subchapter L of chapter 1.

SEC. 6045. RETURNS OF BROKERS.

Every person doing business as a broker shall, when required by the Secretary or his delegate, make a return, in accordance with such regulations as the Secretary or his delegate may prescribe, showing the names of customers for whom such person has transacted any business, with such details regarding the profits and losses and such other information as the Secretary or his delegate may by forms or regulations require with respect to each customer as will enable the Secretary or his delegate to determine the amount of such profits or losses.

SEC. 6046. RETURNS AS TO FORMATION OR REORGANIZATION OF FOREIGN CORPORATIONS.

(a) REQUIREMENT.—Every attorney, accountant, fiduciary, bank, trust company, financial institution, or other person, who aids, assists, counsels, or advises in, or with respect to, the formation, organization, or reorganization of any foreign corporation, shall, within 30 days thereafter, make a return in accordance with regulations prescribed by the Secretary or his delegate.

(b) FORM AND CONTENTS OF RETURN.—Such return shall be in such form, and shall set forth, in respect of each such corporation, to the full extent of the information within the possession or knowledge or under the control of the person required to make the return, such information as the Secretary or his delegate prescribes by forms or regulations as necessary for carrying out the provisions of the income tax laws.

(c) PRIVILEGED COMMUNICATIONS.—Nothing in this section shall be construed to require the making of a return by an attorney-at-law with respect to any advice given or information obtained through the relationship of attorney and client.

(d) CROSS REFERENCE.—

For provisions relating to penalties for violations of this section, see section 7203.

Subpart C—Information Regarding Wages Paid Employees

Sec. 6051. Receipts for employees.

SEC. 6051. RECEIPTS FOR EMPLOYEES.

(a) REQUIREMENT.—Every person required to deduct and withhold from an employee a tax under section 3101 or 3402, or who would have been required to deduct and withhold a tax under section 3402 if the employee had claimed no more than one withholding exemption, shall furnish to each such employee in respect of the remuneration paid by such person to such employee during the calendar year, on or before January 31 of the succeeding year, or, if his employment is terminated before the close of such calendar year, on the day on which the last payment of remuneration is made, a written statement showing the following:

(1) the name of such person,

(2) the name of the employee (and his social security account number if wages as defined in section 3121 (a) have been paid),

(3) the total amount of wages as defined in section 3401 (a),
(4) the total amount deducted and withheld as tax under section 3402,
(5) the total amount of wages as defined in section 3121 (a), and
(6) the total amount deducted and withheld as tax under section 3101.

(b) SPECIAL RULE AS TO COMPENSATION OF MEMBERS OF ARMED FORCES.—In the case of compensation paid for service as a member of the Armed Forces, the statement shall show, as wages paid during the calendar year, the amount of such compensation paid during the calendar year which is not excluded from gross income under chapter 1 (whether or not such compensation constituted wages as defined in section 3401 (a)); such statement to be furnished if any tax was withheld during the calendar year or if any of the compensation paid is includible under chapter 1 in gross income.

(c) ADDITIONAL REQUIREMENTS.—The statements required to be furnished pursuant to this section in respect of any remuneration shall be furnished at such other times, shall contain such other information, and shall be in such form as the Secretary or his delegate may by regulations prescribe.

(d) STATEMENTS TO CONSTITUTE INFORMATION RETURNS.—A duplicate of any statement made pursuant to this section and in accordance with regulations prescribed by the Secretary or his delegate shall, when required by such regulations, be filed with the Secretary or his delegate.

PART IV—SIGNING AND VERIFYING OF RETURNS AND OTHER DOCUMENTS

Sec. 6061. Signing of returns and other documents.
Sec. 6062. Signing of corporation returns.
Sec. 6063. Signing of partnership returns.
Sec. 6064. Signature presumed authentic.
Sec. 6065. Verification of returns.

SEC. 6061. SIGNING OF RETURNS AND OTHER DOCUMENTS.

Except as otherwise provided by sections 6062 and 6063, any return, statement, or other document required to be made under any provision of the internal revenue laws or regulations shall be signed in accordance with forms or regulations prescribed by the Secretary or his delegate.

SEC. 6062. SIGNING OF CORPORATION RETURNS.

The return of a corporation with respect to income shall be signed by the president, vice-president, treasurer, assistant treasurer, chief accounting officer or any other officer duly authorized so to act. In the case of a return made for a corporation by a fiduciary pursuant to the provisions of section 6012 (b) (3), such fiduciary shall sign the return. The fact that an individual's name is signed on the return shall be prima facie evidence that such individual is authorized to sign the return on behalf of the corporation.

SEC. 6063. SIGNING OF PARTNERSHIP RETURNS.

The return of a partnership made under section 6031 shall be signed by any one of the partners. The fact that a partner's name is

signed on the return shall be prima facie evidence that such partner is authorized to sign the return on behalf of the partnership.

SEC. 6064. SIGNATURE PRESUMED AUTHENTIC.

The fact that an individual's name is signed to a return, statement, or other document shall be prima facie evidence for all purposes that the return, statement, or other document was actually signed by him.

SEC. 6065. VERIFICATION OF RETURNS.

(a) PENALTIES OF PERJURY.—Except as otherwise provided by the Secretary or his delegate, any return, declaration, statement, or other document required to be made under any provision of the internal revenue laws or regulations shall contain or be verified by a written declaration that it is made under the penalties of perjury.

(b) OATH.—The Secretary or his delegate may by regulations require that any return, statement, or other document required to be made under any provision of the internal revenue laws or regulations shall be verified by an oath. This subsection shall not apply to returns and declarations with respect to income taxes made by individuals.

PART V—TIME FOR FILING RETURNS AND OTHER DOCUMENTS

Sec. 6071. Time for filing returns and other documents.
Sec. 6072. Time for filing income tax returns.
Sec. 6073. Time for filing declarations of estimated income tax by individuals.
Sec. 6074. Time for filing declarations of estimated income tax by corporations.
Sec. 6075. Time for filing estate and gift tax returns.

SEC. 6071. TIME FOR FILING RETURNS AND OTHER DOCUMENTS.

(a) GENERAL RULE.—When not otherwise provided for by this title, the Secretary or his delegate shall by regulations prescribe the time for filing any return, statement, or other document required by this title or by regulations.

(b) SPECIAL TAXES.—

For payment of special taxes before engaging in certain trades and businesses, see section 4901.

SEC. 6072. TIME FOR FILING INCOME TAX RETURNS.

(a) GENERAL RULE.—In the case of returns under section 6012, 6013, 6017, or 6031 (relating to income tax under subtitle A), returns made on the basis of the calendar year shall be filed on or before the 15th day of April following the close of the calendar year and returns made on the basis of a fiscal year shall be filed on or before the 15th day of the fourth month following the close of the fiscal year, except as otherwise provided in the following subsections of this section.

(b) RETURNS OF CORPORATIONS.—Returns of corporations under section 6012 made on the basis of the calendar year shall be filed on or before the 15th day of March following the close of the calendar year, and such returns made on the basis of a fiscal year shall be filed on or before the 15th day of the third month following the close of the fiscal year.

(c) RETURNS BY CERTAIN NONRESIDENT ALIEN INDIVIDUALS AND FOREIGN CORPORATIONS.—Returns made by nonresident alien in-

dividuals (other than those whose wages are subject to withholding under chapter 24) and foreign corporations (other than those having an office or place of business in the United States) under section 6012 on the basis of a calendar year shall be filed on or before the 15th day of June following the close of the calendar year and such returns made on the basis of a fiscal year shall be filed on or before the 15th day of the 6th month following the close of the fiscal year.

(d) RETURNS OF EXEMPT COOPERATIVE ASSOCIATIONS.—In the case of income tax returns of exempt cooperative associations taxable under the provisions of section 522, returns made on the basis of a calendar year shall be filed on or before the 15th day of September following the close of the calendar year and returns made on the basis of a fiscal year shall be filed on or before the 15th day of the 9th month following the close of the fiscal year.

(e) INCOME TAX DUE DATES POSTPONED IN CASE OF CHINA TRADE ACT CORPORATIONS.—In the case of any taxable year beginning after December 31, 1948, and ending before October 1, 1956, no Federal income tax return of any corporation organized under the China Trade Act, 1922 (42 Stat. 849, U. S. C., title 15, chapter 4), as amended, shall become due until December 31, 1956, but only with respect to any such corporation and any such taxable year which the Secretary or his delegate may determine reasonable under the circumstances in China pursuant to such regulations as may be prescribed. Such due date shall be subject to the power of the Secretary or his delegate to extend the time for filing such return, as in other cases.

SEC. 6073. TIME FOR FILING DECLARATIONS OF ESTIMATED INCOME TAX BY INDIVIDUALS.

(a) INDIVIDUALS OTHER THAN FARMERS.—Declarations of estimated tax required by section 6015 from individuals not regarded as farmers for the purpose of that section shall be filed on or before April 15 of the taxable year, except that if the requirements of section 6015 are first met—

(1) After April 1 and before June 2 of the taxable year, the declaration shall be filed on or before June 15 of the taxable year, or

(2) After June 1 and before September 2 of the taxable year, the declaration shall be filed on or before September 15 of the taxable year, or

(3) After September 1 of the taxable year, the declaration shall be filed on or before January 15 of the succeeding taxable year.

(b) FARMERS.—Declarations of estimated tax required by section 6015 from individuals whose estimated gross income from farming (including oyster farming) for the taxable year is at least two-thirds of the total estimated gross income from all sources for the taxable year may, in lieu of the time prescribed in subsection (a), be filed at any time on or before January 15 of the succeeding taxable year.

(c) AMENDMENT.—An amendment of a declaration may be filed in any interval between installment dates prescribed for that taxable year, but only one amendment may be filed in each such interval.

(d) SHORT TAXABLE YEARS.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

(e) FISCAL YEARS.—In the application of this section to the case of a taxable year beginning on any date other than January 1, there shall be substituted, for the months specified in this section, the months which correspond thereto.

SEC. 6074. TIME FOR FILING DECLARATIONS OF ESTIMATED INCOME TAX BY CORPORATIONS.

(a) GENERAL RULE.—The declaration of estimated tax required of corporations by section 6016 shall be filed on or before the 15th day of the 9th month of the taxable year, except that if the requirements of section 6016 are first met after the last day of the 8th month and before the 1st day of the 12th month of the taxable year, the declaration shall be filed on or before the 15th day of the 12th month of the taxable year.

(b) AMENDMENT.—If a declaration is filed before the 15th day of the 12th month of the taxable year, an amendment of such declaration may be filed on or before such day.

(c) SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

SEC. 6075. TIME FOR FILING ESTATE AND GIFT TAX RETURNS.

(a) ESTATE TAX RETURNS.—Returns made under section 6018 (a) (relating to estate taxes) shall be filed within 15 months after the date of the decedent's death.

(b) GIFT TAX RETURNS.—Returns made under section 6019 (relating to gift taxes) shall be filed on or before the 15th day of April following the close of the calendar year.

PART VI—EXTENSION OF TIME FOR FILING RETURNS

Sec. 6081. Extension of time for filing returns.

SEC. 6081. EXTENSION OF TIME FOR FILING RETURNS.

(a) GENERAL RULE.—The Secretary or his delegate may grant a reasonable extension of time for filing any return, declaration, statement, or other document required by this title or by regulations. Except in the case of taxpayers who are abroad, no such extension shall be for more than 6 months.

(b) AUTOMATIC EXTENSION FOR CORPORATION INCOME TAX RETURNS.—An extension of 3 months for the filing of the return of income taxes imposed by subtitle A shall be allowed any corporation if, in such manner and at such time as the Secretary or his delegate may by regulations prescribe, there is filed on behalf of such corporation the form prescribed by the Secretary or his delegate, and if such corporation pays, on or before the date prescribed for payment of the tax, the amount properly estimated as its tax or the first installment thereof required under section 6152; but this extension may be terminated at any time by the Secretary or his delegate by mailing to the taxpayer notice of such termination at least 10 days prior to the date for termination fixed in such notice.

(c) POSTPONEMENT BY REASON OF WAR.—

For time for performing certain acts postponed by reason of war, see section 7508.

PART VII—PLACE FOR FILING RETURNS OR OTHER DOCUMENTS

Sec. 6091. Place for filing returns or other documents.

SEC. 6091. PLACE FOR FILING RETURNS OR OTHER DOCUMENTS.

(a) GENERAL RULE.—When not otherwise provided for by this title, the Secretary or his delegate shall by regulations prescribe the place for the filing of any return, declaration, statement, or other document, or copies thereof, required by this title or by regulations.

(b) TAX RETURNS.—In the case of returns of tax required under authority of part II of this subchapter—

(1) INDIVIDUALS.—Returns (other than corporation returns) shall be made to the Secretary or his delegate in the internal revenue district in which is located the legal residence or principal place of business of the person making the return, or, if he has no legal residence or principal place of business in any internal revenue district, then at such place as the Secretary or his delegate may by regulations prescribe.

(2) CORPORATIONS.—Returns of corporations shall be made to the Secretary or his delegate in the internal revenue district in which is located the principal place of business or principal office or agency of the corporation, or, if it has no principal place of business or principal office or agency in any internal revenue district, then at such place as the Secretary or his delegate may by regulations prescribe.

(3) ESTATE TAX RETURNS.—Returns of estate tax required under section 6018 shall be made to the Secretary or his delegate in the internal revenue district in which was the domicile of the decedent at the time of his death or, if there was no such domicile in an internal revenue district, then at such place as the Secretary or his delegate may by regulations prescribe.

(4) EXCEPTIONAL CASES.—Notwithstanding paragraph (1), (2), or (3) of this subsection, the Secretary or his delegate may permit a return to be filed in any internal revenue district, and may require the return of any officer or employee of the Treasury Department to be filed in any internal revenue district selected by the Secretary or his delegate.

Subchapter B—Miscellaneous Provisions

Sec. 6101. Period covered by returns or other documents.
Sec. 6102. Computations on returns or other documents.
Sec. 6103. Publicity of returns and lists of taxpayers.
Sec. 6104. Publicity of information required from certain exempt organizations and certain trusts.
Sec. 6105. Compilation of relief from excess profits tax cases.
Sec. 6106. Publicity of unemployment tax returns.
Sec. 6107. List of special taxpayers for public inspection.
Sec. 6108. Publication of statistics of income.
Sec. 6109. Cross references.

SEC. 6101. PERIOD COVERED BY RETURNS OR OTHER DOCUMENTS.

When not otherwise provided for by this title, the Secretary or his delegate may by regulations prescribe the period for which, or the date as of which, any return, statement, or other document required by this title or by regulations, shall be made.

SEC. 6102. COMPUTATIONS ON RETURNS OR OTHER DOCUMENTS.

(a) AMOUNTS SHOWN ON INTERNAL REVENUE FORMS.—The Secretary or his delegate is authorized to provide with respect to any amount required to be shown on a form prescribed for any internal revenue return, statement, or other document, that if such amount of such item is other than a whole-dollar amount, either—

(1) the fractional part of a dollar shall be disregarded; or

(2) the fractional part of a dollar shall be disregarded unless it amounts to one-half dollar or more, in which case the amount (determined without regard to the fractional part of a dollar) shall be increased by $1.

(b) ELECTION NOT TO USE WHOLE DOLLAR AMOUNTS.—Any person making a return, statement, or other document shall be allowed, under regulations prescribed by the Secretary or his delegate, to make such return, statement, or other document without regard to subsection (a).

(c) INAPPLICABILITY TO COMPUTATION OF AMOUNT.—The provisions of subsections (a) and (b) shall not be applicable to items which must be taken into account in making the computations necessary to determine the amount required to be shown on a form, but shall be applicable only to such final amount.

SEC. 6103. PUBLICITY OF RETURNS AND LISTS OF TAXPAYERS.

(a) PUBLIC RECORD AND INSPECTION.—

(1) Returns made with respect to taxes imposed by chapters 1, 2, 3, and 6 upon which the tax has been determined by the Secretary or his delegate shall constitute public records; but, except as hereinafter provided in this section, they shall be open to inspection only upon order of the President and under rules and regulations prescribed by the Secretary or his delegate and approved by the President.

(2) All returns made with respect to the taxes imposed by chapters 1, 2, 3, 5, 6, 11, 12, and 32, subchapters B, C, and D of

chapter 33, and subchapter B of chapter 37, shall constitute public records and shall be open to public examination and inspection to such extent as shall be authorized in rules and regulations promulgated by the President.

(3) Whenever a return is open to the inspection of any person, a certified copy thereof shall, upon request, be furnished to such person under rules and regulations prescribed by the Secretary or his delegate. The Secretary or his delegate may prescribe a reasonable fee for furnishing such copy.

(b) INSPECTION BY STATES.—

(1) STATE OFFICERS.—The proper officers of any State may, upon the request of the governor thereof, have access to the returns of any corporation, or to an abstract thereof showing the name and income of any corporation, at such times and in such manner as the Secretary or his delegate may prescribe.

(2) STATE BODIES OR COMMISSIONS.—All income returns filed with respect to the taxes imposed by chapters 1, 2, 3, and 6 (or copies thereof, if so prescribed by regulations made under this subsection), shall be open to inspection by any official, body, or commission, lawfully charged with the administration of any State tax law, if the inspection is for the purpose of such administration or for the purpose of obtaining information to be furnished to local taxing authorities as provided in this paragraph. The inspection shall be permitted only upon written request of the governor of such State, designating the representative of such official, body, or commission to make the inspection on behalf of such official, body, or commission. The inspection shall be made in such manner, and at such times and places, as shall be prescribed by regulations made by the Secretary or his delegate. Any information thus secured by any official, body, or commission of any State may be used only for the administration of the tax laws of such State, except that upon written request of the governor of such State any such information may be furnished to any official, body, or commission of any political subdivision of such State, lawfully charged with the administration of the tax laws of such political subdivision, but may be furnished only for the purpose of, and may be used only for, the administration of such tax laws.

(c) INSPECTION BY SHAREHOLDERS.—All bona fide shareholders of record owning 1 percent or more of the outstanding stock of any corporation shall, upon making request of the Secretary or his delegate, be allowed to examine the annual income returns of such corporation and of its subsidiaries.

(d) INSPECTION BY COMMITTEES OF CONGRESS.—

(1) COMMITTEES ON WAYS AND MEANS AND FINANCE.—

(A) The Secretary and any officer or employee of the Treasury Department, upon request from the Committee on Ways and Means of the House of Representatives, the Committee on Finance of the Senate, or a select committee of the Senate or House specially authorized to investigate returns by a resolution of the Senate or House, or a joint committee so authorized by concurrent resolution, shall furnish such committee sitting in executive session with any data of any character contained in or shown by any return.

(B) Any such committee shall have the right, acting directly as a committee, or by or through such examiners or agents as it may designate or appoint, to inspect any or all of the returns at such times and in such manner as it may determine.

(C) Any relevant or useful information thus obtained may be submitted by the committee obtaining it to the Senate or the House, or to both the Senate and the House, as the case may be.

(2) JOINT COMMITTEE ON INTERNAL REVENUE TAXATION.—The Joint Committee on Internal Revenue Taxation shall have the same right to obtain data and to inspect returns as the Committee on Ways and Means or the Committee on Finance, and to submit any relevant or useful information thus obtained to the Senate, the House of Representatives, the Committee on Ways and Means, or the Committee on Finance. The Committee on Ways and Means or the Committee on Finance may submit such information to the House or to the Senate, or to both the House and the Senate, as the case may be.

(e) DECLARATIONS OF ESTIMATED TAX.—For purposes of this section, a declaration of estimated tax shall be held and considered a return under this chapter.

(f) INSPECTION OF LIST OF TAXPAYERS.—The Secretary or his delegate shall as soon as practicable in each year cause to be prepared and made available to public inspection in such manner as he may determine, in the office of the principal internal revenue officer for the internal revenue district in which the return was filed, and in such other places as he may determine, lists containing the name and the post-office address of each person making an income tax return in such district.

SEC. 6104. PUBLICITY OF INFORMATION REQUIRED FROM CERTAIN EXEMPT ORGANIZATIONS AND CERTAIN TRUSTS.

The information required to be furnished by sections 6033 (b) and 6034, together with the names and addresses of such organizations and trusts, shall be made available to the public at such times and in such places as the Secretary or his delegate may prescribe.

SEC. 6105. COMPILATION OF RELIEF FROM EXCESS PROFITS TAX CASES.

The Secretary or his delegate shall compile for each fiscal year beginning after June 30, 1941, by internal revenue districts, and alphabetically arranged, all cases in which relief has been allowed during such year under the provisions of section 722 of the Internal Revenue Code of 1939, as amended, by the Secretary or his delegate and by the Tax Court of the United States, as the case may be. Such compilation shall contain the name and address of each taxpayer to which relief has been so allowed, the business in which the taxpayer is engaged, the amount of the excess profits credit before such allowance, the increase in such credit claimed, the increase in such credit allowed, and the amount of the gross reduction in the tax under subchapter E of chapter 2 of the Internal Revenue Code of 1939, as amended, and of the gross increase in the tax under chapter 1 of such Code, which results from the operation of section 722 of the Internal Revenue Code of 1939, as amended. In the case of relief allowed by the Tax Court of the United States, the Secretary or his delegate shall set forth the data previously reported under this section or

section 722 (g) of the Internal Revenue Code of 1939, as amended, with respect to relief previously allowed in such case by the Secretary or his delegate. Such compilation shall be published in the Federal Register.

SEC. 6106. PUBLICITY OF UNEMPLOYMENT TAX RETURNS.

Returns filed with respect to the tax imposed by chapter 23 shall be open to inspection in the same manner, to the same extent, and subject to the same provisions of law, including penalties, as returns described in section 6103, except that paragraph (2) of subsections (a) and (b) of section 6103 and section 7213 (a) (2) shall not apply.

SEC. 6107. LIST OF SPECIAL TAXPAYERS FOR PUBLIC INSPECTION.

In the principal internal revenue office in each internal revenue district there shall be kept, for public inspection, an alphabetical list of the names of all persons who have paid special taxes under subtitle D or E within such district. Such list shall be prepared and kept pursuant to regulations prescribed by the Secretary or his delegate, and shall contain the time, place, and business for which such special taxes have been paid, and upon application of any prosecuting officer of any State, county, or municipality there shall be furnished to him a certified copy thereof, as of a public record, for which a fee of $1 for each 100 words or fraction thereof in the copy or copies so requested may be charged.

SEC. 6108. PUBLICATION OF STATISTICS OF INCOME.

The Secretary or his delegate shall prepare and publish annually statistics reasonably available with respect to the operation of the income tax laws, including classifications of taxpayers and of income, the amounts allowed as deductions, exemptions, and credits, and any other facts deemed pertinent and valuable.

SEC. 6109. CROSS REFERENCES.

(1) For reports of Secretary of Agriculture concerning cotton futures, see section 4876.

(2) For inspection of returns, order forms, and prescriptions concerning narcotics, see section 4773.

(3) For inspection of returns, order forms, and prescriptions concerning marihuana, see section 4773.

(4) For authority of Secretary or his delegate to furnish list of special taxpayers, see section 4775.

(5) For inspection of records, returns, etc., concerning gasoline or lubricating oils, see section 4102.

CHAPTER 62—TIME AND PLACE FOR PAYING TAX

SUBCHAPTER A. Place and due date for payment of tax.
SUBCHAPTER B. Extensions of time for payment.

Subchapter A—Place and Due Date for Payment of Tax

Sec. 6151. Time and place for paying tax shown on returns.
Sec. 6152. Installment payments.
Sec. 6153. Installment payments of estimated income tax by individuals.
Sec. 6154. Installment payments of estimated income tax by corporations.
Sec. 6155. Payment on notice and demand.
Sec. 6156. Payment of taxes under provisions of the Tariff Act.

SEC. 6151. TIME AND PLACE FOR PAYING TAX SHOWN ON RETURNS.

(a) GENERAL RULE.—Except as otherwise provided in this section, when a return of tax is required under this title or regulations, the person required to make such return shall, without assessment or notice and demand from the Secretary or his delegate, pay such tax to the principal internal revenue officer for the internal revenue district in which the return is required to be filed, and shall pay such tax at the time and place fixed for filing the return (determined without regard to any extension of time for filing the return).

(b) EXCEPTIONS.—

(1) INCOME TAX NOT COMPUTED BY TAXPAYER.—If the taxpayer elects under section 6014 not to show the tax on the return, the amount determined by the Secretary or his delegate as payable shall be paid within 30 days after the mailing by the Secretary or his delegate to the taxpayer of a notice stating such amount and making demand therefor.

(2) USE OF GOVERNMENT DEPOSITARIES.—For authority of the Secretary or his delegate to require payments to Government depositaries, see section 6302 (c).

(c) DATE FIXED FOR PAYMENT OF TAX.—In any case in which a tax is required to be paid on or before a certain date, or within a certain period, any reference in this title to the date fixed for payment of such tax shall be deemed a reference to the last day fixed for such payment (determined without regard to any extension of time for paying the tax).

SEC. 6152. INSTALLMENT PAYMENTS.

(a) PRIVILEGE TO ELECT TO MAKE INSTALLMENT PAYMENTS.—

(1) CORPORATIONS.—A corporation subject to the taxes imposed by chapter 1 may elect to pay the unpaid amount of such taxes in installments as follows:

(A) with respect to taxable years ending before December 31, 1954, four installments, the first two of which shall be 45 percent, respectively, of such taxes and the last two of which shall be 5 percent, respectively, of such taxes;

(B) with respect to taxable years ending on or after December 31, 1954, two equal installments.

(2) ESTATES OF DECEDENTS.—A decedent's estate subject to the tax imposed by chapter 1 may elect to pay such tax in four equal installments.

(3) EMPLOYERS SUBJECT TO UNEMPLOYMENT TAX.—An employer subject to the tax imposed by section 3301 may elect to pay such tax in four equal installments.

(b) DATES PRESCRIBED FOR PAYMENT OF INSTALLMENTS.—

(1) FOUR INSTALLMENTS.—In any case (other than payment of estimated income tax) in which the tax may be paid in four installments, the first installment shall be paid on the date prescribed for the payment of the tax, the second installment shall be paid on or before 3 months, the third installment on or before 6 months, and the fourth installment on or before 9 months, after such date.

(2) TWO INSTALLMENTS.—In any case (other than payment of estimated income tax) in which the tax may be paid in two installments, the first installment shall be paid on the date prescribed for the payment of the tax, and the second installment shall be paid on or before 3 months after such date.

(c) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election has been made to pay the tax imposed by chapter 1 in installments and a deficiency has been assessed, the deficiency shall be prorated to such installments. Except as provided in section 6861 (relating to jeopardy assessments), that 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 part of such installment. That 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.

(d) ACCELERATION OF PAYMENT.—If any installment (other than an installment of estimated income tax) is not paid on or before the date fixed for its payment, the whole of the unpaid tax shall be paid upon notice and demand from the Secretary or his delegate.

SEC. 6153. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY INDIVIDUALS.

(a) GENERAL RULE.—The amount of estimated tax (as defined in section 6015 (c)) with respect to which a declaration is required under section 6015 shall be paid as follows:

(1) If the declaration is filed on or before April 15 of the taxable year, the estimated tax shall be paid in four equal installments. The first installment shall be paid at the time of the filing of the declaration, the second and third on June 15 and September 15, respectively, of the taxable year, and the fourth on January 15 of the succeeding taxable year.

(2) If the declaration is filed after April 15 and not after June 15 of the taxable year, and is not required by section 6073 (a) to be filed on or before April 15 of the taxable year, the estimated tax shall be paid in three equal installments. The first installment shall be paid at the time of the filing of the declaration, the second

on September 15 of the taxable year, and the third on January 15 of the succeeding taxable year.

(3) If the declaration is filed after June 15 and not after September 15 of the taxable year, and is not required by section 6073 (a) to be filed on or before June 15 of the taxable year, the estimated tax shall be paid in two equal installments. The first installment shall be paid at the time of the filing of the declaration, and the second on January 15 of the succeeding taxable year.

(4) If the declaration is filed after September 15 of the taxable year, and is not required by section 6073 (a) to be filed on or before September 15 of the taxable year, the estimated tax shall be paid in full at the time of the filing of the declaration.

(5) If the declaration is filed after the time prescribed in section 6073 (a) (including cases in which an extension of time for filing the declaration has been granted under section 6081), paragraphs (2), (3), and (4) of this subsection shall not apply, and there shall be paid at the time of such filing all installments of estimated tax which would have been payable on or before such time if the declaration had been filed within the time prescribed in section 6073 (a), and the remaining installments shall be paid at the times at which, and in the amounts in which, they would have been payable if the declaration had been so filed.

(b) FARMERS.—If an individual referred to in section 6073 (b) (relating to income from farming) makes a declaration of estimated tax after September 15 of the taxable year and on or before January 15 of the succeeding taxable year, the estimated tax shall be paid in full at the time of the filing of the declaration.

(c) AMENDMENTS OF DECLARATION.—If any amendment of a declaration is filed, the remaining installments, if any, shall be ratably increased or decreased, as the case may be, to reflect the increase or decrease, as the case may be, in the estimated tax by reason of such amendment, and if any amendment is made after September 15 of the taxable year, any increase in the estimated tax by reason thereof shall be paid at the time of making such amendment.

(d) APPLICATION TO SHORT TAXABLE YEARS.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

(e) FISCAL YEARS.—In the application of this section to the case of a taxable year beginning on any date other than January 1, there shall be substituted, for the months specified in this section, the months which correspond thereto.

(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the individual, any installment of the estimated tax may be paid prior to the date prescribed for its payment.

SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

(a) AMOUNT OF ESTIMATED INCOME TAX REQUIRED TO BE PAID.—The amount of estimated tax (as defined in section 6016 (b)) with respect to which a declaration is required under section 6016 shall be paid as follows:

If the taxable year ends—	The amount required to be paid shall be the following percentage of the estimated tax:
On or after December 31, 1955 and before December 31, 1956	10
On or after December 31, 1956 and before December 31, 1957	20
On or after December 31, 1957 and before December 31, 1958	30
On or after December 31, 1958 and before December 31, 1959	40
On or after December 31, 1959	50

(b) TIME FOR PAYMENT OF INSTALLMENT.—If the declaration is filed on or before the 15th day of the 9th month of the taxable year, the amount determined under subsection (a) shall be paid in two equal installments. The first installment shall be paid on or before the 15th day of the 9th month of the taxable year, and the second installment shall be paid on or before the 15th day of the 12th month of the taxable year. If the declaration is filed after the 15th day of the 9th month of the taxable year, the amount determined under subsection (a) shall be paid in full on or before the 15th day of the 12th month of the taxable year.

(c) AMENDMENT OF DECLARATION.—If any amendment of a declaration is filed, installments payable on the 15th day of the 12th month, if any, shall be ratably increased or decreased, as the case may be, to reflect the increase or decrease, as the case may be, in the estimated tax by reason of such amendment.

(d) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

(e) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid prior to the date prescribed for its payment.

SEC. 6155. PAYMENT ON NOTICE AND DEMAND.

(a) GENERAL RULE.—Upon receipt of notice and demand from the Secretary or his delegate, there shall be paid at the place and time stated in such notice the amount of any tax (including any interest, additional amounts, additions to tax, and assessable penalties) stated in such notice and demand.

(b) CROSS REFERENCES.—

(1) For restrictions on assessment and collection of deficiency assessments of taxes subject to the jurisdiction of the Tax Court, see sections 6212 and 6213.

(2) For provisions relating to assessment of claims allowed in a bankruptcy or receivership proceeding, see section 6873.

(3) For provisions relating to jeopardy assessments, see subchapter A of chapter 70.

SEC. 6156. PAYMENT OF TAXES UNDER PROVISIONS OF THE TARIFF ACT.

For collection under the provisions of the Tariff Act of 1930 of the taxes imposed by section 4501 (b), and subchapters A, B, C, D, and E of chapter 38, see sections 4504 and 4601, respectively.

Subchapter B—Extensions of Time for Payment

Sec. 6161. Extension of time for paying tax.
Sec. 6162. Extension of time for payment of tax on gain attributable to liquidation of personal holding companies.
Sec. 6163. Extension of time for payment of estate tax on value of reversionary or remainder interest in property.
Sec. 6164. Extension of time for payment of taxes by corporations expecting carrybacks.
Sec. 6165. Bonds where time to pay tax or deficiency has been extended.

SEC. 6161. EXTENSION OF TIME FOR PAYING TAX.

(a) AMOUNT DETERMINED BY TAXPAYER ON RETURN.—

(1) GENERAL RULE.—The Secretary or his delegate, except as otherwise provided in this title, may extend the time for payment of the amount of the tax shown, or required to be shown, on any return or declaration required under authority of this title (or any installment thereof), for a reasonable period not to exceed 6 months from the date fixed for payment thereof. Such extension may exceed 6 months in the case of a taxpayer who is abroad.

(2) ESTATE TAX.—If the Secretary or his delegate finds that the payment on the due date of any part of the amount determined by the executor as the tax imposed by chapter 11 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 fixed for payment of the tax.

(b) AMOUNT DETERMINED AS DEFICIENCY.—Under regulations prescribed by the Secretary or his delegate, the Secretary or his delegate may extend, to the extent provided below, the time for payment of the amount determined as a deficiency:

(1) In the case of a tax imposed by chapter 1 or 12, for a period not to exceed 18 months from the date fixed for payment of the deficiency, and, in exceptional cases, for a further period not to exceed 12 months;

(2) In the case of a tax imposed by chapter 11, for a period not to exceed 4 years from the date otherwise fixed for payment of the deficiency.

An extension under this subsection may be granted only where it is shown to the satisfaction of the Secretary or his delegate that the payment of a deficiency upon the date fixed for the payment thereof will result in undue hardship to the taxpayer in the case of a tax imposed by chapter 1, to the estate in the case of a tax imposed by chapter 11, or to the donor in the case of a tax imposed by chapter 12. No extension shall be granted if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

(c) CLAIMS IN BANKRUPTCY OR RECEIVERSHIP PROCEEDINGS.—Extensions of time for payment of any portion of a claim for tax under chapter 1 or chapter 12, allowed in bankruptcy or receivership pro-

ceedings, which is unpaid, may be had in the same manner and subject to the same provisions and limitations as provided in subsection (b) in respect of a deficiency in such tax.

(d) CROSS REFERENCES.—

(1) PERIOD OF LIMITATION.—

For extension of the period of limitation in case of an extension under subsection (a) (2) or subsection (b) (2), see section 6503 (d).

(2) SECURITY.—

For authority of the Secretary or his delegate to require security in case of an extension under subsection (a) (2) or subsection (b), see section 6165.

SEC. 6162. EXTENSION OF TIME FOR PAYMENT OF TAX ON GAIN ATTRIBUTABLE TO LIQUIDATION OF PERSONAL HOLDING COMPANIES.

(a) EXTENSION PERMITTED.—The Secretary or his delegate may (under regulations prescribed by the Secretary or his delegate) extend (for a period not to exceed 5 years from the date fixed for the payment of the tax) the time for the payment of such portion of the amount determined as the tax under chapter 1 by the taxpayer for any taxable year beginning before January 1, 1956, as is attributable to the short-term or long-term capital gain derived by the taxpayer from the receipt by him of property other than money on a complete liquidation of a corporation to which section 331 (a) (1) or 342 applies. This section shall apply only if the corporation, for its taxable year preceding the year in which occurred the complete liquidation (or the first of the series of distributions in complete liquidation), was, under the law applicable to such taxable year, a personal holding company or a foreign personal holding company. An extension under this section shall be granted only if it is shown to the satisfaction of the Secretary or his delegate that the failure to grant the extension will result in undue hardship to the taxpayer.

(b) SECURITY.—

For authority of the Secretary or his delegate to require security in the case of such an extension, see section 6165.

SEC. 6163. EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX ON VALUE OF REVERSIONARY OR REMAINDER INTEREST IN PROPERTY.

(a) EXTENSION PERMITTED.—If the value of a reversionary or remainder interest in property is included under chapter 11 in the value of the gross estate, the payment of the part of the tax under chapter 11 attributable to such interest may, at the election of the executor, be postponed until 6 months after the termination of the precedent interest or interests in the property, under such regulations as the Secretary or his delegate may prescribe.

(b) CROSS REFERENCES.—

(1) INTEREST.—

For provisions requiring the payment of interest for the period of such extension, see section 6601 (b).

(2) SECURITY.—

For authority of the Secretary or his delegate to require security in the case of such extension, see section 6165.

SEC. 6164. EXTENSION OF TIME FOR PAYMENT OF TAXES BY CORPORATIONS EXPECTING CARRYBACKS.

(a) IN GENERAL.—If a corporation, in any taxable year, files with the Secretary or his delegate a statement, as provided in subsection (b), with respect to an expected net operating loss carryback from such taxable year, the time for payment of all or part of any tax imposed by subtitle A for the taxable year immediately preceding such taxable year shall be extended, to the extent and subject to the conditions and limitations hereinafter provided in this section.

(b) CONTENTS OF STATEMENT.—The statement shall be filed at such time and in such manner and form as the Secretary or his delegate may by regulations prescribe. Such statement shall set forth that the corporation expects to have a net operating loss carryback, as provided in section 172 (b), from the taxable year in which such statement is made, and shall set forth, in such detail and with such supporting data and explanation as such regulations shall require—

(1) the estimated amount of the expected net operating loss;

(2) the reasons, facts, and circumstances which cause the corporation to expect such net operating loss;

(3) the amount of the reduction of the tax previously determined attributable to the expected carryback, such tax previously determined being ascertained in accordance with the method prescribed in section 1314 (a); and such reduction being determined by applying the expected carryback in the manner provided by law to the items on the basis of which such tax was determined;

(4) the tax and the part thereof the time for payment of which is to be extended; and

(5) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

The Secretary or his delegate shall, upon request, furnish a receipt for any statement filed, which shall set forth the date of such filing.

(c) AMOUNT TO WHICH EXTENSION RELATES AND INSTALLMENT PAYMENTS.—The amount the time for payment of which may be extended under subsection (a) with respect to any tax shall not exceed the amount of such tax shown on the return, increased by any amount assessed as a deficiency (or as interest or addition to the tax) prior to the date of filing the statement and decreased by any amount paid or required to be paid prior to the date of such filing, and the total amount of the tax the time for payment of which may be extended shall not exceed the amount stated under subsection (b) (3). For purposes of this subsection, an amount shall not be considered as required to be paid unless shown on the return or assessed as a deficiency (or as interest or addition to the tax), and an amount assessed as a deficiency (or as interest or addition to the tax) shall be considered to be required to be paid prior to the date of filing of the statement if the 10th day after notice and demand for its payment occurs prior to such date. If an extension of time under this section relates to only a part of the tax, the time for payment of the remainder shall be considered to be the dates on which payments would have been required if such remainder had been the tax and the

taxpayer had elected to pay the tax in installments as provided in section 6152.

(d) PERIOD OF EXTENSION.—The extension of time for payment provided in this section shall expire—

(1) on the last day of the month in which falls the last date prescribed by law (including any extension of time granted the taxpayer) for the filing of the return for the taxable year of the expected net operating loss, or

(2) if an application for tentative carryback adjustment provided in section 6411 with respect to such loss is filed before the expiration of the period prescribed in paragraph (1), on the date on which notice is mailed by registered mail by the Secretary or his delegate to the taxpayer that such application is allowed or disallowed in whole or in part.

(e) REVISED STATEMENTS.—Each statement filed under subsection (a) with respect to any taxable year shall be in lieu of the last statement previously filed with respect to such year. If the amount the time for payment of which is extended under a statement filed is less than the amount under the last statement previously filed, the extension of time shall be terminated as to the difference between the two amounts.

(f) TERMINATION.—The Secretary or his delegate is not required to make any examination of the statement, but he may make such examination thereof as he deems necessary and practicable. The Secretary or his delegate shall terminate the extension as to any part of the amount to which it relates which he deems should be terminated because, upon such examination, he believes that, as of the time such examination is made, all or any part of the statement clearly is in a material respect erroneous or unreasonable.

(g) PAYMENTS ON TERMINATION.—If an extension of time is terminated under subsection (e) or (f) with respect to any amount, then—

(1) no further extension of time shall be made under this section with respect to such amount, and

(2) the time for payment of such amount shall be considered to be the dates on which payments would have been required if there had been no extension with respect to such amount and the taxpayer had elected to pay the tax in installments as provided in section 6152.

(h) JEOPARDY.—If the Secretary or his delegate believes that collection of the amount to which an extension under this section relates is in jeopardy, he shall immediately terminate such extension, and notice and demand shall be made by him for payment of such amount.

(i) CONSOLIDATED RETURNS.—If the corporation seeking an extension of time under this section made or was required to make a consolidated return, either for the taxable year within which the net operating loss arises or for the preceding taxable year affected by such loss, the provisions of such section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe.

SEC. 6165. BONDS WHERE TIME TO PAY TAX OR DEFICIENCY HAS BEEN EXTENDED.

In the event the Secretary or his delegate grants any extension of time within which to pay any tax or any deficiency therein, the Secretary or his delegate may require the taxpayer to furnish a bond in such amount (not exceeding double the amount with respect to which the extension is granted) conditioned upon the payment of the amount extended in accordance with the terms of such extension.

CHAPTER 63—ASSESSMENT

SUBCHAPTER A. In general.
SUBCHAPTER B. Deficiency procedures in the case of income, estate, and gift taxes.

Subchapter A—In General

Sec. 6201. Assessment authority.
Sec. 6202. Establishment by regulations of mode or time of assessment.
Sec. 6203. Method of assessment.
Sec. 6204. Supplemental assessments.
Sec. 6205. Special rules applicable to certain employment taxes.
Sec. 6206. Cross references.

SEC. 6201. ASSESSMENT AUTHORITY.

(a) AUTHORITY OF SECRETARY OR DELEGATE.—The Secretary or his delegate is authorized and required to make the inquiries, determinations, and assessments of all taxes (including interest, additional amounts, additions to the tax, and assessable penalties) imposed by this title, or accruing under any former internal revenue law, which have not been duly paid by stamp at the time and in the manner provided by law. Such authority shall extend to and include the following:

(1) TAXES SHOWN ON RETURN.—The Secretary or his delegate shall assess all taxes determined by the taxpayer or by the Secretary or his delegate as to which returns or lists are made under this title.

(2) UNPAID TAXES PAYABLE BY STAMP.—

(A) OMITTED STAMPS.—Whenever any article upon which a tax is required to be paid by means of a stamp is sold or removed for sale or use by the manufacturer thereof or whenever any transaction or act upon which a tax is required to be paid by means of a stamp occurs without the use of the proper stamp, it shall be the duty of the Secretary or his delegate, upon such information as he can obtain, to estimate the amount of tax which has been omitted to be paid and to make assessment therefor upon the person or persons the Secretary or his delegate determines to be liable for such tax.

(B) CHECK OR MONEY ORDER NOT DULY PAID.—In any case in which a check or money order received under authority of section 6311 as payment for stamps is not duly paid, the unpaid amount may be immediately assessed as if it were a tax imposed by this title, due at the time of such receipt, from the person who tendered such check or money order.

(3) ERRONEOUS INCOME TAX PREPAYMENT CREDITS.—If on any return or claim for refund of income taxes under subtitle A there is an overstatement of the credit for income tax withheld at the source, or of the amount paid as estimated income tax, the amount so over-

stated which is allowed against the tax shown on the return or which is allowed as a credit or refund may be assessed by the Secretary or his delegate in the same manner as in the case of a mathematical error appearing upon the return.

(b) ESTIMATED INCOME TAX.—No unpaid amount of estimated tax under section 6153 or 6154 shall be assessed.

(c) COMPENSATION OF CHILD.—Any income tax under chapter 1 assessed against a child, to the extent attributable to amounts includible in the gross income of the child, and not of the parent, solely by reason of section 73 (a), shall, if not paid by the child, for all purposes be considered as having also been properly assessed against the parent.

(d) DEFICIENCY PROCEEDINGS.—

For special rules applicable to deficiencies of income, estate, and gift taxes, see subchapter B.

SEC. 6202. ESTABLISHMENT BY REGULATIONS OF MODE OR TIME OF ASSESSMENT.

If the mode or time for the assessment of any internal revenue tax (including interest, additional amounts, additions to the tax, and assessable penalties) is not otherwise provided for, the Secretary or his delegate may establish the same by regulations.

SEC. 6203. METHOD OF ASSESSMENT.

The assessment shall be made by recording the liability of the taxpayer in the office of the Secretary or his delegate in accordance with rules or regulations prescribed by the Secretary or his delegate. Upon request of the taxpayer, the Secretary or his delegate shall furnish the taxpayer a copy of the record of the assessment.

SEC. 6204. SUPPLEMENTAL ASSESSMENTS.

(a) GENERAL RULE.—The Secretary or his delegate may, at any time within the period prescribed for assessment, make a supplemental assessment whenever it is ascertained that any assessment is imperfect or incomplete in any material respect.

(b) RESTRICTIONS ON ASSESSMENT.—

For restrictions on assessment of deficiencies in income, estate, and gift taxes, see section 6213.

SEC. 6205. SPECIAL RULES APPLICABLE TO CERTAIN EMPLOYMENT TAXES.

(a) ADJUSTMENT OF TAX.—

(1) GENERAL RULE.—If less than the correct amount of tax imposed by section 3101, 3111, 3201, 3221, or 3402 is paid with respect to any payment of wages or compensation, proper adjustments, with respect to both the tax and the amount to be deducted, shall be made, without interest, in such manner and at such times as the Secretary or his delegate may by regulations prescribe.

(2) UNITED STATES AS EMPLOYER.—For purposes of this subsection, in the case of remuneration received from the United States or a wholly-owned instrumentality thereof during any calendar year, each head of a Federal agency or instrumentality who makes a return pursuant to section 3122 and each agent, designated by the head of a Federal agency or instrumentality, who makes a return pursuant to such section shall be deemed a separate employer.

(b) UNDERPAYMENTS.—If less than the correct amount of tax imposed by section 3101, 3111, 3201, 3221, or 3402 is paid or deducted with respect to any payment of wages or compensation and the underpayment cannot be adjusted under subsection (a) of this section, the amount of the underpayment shall be assessed and collected in such manner and at such times (subject to the statute of limitations properly applicable thereto) as the Secretary or his delegate may by regulations prescribe.

SEC. 6206. CROSS REFERENCES.

(1) For prohibition of suits to restrain assessment of any tax, see section 7421.

(2) For prohibition of assessment of taxes against insolvent banks, see section 7507.

(3) For assessment where property subject to tax has been sold in a distraint proceeding without the tax having been assessed prior to such sale, see section 6342.

(4) For assessment in case of sale or removal of tobacco, snuff, cigars, and cigarettes without the use of proper stamps, see section 5703 (d).

(5) For assessment in case of distilled spirits removed from place where distilled and not deposited in bonded warehouse, see section 5006 (c).

(6) For assessment in case of certain spirits subject to excessive leakage, see section 5006 (b).

(7) For assessment of deficiencies in production of distilled spirits, see section 5007 (e) (1).

(8) For period of limitation upon assessment, see chapter 66.

(9) For assessment under the provisions of the Tariff Act of 1930 of the taxes imposed by section 4501 (b), and subchapters A, B, C, D, and E of chapter 38, see sections 4504 and 4601, respectively.

Subchapter B—Deficiency Procedures in the Case of Income, Estate, and Gift Taxes

Sec. 6211. Definition of a deficiency.
Sec. 6212. Notice of deficiency.
Sec. 6213. Restrictions applicable to deficiencies; petition to Tax Court.
Sec. 6214. Determinations by Tax Court.
Sec. 6215. Assessment of deficiency found by Tax Court.
Sec. 6216. Cross references.

SEC. 6211. DEFINITION OF A DEFICIENCY.

(a) IN GENERAL.—For purposes of this title in the case of income, estate, and gift taxes, imposed by subtitles A and B, the term "deficiency" means the amount by which the tax imposed by subtitles A or B exceeds the excess of—

(1) the sum of

(A) the amount shown as the tax by the taxpayer upon his return, if a return was made by the taxpayer and an amount was shown as the tax by the taxpayer thereon, plus

(B) the amounts previously assessed (or collected without assessment) as a deficiency, over—

(2) the amount of rebates, as defined in subsection (b) (2), made.

(b) RULES FOR APPLICATION OF SUBSECTION (a).—For purposes of this section—

(1) The tax imposed by chapter 1 and the tax shown on the return shall both be determined without regard to payments on account of estimated tax, without regard to the credit under section 31, and without regard to so much of the credit under section 32 as exceeds 2 percent of the interest on obligations described in section 1451.

(2) The term "rebate" means so much of an abatement, credit, refund, or other repayment, as was made on the ground that the tax imposed by subtitles A or B was less than the excess of the amount specified in subsection (a) (1) over the rebates previously made.

(3) The computation by the Secretary or his delegate, pursuant to section 6014, of the tax imposed by chapter 1 shall be considered as having been made by the taxpayer and the tax so computed considered as shown by the taxpayer upon his return.

SEC. 6212. NOTICE OF DEFICIENCY.

(a) IN GENERAL.—If the Secretary or his delegate determines that there is a deficiency in respect of any tax imposed by subtitles A or B, he is authorized to send notice of such deficiency to the taxpayer by registered mail.

(b) ADDRESS FOR NOTICE OF DEFICIENCY.—

(1) INCOME AND GIFT TAXES.—In the absence of notice to the Secretary or his delegate under section 6903 of the existence of a fiduciary relationship, notice of a deficiency in respect of a tax

imposed by chapter 1 or 12, if mailed to the taxpayer at his last known address, shall be sufficient for purposes of such chapter and this chapter even if such taxpayer is deceased, or is under a legal disability, or, in the case of a corporation, has terminated its existence.

(2) JOINT INCOME TAX RETURN.—In the case of a joint income tax return filed by husband and wife, such notice of deficiency may be a single joint notice, except that if the Secretary or his delegate has been notified by either spouse that separate residences have been established, then, in lieu of the single joint notice, a duplicate original of the joint notice shall be sent by registered mail to each spouse at his last known address.

(3) ESTATE TAX.—In the absence of notice to the Secretary or his delegate under section 6903 of the existence of a fiduciary relationship, notice of a deficiency in respect of a tax imposed by chapter 11, if addressed in the name of the decedent or other person subject to liability and mailed to his last known address, shall be sufficient for purposes of chapter 11 and of this chapter.

(c) FURTHER DEFICIENCY LETTERS RESTRICTED.—

(1) GENERAL RULE.—If the Secretary or his delegate has mailed to the taxpayer a notice of deficiency as provided in subsection (a), and the taxpayer files a petition with the Tax Court within the time prescribed in section 6213 (a), the Secretary or his delegate shall have no right to determine any additional deficiency of income tax for the same taxable year, of gift tax for the same calendar year, or of estate tax in respect of the taxable estate of the same decedent, except in the case of fraud, and except as provided in section 6214 (a) (relating to assertion of greater deficiencies before the Tax Court), in section 6213 (b) (1) (relating to mathematical errors), or in section 6861 (c) (relating to the making of jeopardy assessments).

(2) CROSS REFERENCES.—

For assessment as a deficiency notwithstanding the prohibition of further deficiency letters, in the case of—

(A) Deficiency attributable to change of election to take standard deduction where taxpayer and his spouse made separate returns, see section 144 (b).

(B) Deficiency attributable to gain on involuntary conversion, see section 1033 (a) (3) (C) and (D).

(C) Deficiency attributable to gain on sale or exchange of personal residence, see section 1034 (j).

(D) Deficiency attributable to war loss recoveries where prior benefit rule is elected, see section 1335.

SEC. 6213. RESTRICTIONS APPLICABLE TO DEFICIENCIES; PETITION TO TAX COURT.

(a) TIME FOR FILING PETITION AND RESTRICTION ON ASSESSMENT.—Within 90 days, or 150 days if the notice is addressed to a person outside the States of the Union and the District of Columbia, after the notice of deficiency authorized in section 6212 is mailed (not counting Saturday, Sunday, or a legal holiday in the District of Columbia as the last day), the taxpayer may file a petition with the Tax Court for a redetermination of the deficiency. Except as otherwise provided in section 6861 no assessment of a deficiency in respect of any tax imposed by subtitle A or B and no levy or proceeding in court for its collection shall be made, begun, or prosecuted

until such notice has been mailed to the taxpayer, nor until the expiration of such 90-day or 150-day period, as the case may be, nor, if a petition has been filed with the Tax Court, until the decision of the Tax Court has become final. Notwithstanding the provisions of section 7421 (a), the making of such assessment or the beginning of such proceeding or levy during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

(b) EXCEPTIONS TO RESTRICTIONS ON ASSESSMENT.—

(1) MATHEMATICAL ERRORS.—If the taxpayer is notified that, on account of a mathematical error appearing upon the return, an amount of tax in excess of that shown upon the return is due, and that an assessment of the tax has been or will be made on the basis of what would have been the correct amount of tax but for the mathematical error, such notice shall not be considered as a notice of deficiency for the purposes of subsection (a) (prohibiting assessment and collection until notice of the deficiency has been mailed), or of section 6212 (c) (1) (restricting further deficiency letters), or section 6512 (a) (prohibiting credits or refunds after petition to the Tax Court), and the taxpayer shall have no right to file a petition with the Tax Court based on such notice, nor shall such assessment or collection be prohibited by the provisions of subsection (a) of this section.

(2) ASSESSMENTS ARISING OUT OF TENTATIVE CARRYBACK ADJUSTMENTS.—If the Secretary or his delegate determines that the amount applied, credited, or refunded under section 6411 is in excess of the overassessment attributable to the carryback with respect to which such amount was applied, credited, or refunded, he may assess the amount of the excess as a deficiency as if it were due to a mathematical error appearing on the return.

(3) ASSESSMENT OF AMOUNT PAID.—Any amount paid as a tax or in respect of a tax may be assessed upon the receipt of such payment notwithstanding the provisions of subsection (a). In any case where such amount is paid after the mailing of a notice of deficiency under section 6212, such payment shall not deprive the Tax Court of jurisdiction over such deficiency determined under section 6211 without regard to such assessment.

(c) FAILURE TO FILE PETITION.—If the taxpayer does not file a petition with the Tax Court within the time prescribed in subsection (a), the deficiency, notice of which has been mailed to the taxpayer, shall be assessed, and shall be paid upon notice and demand from the Secretary or his delegate.

(d) WAIVER OF RESTRICTIONS.—The taxpayer shall at any time (whether or not a notice of deficiency has been issued) have the right, by a signed notice in writing filed with the Secretary or his delegate, to waive the restrictions provided in subsection (a) on the assessment and collection of the whole or any part of the deficiency.

(e) CROSS REFERENCES.—

(1) For assessment as if a mathematical error on the return, in the case of erroneous claims for income tax prepayment credits, see section 6201 (a) (3).

(2) For assessments without regard to restrictions imposed by this section in the case of—

(A) Recovery of foreign income taxes, see section 905 (c).

(B) Recovery of foreign estate tax, see section 2016.

SEC. 6214. DETERMINATIONS BY TAX COURT.

(a) JURISDICTION AS TO INCREASE OF DEFICIENCY, ADDITIONAL AMOUNTS, OR ADDITIONS TO THE TAX.—The Tax Court shall have jurisdiction to redetermine the correct amount of the deficiency even if the amount so redetermined is greater than the amount of the deficiency, notice of which has been mailed to the taxpayer, and to determine whether any additional amount, or addition to the tax should be assessed, if claim therefor is asserted by the Secretary or his delegate at or before the hearing or a rehearing.

(b) JURISDICTION OVER OTHER YEARS.—The Tax Court in redetermining a deficiency of income tax for any taxable year or of gift tax for any calendar year shall consider such facts with relation to the taxes for other years as may be necessary correctly to redetermine the amount of such deficiency, but in so doing shall have no jurisdiction to determine whether or not the tax for any other year has been overpaid or underpaid.

(c) FINAL DECISIONS OF TAX COURT.—For purposes of this chapter and subtitles A or B the date on which a decision of the Tax Court becomes final shall be determined according to the provisions of section 7481.

SEC. 6215. ASSESSMENT OF DEFICIENCY FOUND BY TAX COURT.

(a) GENERAL RULE.—If the taxpayer files a petition with the Tax Court, the entire amount redetermined as the deficiency by the decision of the Tax Court which has become final shall be assessed and shall be paid upon notice and demand from the Secretary or his delegate. No part of the amount determined as a deficiency by the Secretary or his delegate but disallowed as such by the decision of the Tax Court which has become final shall be assessed or be collected by levy or by proceeding in court with or without assessment.

(b) CROSS REFERENCES.—

(1) For assessment or collection of the amount of the deficiency determined by the Tax Court pending appellate court review, see section 7485.

(2) For dismissal of petition by Tax Court as affirmation of deficiency as determined by the Secretary or his delegate, see section 7459 (d).

(3) For decision of Tax Court that tax is barred by limitation as its decision that there is no deficiency, see section 7459 (e).

(4) For assessment of damages awarded by Tax Court for instituting proceedings merely for delay, see section 6673.

(5) For treatment of certain deficiencies as having been paid, in connection with sale of surplus war-built vessels, see section 9 (b) (8) of the Merchant Ship Sales Act of 1946 (60 Stat. 48; 50 U. S. C. App. 1742).

(6) For rules applicable to Tax Court proceedings, see generally subchapter C of chapter 76.

(7) For proration of deficiency to installments, see section 6152 (c).

(8) For extension of time for paying amount determined as deficiency, see section 6161 (b).

SEC. 6216. CROSS REFERENCES.

(1) For procedures relating to bankruptcy and receivership, see subchapter B of chapter 70.

(2) For procedures relating to jeopardy assessments, see subchapter A of chapter 70.

(3) For procedures relating to claims against transferees and fiduciaries, see chapter 71.

CHAPTER 64—COLLECTION

SUBCHAPTER A. General provisions.
SUBCHAPTER B. Receipt of payment.
SUBCHAPTER C. Lien for taxes.
SUBCHAPTER D. Seizure of property for collection of taxes.

Subchapter A—General Provisions

Sec. 6301. Collection authority.
Sec. 6302. Mode or time of collection.
Sec. 6303. Notice and demand for tax.
Sec. 6304. Collection under the Tariff Act.

SEC. 6301. COLLECTION AUTHORITY.

The Secretary or his delegate shall collect the taxes imposed by the internal revenue laws.

SEC. 6302. MODE OR TIME OF COLLECTION.

(a) ESTABLISHMENT BY REGULATIONS.—If the mode or time for collecting any tax is not provided for by this title, the Secretary or his delegate may establish the same by regulations.

(b) DISCRETIONARY METHOD.—Whether or not the method of collecting any tax imposed by chapters 21, 31, 32, 33, sections 4501 (a) or 4511 of chapter 37, or sections 4701 or 4721 of chapter 39 is specifically provided for by this title, any such tax may, under regulations prescribed by the Secretary or his delegate, be collected by means of returns, stamps, coupons, tickets, books, or such other reasonable devices or methods as may be necessary or helpful in securing a complete and proper collection of the tax.

(c) USE OF GOVERNMENT DEPOSITARIES.—The Secretary or his delegate may authorize Federal Reserve banks, and incorporated banks or trust companies which are depositaries or financial agents of the United States, to receive any tax imposed under the internal revenue laws, in such manner, at such times, and under such conditions as he may prescribe; and he shall prescribe the manner, times, and conditions under which the receipt of such tax by such banks and trust companies is to be treated as payment of such tax to the Secretary or his delegate.

SEC. 6303. NOTICE AND DEMAND FOR TAX.

(a) GENERAL RULE.—Where it is not otherwise provided by this title, the Secretary or his delegate shall, as soon as practicable, and within 60 days, after the making of an assessment of a tax pursuant to section 6203, give notice to each person liable for the unpaid tax, stating the amount and demanding payment thereof. Such notice shall be left at the dwelling or usual place of business of such person, or shall be sent by mail to such person's last known address.

(b) ASSESSMENT PRIOR TO LAST DATE FOR PAYMENT.—Except where the Secretary or his delegate believes collection would be jeopardized by delay, if any tax is assessed prior to the last date prescribed for payment of such tax, payment of such tax shall not be demanded under subsection (a) until after such date.

SEC. 6304. COLLECTION UNDER THE TARIFF ACT.

For collection under the provisions of the Tariff Act of 1930 of the taxes imposed by section 4501 (b), and subchapters A, B, C, D, and E of chapter 38, see sections 4504 and 4601, respectively.

Subchapter B—Receipt of Payment

Sec. 6311. Payment by check or money order.
Sec. 6312. Payment by United States notes and certificates of indebtedness.
Sec. 6313. Fractional parts of a cent.
Sec. 6314. Receipt for taxes.
Sec. 6315. Payments of estimated income tax.
Sec. 6316. Payment by foreign currency.

SEC. 6311. PAYMENT BY CHECK OR MONEY ORDER.

(a) AUTHORITY TO RECEIVE.—It shall be lawful for the Secretary or his delegate to receive for internal revenue taxes, or in payment for internal revenue stamps, checks or money orders, to the extent and under the conditions provided in regulations prescribed by the Secretary or his delegate.

(b) CHECK OR MONEY ORDER UNPAID.—

(1) ULTIMATE LIABILITY.—If a check or money order so received is not duly paid, the person by whom such check or money order has been tendered shall remain liable for the payment of the tax or for the stamps, and for all legal penalties and additions, to the same extent as if such check or money order had not been tendered.

(2) LIABILITY OF BANKS AND OTHERS.—If any certified, treasurer's, or cashier's check or any money order so received is not duly paid, the United States shall, in addition to its right to exact payment from the party originally indebted therefor, have a lien for the amount of such check upon all the assets of the bank or trust company on which drawn or for the amount of such money order upon all the assets of the issuer thereof; and such amount shall be paid out of such assets in preference to any other claims whatsoever against such bank or issuer except the necessary costs and expenses of administration and the reimbursement of the United States for the amount expended in the redemption of the circulating notes of such bank.

SEC. 6312. PAYMENT BY UNITED STATES NOTES AND CERTIFICATES OF INDEBTEDNESS.

(a) GENERAL RULE.—It shall be lawful for the Secretary or his delegate to receive, at par with an adjustment for accrued interest, Treasury bills, notes and certificates of indebtedness issued by the United States in payment of any internal revenue taxes, or in payment for internal revenue stamps, to the extent and under the conditions provided in regulations prescribed by the Secretary or his delegate.

(b) CROSS REFERENCES.—

(1) For authority to receive silver certificates, see section 5 of the act of June 19, 1934 (48 Stat. 1178; 31 U. S. C. 405a).

(2) For full legal tender status of all coins and currencies of the United States, see section 43 (b) (1) of the Agricultural Adjustment Act, as amended (48 Stat. 52, 113; 31 U. S. C. 462).

(3) For authority to receive obligations under the Second Liberty Bond Act, see section 20 (b) of that act, as amended (56 Stat. 189; 31 U. S. C. 754b).

SEC. 6313. FRACTIONAL PARTS OF A CENT.

In the payment of any tax imposed by this title not payable by stamp, a fractional part of a cent shall be disregarded unless it amounts to one-half cent or more, in which case it shall be increased to 1 cent.

SEC. 6314. RECEIPT FOR TAXES.

(a) GENERAL RULE.—The Secretary or his delegate shall, upon request, give receipts for all sums collected by him, excepting only when the same are in payment for stamps sold and delivered; but no receipt shall be issued in lieu of a stamp representing a tax.

(b) DUPLICATE RECEIPTS FOR PAYMENT OF ESTATE TAXES.—The Secretary or his delegate shall, upon request, give to the person paying the tax under chapter 11 (relating to the estate tax) duplicate receipts, either of which shall be sufficient evidence of such payment, and shall entitle the executor to be credited and allowed the amount thereof by any court having jurisdiction to audit or settle his accounts.

(c) CROSS REFERENCES.—

(1) For receipt required to be furnished by employer to employee with respect to employment taxes, see section 6051.

(2) For receipt of discharge of executor from personal liability, see section 2204.

SEC. 6315. PAYMENTS OF ESTIMATED INCOME TAX.

Payment of the estimated income tax, or any installment thereof, shall be considered payment on account of the income taxes imposed by subtitle A for the taxable year.

SEC. 6316. PAYMENT BY FOREIGN CURRENCY.

The Secretary or his delegate is authorized in his discretion to allow payment of taxes in the currency of a foreign country under such circumstances and subject to such conditions as the Secretary or his delegate may by regulations prescribe.

Subchapter C—Lien for Taxes

Sec. 6321. Lien for taxes.
Sec. 6322. Period of lien.
Sec. 6323. Validity against mortgagees, pledgees, purchasers, and judgment creditors.
Sec. 6324. Special liens for estate and gift taxes.
Sec. 6325. Release of lien or partial discharge of property.
Sec. 6326. Cross references.

SEC. 6321. LIEN FOR TAXES.

If any person liable to pay any tax neglects or refuses to pay the same after demand, the amount (including any interest, additional amount, addition to tax, or assessable penalty, together with any costs that may accrue in addition thereto) shall be a lien in favor of the United States upon all property and rights to property, whether real or personal, belonging to such person.

SEC. 6322. PERIOD OF LIEN.

Unless another date is specifically fixed by law, the lien imposed by section 6321 shall arise at the time the assessment is made and shall continue until the liability for the amount so assessed is satisfied or becomes unenforceable by reason of lapse of time.

SEC. 6323. VALIDITY AGAINST MORTGAGEES, PLEDGEES, PURCHASERS, AND JUDGMENT CREDITORS.

(a) INVALIDITY OF LIEN WITHOUT NOTICE.—Except as otherwise provided in subsection (c), the lien imposed by section 6321 shall not be valid as against any mortgagee, pledgee, purchaser, or judgment creditor until notice thereof has been filed by the Secretary or his delegate—

(1) UNDER STATE OR TERRITORIAL LAWS.—In the office designated by the law of the State or Territory in which the property subject to the lien is situated, whenever the State or Territory has by law designated an office within the State or Territory for the filing of such notice; or

(2) WITH CLERK OF DISTRICT COURT.—In the office of the clerk of the United States district court for the judicial district in which the property subject to the lien is situated, whenever the State or Territory has not by law designated an office within the State or Territory for the filing of such notice; or

(3) WITH CLERK OF DISTRICT COURT FOR DISTRICT OF COLUMBIA.—In the office of the clerk of the United States District Court for the District of Columbia, if the property subject to the lien is situated in the District of Columbia.

(b) FORM OF NOTICE.—If the notice filed pursuant to subsection (a) (1) is in such form as would be valid if filed with the clerk of the United States district court pursuant to subsection (a) (2), such notice shall be valid notwithstanding any law of the State or Territory regarding the form or content of a notice of lien.

(c) EXCEPTION IN CASE OF SECURITIES.—

(1) EXCEPTION.—Even though notice of a lien provided in section 6321 has been filed in the manner prescribed in subsection (a)

of this section, the lien shall not be valid with respect to a security, as defined in paragraph (2) of this subsection, as against any mortgagee, pledgee, or purchaser of such security, for an adequate and full consideration in money or money's worth, if at the time of such mortgage, pledge, or purchase such mortgagee, pledgee, or purchaser is without notice or knowledge of the existence of such lien.

(2) DEFINITION OF SECURITY.—As used in this subsection, the term "security" means any bond, debenture, note, or certificate or other evidence of indebtedness, issued by any corporation (including one issued by a government or political subdivision thereof), with interest coupons or in registered form, share of stock, voting trust certificate, or any certificate of interest or participation in, certificate of deposit or receipt for, temporary or interim certificate for, or warrant or right to subscribe to or purchase, any of the foregoing; negotiable instrument; or money.

(d) DISCLOSURE OF AMOUNT OF OUTSTANDING LIEN.—If a notice of lien has been filed under subsection (a), the Secretary or his delegate is authorized to provide by rules or regulations the extent to which, and the conditions under which, information as to the amount of the outstanding obligation secured by the lien may be disclosed.

SEC. 6324. SPECIAL LIENS FOR ESTATE AND GIFT TAXES.

(a) LIENS FOR ESTATE TAX.—Except as otherwise provided in subsection (c) (relating to transfers of securities)—

(1) UPON GROSS ESTATE.—Unless the estate tax imposed by chapter 11 is sooner paid in full, it shall be a lien for 10 years upon the gross estate of the decedent, except that such part of the gross estate as is used for the payment of charges against the estate and expenses of its administration, allowed by any court having jurisdiction thereof, shall be divested of such lien.

(2) LIABILITY OF TRANSFEREES AND OTHERS.—If the estate tax imposed by chapter 11 is not paid when due, then the spouse, transferee, trustee (except the trustee of an employee's trust which meets the requirements of section 401 (a)), surviving tenant, person in possession of the property by reason of the exercise, nonexercise, or release of a power of appointment, or beneficiary, who receives, or has on the date of the decedent's death, property included in the gross estate under sections 2034 to 2042, inclusive, to the extent of the value, at the time of the decedent's death, of such property, shall be personally liable for such tax. Any part of such property transferred by (or transferred by a transferee of) such spouse, transferee, trustee, surviving tenant, person in possession of property by reason of the exercise, nonexercise, or release of a power of appointment, or beneficiary, to a bona fide purchaser, mortgagee, or pledgee, for an adequate and full consideration in money or money's worth shall be divested of the lien provided in paragraph (1) and a like lien shall then attach to all the property of such spouse, transferee, trustee, surviving tenant, person in possession, beneficiary, or transferee of any such person, except any part transferred to a bona fide purchaser, mortgagee, or pledgee for an adequate and full consideration in money or money's worth.

(3) CONTINUANCE AFTER DISCHARGE OF EXECUTOR.—The provisions of section 2204 (relating to discharge of executor from personal liability) shall not operate as a release of any part of the gross

estate from the lien for any deficiency that may thereafter be determined to be due, unless such part of the gross estate (or any interest therein) has been transferred to a bona fide purchaser, mortgagee, or pledgee for an adequate and full consideration in money, or money's worth, in which case such part (or such interest) shall not be subject to a lien or to any claim or demand for any such deficiency, but the lien shall attach to the consideration received from such purchaser, mortgagee, or pledgee by the heirs, legatees, devisees, or distributees.

(b) LIEN FOR GIFT TAX.—Except as otherwise provided in subsection (c) (relating to transfers of securities), the gift tax imposed by chapter 12 shall be a lien upon all gifts made during the calendar year, for 10 years from the time the gifts are made. If the tax is not paid when due, the donee of any gift shall be personally liable for such tax to the extent of the value of such gift. Any part of the property comprised in the gift transferred by the donee (or by a transferee of the donee) to a bona fide purchaser, mortgagee, or pledgee for an adequate and full consideration in money or money's worth shall be divested of the lien herein imposed and the lien, to the extent of the value of such gift, shall attach to all the property (including after-acquired property) of the donee (or the transferee) except any part transferred to a bona fide purchaser, mortgagee, or pledgee for an adequate and full consideration in money or money's worth.

(c) EXCEPTION IN CASE OF SECURITIES.—The lien imposed by subsection (a) or (b) shall not be valid with respect to a security, as defined in section 6323 (c) (2), as against any mortgagee, pledgee, or purchaser of any such security, for an adequate and full consideration in money or money's worth, if at the time of such mortgage, pledge, or purchase such mortgagee, pledgee, or purchaser is without notice or knowledge of the existence of such lien.

SEC. 6325. RELEASE OF LIEN OR PARTIAL DISCHARGE OF PROPERTY.

(a) RELEASE OF LIEN.—Subject to such rules or regulations as the Secretary or his delegate may prescribe, the Secretary or his delegate may issue a certificate of release of any lien imposed with respect to any internal revenue tax if—

(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, has become legally unenforceable, or, in the case of the estate tax imposed by chapter 11 or the gift tax imposed by chapter 12, has been fully satisfied or provided for; or

(2) BOND ACCEPTED.—There is furnished to the Secretary or his delegate and accepted by him a bond that is conditioned upon the payment of the amount assessed, together with all interest in respect thereof, within the time prescribed by law (including any extension of such time), and that is in accordance with such requirements relating to terms, conditions, and form of the bond and sureties thereon, as may be specified by such rules or regulations.

(b) PARTIAL DISCHARGE OF PROPERTY.—

(1) PROPERTY DOUBLE THE AMOUNT OF THE LIABILITY.—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 part of the property subject to any lien imposed

under this chapter if the Secretary or his delegate finds that the fair market value of that part of such property remaining subject to the lien is at least double the amount of the unsatisfied liability secured by such lien and the amount of all other liens upon such property which have priority to such lien.

(2) PART PAYMENT OR INTEREST OF UNITED STATES VALUELESS.—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 part of the property subject to the lien if—

(A) there is paid over to the Secretary or his delegate in part satisfaction of the liability secured by the lien an amount determined by the Secretary or his delegate, which shall not be less than the value, as determined by the Secretary or his delegate, of the interest of the United States in the part to be so discharged, or

(B) the Secretary or his delegate determines at any time that the interest of the United States in the part to be so discharged has no value.

In determining the value of the interest of the United States in the part to be so discharged, the Secretary or his delegate shall give consideration to the fair market value of such part and to such liens thereon as have priority to the lien of the United States.

(c) EFFECT OF CERTIFICATE OF RELEASE OR PARTIAL DISCHARGE.—A certificate of release or of partial discharge issued under this section shall be held conclusive that the lien upon the property covered by the certificate is extinguished.

(d) CROSS REFERENCES.—

(1) For single bond complying with the requirements of both subsection (a) (2) and section 6165, see section 7102.

(2) For other provisions relating to bonds, see generally chapter 73.

(3) For provisions relating to suits to enforce lien, see section 7403.

(4) For provisions relating to suits to clear title to realty, see section 7424.

SEC. 6326. CROSS REFERENCES.

(1) For lien in case of tax on distilled spirits, see section 5004.

(2) For exclusion of tax liability from discharge in bankruptcy, see section 17 of the Bankruptcy Act, as amended (52 Stat. 851; 11 U. S. C. 35).

(3) For limit on amount allowed in bankruptcy proceedings on debts owing to the United States, see section 57 (j) of the Bankruptcy Act, as amended (52 Stat. 867; 11 U. S. C. 93).

(4) For recognition of tax liens in proceedings under the Bankruptcy Act, see section 67 (b) and (c) of that act, as amended (52 Stat. 876–877; 11 U. S. C. 107).

(5) For collection of taxes in connection with wage earners' plans in bankruptcy courts, see section 680 of the Bankruptcy Act, as added by the act of June 22, 1938 (52 Stat. 938; 11 U. S. C. 1080).

(6) For provisions permitting the United States to be made party defendant in a proceeding in a State court for the foreclosure of a lien upon real estate where the United States may have a claim upon the premises involved, see section 2410 of Title 28 of the United States Code.

(7) For priority of lien of the United States in case of insolvency, see R. S. 3466 (31 U. S. C. 191).

Subchapter D—Seizure of Property for Collection of Taxes

Sec. 6331. Levy and distraint.
Sec. 6332. Surrender of property subject to levy.
Sec. 6333. Production of books.
Sec. 6334. Property exempt from levy.
Sec. 6335. Sale of seized property.
Sec. 6336. Sale of perishable goods.
Sec. 6337. Redemption of property.
Sec. 6338. Certificate of sale; deed of real property.
Sec. 6339. Legal effect of certificate of sale of personal property and deed of real property.
Sec. 6340. Records of sale.
Sec. 6341. Expense of levy and sale.
Sec. 6342. Application of proceeds of levy.
Sec. 6343. Authority to release levy.
Sec. 6344. Cross references.

SEC. 6331. LEVY AND DISTRAINT.

(a) AUTHORITY OF SECRETARY OR DELEGATE.—If any person liable to pay any tax neglects or refuses to pay the same within 10 days after notice and demand, it shall be lawful for the Secretary or his delegate to collect such tax (and such further sum as shall be sufficient to cover the expenses of the levy) by levy upon all property and rights to property (except such property as is exempt under section 6334) belonging to such person or on which there is a lien provided in this chapter for the payment of such tax. Levy may be made upon the accrued salary or wages of any officer, employee, or elected official, of the United States, the District of Columbia, or any agency or instrumentality of the United States or the District of Columbia, by serving a notice of levy on the employer (as defined in section 3401 (d)) of such officer, employee, or elected official. If the Secretary or his delegate makes a finding that the collection of such tax is in jeopardy, notice and demand for immediate payment of such tax may be made by the Secretary or his delegate and, upon failure or refusal to pay such tax, collection thereof by levy shall be lawful without regard to the 10-day period provided in this section.

(b) SEIZURE AND SALE OF PROPERTY.—The term "levy" as used in this title includes the power of distraint and seizure by any means. In any case in which the Secretary or his delegate may levy upon property or rights to property, he may seize and sell such property or rights to property (whether real or personal, tangible or intangible).

(c) SUCCESSIVE SEIZURES.—Whenever any property or right to property upon which levy has been made by virtue of subsection (a) is not sufficient to satisfy the claim of the United States for which levy is made, the Secretary or his delegate may, thereafter, and as often as may be necessary, proceed to levy in like manner upon any other property liable to levy of the person against whom such claim exists, until the amount due from him, together with all expenses, is fully paid.

(d) CROSS REFERENCES.—

(1) For provisions relating to jeopardy, see subchapter A of chapter 70.
(2) For proceedings applicable to sale of seized property, see section 6335.

SEC. 6332. SURRENDER OF PROPERTY SUBJECT TO LEVY.

(a) REQUIREMENT.—Any person in possession of (or obligated with respect to) property or rights to property subject to levy upon which a levy has been made shall, upon demand of the Secretary or his delegate, surrender such property or rights (or discharge such obligation) to the Secretary or his delegate, except such part of the property or rights as is, at the time of such demand, subject to an attachment or execution under any judicial process.

(b) PENALTY FOR VIOLATION.—Any person who fails or refuses to surrender as required by subsection (a) any property or rights to property, subject to levy, upon demand by the Secretary or his delegate, shall be liable in his own person and estate to the United States in a sum equal to the value of the property or rights not so surrendered, but not exceeding the amount of the taxes for the collection of which such levy has been made, together with costs and interest on such sum at the rate of 6 percent per annum from the date of such levy.

(c) PERSON DEFINED.—The term "person," as used in subsection (a), includes an officer or employee of a corporation or a member or employee of a partnership, who as such officer, employee, or member is under a duty to surrender the property or rights to property, or to discharge the obligation.

SEC. 6333. PRODUCTION OF BOOKS.

If a levy has been made or is about to be made on any property, or right to property, any person having custody or control of any books or records, containing evidence or statements relating to the property or right to property subject to levy, shall, upon demand of the Secretary or his delegate, exhibit such books or records to the Secretary or his delegate.

SEC. 6334. PROPERTY EXEMPT FROM LEVY.

(a) ENUMERATION.—There shall be exempt from levy—

(1) WEARING APPAREL AND SCHOOL BOOKS.—Such items of wearing apparel and such school books as are necessary for the taxpayer or for members of his family;

(2) FUEL, PROVISIONS, FURNITURE, AND PERSONAL EFFECTS.—If the taxpayer is the head of a family, so much of the fuel, provisions, furniture, and personal effects in his household, and of the arms for personal use, livestock, and poultry of the taxpayer, as does not exceed $500 in value;

(3) BOOKS AND TOOLS OF A TRADE, BUSINESS, OR PROFESSION.—So many of the books and tools necessary for the trade, business, or profession of the taxpayer as do not exceed in the aggregate $250 in value.

(b) APPRAISAL.—The officer seizing property of the type described in subsection (a) shall appraise and set aside to the owner the amount of such property declared to be exempt. If the taxpayer objects at the time of the seizure to the valuation fixed by the officer making

the seizure, the Secretary or his delegate shall summon three disinterested individuals who shall make the valuation.

(c) NO OTHER PROPERTY EXEMPT.—Notwithstanding any other law of the United States, no property or rights to property shall be exempt from levy other than the property specifically made exempt by subsection (a).

SEC. 6335. SALE OF SEIZED PROPERTY.

(a) NOTICE OF SEIZURE.—As soon as practicable after seizure of property, notice in writing shall be given by the Secretary or his delegate to the owner of the property (or, in the case of personal property, the possessor thereof), or shall be left at his usual place of abode or business if he has such within the internal revenue district where the seizure is made. If the owner cannot be readily located, or has no dwelling or place of business within such district, the notice may be mailed to his last known address. Such notice shall specify the sum demanded and shall contain, in the case of personal property, an account of the property seized and, in the case of real property, a description with reasonable certainty of the property seized.

(b) NOTICE OF SALE.—The Secretary or his delegate shall as soon as practicable after the seizure of the property give notice to the owner, in the same manner as that prescribed in subsection (a), and shall cause a notification to be published in some newspaper within the county wherein such seizure is made, or, if there be no newspaper published in such county, shall post such notice at the post office nearest the place where the seizure is made, and in not less than two other public places. Such notice shall specify the property to be sold, and the time, place, manner, and conditions of the sale thereof. Whenever levy is made without regard to the 10-day period provided in section 6331 (a), public notice of sale of the property seized shall not be made within such 10-day period unless section 6336 (relating to sale of perishable goods) is applicable.

(c) SALE OF INDIVISIBLE PROPERTY.—If any property liable to levy is not divisible, so as to enable the Secretary or his delegate by sale of a part thereof to raise the whole amount of the tax and expenses, the whole of such property shall be sold.

(d) TIME AND PLACE OF SALE.—The time of sale shall not be less than 10 days nor more than 40 days from the time of giving public notice under subsection (b). The place of sale shall be within the county in which the property is seized, except by special order of the Secretary or his delegate.

(e) MANNER AND CONDITIONS OF SALE.—

(1) MINIMUM PRICE.—Before the sale the Secretary or his delegate shall determine a minimum price for which the property shall be sold, and if no person offers for such property at the sale the amount of the minimum price, the property shall be declared to be purchased at such price for the United States; otherwise the property shall be declared to be sold to the highest bidder. In determining the minimum price, the Secretary or his delegate shall take into account the expense of making the levy and sale.

(2) ADDITIONAL RULES APPLICABLE TO SALE.—The Secretary or his delegate shall by regulations prescribe the manner and other conditions of the sale of property seized by levy. If one or more alternative methods or conditions are permitted by regulations,

the Secretary or his delegate shall select the alternatives applicable to the sale. Such regulations shall provide:

(A) That the sale shall not be conducted in any manner other than—

(i) by public auction, or

(ii) by public sale under sealed bids.

(B) In the case of the seizure of several items of property, whether such items shall be offered separately, in groups, or in the aggregate; and whether such property shall be offered both separately (or in groups) and in the aggregate, and sold under whichever method produces the highest aggregate amount.

(C) Whether the announcement of the minimum price determined by the Secretary or his delegate may be delayed until the receipt of the highest bid.

(D) Whether payment in full shall be required at the time of acceptance of a bid, or whether a part of such payment may be deferred for such period (not to exceed 1 month) as may be determined by the Secretary or his delegate to be appropriate.

(E) The extent to which methods (including advertising) in addition to those prescribed in subsection (b) may be used in giving notice of the sale.

(F) Under what circumstances the Secretary or his delegate may adjourn the sale from time to time (but such adjournments shall not be for a period to exceed in all 1 month).

(3) PAYMENT OF AMOUNT BID.—If payment in full is required at the time of acceptance of a bid and is not then and there paid, the Secretary or his delegate shall forthwith proceed to again sell the property in the manner provided in this subsection. If the conditions of the sale permit part of the payment to be deferred, and if such part is not paid within the prescribed period, suit may be instituted against the purchaser for the purchase price or such part thereof as has not been paid, together with interest at the rate of 6 percent per annum from the date of the sale; or, in the discretion of the Secretary or his delegate, the sale may be declared by the Secretary or his delegate to be null and void for failure to make full payment of the purchase price and the property may again be advertised and sold as provided in subsections (b) and (c) and this subsection. In the event of such readvertisement and sale any new purchaser shall receive such property or rights to property, free and clear of any claim or right of the former defaulting purchaser, of any nature whatsoever, and the amount paid upon the bid price by such defaulting purchaser shall be forfeited.

(f) STAY OF SALE OF SEIZED PROPERTY PENDING TAX COURT DECISION.—

For restrictions on sale of seized property pending Tax Court decision, see section 6863 (b) (3).

SEC. 6336. SALE OF PERISHABLE GOODS.

If the Secretary or his delegate determines that any property seized is liable to perish or become greatly reduced in price or value by keeping, or that such property cannot be kept without great expense, he shall appraise the value of such property and—

(1) RETURN TO OWNER.—If the owner of the property can be readily found, the Secretary or his delegate shall give him notice

of such determination of the appraised value of the property. The property shall be returned to the owner if, within such time as may be specified in the notice, the owner—

(A) Pays to the Secretary or his delegate an amount equal to the appraised value, or

(B) Gives bond in such form, with such sureties, and in such amount as the Secretary or his delegate shall prescribe, to pay the appraised amount at such time as the Secretary or his delegate determines to be appropriate in the circumstances.

(2) IMMEDIATE SALE.—If the owner does not pay such amount or furnish such bond in accordance with this section, the Secretary or his delegate shall as soon as practicable make public sale of the property in accordance with such regulations as may be prescribed by the Secretary or his delegate.

SEC. 6337. REDEMPTION OF PROPERTY.

(a) BEFORE SALE.—Any person whose property has been levied upon shall have the right to pay the amount due, together with the expenses of the proceeding, if any, to the Secretary or his delegate at any time prior to the sale thereof, and upon such payment the Secretary or his delegate shall restore such property to him, and all further proceedings in connection with the levy on such property shall cease from the time of such payment.

(b) REDEMPTION OF REAL ESTATE AFTER SALE.—

(1) PERIOD.—The owners of any real property sold as provided in section 6335, their heirs, executors, or administrators, or any person having any interest therein, or a lien thereon, or any person in their behalf, shall be permitted to redeem the property sold, or any particular tract of such property, at any time within 1 year after the sale thereof.

(2) PRICE.—Such property or tract of property shall be permitted to be redeemed upon payment to the purchaser, or in case he cannot be found in the county in which the property to be redeemed is situated, then to the Secretary or his delegate, for the use of the purchaser, his heirs, or assigns, the amount paid by such purchaser and interest thereon at the rate of 20 percent per annum.

(c) RECORD.—When any lands sold are redeemed as provided in this section, the Secretary or his delegate shall cause entry of the fact to be made upon the record mentioned in section 6340, and such entry shall be evidence of such redemption.

SEC. 6338. CERTIFICATE OF SALE; DEED OF REAL PROPERTY.

(a) CERTIFICATE OF SALE.—In the case of property sold as provided in section 6335, the Secretary or his delegate shall give to the purchaser a certificate of sale upon payment in full of the purchase price. In the case of real property, such certificate shall set forth the real property purchased, for whose taxes the same was sold, the name of the purchaser, and the price paid therefor.

(b) DEED TO REAL PROPERTY.—In the case of any real property sold as provided in section 6335 and not redeemed in the manner and within the time provided in section 6337, the Secretary or his delegate shall execute (in accordance with the laws of the State in which such real property is situated pertaining to sales of real property under execution) to the purchaser of such real property at such sale, upon his

surrender of the certificate of sale, a deed of the real property so purchased by him, reciting the facts set forth in the certificate.

(c) REAL PROPERTY PURCHASED BY UNITED STATES.—If real property is declared purchased by the United States at a sale pursuant to section 6335, the Secretary or his delegate shall at the proper time execute a deed therefor after its preparation and the endorsement of approval as to its form by the United States district attorney for the district in which the property is situated, and the Secretary or his delegate shall, without delay, cause the deed to be duly recorded in the proper registry of deeds.

SEC. 6339. LEGAL EFFECT OF CERTIFICATE OF SALE OF PERSONAL PROPERTY AND DEED OF REAL PROPERTY.

(a) CERTIFICATE OF SALE OF PROPERTY OTHER THAN REAL PROPERTY.—In all cases of sale pursuant to section 6335 of property (other than real property), the certificate of such sale—

(1) AS EVIDENCE.—Shall be prima facie evidence of the right of the officer to make such sale, and conclusive evidence of the regularity of his proceedings in making the sale; and

(2) AS CONVEYANCES.—Shall transfer to the purchaser all right, title, and interest of the party delinquent in and to the property sold; and

(3) AS AUTHORITY FOR TRANSFER OF CORPORATE STOCK.—If such property consists of stocks, shall be notice, when received, to any corporation, company, or association of such transfer, and shall be authority to such corporation, company, or association to record the transfer on its books and records in the same manner as if the stocks were transferred or assigned by the party holding the same, in lieu of any original or prior certificate, which shall be void, whether canceled or not; and

(4) AS RECEIPTS.—If the subject of sale is securities or other evidences of debt, shall be a good and valid receipt to the person holding the same, as against any person holding or claiming to hold possession of such securities or other evidences of debt; and

(5) AS AUTHORITY FOR TRANSFER OF TITLE TO MOTOR VEHICLE.—If such property consists of a motor vehicle, shall be notice, when received, to any public official charged with the registration of title to motor vehicles, of such transfer and shall be authority to such official to record the transfer on his books and records in the same manner as if the certificate of title to such motor vehicle were transferred or assigned by the party holding the same, in lieu of any original or prior certificate, which shall be void, whether canceled or not.

(b) DEED OF REAL PROPERTY.—In the case of the sale of real property pursuant to section 6335—

(1) DEED AS EVIDENCE.—The deed of sale given pursuant to section 6338 shall be prima facie evidence of the facts therein stated; and

(2) DEED OF CONVEYANCE OF TITLE.—If the proceedings of the Secretary or his delegate as set forth have been substantially in accordance with the provisions of law, such deed shall be considered and operate as a conveyance of all the right, title, and interest the party delinquent had in and to the real property thus sold at the time the lien of the United States attached thereto.

SEC. 6340 RECORDS OF SALE.

(a) REQUIREMENT.—The Secretary or his delegate shall, for each internal revenue district, keep a record of all sales of real property under section 6335 and of redemptions of such property. The record shall set forth the tax for which any such sale was made, the dates of seizure and sale, the name of the party assessed and all proceedings in making such sale, the amount of expenses, the names of the purchasers, and the date of the deed.

(b) COPY AS EVIDENCE.—A copy of such record, or any part thereof, certified by the Secretary or his delegate shall be evidence in any court of the truth of the facts therein stated.

SEC. 6341. EXPENSE OF LEVY AND SALE.

The Secretary or his delegate shall determine the expenses to be allowed in all cases of levy and sale.

SEC. 6342. APPLICATION OF PROCEEDS OF LEVY.

(a) COLLECTION OF LIABILITY.—Any money realized by proceedings under this subchapter (whether by seizure, by surrender under section 6332, or by sale of seized property) shall be applied as follows:

(1) EXPENSE OF LEVY AND SALE.—First, against the expenses of the proceedings under this subchapter;

(2) SPECIFIC TAX LIABILITY ON SEIZED PROPERTY.—If the property seized and sold is subject to a tax imposed by any internal revenue law which has not been paid, the amount remaining after applying paragraph (1) shall then be applied against such tax liability (and, if such tax was not previously assessed, it shall then be assessed);

(3) LIABILITY OF DELINQUENT TAXPAYER.—The amount, if any, remaining after applying paragraphs (1) and (2) shall then be applied against the liability in respect of which the levy was made.

(b) SURPLUS PROCEEDS.—Any surplus proceeds remaining after the application of subsection (a) shall, upon application and satisfactory proof in support thereof, be credited or refunded by the Secretary or his delegate to the person or persons legally entitled thereto.

SEC. 6343. AUTHORITY TO RELEASE LEVY.

It shall be lawful for the Secretary or his delegate, under regulations prescribed by the Secretary or his delegate, to release the levy upon all or part of the property or rights to property levied upon where the Secretary or his delegate determines that such action will facilitate the collection of the liability, but such release shall not operate to prevent any subsequent levy.

SEC. 6344. CROSS REFERENCES.

(a) LENGTH OF PERIOD.—

For period within which levy may be begun in case of—

(1) Income, estate, and gift taxes, see sections 6502 (a) and 6503 (a) (1).

(2) Employment and miscellaneous excise taxes, see section 6502 (a).

(b) DELINQUENT COLLECTION OFFICERS.—

For distraint proceedings against delinquent internal revenue officers, see section 7803 (d).

(c) OTHER REFERENCES.—

For provisions relating to—

(1) Stamps, marks and brands, see section 6807.
(2) Administration of real estate acquired by the United States, see section 7506.

CHAPTER 65—ABATEMENTS, CREDITS, AND REFUNDS

SUBCHAPTER A. Procedure in general.
SUBCHAPTER B. Rules of special application.

Subchapter A—Procedure in General

Sec. 6401. Amounts treated as overpayments.
Sec. 6402. Authority to make credits or refunds.
Sec. 6403. Overpayment of installment.
Sec. 6404. Abatements.
Sec. 6405. Reports of refunds and credits.
Sec. 6406. Prohibition of administrative review of decisions.
Sec. 6407. Date of allowance of refund or credit.

SEC. 6401. AMOUNTS TREATED AS OVERPAYMENTS.

(a) ASSESSMENT AND COLLECTION AFTER LIMITATION PERIOD.—The term "overpayment" includes that part of the amount of the payment of any internal revenue tax which is assessed or collected after the expiration of the period of limitation properly applicable thereto.

(b) EXCESSIVE WITHHOLDING.—If the amount allowable as a credit under section 31 (relating to credit for tax withheld at the source under chapter 24) exceeds the taxes imposed by chapter 1 against which such credit is allowable, the amount of such excess shall be considered an overpayment.

(c) RULE WHERE NO TAX LIABILITY.—An amount paid as tax shall not be considered not to constitute an overpayment solely by reason of the fact that there was no tax liability in respect of which such amount was paid.

SEC. 6402. AUTHORITY TO MAKE CREDITS OR REFUNDS.

(a) GENERAL RULE.—In the case of any overpayment, the Secretary or his delegate, within the applicable period of limitations, may credit the amount of such overpayment, including any interest allowed thereon, against any liability in respect of an internal revenue tax on the part of the person who made the overpayment and shall refund any balance to such person.

(b) CREDITS AGAINST ESTIMATED TAX.—The Secretary or his delegate is authorized to prescribe regulations providing for the crediting against the estimated income tax for any taxable year of the amount determined by the taxpayer or the Secretary (or his delegate) to be an overpayment of the income tax for a preceding taxable year.

SEC. 6403. OVERPAYMENT OF INSTALLMENT.

In the case of a tax payable in installments, if the taxpayer has paid as an installment of the tax more than the amount determined to be the correct amount of such installment, the overpayment shall be credited against the unpaid installments, if any. If the amount already paid, whether or not on the basis of installments, exceeds

the amount determined to be the correct amount of the tax, the overpayment shall be credited or refunded as provided in section 6402.

SEC. 6404. ABATEMENTS.

(a) GENERAL RULE.—The Secretary or his delegate is authorized to abate the unpaid portion of the assessment of any tax or any liability in respect thereof, which—

(1) is excessive in amount, or

(2) is assessed after the expiration of the period of limitation properly applicable thereto, or

(3) is erroneously or illegally assessed.

(b) NO CLAIM FOR ABATEMENT OF INCOME, ESTATE, AND GIFT TAXES.—No claim for abatement shall be filed by a taxpayer in respect of an assessment of any tax imposed under subtitle A or B.

(c) SMALL TAX BALANCES.—The Secretary or his delegate is authorized to abate the unpaid portion of the assessment of any tax, or any liability in respect thereof, if the Secretary or his delegate determines under uniform rules prescribed by the Secretary or his delegate that the administration and collection costs involved would not warrant collection of the amount due.

SEC. 6405. REPORTS OF REFUNDS AND CREDITS.

(a) BY TREASURY TO JOINT COMMITTEE.—No refund or credit of any income, war profits, excess profits, estate, or gift tax in excess of $100,000 shall be made until after the expiration of 30 days from the date upon which a report giving the name of the person to whom the refund or credit is to be made, the amount of such refund or credit, and a summary of the facts and the decision of the Secretary or his delegate, is submitted to the Joint Committee on Internal Revenue Taxation.

(b) BY JOINT COMMITTEE TO CONGRESS.—A report to Congress shall be made annually by such committee of such refunds and credits, including the names of all persons and corporations to whom amounts are credited or payments are made, together with the amounts credited or paid to each.

(c) TENTATIVE ADJUSTMENTS.—Any credit or refund allowed or made under section 6411 shall be made without regard to the provisions of subsection (a) of this section. In any such case, if the credit or refund, reduced by any deficiency in such tax thereafter assessed and by deficiencies in any other tax resulting from adjustments reflected in the determination of the credit or refund, is in excess of $100,000, there shall be submitted to such committee a report containing the matter specified in subsection (a) at such time after the making of the credit or refund as the Secretary or his delegate shall determine the correct amount of the tax.

SEC. 6406. PROHIBITION OF ADMINISTRATIVE REVIEW OF DECISIONS.

In the absence of fraud or mistake in mathematical calculation, the findings of fact in and the decision of the Secretary or his delegate upon the merits of any claim presented under or authorized by the internal revenue laws and the allowance or nonallowance by the Secretary or his delegate of interest on any credit or refund under the internal revenue laws shall not, except as provided in subchapters C

and D of chapter 76 (relating to the Tax Court), be subject to review by any other administrative or accounting officer, employee, or agent of the United States.

SEC. 6407. DATE OF ALLOWANCE OF REFUND OR CREDIT.

The date on which the Secretary or his delegate first authorizes the scheduling of an overassessment in respect of any internal revenue tax shall be considered as the date of allowance of refund or credit in respect of such tax.

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Subchapter B—Rules of Special Application

Sec. 6411. Tentative carryback adjustments.
Sec. 6412. Floor stocks refunds.
Sec. 6413. Special rules applicable to certain employment taxes.
Sec. 6414. Income tax withheld.
Sec. 6415. Credits or refunds to persons who collected certain taxes.
Sec. 6416. Certain taxes on sales and services.
Sec. 6417. Coconut and palm oil.
Sec. 6418. Sugar.
Sec. 6419. Excise tax on wagering.
Sec. 6420. Cross references.

SEC. 6411. TENTATIVE CARRYBACK ADJUSTMENTS.

(a) APPLICATION FOR ADJUSTMENT.—A taxpayer may file an application for a tentative carryback adjustment of the tax for the prior taxable year affected by a net operating loss carryback, provided in section 172 (b), from any taxable year. The application shall be verified in the manner prescribed by section 6065 in the case of a return of such taxpayer, and shall be filed, on or after the date of filing of the return for the taxable year of the net operating loss from which the carryback results and within a period of 12 months from the end of such taxable year, in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth in such detail and with such supporting data and explanation as such regulations shall require—

(1) The amount of the net operating loss;

(2) The amount of the tax previously determined for the prior taxable year affected by such carryback, the tax previously determined being ascertained in accordance with the method prescribed in section 1314 (a);

(3) The amount of decrease in such tax, attributable to such carryback, such decrease being determined by applying the carryback in the manner provided by law to the items on the basis of which such tax was determined;

(4) The unpaid amount of such tax, not including any amount required to be shown under paragraph (5);

(5) The amount, with respect to the tax for the taxable year immediately preceding the taxable year of such loss, as to which an extension of time for payment under section 6164 is in effect; and

(6) Such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

An application under this subsection shall not constitute a claim for credit or refund.

(b) ALLOWANCE OF ADJUSTMENTS.—Within a period of 90 days from the date on which an application for a tentative carryback adjustment is filed under subsection (a), or from the last day of the month in which falls the last date prescribed by law (including any extension of time granted the taxpayer) for filing the return for the taxable year of the net operating loss from which such carryback

results, whichever is the later, the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application, to discover omissions and errors of computation therein, and shall determine the amount of the decrease in the tax attributable to such carryback upon the basis of the application and the examination, except that the Secretary or his delegate may disallow, without further action, any application which he finds contains errors of computation which he deems cannot be corrected by him within such 90-day period or material omissions. Such decrease shall be applied against any unpaid amount of the tax decreased (including any amount of such tax as to which an extension of time under section 6164 is in effect) and any remainder shall be credited against any unsatisfied amount of any tax for the taxable year immediately preceding the taxable year of the net operating loss the time for payment of which tax is extended under section 6164. Any remainder shall, within such 90-day period, be either credited against any tax or installment thereof then due from the taxpayer, or refunded to the taxpayer.

(c) CONSOLIDATED RETURNS.—If the corporation seeking a tentative carryback adjustment under this section, made or was required to make a consolidated return, either for the taxable year within which the net operating loss arises, or for the preceding taxable year affected by such loss, the provisions of this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe.

SEC. 6412. FLOOR STOCKS REFUNDS.

(a) MOTOR VEHICLES.—

(1) IN GENERAL.—Where before April 1, 1955, any article subject to the tax imposed by section 4061 (a) or (b) has been sold by the manufacturer, producer, or importer, and on such date is held by a dealer and has not been used and is intended for sale, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer an amount equal to the difference between the tax paid by such manufacturer, producer, or importer on his sale of the article and the amount of tax made applicable to such article on and after April 1, 1955.

(2) DEFINITIONS.—For purposes of this subsection—

(A) The term "dealer" includes a wholesaler, jobber, distributor, or retailer.

(B) An article shall be considered as "held by a dealer" if title thereto has passed to such dealer (whether or not delivery to him has been made), and if for purposes of consumption title to such article or possession thereof has not at any time been transferred to any person other than a dealer.

(3) REFUNDS TO DEALERS.—Under regulations prescribed by the Secretary or his delegate, the refund provided by this subsection may be made to the dealer instead of the manufacturer, producer, or importer, if the manufacturer, producer, or importer waives any claim for the amount so to be refunded.

(4) REIMBURSEMENT OF DEALERS.—When the credit or refund provided for in this subsection has been allowed to the manufacturer, producer, or importer, he shall remit to the dealer to whom was sold the article in respect of which the credit or refund was allowed so

much of that amount of the tax corresponding to the credit or refund as was included in or added to the price paid or agreed to be paid by the dealer.

(5) LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.—No person shall be entitled to credit or refund under this subsection unless (A) he has in his possession such evidence of the inventories with respect to which the credit or refund is claimed as may be required by regulations prescribed under this subsection, and (B) claim for such credit or refund is filed with the Secretary or his delegate before July 1, 1955.

(b) GASOLINE.—

(1) IN GENERAL.—With respect to any gasoline taxable under section 4081, upon which tax (including floor stocks tax) at the applicable rate has been paid, and which, on April 1, 1955, is held and intended for sale by any person, there shall be credited or refunded (without interest) to the producer or importer who paid the tax, subject to such regulations as may be prescribed by the Secretary or his delegate, an amount equal to so much of the difference between the tax so paid and the amount of tax made applicable to such gasoline on and after April 1, 1955, as has been paid by such producer or importer to such person as reimbursement for the tax reduction on such gasoline, if claim for such credit or refund is filed with the Secretary or his delegate prior to July 1, 1955. No credit or refund shall be allowable under this subsection with respect to gasoline in retail stocks held at the place where intended to be sold at retail, nor with respect to gasoline held for sale by a producer or importer of gasoline.

(2) LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.—No producer or importer shall be entitled to a credit or refund under paragraph (1) unless he has in his possession satisfactory evidence of the inventories with respect to which he has made the reimbursements described in such paragraph, and establishes to the satisfaction of the Secretary or his delegate with respect to the quantity of gasoline as to which credit or refund is claimed under such paragraph, that on or after April 1, 1955, such quantity of gasoline was sold to the ultimate consumer at a price which reflected the amount of the tax reduction.

(c) OTHER LAWS APPLICABLE TO CERTAIN FLOOR STOCKS REFUNDS.—All provisions of law, including penalties, applicable in respect of the taxes imposed under sections 4061 and 4081 shall, insofar as applicable and not inconsistent with subsections (a) and (b) of this section, be applicable in respect of the credits and refunds provided for in such subsections to the same extent as if such credits or refunds constituted overpayments of such taxes.

(d) SUGAR.—With respect to any sugar or articles composed in chief value of sugar upon which tax imposed under section 4501 (b) has been paid and which, on June 30, 1957, are held by the importer and intended for sale or other disposition, there shall be refunded (without interest) to such importer, subject to such regulations as may be prescribed by the Secretary or his delegate, an amount equal to the tax paid with respect to such sugar or articles composed in chief value of sugar.

(e) CROSS REFERENCE.—

For floor stocks refunds in case of certain alcohol and tobacco taxes, see sections 5063 and 5707.

SEC. 6413. SPECIAL RULES APPLICABLE TO CERTAIN EMPLOYMENT TAXES.

(a) ADJUSTMENT OF TAX.—

(1) GENERAL RULE.—If more than the correct amount of tax imposed by section 3101, 3111, 3201, 3221, or 3402 is paid with respect to any payment of remuneration, proper adjustments, with respect to both the tax and the amount to be deducted, shall be made, without interest, in such manner and at such times as the Secretary or his delegate may by regulations prescribe.

(2) UNITED STATES AS EMPLOYER.—For purposes of this subsection, in the case of remuneration received from the United States or a wholly-owned instrumentality thereof during any calendar year, each head of a Federal agency or instrumentality who makes a return pursuant to section 3122 and each agent, designated by the head of a Federal agency or instrumentality, who makes a return pursuant to such section shall be deemed a separate employer.

(b) OVERPAYMENTS OF CERTAIN EMPLOYMENT TAXES.—If more than the correct amount of tax imposed by section 3101, 3111, 3201, 3221, or 3402 is paid or deducted with respect to any payment of remuneration and the overpayment cannot be adjusted under subsection (a) of this section, the amount of the overpayment shall be refunded in such manner and at such times (subject to the statute of limitations properly applicable thereto) as the Secretary or his delegate may by regulations prescribe.

(c) SPECIAL REFUNDS.—

(1) IN GENERAL.—If by reason of an employee receiving wages from more than one employer during any calendar year, the wages received by him during such year exceed $3,600, the employee shall be entitled (subject to the provisions of section 31 (b)) to a credit or refund of any amount of tax, with respect to such wages, imposed by section 3101 and deducted from the employee's wages (whether or not paid to the Secretary or his delegate), which exceeds the tax with respect to the first $3,600 of such wages received.

(2) APPLICABILITY IN CASE OF FEDERAL AND STATE EMPLOYEES.—

(A) FEDERAL EMPLOYEES.—In the case of remuneration received from the United States or a wholly-owned instrumentality thereof during any calendar year, each head of a Federal agency or instrumentality who makes a return pursuant to section 3122 and each agent, designated by the head of a Federal agency or instrumentality, who makes a return pursuant to such section shall, for purposes of this subsection, be deemed a separate employer; and the term "wages" includes, for purposes of this subsection, the amount, not to exceed $3,600, determined by each such head or agent as constituting wages paid to an employee.

(B) STATE EMPLOYEES.—For purposes of this subsection, in the case of remuneration received during any calendar year, the term "wages" includes such remuneration for services covered by an agreement made pursuant to section 218 of the Social Security Act as would be wages if such services constituted employment; the term "employer" includes a State or any political

subdivision thereof, or any instrumentality of any one or more of the foregoing; the term "tax" or "tax imposed by section 3101" includes, in the case of services covered by an agreement made pursuant to section 218 of the Social Security Act, an amount equivalent to the tax which would be imposed by section 3101, if such services constituted employment as defined in section 3121; and the provisions of this subsection shall apply whether or not any amount deducted from the employee's remuneration as a result of an agreement made pursuant to section 218 of the Social Security Act has been paid to the Secretary.

(d) REFUND OR CREDIT OF FEDERAL UNEMPLOYMENT TAX.—Any credit allowable under section 3302, to the extent not previously allowed, shall be considered an overpayment, but no interest shall be allowed or paid with respect to such overpayment.

SEC. 6414. INCOME TAX WITHHELD.

In the case of an overpayment of tax imposed by chapter 24, or by chapter 3, refund or credit shall be made to the employer or to the withholding agent, as the case may be, only to the extent that the amount of such overpayment was not deducted and withheld by the employer or withholding agent.

SEC. 6415. CREDITS OR REFUNDS TO PERSONS WHO COLLECTED CERTAIN TAXES.

(a) ALLOWANCE OF CREDITS OR REFUNDS.—Credit or refund of any overpayment of tax imposed by section 4231 (1), 4231 (2), 4231 (3), 4241, 4251, 4261, 4271, or 4286 may be allowed to the person who collected the tax and paid it to the Secretary or his delegate if such person establishes, under such regulations as the Secretary or his delegate may prescribe, that he has repaid the amount of such tax to the person from whom he collected it, or obtains the consent of such person to the allowance of such credit or refund.

(b) CREDIT ON RETURNS.—Any person entitled to a refund of tax imposed by section 4231 (1), 4231 (2), 4231 (3), 4241, 4251, 4261, 4271, or 4286 paid, or collected and paid, to the Secretary or his delegate by him may, instead of filing a claim for refund, take credit therefor against taxes imposed by such section due upon any subsequent return.

(c) REFUND OF OVERCOLLECTIONS.—In case any person required under section 4231 (1), 4231 (2), 4231 (3), 4241, 4251, 4261, 4271, or 4286 to collect any tax shall make an overcollection of such tax, such person shall, upon proper application, refund such overcollection to the person entitled thereto.

(d) REFUND OF TAXABLE PAYMENT.—Any person making a refund of any payment on which tax imposed by section 4231 (1), 4231 (2), 4231 (3), 4241, 4251, 4261, 4271, or 4286 has been collected may repay therewith the amount of tax collected on such payment.

SEC. 6416. CERTAIN TAXES ON SALES AND SERVICES.

(a) CONDITION TO ALLOWANCE.—No credit or refund of any overpayment of tax imposed by section 4231 (6) or 4281 or by chapter 31 (other than section 4041 (a) (2) or (b) (2)) or chapter 32 (except an overpayment of tax under paragraph (1) or (3) of subsection (b) of this section) shall be allowed unless the person who paid the tax establishes under regulations prescribed by the Secretary or his delegate—

(1) That he has not included the tax in the price of the article or service with respect to which it was imposed or has not collected the amount of the tax from the vendee; or

(2) Has repaid the amount of the tax to the purchaser (in case of retailers' taxes) or to the ultimate purchaser (in the case of manufacturers' taxes and the tax under section 4041 (a) (1) or (b) (1)) of the article or service or, in any case within subsection (b) (2), has repaid or has agreed to repay the amount of the tax to the ultimate vendor of the article; or

(3) Has filed with the Secretary or his delegate the written consent of such purchaser, ultimate purchaser, or ultimate vendor, as the case may be, to the allowance of the credit or refund or has obtained the written consent of such ultimate vendor thereto.

(b) SPECIAL CASES IN WHICH TAX PAYMENTS CONSIDERED OVERPAYMENTS.—Under regulations prescribed by the Secretary or his delegate credit or refund, without interest, shall be made of the overpayments determined under the following paragraphs:

(1) PRICE READJUSTMENTS.—If the price of any article in respect of which a tax, based on such price, is imposed by chapter 31 or 32, is readjusted by reason of the return or repossession of the article or a covering or container, or by a bona fide discount, rebate or allowance, the part of the tax proportionate to the part of the price repaid or credited to the purchaser shall be deemed to be an overpayment.

(2) SPECIFIED USES AND RESALES.—The tax paid under subchapter E of chapter 31 or chapter 32 in respect of any article shall be deemed to be an overpayment if such article was, by any person—

(A) Resold for the exclusive use of any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia, or, in the case of musical instruments embraced in section 4151, resold for the use of any religious or nonprofit educational institution for exclusively religious or educational purposes;

(B) Used or resold for use for any of the purposes, but subject to the conditions, provided in section 4222;

(C) In the case of a liquid taxable under section 4041, sold for use as fuel in a diesel-powered highway vehicle or as fuel for the propulsion of a motor vehicle, motorboat, or airplane, if the vendee used such liquid otherwise than as fuel in such a vehicle, motorboat, or airplane or resold such liquid;

(D) In the case of lubricating oils, used or resold for nonlubricating purposes;

(E) In the case of unexposed motion picture films, used or resold for use in the making of newsreel motion picture films;

(F) In the case of articles taxable under section 4061 (b) (other than spark plugs, storage batteries, leaf springs, coils, timers, and tire chains), used or resold for use as repair or replacement parts or accessories for farm equipment (other than equipment taxable under section 4061 (a));

(G) In the case of a communication, detection, or navigation receiver of the type used in commercial, military, or marine installations, resold to the United States for its exclusive use;

(H) In the case of gasoline, used in production of special motor fuels referred to in section 4041 (b).

(3) TAX-PAID ARTICLES USED FOR FURTHER MANUFACTURE.—If the tax imposed by chapter 32 has been paid with respect to the sale of—

(A) Any article (other than a tire, inner tube, or automobile radio or television receiving set taxable under section 4141) purchased by a manufacturer or producer and used by him as material in the manufacture or production of, or as a component part of, an article with respect to which tax under chapter 32 has been paid, or which has been sold free of tax by virtue of section 4220 or 4224, relating to tax-free sales;

(B) Any article described in sections 4142 and 4143 (b) purchased by a manufacturer or producer and used by him as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers have been sold by him to the United States for its exclusive use;

such tax shall be deemed an overpayment by such manufacturer or producer.

(c) CREDIT FOR TAX PAID ON TIRES, INNER TUBES, RADIOS OR TELEVISION RECEIVING SETS.—If tires, inner tubes, or automobile radio or television receiving sets on which tax has been imposed under chapter 32 are sold on or in connection with, or with the sale of, an article taxable under section 4061 (a) (relating to automobiles, trucks, etc.), there shall (under regulations prescribed by the Secretary or his delegate) be credited, without interest, against the tax under section 4061 an amount equal to, in the case of an article taxable under paragraph (1) or (2) of subsection (a) of section 4061, the applicable percentage rate of tax provided in such subsections—

(1) Of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 4071 (relating to tax on tires and inner tubes) or, in the case of automobile radio or television receiving sets, if such sets were taxable under section 4141; or

(2) If such tires, inner tubes, or automobile radio or television receiving sets were taxable under section 4218 (relating to use by manufacturer, producer, or importer), then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires, inner tubes, or sets are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Secretary or his delegate.

(d) MECHANICAL PENCILS TAXABLE AS JEWELRY.—If any article, on the sale of which tax has been paid under section 4201, is further manufactured or processed resulting in an article taxable under section 4001, the person who sells such article at retail shall, in the computation of the retailers' excise tax due on such sale, be entitled to a credit or refund, without interest, in an amount equal to the tax paid under section 4201.

(e) REFUND TO EXPORTER OR SHIPPER.—Under regulations prescribed by the Secretary or his delegate the amount of any tax imposed

by subchapter E of chapter 31, or chapter 32 erroneously or illegally collected in respect of any article exported to a foreign country or shipped to a possession of the United States may be refunded to the exporter or shipper thereof, if the person who paid such tax waives his claim to such amount.

(f) CREDIT ON RETURNS.—Any person entitled to a refund of tax imposed by chapter 31 or 32 or section 4281, paid to the Secretary or his delegate may, instead of filing a claim for refund, take credit therefor against taxes imposed by such chapter or section due on any subsequent return.

SEC. 6417. COCONUT AND PALM OIL.

(a) SALES TO STATES OR POLITICAL SUBDIVISIONS.—Subject to such rules or regulations as the Secretary or his delegate may prescribe, any person who has sold to a State, or a political subdivision thereof, for use in the exercise of an essential governmental function any article containing any oil, combination, or mixture, upon the processing of which a tax has been paid under section 4511, shall be entitled to a credit or refund of the tax paid with respect to the quantity of such oil, combination, or mixture contained in such article.

(b) EXPORTATION.—Upon the exportation to any foreign country or to a possession of the United States of any article, wholly or in chief value of an article, with respect to the processing of which a tax has been paid under subchapter B of chapter 37, the exporter thereof shall be entitled to a refund of the amount of such tax.

SEC. 6418. SUGAR.

(a) USE AS LIVESTOCK FEED OR FOR DISTILLATION OF ALCOHOL.—Upon the use of any manufactured sugar, or article manufactured therefrom, as livestock feed, or in the production of livestock feed, or for the distillation of alcohol, there shall be paid by the Secretary or his delegate to the person so using such manufactured sugar, or article manufactured therefrom, the amount of any tax paid under section 4501 (a) with respect thereto.

(b) EXPORTATION.—Upon the exportation from the United States to a foreign country, or the shipment from the United States to any possession of the United States except Puerto Rico, of any manufactured sugar, or any article manufactured wholly or partly from manufactured sugar, with respect to which tax under the provisions of section 4501 (a) has been paid, the amount of such tax shall be paid by the Secretary or his delegate to the consignor named in the bill of lading under which the article was exported or shipped to a possession, or to the shipper, or to the manufacturer of the manufactured sugar or of the articles exported, if the consignor waives any claim thereto in favor of such shipper or manufacturer; except that no such payment shall be allowed with respect to any manufactured sugar, or article, upon which, through substitution or otherwise, a drawback of any tax paid under section 4501 (b) has been or is to be claimed under any provisions of law made applicable by section 4504.

SEC. 6419. EXCISE TAX ON WAGERING.

(a) CREDIT OR REFUND GENERALLY.—No overpayment of tax imposed by chapter 35 shall be credited or refunded (otherwise than under subsection (b)), in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with

regulations prescribed by the Secretary or his delegate, (1) that he has not collected (whether as a separate charge or otherwise) the amount of the tax from the person who placed the wager on which the tax was imposed, or (2) that he has repaid the amount of the tax to the person who placed such wager, or unless he files with the Secretary or his delegate written consent of the person who placed such wager to the allowance of the credit or the making of the refund. In the case of any laid-off wager, no overpayment of tax imposed by chapter 35 shall be so credited or refunded to the person with whom such laid-off wager was placed unless he establishes, in accordance with regulations prescribed by the Secretary or his delegate, that the provisions of the preceding sentence have been complied with both with respect to the person who placed the laid-off wager with him and with respect to the person who placed the original wager.

(b) CREDIT OR REFUND ON WAGERS LAID-OFF BY TAXPAYER.—Where any taxpayer lays off part or all of a wager with another person who is liable for tax imposed by chapter 35 on the amount so laid off, a credit against such tax shall be allowed, or a refund shall be made to, the taxpayer laying off such amount. Such credit or refund shall be in an amount which bears the same ratio to the amount of tax which such taxpayer paid on the original wager as the amount so laid off bears to the amount of the original wager. Credit or refund under this subsection shall be allowed or made only in accordance with regulations prescribed by the Secretary or his delegate; and no interest shall be allowed with respect to any amount so credited or refunded.

SEC. 6420. CROSS REFERENCES.

(1) For limitations on credits and refunds, see subchapter B of chapter 66.

(2) For overpayment arising out of adjustments incident to involuntary liquidation of inventory, see section 1321.

(3) For overpayment in case of adjustments to accrued foreign taxes, see section 905 (c).

(4) For credit or refund in case of deficiency dividends paid by a personal holding company, see section 547.

(5) For refund, credit, or abatement of amounts disallowed by courts upon review of Tax Court decision, see section 7486.

(6) For abatement or refund of tax on transfers to avoid income tax, see section 1494 (b).

(7) For abatement or refund in case of tax on silver bullion, see section 4894.

(8) For overpayment in certain renegotiations of war contracts, see section 1481.

(9) For refund or redemption of stamps, see chapter 69.

(10) For abatement, credit, or refund in case of jeopardy assessments, see chapter 70.

(11) For treatment of certain overpayments as having been refunded, in connection with sale of surplus war-built vessels, see section 9 (b) (8) of the Merchant Ship Sales Act of 1946 (60 Stat. 48; 50 U. S. C. App. 1742).

(12) For restrictions on transfers and assignments of claims against the United States, see R. S. 3477 (31 U. S. C. 203).

(13) For set-off of claims against amounts due the United States, see the act of March 3, 1875, as amended by section 13 of the act of March 3, 1933 (47 Stat. 1516; 31 U. S. C. 227).

(14) For special provisions relating to alcohol and tobacco taxes, see sections 5011, 5044, 5057, 5063, 5705, and 5707.

CHAPTER 66—LIMITATIONS

SUBCHAPTER A. Limitations on assessment and collection.
SUBCHAPTER B. Limitations on credit or refund.
SUBCHAPTER C. Mitigation of effect of period of limitations.
SUBCHAPTER D. Periods of limitation in judicial proceedings.

Subchapter A—Limitations on Assessment and Collection

Sec. 6501. Limitations on assessment and collection.
Sec. 6502. Collection after assessment.
Sec. 6503. Suspension of running of period of limitation.
Sec. 6504. Cross references.

SEC. 6501. LIMITATIONS ON ASSESSMENT AND COLLECTION.

(a) GENERAL RULE.—Except as otherwise provided in this section, the amount of any tax imposed by this title shall be assessed within 3 years after the return was filed (whether or not such return was filed on or after the date prescribed) or, if the tax is payable by stamp, within 3 years after such tax became due, and no proceeding in court without assessment for the collection of such tax shall be begun after the expiration of such period.

(b) TIME RETURN DEEMED FILED.—

(1) EARLY RETURN.—For purposes of this section, a return of tax imposed by this title, except tax imposed by chapter 21 or 24, filed before the last day prescribed by law or by regulations promulgated pursuant to law for the filing thereof, shall be considered as filed on such last day.

(2) RETURN OF CERTAIN EMPLOYMENT TAXES.—For purposes of this section, if a return of tax imposed by chapter 21 or 24 for any period ending with or within a calendar year is filed before April 15 of the succeeding calendar year, such return shall be considered filed on April 15 of such calendar year.

(3) RETURN EXECUTED BY SECRETARY.—Notwithstanding the provisions of paragraph (2) of section 6020 (b), the execution of a return by the Secretary or his delegate pursuant to the authority conferred by such section shall not start the running of the period of limitations on assessment and collection.

(c) EXCEPTIONS.—

(1) FALSE RETURN.—In the case of a false or fraudulent return with the intent to evade tax, the tax may be assessed, or a proceeding in court for collection of such tax may be begun without assessment, at any time.

(2) WILLFUL ATTEMPT TO EVADE TAX.—In case of a willful attempt in any manner to defeat or evade tax imposed by this title (other than tax imposed by subtitle A or B), the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time.

(3) NO RETURN.—In the case of failure to file a return, the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time.

(4) EXTENSION BY AGREEMENT.—Where, before the expiration of the time prescribed in this section for the assessment of any tax imposed by this title, except the estate tax provided in chapter 11, both the Secretary or his delegate and the taxpayer have consented in writing to its assessment after such time, the tax may be assessed at any time prior to the expiration of the period agreed upon. The period so agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

(5) TAX RESULTING FROM CHANGES IN CERTAIN INCOME TAX OR ESTATE TAX CREDITS.—

For special rules applicable in cases where the adjustment of certain taxes allowed as a credit against income taxes or estate taxes results in additional tax, see section 905 (c) (relating to the foreign tax credit for income tax purposes) and section 2016 (relating to taxes of foreign countries, States, etc., claimed as credit against estate taxes).

(d) REQUEST FOR PROMPT ASSESSMENT.—Except as otherwise provided in subsection (c), in the case of any tax (other than the tax imposed by chapter 11 of subtitle B, relating to estate taxes) for which return is required in the case of a decedent, or by his estate during the period of administration, or by a corporation, the tax shall be assessed, and any proceeding in court without assessment for the collection of such tax shall be begun, within 18 months after written request therefor (filed after the return is made and filed in such manner and such form as may be prescribed by regulations of the Secretary or his delegate) by the executor, administrator, or other fiduciary representing the estate of such decedent, or by the corporation, but not after the expiration of 3 years after the return was filed. This subsection shall not apply in the case of a corporation unless—

(1) Such written request notifies the Secretary or his delegate that the corporation contemplates dissolution at or before the expiration of such 18-month period; and

(2) The dissolution is in good faith begun before the expiration of such 18-month period; and

(3) The dissolution is completed.

(e) OMISSION FROM GROSS INCOME.—Except as otherwise provided in subsection (c)—

(1) INCOME TAXES.—In the case of any tax imposed by subtitle A—

(A) GENERAL RULE.—If the taxpayer omits from gross income an amount properly includible therein which is in excess of 25 percent of the amount of gross income stated in the return, the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time within 6 years after the return was filed. For purposes of this subparagraph—

(i) In the case of a trade or business, the term "gross income" means the total of the amounts received or accrued from the sale of goods or services (if such amounts are required to be shown on the return) prior to diminution by the cost of such sales or services; and

(ii) In determining the amount omitted from gross income, there shall not be taken into account any amount which is omitted from gross income stated in the return if such amount is disclosed in the return, or in a statement attached to the return, in a manner adequate to apprise the Secretary or his delegate of the nature and amount of such item.

(B) CONSTRUCTIVE DIVIDENDS.—If the taxpayer omits from gross income an amount properly includible therein under section 551 (b) (relating to the inclusion in the gross income of United States shareholders of their distributive shares of the undistributed foreign personal holding company income), the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time within 6 years after the return was filed.

(2) ESTATE AND GIFT TAXES.—In the case of a return of estate tax under chapter 11 or a return of gift tax under chapter 12, if the taxpayer omits from the gross estate or from the total amount of the gifts made during the year items includible in such gross estate or such total gifts, as the case may be, as exceed in amount 25 percent of the gross estate stated in the return or the total amount of gifts stated in the return, the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time within 6 years after the return was filed. In determining the items omitted from the gross estate or the total gifts, there shall not be taken into account any item which is omitted from the gross estate or from the total gifts stated in the return if such item is disclosed in the return, or in a statement attached to the return, in a manner adequate to apprise the Secretary or his delegate of the nature and amount of such item.

(f) PERSONAL HOLDING COMPANY TAX.—If a corporation which is a personal holding company for any taxable year fails to file with its return under chapter 1 for such year a schedule setting forth—

(1) the items of gross income, described in section 543 (a), received by the corporation during such year, and

(2) the names and addresses of the individuals who owned, within the meaning of section 544 (relating to rules for determining stock ownership), at any time during the last half of such year more than 50 percent in value of the outstanding capital stock of the corporation,

the personal holding company tax for such year may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time within 6 years after the return for such year was filed.

(g) CERTAIN INCOME TAX RETURNS OF CORPORATIONS.—

(1) TRUSTS OR PARTNERSHIPS.—If a taxpayer determines in good faith that it is a trust or partnership and files a return as such under subtitle A, and if such taxpayer is thereafter held to be a corporation for the taxable year for which the return is filed, such return shall be deemed the return of the corporation for purposes of this section.

(2) EXEMPT ORGANIZATIONS.—If a taxpayer determines in good faith that it is an exempt organization and files a return as such under section 6033, and if such taxpayer is thereafter held to be a

taxable corporation for the taxable year for which the return is filed, such return shall be deemed the return of the corporation for purposes of this section.

(h) JOINT INCOME RETURN AFTER SEPARATE RETURN.—

For period of limitations for assessment and collection in the case of a joint income return filed after separate returns have been filed, see section 6013 (b) (3) and (4).

SEC. 6502. COLLECTION AFTER ASSESSMENT.

(a) LENGTH OF PERIOD.—Where the assessment of any tax imposed by this title has been made within the period of limitation properly applicable thereto, such tax may be collected by levy or by a proceeding in court, but only if the levy is made or the proceeding begun—

(1) within 6 years after the assessment of the tax, or

(2) prior to the expiration of any period for collection agreed upon in writing by the Secretary or his delegate and the taxpayer before the expiration of such 6-year period (or, if there is a release of levy under section 6343 after such 6-year period, then before such release).

The period so agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

(b) DATE WHEN LEVY IS CONSIDERED MADE.—The date on which a levy on property or rights to property is made shall be the date on which the notice of seizure provided in section 6335 (a) is given.

SEC. 6503. SUSPENSION OF RUNNING OF PERIOD OF LIMITATION.

(a) ISSUANCE OF STATUTORY NOTICE OF DEFICIENCY.—

(1) GENERAL RULE.—The running of the period of limitations provided in section 6501 or 6502 on the making of assessments or the collection by levy or a proceeding in court, in respect of any deficiency as defined in section 6211 (relating to income, estate, and gift taxes), shall (after the mailing of a notice under section 6212(a)) be suspended for the period during which the Secretary or his delegate is prohibited from making the assessment or from collecting by levy or a proceeding in court (and in any event, if a proceeding in respect of the deficiency is placed on the docket of the Tax Court, until the decision of the Tax Court becomes final), and for 60 days thereafter.

(2) CORPORATION JOINING IN CONSOLIDATED INCOME TAX RETURN.—If a notice under section 6212 (a) in respect of a deficiency in tax imposed by subtitle A for any taxable year is mailed to a corporation, the suspension of the running of the period of limitations provided in paragraph (1) of this subsection shall apply in the case of corporations with which such corporation made a consolidated income tax return for such taxable year.

(b) ASSETS OF TAXPAYER IN CONTROL OR CUSTODY OF COURT.—The period of limitations on collection after assessment prescribed in section 6502 shall be suspended for the period the assets of the taxpayer (other than the estate of a decedent or of an incompetent) are in the control or custody of the court in any proceeding before any court of the United States or of any State or Territory or of the District of Columbia, and for 6 months thereafter.

(c) LOCATION OF PROPERTY OUTSIDE THE UNITED STATES OR REMOVAL OF PROPERTY FROM THE UNITED STATES.—In case collection

is hindered or delayed because property of the taxpayer is situated or held outside the United States or is removed from the United States, the period of limitations on collection after assessment prescribed in section 6502 shall be suspended for the period collection is so hindered or delayed. The total suspension of time under this subsection shall not in the aggregate exceed 6 years.

(d) EXTENSIONS OF TIME FOR PAYMENT OF ESTATE TAX.—The running of the period of limitations for assessment or collection of any tax imposed by chapter 11 shall be suspended for the period of any extension of time for payment granted under the provisions of section 6161 (a) (2) or (b) (2).

(e) CROSS REFERENCES.—

For suspension in case of—

(1) Deficiency dividends of a personal holding company, see section 547 (f).

(2) Bankruptcy and receiverships, see subchapter B of chapter 70.

(3) Claims against transferees and fiduciaries, see chapter 71.

SEC. 6504. CROSS REFERENCES.

For limitation period in case of—

(1) Adjustments incident to involuntary liquidation of inventory, see section 1321.

(2) Adjustments to accrued foreign taxes, see section 905 (c).

(3) Change of election to take standard deduction where taxpayer and his spouse make separate returns, see section 144 (b).

(4) Involuntary conversion of property, see section 1033 (a) (3) (C) and (D).

(5) Gain upon sale or exchange of residence, see section 1034 (j).

(6) War loss recoveries where prior benefit rule is elected, see section 1335.

(7) Recovery of unconstitutional Federal taxes, see section 1346.

(8) Limitations on deductions allowable to individuals in certain cases, see section 270 (d).

(9) Application by executor for discharge from personal liability for estate tax, see section 2204.

(10) Insolvent banks and trust companies, see section 7507.

(11) Service in a combat zone, etc., see section 7508.

(12) Claims against transferees and fiduciaries, see chapter 71.

Subchapter B—Limitations on Credit or Refund

Sec. 6511. Limitations on credit or refund.
Sec. 6512. Limitations in case of petition to Tax Court.
Sec. 6513. Time return deemed filed and tax considered paid.
Sec. 6514. Credits or refunds after period of limitation.
Sec. 6515. Cross references.

SEC. 6511. LIMITATIONS ON CREDIT OR REFUND.

(a) PERIOD OF LIMITATION ON FILING CLAIM.—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 required to be filed (determined without regard to any extension of time) 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. Claim for credit or refund of an overpayment of any tax imposed by this title which is required to be paid by means of a stamp shall be filed by the taxpayer within 3 years from the time the tax was paid.

(b) LIMITATION ON ALLOWANCE OF CREDITS AND REFUNDS.—

(1) FILING OF CLAIM WITHIN PRESCRIBED PERIOD.—No credit or refund shall be allowed or made after the expiration of the period of limitation prescribed in subsection (a) for the filing of a claim for credit or refund, unless a claim for credit or refund is filed by the taxpayer within such period.

(2) LIMIT ON AMOUNT OF CREDIT OR REFUND.—

(A) LIMIT TO AMOUNT PAID WITHIN 3 YEARS.—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 3 years immediately preceding the filing of the claim. If the tax was required to be paid by means of a stamp, the amount of the credit or refund shall not exceed the portion of the tax paid within the 3 years immediately preceding the filing of the claim.

(B) LIMIT TO AMOUNT PAID WITHIN 2 YEARS.—If the claim was not filed within such 3-year period, the amount of the credit or refund shall not exceed the portion of the tax paid during the 2 years immediately preceding the filing of the claim.

(C) LIMIT IF NO CLAIM FILED.—If no claim was filed, the credit or refund shall not exceed the amount which would be allowable under subparagraph (A) or (B), as the case may be, if claim was filed on the date the credit or refund is allowed.

(c) SPECIAL RULES APPLICABLE IN CASE OF EXTENSION OF TIME BY AGREEMENT.—If an agreement under the provisions of section 6501 (c) (4) extending the period for assessment of a tax imposed by this title is made within the period prescribed in subsection (a) for the filing of a claim for credit or refund—

(1) TIME FOR FILING CLAIM.—The period for filing claim for credit or refund or for making credit or refund if no claim is filed,

provided in subsections (a) and (b) (1), shall not expire prior to 6 months after the expiration of the period within which an assessment may be made pursuant to the agreement or any extension thereof under section 6501 (c) (4).

(2) LIMIT ON AMOUNT.—If a claim is filed, or a credit or refund is allowed when no claim was filed, after the execution of the agreement and within 6 months after the expiration of the period within which an assessment may be made pursuant to the agreement or any extension thereof, the amount of the credit or refund shall not exceed the portion of the tax paid after the execution of the agreement and before the filing of the claim or the making of the credit or refund, as the case may be, plus the portion of the tax paid within the period which would be applicable under subsection (b) (2) if a claim had been filed on the date the agreement was executed.

(3) CLAIMS NOT SUBJECT TO SPECIAL RULE.—This subsection shall not apply in the case of a claim filed, or credit or refund allowed if no claim is filed, either—

(A) prior to the execution of the agreement or

(B) more than 6 months after the expiration of the period within which an assessment may be made pursuant to the agreement or any extension thereof.

(d) SPECIAL RULES APPLICABLE TO INCOME TAXES.—

(1) SEVEN-YEAR PERIOD OF LIMITATION WITH RESPECT TO BAD DEBTS AND WORTHLESS SECURITIES.—If the claim for credit or refund relates to an overpayment of tax imposed by subtitle A on account of—

(A) The deductibility by the taxpayer, under section 166 or section 832 (c), of a debt as a debt which became worthless, or, under section 165 (g), of a loss from worthlessness of a security, or

(B) The effect that the deductibility of a debt or loss described in subparagraph (A) has on the application to the taxpayer of a carryover,

in lieu of the 3-year period of limitation prescribed in subsection (a), the period shall be 7 years from the date prescribed by law for filing the return for the year with respect to which the claim is made. If the claim for credit or refund relates to an overpayment on account of the effect that the deductibility of such a debt or loss has on the application to the taxpayer of a carryback, the period shall be either 7 years from the date prescribed by law for filing the return for the year of the net operating loss which results in such carryback or the period prescribed in paragraph (2) of this subsection, whichever expires the later. In the case of a claim described in this paragraph the amount of the credit or refund may exceed the portion of the tax paid within the period prescribed in subsection (b) (2) or (c), whichever is applicable, to the extent of the amount of the overpayment attributable to the deductibility of items described in this paragraph.

(2) SPECIAL PERIOD OF LIMITATION WITH RESPECT TO NET OPERATING LOSS CARRYBACKS.—

(A) PERIOD OF LIMITATION.—If the claim for credit or refund relates to an overpayment attributable to a net operating loss carryback, in lieu of the 3-year period of limitation prescribed in

subsection (a), the period shall be that period which ends with the expiration of the 15th day of the 39th month following the end of the taxable year of the net operating loss which results in such carryback, or the period prescribed in subsection (c) in respect of such taxable year, whichever expires later. In the case of such a claim, the amount of the credit or refund may exceed the portion of the tax paid within the period provided in subsection (b) (2) or (c), whichever is applicable, to the extent of the amount of the overpayment attributable to such carryback.

(B) APPLICABLE RULES.—If the allowance of a credit or refund of an overpayment of tax attributable to a net operating loss carryback is otherwise prevented by the operation of any law or rule of law other than section 7122, relating to compromises, such credit or refund may be allowed or made, if claim therefor is filed within the period provided in subparagraph (A) of this paragraph. If the allowance of an application, credit, or refund of a decrease in tax determined under section 6411 (b) is otherwise prevented by the operation of any law or rule of law other than section 7122, such application, credit, or refund may be allowed or made if application for a tentative carryback adjustment is made within the period provided in section 6411 (a). In the case of any such claim for credit or refund or any such application for a tentative carryback adjustment, the determination by any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall be conclusive except with respect to the net operating loss deduction, and the effect of such deduction, to the extent that such deduction is affected by a carryback which was not in issue in such proceeding.

(3) SPECIAL RULES RELATING TO FOREIGN TAX CREDIT.—

(A) SPECIAL PERIOD OF LIMITATION WITH RESPECT TO FOREIGN TAXES PAID OR ACCRUED.—If the claim for credit or refund relates to an overpayment attributable to any taxes paid or accrued to any foreign country or to any possession of the United States for which credit is allowed against the tax imposed by subtitle A in accordance with the provisions of section 901 or the provisions of any treaty to which the United States is a party, in lieu of the 3-year period of limitation prescribed in subsection (a), the period shall be 10 years from the date prescribed by law for filing the return for the year with respect to which the claim is made.

(B) EXCEPTION IN THE CASE OF FOREIGN TAXES PAID OR ACCRUED.—In the case of a claim described in subparagraph (A), the amount of the credit or refund may exceed the portion of the tax paid within the period provided in subsection (b) or (c), whichever is applicable, to the extent of the amount of the overpayment attributable to the allowance of a credit for the taxes described in subparagraph (A).

(e) SPECIAL RULES IN CASE OF MANUFACTURED SUGAR.—

(1) USE AS LIVESTOCK FEED OR FOR DISTILLATION OF ALCOHOL.—No payment shall be allowed under section 6418 (a) unless within 2 years after the right to such payment has accrued a claim therefor is filed by the person entitled thereto.

(2) EXPORTATION.—No payment shall be allowed under section 6418 (b) unless within 2 years after the right to such payment has accrued a claim therefor is filed by the person entitled thereto.

(f) CROSS REFERENCES.—

(1) For time return deemed filed and tax considered paid, see section 6513.

(2) For limitations with respect to certain credits against estate tax, see sections 2011 (c), 2014 (b), and 2015.

(3) For limitations in case of floor stocks refunds, see section 6412.

(4) For a period of limitations for credit or refund in the case of joint income returns after separate returns have been filed, see section 6013 (b) (3).

SEC. 6512. LIMITATIONS IN CASE OF PETITION TO TAX COURT.

(a) EFFECT OF PETITION TO TAX COURT.—If the Secretary or his delegate has mailed to the taxpayer a notice of deficiency under section 6212 (a) (relating to deficiencies of income, estate, and gift taxes) and if the taxpayer files a petition with the Tax Court within the time prescribed in section 6213 (a), no credit or refund of income tax for the same taxable year, of gift tax for the same calendar year, or of estate tax in respect of the taxable estate of the same decedent, in respect of which the Secretary or his delegate has determined the deficiency shall be allowed or made and no suit by the taxpayer for the recovery of any part of the tax shall be instituted in any court except—

(1) As to overpayments determined by a decision of the Tax Court which has become final; and

(2) As to any amount collected in excess of an amount computed in accordance with the decision of the Tax Court which has become final; and

(3) As to any amount collected after the period of limitation upon the making of levy or beginning a proceeding in court for collection has expired; but in any such claim for credit or refund or in any such suit for refund the decision of the Tax Court which has become final, as to whether such period has expired before the notice of deficiency was mailed, shall be conclusive.

(b) OVERPAYMENT DETERMINED BY TAX COURT.—

(1) JURISDICTION TO DETERMINE.—If the Tax Court finds that there is no deficiency and further finds that the taxpayer has made an overpayment of income tax for the same taxable year, of gift tax for the same calendar year, or of estate tax in respect of the taxable estate of the same decedent, in respect of which the Secretary or his delegate determined the deficiency, or finds that there is a deficiency but that the taxpayer has made an overpayment of such tax, the Tax Court shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Tax Court has become final, be credited or refunded to the taxpayer.

(2) LIMIT ON AMOUNT OF CREDIT OR REFUND.—No such credit or refund shall be allowed or made of any portion of the tax unless the Tax Court determines as part of its decision that such portion was paid—

(A) after the mailing of the notice of deficiency, or

(B) within the period which would be applicable under section 6511 (b) (2), (c), or (d), if on the date of the mailing of the notice of deficiency a claim had been filed (whether or not filed) stating

the grounds upon which the Tax Court finds that there is an overpayment.

SEC. 6513. TIME RETURN DEEMED FILED AND TAX CONSIDERED PAID.

(a) EARLY RETURN OR ADVANCE PAYMENT OF TAX.—For purposes of section 6511, any return filed before the last day prescribed for the filing thereof shall be considered as filed on such last day. For purposes of section 6511 (b) (2) and (c) and section 6512, payment of any portion of the tax made before the last day prescribed for the payment of the tax shall be considered made on such last day. For purposes of this subsection, the last day prescribed for filing the return or paying the tax shall be determined without regard to any extension of time granted the taxpayer and without regard to any election to pay the tax in installments.

(b) PREPAID INCOME TAX.—For purposes of section 6511 or 6512, any tax actually deducted and withheld at the source during any calendar year under chapter 24 shall, in respect of the recipient of the income, be deemed to have been paid by him on the 15th day of the fourth month following the close of his taxable year with respect to which such tax is allowable as a credit under section 31. For purposes of section 6511 or 6512, any amount paid as estimated income tax for any taxable year shall be deemed to have been paid on the last day prescribed for filing the return under section 6012 for such taxable year (determined without regard to any extension of time for filing such return).

(c) RETURN AND PAYMENT OF SOCIAL SECURITY TAXES AND INCOME TAX WITHHOLDING.—Nothwithstanding subsection (a), for purposes of section 6511 with respect to any tax imposed by chapter 21 or 24—

(1) If a return for any period ending with or within a calendar year is filed before April 15 of the succeeding calendar year, such return shall be considered filed on April 15 of such succeeding calendar year; and

(2) If a tax with respect to remuneration paid during any period ending with or within a calendar year is paid before April 15 of the succeeding calendar year, such tax shall be considered paid on April 15 of such succeeding calendar year.

(d) OVERPAYMENT OF INCOME TAX CREDITED TO ESTIMATED TAX.—If any overpayment of income tax is, in accordance with section 6402 (b), claimed as a credit against estimated tax for the succeeding taxable year, such amount shall be considered as a payment of the income tax for the succeeding taxable year (whether or not claimed as a credit in the return of estimated tax for such succeeding taxable year), and no claim for credit or refund of such overpayment shall be allowed for the taxable year in which the overpayment arises.

SEC. 6514. CREDITS OR REFUNDS AFTER PERIOD OF LIMITATION.

(a) CREDITS OR REFUNDS AFTER PERIOD OF LIMITATION.—A refund of any portion of an internal revenue tax shall be considered erroneous and a credit of any such portion shall be considered void—

(1) EXPIRATION OF PERIOD FOR FILING CLAIM.—If made after the expiration of the period of limitation for filing claim therefor, unless within such period claim was filed; or

(2) DISALLOWANCE OF CLAIM AND EXPIRATION OF PERIOD FOR FILING SUIT.—In the case of a claim filed within the proper time and disallowed by the Secretary or his delegate, if the credit or refund was made after the expiration of the period of limitation for filing suit, unless within such period suit was begun by the taxpayer.

(3) RECOVERY OF ERRONEOUS REFUNDS.—

For procedure by the United States to recover erroneous refunds, see sections 6532 (b) and 7405.

(b) CREDIT AFTER PERIOD OF LIMITATION.—Any credit against a liability in respect of any taxable year shall be void if any payment in respect of such liability would be considered an overpayment under section 6401 (a).

SEC. 6515. CROSS REFERENCES.

For limitations in case of—

(1) Adjustments incident to involuntary liquidation of inventory, see section 1321.

(2) War loss recoveries where prior benefit rule is elected, see section 1335.

(3) Deficiency dividends of a personal holding company, see section 547.

(4) Overpayment in certain renegotiations of war contracts, see section 1481.

(5) Tentative carry-back adjustments, see section 6411.

(6) Service in a combat zone, etc., see section 7508.

(7) Suits for refund by taxpayers, see section 6532 (a).

Subchapter C—Mitigation of Effect of Period of Limitations

Sec. 6521. Mitigation of effect of limitation in case of related taxes under different chapters.

SEC. 6521. MITIGATION OF EFFECT OF LIMITATION IN CASE OF RELATED TAXES UNDER DIFFERENT CHAPTERS.

(a) SELF-EMPLOYMENT TAX AND TAX ON WAGES.—In the case of the tax imposed by chapter 2 (relating to tax on self-employment income) and the tax imposed by section 3101 (relating to tax on employees under the Federal Insurance Contributions Act)—

(1) If an amount is erroneously treated as self-employment income, or if an amount is erroneously treated as wages, and

(2) If the correction of the error would require an assessment of one such tax and the refund or credit of the other tax, and

(3) If at any time the correction of the error is authorized as to one such tax but is prevented as to the other tax by any law or rule of law (other than section 7122, relating to compromises),

then, if the correction authorized is made, the amount of the assessment, or the amount of the credit or refund, as the case may be, authorized as to the one tax shall be reduced by the amount of the credit or refund, or the amount of the assessment, as the case may be, which would be required with respect to such other tax for the correction of the error if such credit or refund, or such assessment, of such other tax were not prevented by any law or rule of law (other than section 7122, relating to compromises).

(b) DEFINITIONS.—For purposes of subsection (a), the terms "self-employment income" and "wages" shall have the same meaning as when used in section 1402 (b).

Subchapter D—Periods of Limitation in Judicial Proceedings

Sec. 6531. Periods of limitation on criminal prosecutions.
Sec. 6532. Periods of limitation on suits.
Sec. 6533. Cross references.

SEC. 6531. PERIODS OF LIMITATION ON CRIMINAL PROSECUTIONS.

No person shall be prosecuted, tried, or punished for any of the various offenses arising under the internal revenue laws unless the indictment is found or the information instituted within 3 years next after the commission of the offense, except that the period of limitation shall be 6 years—

(1) for offenses involving the defrauding or attempting to defraud the United States or any agency thereof, whether by conspiracy or not, and in any manner;

(2) for the offense of willfully attempting in any manner to evade or defeat any tax or the payment thereof;

(3) for the offense of willfully aiding or assisting in, or procuring, counseling, or advising, the preparation or presentation under, or in connection with any matter arising under, the internal revenue laws, of a false or fraudulent return, affidavit, claim, or document (whether or not such falsity or fraud is with the knowledge or consent of the person authorized or required to present such return, affidavit, claim, or document);

(4) for the offense of willfully failing to pay any tax, or make any return (other than a return required under authority of part III of subchapter A of chapter 61) at the time or times required by law or regulations;

(5) for offenses described in sections 7206 (1) and 7207 (relating to false statements and fraudulent documents);

(6) for the offense described in section 7212 (a) (relating to intimidation of officers and employees of the United States);

(7) for offenses described in section 7214 (a) committed by officers and employees of the United States; and

(8) for offenses arising under section 371 of Title 18 of the United States Code, where the object of the conspiracy is to attempt in any manner to evade or defeat any tax or the payment thereof.

The time during which the person committing any of the various offenses arising under the internal revenue laws is outside the United States or is a fugitive from justice within the meaning of section 3290 of Title 18 of the United States Code, shall not be taken as any part of the time limited by law for the commencement of such proceedings. (The preceding sentence shall also be deemed an amendment to section 3748 (a) of the Internal Revenue Code of 1939, and shall apply in lieu of the sentence in section 3748 (a) which relates to the time during which a person committing an offense is absent from the district wherein the same is committed, except that such amendment shall apply only if the period of limitations under section 3748 would, without the application of such amendment, expire more than 3 years

after the date of enactment of this title, and except that such period shall not, with the application of this amendment, expire prior to the date which is 3 years after the date of enactment of this title.) Where a complaint is instituted before a commissioner of the United States within the period above limited, the time shall be extended until the date which is 9 months after the date of the making of the complaint before the commissioner of the United States. For the purpose of determining the periods of limitation on criminal prosecutions, the rules of section 6513 shall be applicable.

SEC. 6532. PERIODS OF LIMITATION ON SUITS.

(a) SUITS BY TAXPAYERS FOR REFUND.—

(1) GENERAL RULE.—No suit or proceeding under section 7422 (a) for the recovery of any internal revenue tax, penalty, or other sum, shall be begun before the expiration of 6 months from the date of filing the claim required under such section unless the Secretary or his delegate renders a decision thereon within that time, nor after the expiration of 2 years from the date of mailing by registered mail by the Secretary or his delegate to the taxpayer of a notice of the disallowance of the part of the claim to which the suit or proceeding relates.

(2) EXTENSION OF TIME.—The 2-year period prescribed in paragraph (1) shall be extended for such period as may be agreed upon in writing between the taxpayer and the Secretary or his delegate.

(3) WAIVER OF NOTICE OF DISALLOWANCE.—If any person files a written waiver of the requirement that he be mailed a notice of disallowance, the 2-year period prescribed in paragraph (1) shall begin on the date such waiver is filed.

(4) RECONSIDERATION AFTER MAILING OF NOTICE.—Any consideration, reconsideration, or action by the Secretary or his delegate with respect to such claim following the mailing of a notice by registered mail of disallowance shall not operate to extend the period within which suit may be begun.

(b) SUITS BY UNITED STATES FOR RECOVERY OF ERRONEOUS REFUNDS.—Recovery of an erroneous refund by suit under section 7405 shall be allowed only if such suit is begun within 2 years after the making of such refund, except that such suit may be brought at any time within 5 years from the making of the refund if it appears that any part of the refund was induced by fraud or misrepresentation of a material fact.

SEC. 6533. CROSS REFERENCES.

(1) For period of limitation in respect of civil actions for fines, penalties, and forfeitures, see section 2462 of Title 28 of the United States Code.

(2) For extensions of time by reason of armed service in a combat zone, see section 7508.

(3) For suspension of running of statute until 3 years after termination of hostilities, see section 3287 of Title 18.

CHAPTER 67—INTEREST

SUBCHAPTER A. Interest on underpayments.
SUBCHAPTER B. Interest on overpayments.

Subchapter A—Interest on Underpayments

Sec. 6601. Interest on underpayment, nonpayment, or extensions of time for payment, of tax.
Sec. 6602. Interest on erroneous refund recoverable by suit.

SEC. 6601. INTEREST ON UNDERPAYMENT, NONPAYMENT, OR EXTENSIONS OF TIME FOR PAYMENT, OF TAX.

(a) GENERAL RULE.—If any amount of tax imposed by this title (whether required to be shown on a return, or to be paid by stamp or by some other method) is not paid on or before the last date prescribed for payment, interest on such amount at the rate of 6 percent per annum shall be paid for the period from such last date to the date paid.

(b) EXTENSIONS OF TIME FOR PAYMENT OF ESTATE TAX.—If the time for payment of an amount of tax imposed by chapter 11 is extended as provided in section 6161 (a) (2) or if postponement of the payment of an amount of such tax is permitted by section 6163 (a), interest shall be paid at the rate of 4 percent, in lieu of 6 percent as provided in subsection (a).

(c) LAST DATE PRESCRIBED FOR PAYMENT.—For purposes of this section, the last date prescribed for payment of the tax shall be determined under chapter 62 with the application of the following rules:

(1) EXTENSIONS OF TIME DISREGARDED.—The last date prescribed for payment shall be determined without regard to any extension of time for payment.

(2) INSTALLMENT PAYMENTS.—In the case of an election under section 6152 (a) to pay the tax in installments—

(A) The date prescribed for payment of each installment of the tax shown on the return shall be determined under section 6152 (b), and

(B) The last date prescribed for payment of the first installment shall be deemed the last date prescribed for payment of any portion of the tax not shown on the return.

(3) JEOPARDY.—The last date prescribed for payment shall be determined without regard to any notice and demand for payment issued, by reason of jeopardy (as provided in chapter 70), prior to the last date otherwise prescribed for such payment.

(4) LAST DATE FOR PAYMENT NOT OTHERWISE PRESCRIBED.—In the case of taxes payable by stamp and in all other cases in which the last date for payment is not otherwise prescribed, the last date for payment shall be deemed to be the date the liability for tax arises (and in no event shall be later than the date notice and demand for the tax is made by the Secretary or his delegate).

(d) SUSPENSION OF INTEREST IN CERTAIN INCOME, ESTATE, AND GIFT TAX CASES.—In the case of a deficiency as defined in section 6211 (relating to income, estate, and gift taxes), if a waiver of restrictions under section 6213 (d) on the assessment of such deficiency has been filed, and if notice and demand by the Secretary or his delegate for payment of such deficiency is not made within 30 days after the filing of such waiver, interest shall not be imposed on such deficiency for the period beginning immediately after such 30th day and ending with the date of notice and demand.

(e) INCOME TAX REDUCED BY CARRYBACK.—If the amount of any tax imposed by subtitle A is reduced by reason of a carryback of a net operating loss, such reduction in tax shall not affect the computation of interest under this section for the period ending with the last day of the taxable year in which the net operating loss arises.

(f) APPLICABLE RULES.—Except as otherwise provided in this title—

(1) INTEREST TREATED AS TAX.—Interest prescribed under this section on any tax shall be paid upon notice and demand, and shall be assessed, collected, and paid in the same manner as taxes. Any reference in this title (except subchapter B of chapter 63, relating to deficiency procedures) to any tax imposed by this title shall be deemed also to refer to interest imposed by this section on such tax.

(2) NO INTEREST ON INTEREST.—No interest under this section shall be imposed on the interest provided by this section.

(3) INTEREST ON PENALTIES, ADDITIONAL AMOUNTS, OR ADDITIONS TO THE TAX.—Interest shall be imposed under subsection (a) in respect of any assessable penalty, additional amount, or addition to the tax only if such assessable penalty, additional amount, or addition to the tax is not paid within 10 days from the date of notice and demand therefor, and in such case interest shall be imposed only for the period from the date of the notice and demand to the date of payment.

(4) PAYMENTS MADE WITHIN 10 DAYS AFTER NOTICE AND DEMAND.—If notice and demand is made for payment of any amount, and if such amount is paid within 10 days after the date of such notice and demand, interest under this section on the amount so paid shall not be imposed for the period after the date of such notice and demand.

(g) EXCEPTION AS TO ESTIMATED TAX.—This section shall not apply to any failure to pay estimated tax required by section 6153 (or section 59 of the Internal Revenue Code of 1939) or section 6154.

(h) NO INTEREST ON CERTAIN ADJUSTMENTS.—

For provisions prohibiting interest on certain adjustments in tax, see section 6205 (a).

SEC. 6602. INTEREST ON ERRONEOUS REFUND RECOVERABLE BY SUIT.

Any portion of an internal revenue tax (or any interest, assessable penalty, additional amount, or addition to tax) which has been erroneously refunded, and which is recoverable by suit pursuant to section 7405, shall bear interest at the rate of 6 percent per annum from the date of the payment of the refund.

Subchapter B—Interest on Overpayments

Sec. 6611. Interest on overpayments.
Sec. 6612. Cross references.

SEC. 6611. INTEREST ON OVERPAYMENTS.

(a) RATE.—Interest shall be allowed and paid upon any overpayment in respect of any internal revenue tax at the rate of 6 percent per annum.

(b) PERIOD.—Such interest shall be allowed and paid as follows:

(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, but if the amount against which the credit is taken is an additional assessment, then to the date of the assessment of that amount.

(2) REFUNDS.—In the case of a refund, from the date of the overpayment to a date (to be determined by the Secretary or his delegate) preceding the date of the refund check by not more than 30 days, whether or not such refund check is accepted by the taxpayer after tender of such check to the taxpayer. The acceptance of such check shall be without prejudice to any right of the taxpayer to claim any additional overpayment and interest thereon.

(c) ADDITIONAL ASSESSMENT DEFINED.—As used in this section, the term "additional assessment" means a further assessment for a tax of the same character previously paid in part, and includes the assessment of a deficiency (as defined in section 6211).

(d) ADVANCE PAYMENT OF TAX, PAYMENT OF ESTIMATED TAX, AND CREDIT FOR INCOME TAX WITHHOLDING.—The provisions of section 6513 (except the provisions of subsection (c) thereof), applicable in determining the date of payment of tax for purposes of determining the period of limitation on credit or refund, shall be applicable in determining the date of payment for purposes of subsection (a).

(e) INCOME TAX REFUND WITHIN 45 DAYS OF DUE DATE OF TAX.—If any overpayment of tax imposed by subtitle A is refunded within 45 days after the last date prescribed for filing the return of such tax (determined without regard to any extension of time for filing the return), no interest shall be allowed under subsection (a) on such overpayment.

(f) REFUND OF INCOME TAX CAUSED BY CARRYBACK.—For purposes of subsection (a), if any overpayment of tax imposed by subtitle A results from a carryback of a net operating loss, such overpayment shall be deemed not to have been made prior to the close of the taxable year in which such net operating loss arises.

(g) PROHIBITION OF ADMINISTRATIVE REVIEW.—

For prohibition of administrative review, see section 6406.

SEC. 6612. CROSS REFERENCES.

(a) INTEREST ON JUDGMENTS FOR OVERPAYMENTS.—

For interest on judgments for overpayments, see 28 U. S. C. 2411 (a).

(b) ADJUSTMENTS.—

For provisions prohibiting interest on certain adjustments in tax, see section 6413 (a).

(c) OTHER RESTRICTIONS ON INTEREST.—

For other restrictions on interest, see section 2011 (c) (relating to refunds due to credit for State taxes), 2014 (e) (relating to refunds attributable to foreign tax credits), 6412 (relating to floor stock refunds), 6413 (d) (relating to taxes under the Federal Unemployment Tax Act), 6416 (relating to certain taxes on sales and services), and 6419 (relating to the excise tax on wagering).

CHAPTER 68—ADDITIONS TO THE TAX, ADDITIONAL AMOUNTS, AND ASSESSABLE PENALTIES

SUBCHAPTER A. Additions to the tax and additional amounts.
SUBCHAPTER B. Assessable penalties.

Subchapter A—Additions to the Tax and Additional Amounts

Sec. 6651. Failure to file tax return.
Sec. 6652. Failure to file certain information returns.
Sec. 6653. Failure to pay tax.
Sec. 6654. Failure by individual to pay estimated income tax.
Sec. 6655. Failure by corporation to pay estimated income tax.
Sec. 6656. Failure to make deposit of taxes.
Sec. 6657. Bad checks.
Sec. 6658. Addition to tax in case of jeopardy.
Sec. 6659. Applicable rules.

SEC. 6651. FAILURE TO FILE TAX RETURN.

(a) ADDITION TO THE TAX.—In case of failure to file any return required under authority of subchapter A of chapter 61 (other than part III thereof), of subchapter A of chapter 51 (relating to distilled spirits, wines, and beer), or of subchapter A of chapter 52 (relating to tobacco, cigars, cigarettes, and cigarette papers and tubes), or of subchapter A of chapter 53 (relating to machine guns and certain other firearms), 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 due to willful neglect, there shall be added to the amount required to be shown as tax on such return 5 percent of the amount of such tax if the failure is for not more than 1 month, with an additional 5 percent for each additional month or fraction thereof during which such failure continues, not exceeding 25 percent in the aggregate.

(b) PENALTY IMPOSED ON NET AMOUNT DUE.—For purposes of subsection (a), the amount of tax required to be shown on the return shall be reduced by the amount of any part of the tax which is paid on or before the date prescribed for payment of the tax and by the amount of any credit against the tax which may be claimed upon the return.

(c) EXCEPTION FOR DECLARATIONS OF ESTIMATED TAX.—This section shall not apply to any failure to file a declaration of estimated tax required by section 6015 or section 6016.

SEC. 6652. FAILURE TO FILE CERTAIN INFORMATION RETURNS.

(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 (relating to payments of corporate dividends), section 6044 (relating to patronage dividends), section 6045 (relating to returns of brokers), or section 6051 (d) (relating to information returns with respect to income tax withheld), unless it is shown that such failure is due to reasonable cause

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

(b) ALCOHOL AND TOBACCO TAXES.—

For penalties for failure to file certain information returns with respect to alcohol and tobacco taxes, see, generally, subtitle E.

SEC. 6653. FAILURE TO PAY TAX.

(a) NEGLIGENCE OR INTENTIONAL DISREGARD OF RULES AND REGULATIONS WITH RESPECT TO INCOME OR GIFT TAXES.—If any part of any underpayment (as defined in subsection (c) (1)) of any tax imposed by subtitle A or by chapter 12 of subtitle B (relating to income taxes and gift taxes) is due to negligence or intentional disregard of rules and regulations (but without intent to defraud), there shall be added to the tax an amount equal to 5 percent of the underpayment.

(b) FRAUD.—If any part of any underpayment (as defined in subsection (c)) of tax required to be shown on a return is due to fraud, there shall be added to the tax an amount equal to 50 percent of the underpayment. In the case of income taxes and gift taxes, this amount shall be in lieu of any amount determined under subsection (a).

(c) DEFINITION OF UNDERPAYMENT.—For purposes of this section, the term "underpayment" means—

(1) INCOME, ESTATE, AND GIFT TAXES.—In the case of a tax to which section 6211 (relating to income, estate, and gift taxes) is applicable, a deficiency as defined in that section (except that, for this purpose, the tax shown on a return referred to in section 6211 (a) (1) (A) shall be taken into account only if such return was filed before the last day prescribed for the filing of such return, determined with regard to any extension of time for such filing), and

(2) OTHER TAXES.—In the case of any other tax, the amount by which such tax imposed by this title exceeds the excess of—

(A) The sum of—

(i) The amount shown as the tax by the taxpayer upon his return (determined without regard to any credit for an overpayment for any prior period, and without regard to any adjustment under authority of sections 6205 (a) and 6413 (a)), if a return was made by the taxpayer within the time prescribed for filing such return (determined with regard to any extension of time for such filing) and an amount was shown as the tax by the taxpayer thereon, plus

(ii) Any amount, not shown on the return, paid in respect of such tax, over—

(B) The amount of rebates made.

For purposes of subparagraph (B), the term "rebate" means so much of an abatement, credit, refund, or other repayment, as was made on the ground that the tax imposed was less than the excess of the amount specified in subparagraph (A) over the rebates previously made.

(d) NO DELINQUENCY PENALTY IF FRAUD ASSESSED.—If any penalty is assessed under subsection (b) (relating to fraud) for an underpayment of tax which is required to be shown on a return, no

penalty under section 6651 (relating to failure to file such return) shall be assessed with respect to the same underpayment.

(e) FAILURE TO PAY STAMP TAX.—Any person (as defined in section 6671 (b)) who willfully fails to pay any tax imposed by this title which is payable by stamp, coupons, tickets, books, or other devices or methods prescribed by this title or by regulations under authority of this title, or willfully attempts in any manner to evade or defeat any such tax or the payment thereof, shall, in addition to other penalties provided by law, be liable to a penalty of 50 percent of the total amount of the underpayment of the tax.

SEC. 6654. FAILURE BY INDIVIDUAL TO PAY ESTIMATED INCOME TAX.

(a) ADDITION TO THE TAX.—In the case of any underpayment of estimated tax by an individual, except as provided in subsection (d), there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the amount of the underpayment (determined under subsection (b)) for the period of the underpayment (determined under subsection (c)).

(b) AMOUNT OF UNDERPAYMENT.—For purposes of subsection (a), the amount of the underpayment shall be the excess of—

(1) The amount of the installment which would be required to be paid if the estimated tax were equal to 70 percent (66⅔ percent in the case of individuals referred to in section 6073 (b), relating to income from farming) of the tax shown on the return for the taxable year or, if no return was filed, 70 percent (66⅔ percent in the case of individuals referred to in section 6073 (b), relating to income from farming) of the tax for such year, over

(2) The amount, if any, of the installment paid on or before the last date prescribed for such payment.

(c) PERIOD OF UNDERPAYMENT.—The period of the underpayment shall run from the date the installment was required to be paid to whichever of the following dates is the earlier—

(1) The 15th day of the fourth month following the close of the taxable year.

(2) With respect to any portion of the underpayment, the date on which such portion is paid. For purposes of this paragraph, a payment of estimated tax on any installment date shall be considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the installment determined under subsection (b) (1) for such installment date.

(d) EXCEPTION.—Notwithstanding the provisions of the preceding subsections, the addition to the tax with respect to any underpayment of any installment shall not be imposed if the total amount of all payments of estimated tax made on or before the last date prescribed for the payment of such installment equals or exceeds whichever of the following is the lesser—

(1) The amount which would have been required to be paid on or before such date if the estimated tax were whichever of the following is the least—

(A) The tax shown on the return of the individual for the preceding taxable year, if a return showing a liability for tax was filed by the individual for the preceding taxable year and such preceding year was a taxable year of 12 months, or

(B) An amount equal to the tax computed, at the rates applicable to the taxable year, on the basis of the taxpayer's status with respect to personal exemptions under section 151 for the taxable year, but otherwise on the basis of the facts shown on his return for, and the law applicable to, the preceding taxable year, or

(C) An amount equal to 70 percent (66⅔ percent in the case of individuals referred to in section 6073 (b), relating to income from farming) of the tax for the taxable year computed by placing on an annualized basis the taxable income for the months in the taxable year ending before the month in which the installment is required to be paid. For purposes of this subparagraph, the taxable income shall be placed on an annualized basis by—

(i) multiplying by 12 (or, in the case of a taxable year of less than 12 months, the number of months in the taxable year) the taxable income (computed without deduction of personal exemptions) for the months in the taxable year ending before the month in which the installment is required to be paid,

(ii) dividing the resulting amount by the number of months in the taxable year ending before the month in which such installment date falls, and

(iii) deducting from such amount the deductions for personal exemptions allowable for the taxable year (such personal exemptions being determined as of the last date prescribed for payment of the installment); or

(2) An amount equal to 90 percent of the tax computed, at the rates applicable to the taxable year, on the basis of the actual taxable income for the months in the taxable year ending before the month in which the installment is required to be paid.

(e) APPLICATION OF SECTION IN CASE OF TAX WITHHELD ON WAGES.—For purposes of applying this section—

(1) The estimated tax shall be computed without any reduction for the amount which the individual estimates as his credit under section 31 (relating to tax withheld at source on wages), and

(2) The amount of the credit allowed under section 31 for the taxable year shall be deemed a payment of estimated tax, and an equal part of such amount shall be deemed paid on each installment date (determined under section 6153) for such taxable year, unless the taxpayer establishes the dates on which all amounts were actually withheld, in which case the amounts so withheld shall be deemed payments of estimated tax on the dates on which such amounts were actually withheld.

(f) TAX COMPUTED AFTER APPLICATION OF CREDITS AGAINST TAX.—For purposes of subsections (b) and (d), the term "tax" means the tax imposed by chapter 1 reduced by the credits against tax allowed by part IV of subchapter A of chapter 1, other than the credit against tax provided by section 31 (relating to tax withheld on wages).

(g) SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

(h) APPLICABILITY.—This section shall apply only with respect to taxable years beginning after December 31, 1954; and section 294 (d)

of the Internal Revenue Code of 1939 shall continue in force with respect to taxable years beginning before January 1, 1955.

SEC. 6655. FAILURE BY CORPORATION TO PAY ESTIMATED INCOME TAX.

(a) ADDITION TO THE TAX.—In case of any underpayment of estimated tax by a corporation, except as provided in subsection (d), there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the amount of the underpayment (determined under subsection (b)) for the period of the underpayment (determined under subsection (c)).

(b) AMOUNT OF UNDERPAYMENT.—For purposes of subsection (a), the amount of the underpayment shall be the excess of—

(1) The amount of the installment which would be required to be paid if the estimated tax were equal to 70 percent of the tax shown on the return for the taxable year or, if no return was filed, 70 percent of the tax for such year, over

(2) The amount, if any, of the installment paid on or before the last date prescribed for payment.

(c) PERIOD OF UNDERPAYMENT.—The period of the underpayment shall run from the date the installment was required to be paid to whichever of the following dates is the earlier—

(1) The 15th day of the third month following the close of the taxable year.

(2) With respect to any portion of the underpayment, the date on which such portion is paid. For purposes of this paragraph, a payment of estimated tax on the 15th day of the 12th month shall be considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the installment determined under subsection (b) (1) for the 15th day of the 12th month.

(d) EXCEPTION.—Notwithstanding the provisions of the preceding subsections, the addition to the tax with respect to any underpayment of any installment shall not be imposed if the total amount of all payments of estimated tax made on or before the last date prescribed for the payment of such installment equals or exceeds the amount which would have been required to be paid on or before such date if the estimated tax were whichever of the following is the lesser—

(1) The tax shown on the return of the corporation for the preceding taxable year reduced by $100,000, if a return showing a liability for tax was filed by the corporation for the preceding taxable year and such preceding year was a taxable year of 12 months.

(2) An amount equal to the tax computed at the rates applicable to the taxable year but otherwise on the basis of the facts shown on the return of the corporation for, and the law applicable to, the preceding taxable year.

(3) (A) an amount equal to 70 percent of the tax for the taxable year computed by placing on an annualized basis the taxable income:

(i) for the first 6 months or for the first 8 months of the taxable year, in the case of the installment required to be paid in the ninth month, and

(ii) for the first 9 months or for the first 11 months of the taxable year, in the case of the installment required to be paid in the twelfth month.

(B) For purposes of this paragraph, the taxable income shall be placed on an annualized basis by—

(i) multiplying by 12 the taxable income referred to in subparagraph (A), and

(ii) dividing the resulting amount by the number of months in the taxable year (6 or 8, or 9 or 11, as the case may be) referred to in subparagraph (A).

(e) DEFINITION OF TAX.—For purposes of subsections (b), (d) (2), and (d) (3), the term "tax" means the excess of—

(1) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

(2) the sum of—

(A) $100,000, and

(B) the credits against tax provided in part IV of subchapter A of chapter 1.

(f) SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

SEC. 6656. FAILURE TO MAKE DEPOSIT OF TAXES.

(a) PENALTY.—In case of failure by any person required by this title or by regulation of the Secretary or his delegate under this title to deposit on the date prescribed therefor any amount of tax imposed by this title in such government depositary as is authorized under section 6302(c) to receive such deposit, unless it is shown that such failure is due to reasonable cause and not due to willful neglect, there shall be imposed upon such person a penalty of 1 percent of the amount of the underpayment if the failure is for not more than 1 month, with an additional 1 percent for each additional month or fraction thereof during which such failure continues, not exceeding 6 percent in the aggregate. For purposes of this subsection, the term "underpayment" means the excess of the amount of the tax required to be so deposited over the amount, if any, thereof deposited on or before the date prescribed therefor.

(b) PENALTY NOT IMPOSED AFTER DUE DATE FOR RETURN.—For purposes of subsection (a), the failure shall be deemed not to continue beyond the last date (determined without regard to any extension of time) prescribed for payment of the tax required to be deposited or beyond the date the tax is paid, whichever is earlier.

SEC. 6657. BAD CHECKS.

If any check or money order in payment of any amount receivable under this title is not duly paid, in addition to any other penalties provided by law, there shall be paid as a penalty by the person who tendered such check, upon notice and demand by the Secretary or his delegate, in the same manner as tax, an amount equal to 1 percent of the amount of such check, except that if the amount of such check is less than $500, the penalty under this section shall be $5 or the amount of such check, whichever is the lesser. This section shall not apply if the person tendered such check in good faith and with reasonable cause to believe that it would be duly paid.

SEC. 6658. ADDITION TO TAX IN CASE OF JEOPARDY.

If a taxpayer violates or attempts to violate section 6851 (relating to termination of taxable year) there shall, in addition to all other

penalties, be added as part of the tax 25 percent of the total amount of the tax or deficiency in the tax.

SEC. 6659. APPLICABLE RULES.

(a) ADDITIONS TREATED AS TAX.—Except as otherwise provided in this title—

(1) The additions to the tax, additional amounts, and penalties provided by this chapter shall be paid upon notice and demand and shall be assessed, collected, and paid in the same manner as taxes;

(2) Any reference in this title to "tax" imposed by this title shall be deemed also to refer to the additions to the tax, additional amounts, and penalties provided by this chapter.

(b) ADDITIONS TO TAX FOR FAILURE TO FILE RETURN OR PAY TAX.—Any addition under section 6651 or section 6653 to a tax imposed by another subtitle of this title shall be considered a part of such tax for the purpose of applying the provisions of this title relating to the assessment and collection of such tax (including the provisions of subchapter B of chapter 63, relating to deficiency procedures for income, estate, and gift taxes).

Subchapter B—Assessable Penalties

Sec. 6671. Rules for application of assessable penalties.
Sec. 6672. Failure to collect and pay over tax, or attempt to evade or defeat tax.
Sec. 6673. Damages assessable for instituting proceedings before the Tax Court merely for delay.
Sec. 6674. Fraudulent statement or failure to furnish statement to employee.

SEC. 6671. RULES FOR APPLICATION OF ASSESSABLE PENALTIES.

(a) PENALTY ASSESSED AS TAX.—The penalties and liabilities provided by this subchapter shall be paid upon notice and demand by the Secretary or his delegate, and shall be assessed and collected in the same manner as taxes. Except as otherwise provided, any reference in this title to "tax" imposed by this title shall be deemed also to refer to the penalties and liabilities provided by this subchapter.

(b) PERSON DEFINED.—The term "person", as used in this subchapter, includes an officer or employee of a corporation, or a member or employee of a partnership, who as such officer, employee, or member is under a duty to perform the act in respect of which the violation occurs.

SEC. 6672. FAILURE TO COLLECT AND PAY OVER TAX, OR ATTEMPT TO EVADE OR DEFEAT TAX.

Any person required to collect, truthfully account for, and pay over any tax imposed by this title who willfully fails to collect such tax, or truthfully account for and pay over such tax, or willfully attempts in any manner to evade or defeat any such tax or the payment thereof, shall, in addition to other penalties provided by law, be liable to a penalty equal to the total amount of the tax evaded, or not collected, or not accounted for and paid over. No penalty shall be imposed under section 6653 for any offense to which this section is applicable.

SEC. 6673. DAMAGES ASSESSABLE FOR INSTITUTING PROCEEDINGS BEFORE THE TAX COURT MERELY FOR DELAY.

Whenever it appears to the Tax Court that proceedings before it have been instituted by the taxpayer merely for delay, damages in an amount not in excess of $500 shall be awarded to the United States by the Tax Court in its decision. Damages so awarded shall be assessed at the same time as the deficiency and shall be paid upon notice and demand from the Secretary or his delegate and shall be collected as a part of the tax.

SEC. 6674. FRAUDULENT STATEMENT OR FAILURE TO FURNISH STATEMENT TO EMPLOYEE.

In addition to the criminal penalty provided by section 7204, any person required under the provisions of section 6051 to furnish a statement to an employee who willfully furnishes a false or fraudulent statement, or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under section 6051, or regulations prescribed thereunder, shall for each such failure be subject to a penalty under this subchapter of $50, which shall be assessed and collected in the same manner as the tax on employers imposed by section 3111.

CHAPTER 69—GENERAL PROVISIONS RELATING TO STAMPS

Sec. 6801. Authority for establishment, alteration, and distribution.
Sec. 6802. Supply and distribution.
Sec. 6803. Accounting and safeguarding.
Sec. 6804. Attachment and cancellation.
Sec. 6805. Redemption of stamps.
Sec. 6806. Posting occupational tax stamps.
Sec. 6807. Stamping, marking, and branding seized goods.
Sec. 6808. Special provisions relating to stamps.

SEC. 6801. AUTHORITY FOR ESTABLISHMENT, ALTERATION, AND DISTRIBUTION.

(a) ESTABLISHMENT AND ALTERATION.—The Secretary or his delegate may establish, and from time to time alter, renew, replace, or change the form, style, character, material, and device of any stamp, mark, or label under any provision of the laws relating to internal revenue.

(b) PREPARATION AND DISTRIBUTION OF REGULATIONS, FORMS, STAMPS AND DIES.—The Secretary or his delegate shall prepare and distribute all the instructions, regulations, directions, forms, blanks, and stamps; and shall provide proper and sufficient adhesive stamps and other stamps or dies for expressing and denoting the several stamp taxes.

SEC. 6802. SUPPLY AND DISTRIBUTION.

The Secretary or his delegate shall furnish, without prepayment, to—

(1) POSTMASTER GENERAL.—The Postmaster General a suitable quantity of adhesive stamps (other than the stamps on playing cards), coupons, tickets, or such other devices as may be prescribed by the Secretary or his delegate pursuant to section 6302 (b) or this chapter, to be distributed to, and kept on sale by, the various postmasters in the United States in all post offices of the first and second classes, and such post offices of the third and fourth classes as—

(A) are located in county seats, or

(B) are certified by the Secretary to the Postmaster General as necessary;

(2) DESIGNATED DEPOSITARY OF THE UNITED STATES.—Any designated depositary of the United States a suitable quantity of adhesive stamps to be kept on sale by such designated depositary;

(3) STATE AGENTS.—Any person who is—

(A) duly appointed and acting as agent of any State for the sale of stock transfer stamps of such State, and

(B) designated by the Secretary or his delegate for the purpose, a suitable quantity of such adhesive stamps as are required by section 4301, to be kept on sale by such person.

SEC. 6803. ACCOUNTING AND SAFEGUARDING.

(a) THE POSTMASTER GENERAL.—

(1) BOND AND ACCOUNTING.—The Postmaster General may require each postmaster under paragraph (1) of section 6802 to furnish bond in such increased amount as he may from time to time determine, and each such postmaster shall deposit the receipts from the sale of such stamps, coupons, tickets, books, or other devices, to the credit of, and render accounts to the Postmaster General at such times and in such form as the Postmaster General may by regulations prescribe.

(2) DEPOSIT OF RECEIPTS.—The Postmaster General shall at least once a month transfer to the Treasury as internal revenue collections all receipts so deposited.

(b) DEPOSITARIES AND STATE AGENTS.—

(1) BOND.—In cases coming within the provisions of paragraph (2) or (3) of section 6802, the Secretary or his delegate may require a bond, with sufficient sureties, in a sum to be fixed by the Secretary or his delegate, conditioned for the faithful return, whenever so required, of all quantities or amounts undisposed of and for the payment monthly for all quantities or amounts sold or not remaining on hand.

(2) REGULATIONS.—The Secretary or his delegate may from time to time make such regulations as he may find necessary to insure the safekeeping or prevent the illegal use of all adhesive stamps referred to in paragraphs (2) and (3) of section 6802.

SEC. 6804. ATTACHMENT AND CANCELLATION.

Except as otherwise expressly provided in this title, the stamps referred to in section 6801 shall be attached, protected, removed, canceled, obliterated, and destroyed, in such manner and by such instruments or other means as the Secretary or his delegate may prescribe by rules or regulations.

SEC. 6805. REDEMPTION OF STAMPS.

(a) AUTHORIZATION.—The Secretary or his delegate, subject to regulations prescribed by him, may, upon receipt of satisfactory evidence of the facts, make allowance for or redeem such of the stamps, issued under authority of any internal revenue law, as may have been spoiled, destroyed, or rendered useless or unfit for the purpose intended, or for which the owner may have no use, or which through mistake may have been improperly or unnecessarily used, or where the rates or duties represented thereby have been excessive in amount, paid in error, or in any manner wrongfully collected.

(b) METHOD AND CONDITIONS OF ALLOWANCE.—Such allowance or redemption may be made, either by giving other stamps in lieu of the stamps so allowed for or redeemed, or by refunding the amount or value to the owner thereof, deducting therefrom, in case of repayment, the percentage, if any, allowed to the purchaser thereof; but no allowance or redemption shall be made in any case until the stamps so spoiled or rendered useless shall have been returned to the Secretary or his delegate, or until satisfactory proof has been made showing the reason why the same cannot be returned; or, if so required by the Secretary or his delegate, when the person presenting the same cannot satisfactorily trace the history of said stamps from their issuance to the presentation of his claim as aforesaid.

(c) TIME FOR FILING CLAIMS.—No claim for the redemption of, or allowance for, stamps shall be allowed unless presented within 3 years after the purchase of such stamps from the Government.

(d) FINALITY OF DECISIONS.—The findings of fact in and the decision of the Secretary or his delegate upon the merits of any claim presented under or authorized by this section shall, in the absence of fraud or mistake in mathematical calculation, be final and not subject to revision by any accounting officer.

SEC. 6806. POSTING OCCUPATIONAL TAX STAMPS.

(a) GENERAL RULE.—Every person engaged in any business, avocation, or employment, who is thereby made liable to a special tax, shall place and keep conspicuously in his establishment or place of business all stamps denoting payment of said special tax.

(b) COIN-OPERATED AMUSEMENT AND GAMING DEVICES.—The Secretary or his delegate may by regulations require that the stamps denoting the payment of the special tax imposed by section 4461 shall be posted on or in each device in such a manner that it will be visible to any person operating the device.

(c) OCCUPATIONAL WAGERING TAX.—Every person liable for special tax under section 4411 shall place and keep conspicuously in his principal place of business the stamp denoting the payment of such special tax; except that if he has no such place of business, he shall keep such stamp on his person, and exhibit it, upon request, to any officer or employee of the Treasury Department.

SEC. 6807. STAMPING, MARKING, AND BRANDING SEIZED GOODS.

If any article of manufacture or produce requiring brands, stamps, or marks of whatever kind to be placed thereon, is sold upon levy, forfeiture (except as provided in section 5688 with respect to distilled spirits), or other process provided by law, the same not having been branded, stamped, or marked, as required by law, the officer selling the same shall, upon sale thereof, fix or cause to be affixed the brands, stamps, or marks so required.

SEC. 6808. SPECIAL PROVISIONS RELATING TO STAMPS.

For special provisions on stamps relating to—

(1) Capital stock, see chapter 34.
(2) Cotton futures, see subchapter D of chapter 39.
(3) Distilled spirits and fermented liquors, see chapter 51.
(4) Documents and other instruments, see chapter 34.
(5) Filled cheese, see subchapter C of chapter 39.
(6) Machine guns and short-barrelled firearms, see chapter 53.
(7) Oleomargarine, see subchapter F of chapter 38.
(8) Opium, opium for smoking, opiates and coca leaves, and marihuana, see subchapter A of chapter 39.
(9) Playing cards, see subchapter A of chapter 36.
(10) Process, renovated, or adulterated butter, see subchapter C of chapter 39.
(11) Silver bullion, see subchapter F of chapter 39.
(12) Tobacco, snuff, cigars and cigarettes, see chapter 52.
(13) White phosphorous matches, see subchapter B of chapter 39.

CHAPTER 70—JEOPARDY, BANKRUPTCY AND RECEIVERSHIPS

SUBCHAPTER A. Jeopardy.
SUBCHAPTER B. Bankruptcy and receiverships.

Subchapter A—Jeopardy

Part I. Termination of taxable year.
Part II. Jeopardy assessments.

PART I—TERMINATION OF TAXABLE YEAR

Sec. 6851. Termination of taxable year.

SEC. 6851. TERMINATION OF TAXABLE YEAR.

(a) INCOME TAX IN JEOPARDY.—

(1) IN GENERAL.—If the Secretary or his delegate finds that a taxpayer designs quickly to depart from the United States or to remove his property therefrom, or to conceal himself or his property therein, or to do any other act tending to prejudice or to render wholly or partly ineffectual proceedings to collect the income tax for the current or the preceding taxable year unless such proceedings be brought without delay, the Secretary or his delegate shall declare the taxable period for such taxpayer immediately terminated, and shall cause notice of such finding and declaration to be given the taxpayer, together with a demand for immediate payment of the tax for the taxable period so declared terminated and of the tax for the preceding taxable year or so much of such tax as is unpaid, whether or not the time otherwise allowed by law for filing return and paying the tax has expired; and such taxes shall thereupon become immediately due and payable. In any proceeding in court brought to enforce payment of taxes made due and payable by virtue of the provisions of this section, the finding of the Secretary or his delegate, made as herein provided, whether made after notice to the taxpayer or not, shall be for all purposes presumptive evidence of jeopardy.

(2) CORPORATION IN LIQUIDATION.—If the Secretary or his delegate finds that the collection of the income tax of a corporation for the current or the preceding taxable year will be jeopardized by the distribution of all or a portion of the assets of such corporation in the liquidation of the whole or any part of its capital stock, the Secretary or his delegate shall declare the taxable period for such taxpayer immediately terminated and shall cause notice of such finding and declaration to be given the taxpayer, together with a demand for immediate payment of the tax for the taxable period so declared terminated and of the tax for the preceding taxable year or so much of such tax as is unpaid, whether or not the time otherwise allowed by law for filing return and paying the tax has expired; and such taxes shall thereupon become immediately due and payable.

(b) REOPENING OF TAXABLE PERIOD.—Notwithstanding the termination of the taxable period of the taxpayer by the Secretary or his delegate, as provided in subsection (a), the Secretary or his delegate may reopen such taxable period each time the taxpayer is found by the Secretary or his delegate to have received income, within the current taxable year, since a termination of the period under subsection (a). A taxable period so terminated by the Secretary or his delegate may be reopened by the taxpayer (other than a nonresident alien) if he files with the Secretary or his delegate a true and accurate return of the items of gross income and of the deductions and credits allowed under this title for such taxable period, together with such other information as the Secretary or his delegate may by regulations prescribe. If the taxpayer is a nonresident alien the taxable period so terminated may be reopened by him if he files, or causes to be filed, with the Secretary or his delegate a true and accurate return of his total income derived from all sources within the United States, in the manner prescribed in this title.

(c) CITIZENS.—In the case of a citizen of the United States or of a possession of the United States about to depart from the United States, the Secretary or his delegate may, at his discretion, waive any or all of the requirements placed on the taxpayer by this section.

(d) DEPARTURE OF ALIEN.—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.

(e) FURNISHING OF BOND WHERE TAXABLE YEAR IS CLOSED BY THE SECRETARY OR HIS DELEGATE.—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 the taxpayer furnishes, under regulations prescribed by the Secretary or his delegate, a bond to insure the timely making of returns with respect to, and payment of, such taxes or any income or excess profits taxes for prior years.

PART II—JEOPARDY ASSESSMENTS

Sec. 6861. Jeopardy assessments of income, estate, and gift taxes.
Sec. 6862. Jeopardy assessment of taxes other than income, estate, and gift taxes.
Sec. 6863. Stay of collection of jeopardy assessments.
Sec. 6864. Termination of extended period for payment in case of carryback.

SEC. 6861. JEOPARDY ASSESSMENTS OF INCOME, ESTATE, AND GIFT TAXES.

(a) AUTHORITY FOR MAKING.—If the Secretary or his delegate believes that the assessment or collection of a deficiency, as defined in section 6211, will be jeopardized by delay, he shall, notwithstanding the provisions of section 6213 (a), immediately assess such deficiency (together with all interest, additional amounts, and additions to the tax provided for by law), and notice and demand shall be made by the Secretary or his delegate for the payment thereof.

(b) DEFICIENCY LETTERS.—If the jeopardy assessment is made before any notice in respect of the tax to which the jeopardy assessment relates has been mailed under section 6212 (a), then the Secre-

tary or his delegate shall mail a notice under such subsection within 60 days after the making of the assessment.

(c) AMOUNT ASSESSABLE BEFORE DECISION OF TAX COURT.—The jeopardy assessment may be made in respect of a deficiency greater or less than that notice of which has been mailed to the taxpayer, despite the provisions of section 6212 (c) prohibiting the determination of additional deficiencies, and whether or not the taxpayer has theretofore filed a petition with the Tax Court. The Secretary or his delegate may, at any time before the decision of the Tax Court is rendered, abate such assessment, or any unpaid portion thereof, to the extent that he believes the assessment to be excessive in amount. The Secretary or his delegate shall notify the Tax Court of the amount of such assessment, or abatement, if the petition is filed with the Tax Court before the making of the assessment or is subsequently filed, and the Tax Court shall have jurisdiction to redetermine the entire amount of the deficiency and of all amounts assessed at the same time in connection therewith.

(d) AMOUNT ASSESSABLE AFTER DECISION OF TAX COURT.—If the jeopardy assessment is made after the decision of the Tax Court is rendered, such assessment may be made only in respect of the deficiency determined by the Tax Court in its decision.

(e) EXPIRATION OF RIGHT TO ASSESS.—A jeopardy assessment may not be made after the decision of the Tax Court has become final or after the taxpayer has filed a petition for review of the decision of the Tax Court.

(f) COLLECTION OF UNPAID AMOUNTS.—When the petition has been filed with the Tax Court and when the amount which should have been assessed has been determined by a decision of the Tax Court which has become final, then any unpaid portion, the collection of which has been stayed by bond as provided in section 6863 (b) shall be collected as part of the tax upon notice and demand from the Secretary or his delegate, and any remaining portion of the assessment shall be abated. If the amount already collected exceeds the amount determined as the amount which should have been assessed, such excess shall be credited or refunded to the taxpayer as provided in section 6402, without the filing of claim therefor. If the amount determined as the amount which should have been assessed is greater than the amount actually assessed, then the difference shall be assessed and shall be collected as part of the tax upon notice and demand from the Secretary or his delegate.

(g) ABATEMENT IF JEOPARDY DOES NOT EXIST.—The Secretary or his delegate may abate the jeopardy assessment if he finds that jeopardy does not exist. Such abatement may not be made after a decision of the Tax Court in respect of the deficiency has been rendered or, if no petition is filed with the Tax Court, after the expiration of the period for filing such petition. The period of limitation on the making of assessments and levy or a proceeding in court for collection, in respect of any deficiency, shall be determined as if the jeopardy assessment so abated had not been made, except that the running of such period shall in any event be suspended for the period from the date of such jeopardy assessment until the expiration of the 10th day after the day on which such jeopardy assessment is abated.

(h) CROSS REFERENCES.—

(1) For the effect of the furnishing of security for payment, see section 6863.

(2) For provision permitting immediate levy in case of jeopardy, see section 6331 (a).

SEC. 6862. JEOPARDY ASSESSMENT OF TAXES OTHER THAN INCOME, ESTATE, AND GIFT TAXES.

(a) IMMEDIATE ASSESSMENT.—If the Secretary or his delegate believes that the collection of any tax (other than income tax, estate tax, and gift tax) under any provision of the internal revenue laws will be jeopardized by delay, he shall, whether or not the time otherwise prescribed by law for making return and paying such tax has expired, immediately assess such tax (together with all interest, additional amounts, and additions to the tax provided for by law). Such tax, additions to the tax, and interest shall thereupon become immediately due and payable, and immediate notice and demand shall be made by the Secretary or his delegate for the payment thereof.

(b) IMMEDIATE LEVY.—

For provision permitting immediate levy in case of jeopardy, see section 6331 (a).

SEC. 6863. STAY OF COLLECTION OF JEOPARDY ASSESSMENTS.

(a) BOND TO STAY COLLECTION.—When a jeopardy assessment has been made under section 6861 or 6862, the collection of the whole or any amount of such assessment may be stayed by filing with the Secretary or his delegate, within such time as may be fixed by regulations prescribed by the Secretary or his delegate, a bond in an amount equal to the amount as to which the stay is desired, conditioned upon the payment of the amount (together with interest thereon) the collection of which is stayed, at the time at which, but for the making of the jeopardy assessment, such amount would be due. Upon the filing of the bond the collection of so much of the amount assessed as is covered by the bond shall be stayed. The taxpayer shall have the right to waive such stay at any time in respect of the whole or any part of the amount covered by the bond, and if as a result of such waiver any part of the amount covered by the bond is paid, then the bond shall, at the request of the taxpayer, be proportionately reduced. If any portion of the jeopardy assessment is abated, the bond shall, at the request of the taxpayer, be proportionately reduced.

(b) FURTHER CONDITIONS IN CASE OF INCOME, ESTATE, OR GIFT TAXES.—In the case of taxes subject to the jurisdiction of the Tax Court—

(1) PRIOR TO PETITION TO TAX COURT.—If the bond is given before the taxpayer has filed his petition under section 6213 (a), the bond shall contain a further condition that if a petition is not filed within the period provided in such section, then the amount, the collection of which is stayed by the bond, will be paid on notice and demand at any time after the expiration of such period, together with interest thereon from the date of the jeopardy notice and demand to the date of notice and demand under this paragraph.

(2) EFFECT OF TAX COURT DECISION.—The bond shall be conditioned upon the payment of so much of such assessment (collection of which is stayed by the bond) as is not abated by a decision of the Tax Court which has become final. If the Tax Court determines

that the amount assessed is greater than the amount which should have been assessed, then when the decision of the Tax Court is rendered the bond shall, at the request of the taxpayer, be proportionately reduced.

(3) STAY OF SALE OF SEIZED PROPERTY PENDING TAX COURT DECISION.—

(A) GENERAL RULE.—Where, notwithstanding the provisions of section 6213 (a), a jeopardy assessment has been made under section 6861 the property seized for the collection of the tax shall not be sold—

(i) if section 6861 (b) is applicable, prior to the issuance of the notice of deficiency and the expiration of the time provided in section 6213 (a) for filing petition with the Tax Court, and

(ii) if petition is filed with the Tax Court (whether before or after the making of such jeopardy assessment under section 6861), prior to the expiration of the period during which the assessment of the deficiency would be prohibited if section 6861 (a) were not applicable.

(B) EXCEPTIONS.—Such property may be sold if—

(i) the taxpayer consents to the sale,

(ii) the Secretary or his delegate determines that the expenses of conservation and maintenance will greatly reduce the net proceeds, or

(iii) the property is of the type described in section 6336.

(C) APPLICABILITY.—Subparagraphs (A) and (B) shall be applicable only with respect to a jeopardy assessment made on or after January 1, 1955, and shall apply with respect to taxes imposed by this title and with respect to taxes imposed by the Internal Revenue Code of 1939.

SEC. 6864. TERMINATION OF EXTENDED PERIOD FOR PAYMENT IN CASE OF CARRYBACK.

For termination of extensions of time for payment of income tax granted to corporations expecting carrybacks in case of jeopardy, see section 6164 (h).

Subchapter B—Bankruptcy and Receiverships

Sec. 6871. Claims for income, estate, and gift taxes in bankruptcy and receivership proceedings.
Sec. 6872. Suspension of period on assessment.
Sec. 6873. Unpaid claims.

SEC. 6871. CLAIMS FOR INCOME, ESTATE, AND GIFT TAXES IN BANKRUPTCY AND RECEIVERSHIP PROCEEDINGS.

(a) IMMEDIATE ASSESSMENT.—Upon the adjudication of bankruptcy of any taxpayer in any liquidating proceeding, the approval of a petition of, or against, any taxpayer in any other bankruptcy proceeding, or the appointment of a receiver for any taxpayer in any receivership proceeding before any court of the United States or of any State or Territory or of the District of Columbia, any deficiency (together with all interest, additional amounts, or additions to the tax provided by law) determined by the Secretary or his delegate in respect of a tax imposed by subtitle A or B upon such taxpayer shall, despite the restrictions imposed by section 6213 (a) upon assessments, be immediately assessed if such deficiency has not theretofore been assessed in accordance with law.

(b) CLAIM FILED DESPITE PENDENCY OF TAX COURT PROCEEDINGS.—In the case of a tax imposed by subtitle A or B claims for the deficiency and such interest, additional amounts, and additions to the tax may be presented, for adjudication in accordance with law, to the court before which the bankruptcy or receivership proceeding is pending, despite the pendency of proceedings for the redetermination of the deficiency in pursuance of a petition to the Tax Court; but no petition for any such redetermination shall be filed with the Tax Court after the adjudication of bankruptcy, approval of the petition in any other bankruptcy proceeding, or the appointment of the receiver.

SEC. 6872. SUSPENSION OF PERIOD ON ASSESSMENT.

If the regulations issued pursuant to section 6036 require the giving of notice by any fiduciary in any proceeding under the Bankruptcy Act, or by a receiver in any other court proceeding, to the Secretary or his delegate of his qualification as such, the running of the period of limitations on the making of assessments shall be suspended for the period from the date of the institution of the proceeding to a date 30 days after the date upon which the notice from the receiver or other fiduciary is received by the Secretary or his delegate; but the suspension under this sentence shall in no case be for a period in excess of 2 years.

SEC. 6873. UNPAID CLAIMS.

(a) GENERAL RULE.—Any portion of a claim for taxes allowed in a receivership proceeding or any proceeding under the Bankruptcy Act

which is unpaid shall be paid by the taxpayer upon notice and demand from the Secretary or his delegate after the termination of such proceeding.

(b) CROSS REFERENCES.—

(1) For suspension of running of period of limitations on collection, see section 6503 (b).

(2) For extension of time for payment, see section 6161 (c).

CHAPTER 71—TRANSFEREES AND FIDUCIARIES

Sec. 6901. Transferred assets.
Sec. 6902. Provisions of special application to transferees.
Sec. 6903. Notice of fiduciary relationship.
Sec. 6904. Prohibition of injunctions.

SEC. 6901. TRANSFERRED ASSETS.

(a) METHOD OF COLLECTION.—The amounts of the following liabilities shall, except as hereinafter in this section provided, be assessed, paid, and collected in the same manner and subject to the same provisions and limitations as in the case of the taxes with respect to which the liabilities were incurred:

(1) INCOME, ESTATE, AND GIFT TAXES.—

(A) TRANSFEREES.—The liability, at law or in equity, of a transferee of property—

(i) of a taxpayer in the case of a tax imposed by subtitle A (relating to income taxes),

(ii) of a decedent in the case of a tax imposed by chapter 11 (relating to estate taxes), or

(iii) of a donor in the case of a tax imposed by chapter 12 (relating to gift taxes),

in respect of the tax imposed by subtitle A or B.

(B) FIDUCIARIES.—The liability of a fiduciary under section 3467 of the Revised Statutes (31 U. S. C. 192) in respect of the payment of any tax described in subparagraph (A) from the estate of the taxpayer, the decedent, or the donor, as the case may be.

(2) OTHER TAXES.—The liability, at law or in equity of a transferee of property of any person liable in respect of any tax imposed by this title (other than a tax imposed by subtitle A or B), but only if such liability arises on the liquidation of a partnership or corporation, or on a reorganization within the meaning of section 368 (a).

(b) LIABILITY.—Any liability referred to in subsection (a) may be either as to the amount of tax shown on a return or as to any deficiency or underpayment of any tax.

(c) PERIOD OF LIMITATIONS.—The period of limitations for assessment of any such liability of a transferee or a fiduciary shall be as follows:

(1) INITIAL TRANSFEREE.—In the case of the liability of an initial transferee, within 1 year after the expiration of the period of limitation for assessment against the transferor;

(2) TRANSFEREE OF TRANSFEREE.—In the case of the liability of a transferee of a transferee, within 1 year after the expiration of the period of limitation for assessment against the preceding transferee, but not more than 3 years after the expiration of the period of limitation for assessment against the initial transferor;

except that if, before the expiration of the period of limitation for the assessment of the liability of the transferee, a court proceeding for the collection of the tax or liability in respect thereof has been begun

against the initial transferor or the last preceding transferee, respectively, then the period of limitation for assessment of the liability of the transferee shall expire 1 year after the return of execution in the court proceeding.

(3) FIDUCIARY.—In the case of the liability of a fiduciary, not later than 1 year after the liability arises or not later than the expiration of the period for collection of the tax in respect of which such liability arises, whichever is the later.

(d) EXTENSION BY AGREEMENT.—

(1) EXTENSION OF TIME FOR ASSESSMENT.—If before the expiration of the time prescribed in subsection (c) for the assessment of the liability, the Secretary or his delegate and the transferee or fiduciary have both consented in writing to its assessment after such time, the liability may be assessed at any time prior to the expiration of the period agreed upon. The period so agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon. For the purpose of determining the period of limitation on credit or refund to the transferee or fiduciary of overpayments of tax made by such transferee or fiduciary or overpayments of tax made by the transferor of which the transferee or fiduciary is legally entitled to credit or refund, such agreement and any extension thereof shall be deemed an agreement and extension thereof referred to in section 6511 (c).

(2) EXTENSION OF TIME FOR CREDIT OR REFUND.—If the agreement is executed after the expiration of the period of limitation for assessment against the taxpayer with reference to whom the liability of such transferee or fiduciary arises, then in applying the limitations under section 6511 (c) on the amount of the credit or refund, the periods specified in section 6511 (b) (2) shall be increased by the period from the date of such expiration to the date of the agreement.

(e) PERIOD FOR ASSESSMENT AGAINST TRANSFEROR.—For purposes of this section, if any person is deceased, or is a corporation which has terminated its existence, the period of limitation for assessment against such person shall be the period that would be in effect had death or termination of existence not occurred.

(f) SUSPENSION OF RUNNING OF PERIOD OF LIMITATIONS.—The running of the period of limitations upon the assessment of the liability of a transferee or fiduciary shall, after the mailing to the transferee or fiduciary of the notice provided for in section 6212 (relating to income, estate, and gift taxes), be suspended for the period during which the Secretary or his delegate is prohibited from making the assessment in respect of the liability of the transferee or fiduciary (and in any event, if a proceeding in respect of the liability is placed on the docket of the Tax Court, until the decision of the Tax Court becomes final), and for 60 days thereafter.

(g) ADDRESS FOR NOTICE OF LIABILITY.—In the absence of notice to the Secretary or his delegate under section 6903 of the existence of a fiduciary relationship, any notice of liability enforceable under this section required to be mailed to such person, shall, if mailed to the person subject to the liability at his last known address, be sufficient for purposes of this title, even if such person is deceased, or is under

a legal disability, or, in the case of a corporation, has terminated its existence.

(h) DEFINITION OF TRANSFEREE.—As used in this section, the term "transferee" includes donee, heir, legatee, devisee, and distributee, and with respect to estate taxes, also includes any person who, under section 6324 (a) (2), is personally liable for any part of such tax.

(i) EXTENSION OF TIME.—

For extensions of time by reason of armed service in a combat zone, see section 7508.

SEC. 6902. PROVISIONS OF SPECIAL APPLICATION TO TRANSFEREES.

(a) BURDEN OF PROOF.—In proceedings before the Tax Court the burden of proof shall be upon the Secretary or his delegate to show that a petitioner is liable as a transferee of property of a taxpayer, but not to show that the taxpayer was liable for the tax.

(b) EVIDENCE.—Upon application to the Tax Court, a transferee of property of a taxpayer shall be entitled, under rules prescribed by the Tax Court, to a preliminary examination of books, papers, documents, correspondence, and other evidence of the taxpayer or a preceding transferee of the taxpayer's property, if the transferee making the application is a petitioner before the Tax Court for the redetermination of his liability in respect of the tax (including interest, additional amounts, and additions to the tax provided by law) imposed upon the taxpayer. Upon such application, the Tax Court may require by subpoena, ordered by the Tax Court or any division thereof and signed by a judge, the production of all such books, papers, documents, correspondence, and other evidence within the United States the production of which, in the opinion of the Tax Court or division thereof, is necessary to enable the transferee to ascertain the liability of the taxpayer or preceding transferee and will not result in undue hardship to the taxpayer or preceding transferee. Such examination shall be had at such time and place as may be designated in the subpoena.

SEC. 6903. NOTICE OF FIDUCIARY RELATIONSHIP.

(a) RIGHTS AND OBLIGATIONS OF FIDUCIARY.—Upon notice to the Secretary or his delegate that any person is acting for another person in a fiduciary capacity, such fiduciary shall assume the powers, rights, duties, and privileges of such other person in respect of a tax imposed by this title (except as otherwise specifically provided and except that the tax shall be collected from the estate of such other person), until notice is given that the fiduciary capacity has terminated.

(b) MANNER OF NOTICE.—Notice under this section shall be given in accordance with regulations prescribed by the Secretary or his delegate.

SEC. 6904. PROHIBITION OF INJUNCTIONS.

For prohibition of suits to restrain enforcement of liability of transferee, or fiduciary, see section 7421 (b).

CHAPTER 72—LICENSING AND REGISTRATION

SUBCHAPTER A. Licensing.
SUBCHAPTER B. Registration.

Subchapter A—Licensing

Sec. 7001. Collection of foreign items.

SEC. 7001. COLLECTION OF FOREIGN ITEMS.

(a) LICENSE.—All persons undertaking as a matter of business or for profit the collection of foreign payments of interest or dividends by means of coupons, checks, or bills of exchange shall obtain a license from the Secretary or his delegate and shall be subject to such regulations enabling the Government to obtain the information required under subtitle A (relating to income taxes) as the Secretary or his delegate shall prescribe.

(b) PENALTY FOR FAILURE TO OBTAIN LICENSE.—

For penalty for failure to obtain the license provided for in this section, see section 7231.

Subchapter B—Registration

Sec. 7011. Registration—persons paying a special tax.
Sec. 7012. Cross references.

SEC. 7011. REGISTRATION—PERSONS PAYING A SPECIAL TAX.

(a) REQUIREMENT.—Every person engaged in any trade or business on which a special tax is imposed by law shall register with the Secretary or his delegate his name or style, place of residence, trade or business, and the place where such trade or business is to be carried on. In case of a firm or company, the names of the several persons constituting the same, and the places of residence, shall be so registered.

(b) REGISTRATION IN CASE OF DEATH OR CHANGE OF LOCATION.—Any person exempted under the provisions of section 4905 from the payment of a special tax, shall register with the Secretary or his delegate in accordance with regulations prescribed by the Secretary or his delegate.

SEC. 7012. CROSS REFERENCES.

(a) Narcotic Drugs.—For provisions relating to registration in relation to narcotic drugs, see section 4722.

(b) Marihuana.—For provisions relating to registration in relation to marihuana, see section 4753.

(c) Firearms.—For provisions relating to registration in connection with firearms, see sections 5802, 5841, and 5854.

(d) For provisions relating to registration in relation to the manufacture of playing cards, see section 4455.

(e) For provisions relating to registration in relation to the manufacture of white phosphorus matches, see section 4804 (d).

(f) For special rules with respect to registration by persons engaged in receiving wagers, see section 4412.

(g) For provisions relating to registration in relation to the production or importation of gasoline, see section 4101.

(h) For provisions relating to registration in relation to the manufacture or production of lubricating oils, see section 4101.

(i) For provisions relating to registration in relation to transportation of property for hire, see section 4273.

(j) Penalty.—

(1) For penalty for failure to register, see section 7272.

(2) For other penalties for failure to register with respect to wagering, see section 7262.

CHAPTER 73—BONDS

Sec. 7101. Form of bonds.
Sec. 7102. Single bond in lieu of multiple bonds.
Sec. 7103. Cross references—other provisions for bonds.

SEC. 7101. FORM OF BONDS.

Whenever, pursuant to the provisions of this title (other than sections 7485 and 6803 (a) (1)), or rules or regulations prescribed under authority of this title, a person is required to furnish a bond or security—

(1) GENERAL RULE.—Such bond or security shall be in such form and with such surety or sureties as may be prescribed by regulations issued by the Secretary or his delegate.

(2) UNITED STATES BONDS AND NOTES IN LIEU OF SURETY BONDS.—The person required to furnish such bond or security may, in lieu thereof, deposit bonds or notes of the United States as provided in 6 U. S. C. 15.

SEC. 7102. SINGLE BOND IN LIEU OF MULTIPLE BONDS.

In any case in which two or more bonds are required or authorized, the Secretary or his delegate may provide for the acceptance of a single bond complying with the requirements for which the several bonds are required or authorized.

SEC. 7103. CROSS REFERENCES—OTHER PROVISIONS FOR BONDS.

(a) EXTENSIONS OF TIME.—

(1) For bond where time to pay tax or deficiency has been extended, see section 6165.

(2) For bond to stay collection of a jeopardy assessment, see section 6863.

(3) For bond to stay assessment and collection prior to review of a Tax Court decision, see section 7485.

(4) For furnishing of bond where taxable year is closed by the Secretary or his delegate, see section 6851 (e).

(5) For bond in case of an election to postpone payment of estate tax where the value of a reversionary or remainder interest is included in the gross estate, see section 6165.

(b) RELEASE OF LIEN OR SEIZED PROPERTY.—

(1) For the release of the lien provided for in section 6325 by furnishing the Secretary or his delegate a bond, see section 6325 (a) (2).

(2) For bond to obtain release of perishable goods which have been seized under forfeiture proceeding, see section 7324 (3).

(3) For bond to release perishable goods under levy, see section 6336.

(4) For bond executed by claimant of seized goods valued at $1000 or less, see section 7325 (3).

(c) MISCELLANEOUS.—

(1) For bond as a condition precedent to the allowance of the credit for accrued foreign taxes, see section 905 (c).

(2) For bonds relating to alcohol and tobacco taxes, see generally subtitle E.

(d) BONDS REQUIRED WITH RESPECT TO CERTAIN PRODUCTS.—

(1) For bond in case of articles taxable under subchapter B of chapter 37 processed for exportation without payment of the tax provided therein, see section 4513 (c).

(2) For bond in case of oleomargarine removed from the place of manufacture for exportation to a foreign country, see section 4593 (b).

(3) For requirement of bonds with respect to certain industries see—

(A) section 4596 relating to a manufacturer of oleomargarine;

(B) section 4814 (c) relating to a manufacturer of process or renovated butter or adulterated butter;

(C) section 4833 (c) relating to a manufacturer of filled cheese;

(D) section 4713 (b) relating to a manufacturer of opium suitable for smoking purposes;

(E) section 4804 (c) relating to a manufacturer of white phosphorus matches;

(F) section 4101 relating to a producer or importer of gasoline or a manufacturer or producer of lubricating oils subject to tax under chapter 32.

(e) PERSONNEL BONDS.—

(1) For bonds of internal revenue personnel to insure faithful performance of duties, see section 7803 (c).

(2) For jurisdiction of United States district courts, concurrently with the courts of the several States, in an action on the official bond of any internal revenue officer or employee, see section 7402 (d).

(3) For bonds of postmasters to whom stamps have been furnished under section 6802 (1), see section 6803 (a) (1).

(4) For bonds in cases coming within the provisions of section 6802 (2) or (3), relating to stamps furnished a designated depositary of the United States or State agent, see section 6803 (b) (1).

CHAPTER 74—CLOSING AGREEMENTS AND COMPROMISES

Sec. 7121. Closing agreements.
Sec. 7122. Compromises.
Sec. 7123. Cross references.

SEC. 7121. CLOSING AGREEMENTS.

(a) AUTHORIZATION.—The Secretary or his delegate is authorized to enter into an agreement in writing with any person relating to the liability of such person (or of the person or estate for whom he acts) in respect of any internal revenue tax for any taxable period.

(b) FINALITY.—If such agreement is approved by the Secretary or his delegate (within such time as may be stated in such agreement, or later agreed to) such agreement shall be final and conclusive, and, except upon a showing of fraud or malfeasance, or misrepresentation of a material fact—

(1) the case shall not be reopened as to the matters agreed upon or the agreement modified by any officer, employee, or agent of the United States, and

(2) in any suit, action, or proceeding, such agreement, or any determination, assessment, collection, payment, abatement, refund, or credit made in accordance therewith, shall not be annulled, modified, set aside, or disregarded.

SEC. 7122. COMPROMISES.

(a) AUTHORIZATION.—The Secretary or his delegate may compromise any civil or criminal case arising under the internal revenue laws prior to reference to the Department of Justice for prosecution or defense; and the Attorney General or his delegate may compromise any such case after reference to the Department of Justice for prosecution or defense.

(b) RECORD.—Whenever a compromise is made by the Secretary or his delegate in any case, there shall be placed on file in the office of the Secretary or his delegate the opinion of the General Counsel for the Department of the Treasury or his delegate, with his reasons therefor, with a statement of—

(1) The amount of tax assessed,

(2) The amount of interest, additional amount, addition to the tax, or assessable penalty, imposed by law on the person against whom the tax is assessed, and

(3) The amount actually paid in accordance with the terms of the compromise.

Notwithstanding the foregoing provisions of this subsection, no such opinion shall be required with respect to the compromise of any civil case in which the unpaid amount of tax assessed (including any interest, additional amount, addition to the tax, or assessable penalty) is less than $500.

SEC. 7123. CROSS REFERENCES.

(a) CRIMINAL PENALTIES.—

For criminal penalties for concealment of property, false statement, or falsifying and destroying records, in connection with any closing agreement, compromise, or offer of compromise, see section 7206.

(b) COMPROMISES AFTER JUDGMENT.—

For compromises after judgment, see R. S. 3469 (31 U. S. C. 194).

CHAPTER 75—CRIMES, OTHER OFFENSES, AND FORFEITURES

SUBCHAPTER A. Crimes.
SUBCHAPTER B. Other offenses.
SUBCHAPTER C. Forfeitures.
SUBCHAPTER D. Miscellaneous penalty and forfeiture provisions.

Subchapter A—Crimes

Part I. General provisions.
Part II. Penalties applicable to certain taxes.

PART I—GENERAL PROVISIONS

Sec. 7201. Attempt to evade or defeat tax.
Sec. 7202. Willful failure to collect or pay over tax.
Sec. 7203. Willful failure to file return, supply information, or pay tax.
Sec. 7204. Fraudulent statement or failure to make statement to employees.
Sec. 7205. Fraudulent withholding exemption certificate or failure to supply information.
Sec. 7206. Fraud and false statements.
Sec. 7207. Fraudulent returns, statements, or other documents.
Sec. 7208. Offenses relating to stamps.
Sec. 7209. Unauthorized use or sale of stamps.
Sec. 7210. Failure to obey summons.
Sec. 7211. False statements to purchasers or lessees relating to tax.
Sec. 7212. Attempts to interfere with administration of internal revenue laws.
Sec. 7213. Unauthorized disclosure of information.
Sec. 7214. Offenses by officers and employees of the United States.

SEC. 7201. ATTEMPT TO EVADE OR DEFEAT TAX.

Any person who willfully attempts in any manner to evade or defeat any tax imposed by this title or the payment thereof shall, in addition to other penalties provided by law, be guilty of a felony and, upon conviction thereof, shall be fined not more than $10,000, or imprisoned not more than 5 years, or both, together with the costs of prosecution.

SEC. 7202. WILLFUL FAILURE TO COLLECT OR PAY OVER TAX.

Any person required under this title to collect, account for, and pay over any tax imposed by this title who willfully fails to collect or truthfully account for and pay over such tax shall, in addition to other penalties provided by law, be guilty of a felony and, upon conviction thereof, shall be fined not more than $10,000, or imprisoned not more than 5 years, or both, together with the costs of prosecution.

SEC. 7203. WILLFUL FAILURE TO FILE RETURN, SUPPLY INFORMATION, OR PAY TAX.

Any person required under this title to pay any estimated tax or tax, or required by this title or by regulations made under authority thereof to make a return (other than a return required under authority

of section 6015 or section 6016), keep any records, or supply any information, who willfully fails to pay such estimated tax or tax, make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $10,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

SEC. 7204. FRAUDULENT STATEMENT OR FAILURE TO MAKE STATEMENT TO EMPLOYEES.

In lieu of any other penalty provided by law (except the penalty provided by section 6674) any person required under the provisions of section 6051 to furnish a statement who willfully furnishes a false or fraudulent statement or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under section 6051, or regulations prescribed thereunder, shall, for each such offense, upon conviction thereof, be fined not more than $1,000, or imprisoned not more than 1 year, or both.

SEC. 7205. FRAUDULENT WITHHOLDING EXEMPTION CERTIFICATE OR FAILURE TO SUPPLY INFORMATION.

Any individual required to supply information to his employer under section 3402 (f) who willfully supplies false or fraudulent information, or who willfully fails to supply information thereunder which would require an increase in the tax to be withheld under section 3402, shall, in lieu of any penalty otherwise provided, upon conviction thereof, be fined not more than $500, or imprisoned not more than 1 year, or both.

SEC. 7206. FRAUD AND FALSE STATEMENTS.

Any person who—

(1) DECLARATION UNDER PENALTIES OF PERJURY.—Willfully makes and subscribes any return, statement, or other document, which contains or is verified by a written declaration that it is made under the penalties of perjury, and which he does not believe to be true and correct as to every material matter; or

(2) AID OR ASSISTANCE.—Willfully aids or assists in, or procures, counsels, or advises the preparation or presentation under, or in connection with any matter arising under, the internal revenue laws, of a return, affidavit, claim, or other document, which is fraudulent or is false as to any material matter, whether or not such falsity or fraud is with the knowledge or consent of the person authorized or required to present such return, affidavit, claim, or document; or

(3) FRAUDULENT BONDS, PERMITS, AND ENTRIES.—Simulates or falsely or fraudulently executes or signs any bond, permit, entry, or other document required by the provisions of the internal revenue laws, or by any regulation made in pursuance thereof, or procures the same to be falsely or fraudulently executed, or advises, aids in, or connives at such execution thereof; or

(4) REMOVAL OR CONCEALMENT WITH INTENT TO DEFRAUD.—Removes, deposits, or conceals, or is concerned in removing, depositing, or concealing, any goods or commodities for or in respect whereof any tax is or shall be imposed, or any property upon which

levy is authorized by section 6331, with intent to evade or defeat the assessment or collection of any tax imposed by this title; or

(5) COMPROMISES AND CLOSING AGREEMENTS.—In connection with any compromise under section 7122, or offer of such compromise, or in connection with any closing agreement under section 7121, or offer to enter into any such agreement, willfully—

(A) CONCEALMENT OF PROPERTY.—Conceals from any officer or employee of the United States any property belonging to the estate of a taxpayer or other person liable in respect of the tax, or

(B) WITHHOLDING, FALSIFYING, AND DESTROYING RECORDS.—Receives, withholds, destroys, mutilates, or falsifies any book, document, or record, or makes any false statement, relating to the estate or financial condition of the taxpayer or other person liable in respect of the tax;

shall be guilty of a felony and, upon conviction thereof, shall be fined not more than $5,000, or imprisoned not more than 3 years, or both, together with the costs of prosecution.

SEC. 7207. FRAUDULENT RETURNS, STATEMENTS, OR OTHER DOCUMENTS.

Any person who willfully delivers or discloses to the Secretary or his delegate any list, return, account, statement, or other document, known by him to be fraudulent or to be false as to any material matter, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both.

SEC. 7208. OFFENSES RELATING TO STAMPS.

Any person who—

(1) COUNTERFEITING.—With intent to defraud, alters, forges, makes, or counterfeits any stamp, coupon, ticket, book, or other device prescribed under authority of this title for the collection or payment of any tax imposed by this title, or sells, lends, or has in his possession any such altered, forged, or counterfeited stamp, coupon, ticket, book, or other device, or makes, uses, sells, or has in his possession any material in imitation of the material used in the manufacture of such stamp, coupon, ticket, book, or other device; or

(2) MUTILATION OR REMOVAL.—Fraudulently cuts, tears, or removes from any vellum, parchment, paper, instrument, writing, package, or article, upon which any tax is imposed by this title, any adhesive stamp or the impression of any stamp, die, plate, or other article provided, made, or used in pursuance of this title; or

(3) USE OF MUTILATED, INSUFFICIENT, OR COUNTERFEITED STAMPS.—Fraudulently uses, joins, fixes, or places to, with, or upon any vellum, parchment, paper, instrument, writing, package, or article, upon which any tax is imposed by this title,

(A) any adhesive stamp, or the impression of any stamp, die, plate, or other article, which has been cut, torn, or removed from any other vellum, parchment, paper, instrument, writing, package, or article, upon which any tax is imposed by this title; or

(B) any adhesive stamp or the impression of any stamp, die, plate, or other article of insufficient value; or

(C) any forged or counterfeited stamp, or the impression of any forged or counterfeited stamp, die, plate, or other article; or

(4) REUSE OF STAMPS.—

(A) PREPARATION FOR REUSE.—Willfully removes, or alters the cancellation or defacing marks of, or otherwise prepares, any adhesive stamp, with intent to use, or cause the same to be used, after it has already been used; or

(B) TRAFFICKING.—Knowingly or willfully buys, sells, offers for sale, or gives away, any such washed or restored stamp to any person for use, or knowingly uses the same; or

(C) POSSESSION.—Knowingly and without lawful excuse (the burden of proof of such excuse being on the accused) has in possession any washed, restored, or altered stamp, which has been removed from any vellum, parchment, paper, instrument, writing, package, or article; or

(5) EMPTIED STAMPED PACKAGES.—Commits the offense described in section 7271 (relating to disposal and receipt of stamped packages) with intent to defraud the revenue, or to defraud any person;

shall be guilty of a felony and, upon conviction thereof, shall be fined not more than $10,000, or imprisoned not more than 5 years, or both.

SEC. 7209. UNAUTHORIZED USE OR SALE OF STAMPS.

Any person who buys, sells, offers for sale, uses, transfers, takes or gives in exchange, or pledges or gives in pledge, except as authorized in this title or in regulations made pursuant thereto, any stamp, coupon, ticket, book, or other device prescribed by the Secretary or his delegate under this title for the collection or payment of any tax imposed by this title, shall, upon conviction thereof, be fined not more than $1,000, or imprisoned not more than 6 months, or both.

SEC. 7210. FAILURE TO OBEY SUMMONS.

Any person who, being duly summoned to appear to testify, or to appear and produce books, accounts, records, memoranda, or other papers, as required under sections 7602, 7603, and 7604 (b), neglects to appear or to produce such books, accounts, records, memoranda, or other papers, shall, upon conviction thereof, be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with costs of prosecution.

SEC. 7211. FALSE STATEMENTS TO PURCHASERS OR LESSEES RELATING TO TAX.

Whoever in connection with the sale or lease, or offer for sale or lease, of any article, or for the purpose of making such sale or lease, makes any statement, written or oral—

(1) intended or calculated to lead any person to believe that any part of the price at which such article is sold or leased, or offered for sale or lease, consists of a tax imposed under the authority of the United States, or

(2) ascribing a particular part of such price to a tax imposed under the authority of the United States,

knowing that such statement is false or that the tax is not so great as the portion of such price ascribed to such tax, shall be guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than $1,000, or by imprisonment for not more than 1 year, or both.

SEC. 7212. ATTEMPTS TO INTERFERE WITH ADMINISTRATION OF INTERNAL REVENUE LAWS.

(a) CORRUPT OR FORCIBLE INTERFERENCE.—Whoever corruptly or by force or threats of force (including any threatening letter or communication) endeavors to intimidate or impede any officer or employee of the United States acting in an official capacity under this title, or in any other way corruptly or by force or threats of force (including any threatening letter or communication) obstructs or impedes, or endeavors to obstruct or impede, the due administration of this title, shall, upon conviction thereof, be fined not more than $5,000, or imprisoned not more than 3 years, or both, except that if the offense is committed only by threats of force, the person convicted thereof shall be fined not more than $3,000, or imprisoned not more than 1 year, or both. The term "threats of force", as used in this subsection, means threats of bodily harm to the officer or employee of the United States or to a member of his family.

(b) FORCIBLE RESCUE OF SEIZED PROPERTY.—Any person who forcibly rescues or causes to be rescued any property after it shall have been seized under this title, or shall attempt or endeavor so to do, shall, excepting in cases otherwise provided for, for every such offense, be fined not more than $500, or not more than double the value of the property so rescued, whichever is the greater, or be imprisoned not more than 2 years.

SEC. 7213. UNAUTHORIZED DISCLOSURE OF INFORMATION.

(a) INCOME RETURNS.—

(1) FEDERAL EMPLOYEES AND OTHER PERSONS.—It shall be unlawful for any officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return, or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any person committing an offense against the foregoing provision shall be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment.

(2) STATE EMPLOYEES.—Any officer, employee, or agent of any State or political subdivision, who divulges (except as authorized in section 6103 (b), or when called upon to testify in any judicial or administrative proceeding to which the State or political subdivision, or such State or local official, body, or commission, as such, is a party), or who makes known to any person in any manner whatever not provided by law, any information acquired by him through an inspection permitted him or another under section 6103 (b), or who permits any income return or copy thereof or any book containing any abstract or particulars thereof, or any other information, acquired by him through an inspection permitted him

or another under section 6103 (b), to be seen or examined by any person except as provided by law, shall be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

(3) SHAREHOLDERS.—Any shareholder who pursuant to the provisions of section 6103 (c) is allowed to examine the return of any corporation, and who makes known in any manner whatever not provided by law the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any such return, shall be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

(b) DISCLOSURE OF OPERATIONS OF MANUFACTURER OR PRODUCER.—Any officer or employee of the United States who divulges or makes known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties shall be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution; and the offender shall be dismissed from office or discharged from employment.

(c) CROSS REFERENCES.—

(1) RETURNS OF FEDERAL UNEMPLOYMENT TAX.—

For special provisions applicable to returns of tax under chapter 23 (relating to Federal Unemployment Tax), see section 6106.

(2) PENALTIES FOR DISCLOSURE OF CONFIDENTIAL INFORMATION.—

For penalties for disclosure of confidential information by any officer or employee of the United States or any department or agency thereof, see 18 U. S. C. 1905.

SEC. 7214. OFFENSES BY OFFICERS AND EMPLOYEES OF THE UNITED STATES.

(a) UNLAWFUL ACTS OF REVENUE OFFICERS OR AGENTS.—Any officer or employee of the United States acting in connection with any revenue law of the United States—

(1) who is guilty of any extortion or willful oppression under color of law; or

(2) who knowingly demands other or greater sums than are authorized by law, or receives any fee, compensation, or reward, except as by law prescribed, for the performance of any duty; or

(3) who with intent to defeat the application of any provision of this title fails to perform any of the duties of his office or employment; or

(4) who conspires or colludes with any other person to defraud the United States; or

(5) who knowingly makes opportunity for any person to defraud the United States; or

(6) who does or omits to do any act with intent to enable any other person to defraud the United States; or

(7) who makes or signs any fraudulent entry in any book, or makes or signs any fraudulent certificate, return, or statement; or

(8) who, having knowledge or information of the violation of any revenue law by any person, or of fraud committed by any person

against the United States under any revenue law, fails to report, in writing, such knowledge or information to the Secretary or his delegate; or

(9) who demands, or accepts, or attempts to collect, directly or indirectly as payment or gift, or otherwise, any sum of money or other thing of value for the compromise, adjustment, or settlement of any charge or complaint for any violation or alleged violation of law, except as expressly authorized by law so to do;

shall be dismissed from office or discharged from employment and, upon conviction thereof, shall be fined not more than $10,000, or imprisoned not more than 5 years, or both. The court may in its discretion award out of the fine so imposed an amount, not in excess of one-half thereof, for the use of the informer, if any, who shall be ascertained by the judgment of the court. The court also shall render judgment against the said officer or employee for the amount of damages sustained in favor of the party injured, to be collected by execution.

(b) INTEREST OF INTERNAL REVENUE OFFICER OR EMPLOYEE IN TOBACCO OR LIQUOR PRODUCTION.—Any internal revenue officer or employee interested, directly or indirectly, in the manufacture of tobacco, snuff, or cigarettes, or in the production, rectification, or redistillation of distilled spirits, shall be dismissed from office; and each such officer or employee so interested in any such manufacture or production, rectification, or redistillation or production of fermented liquors shall be fined not more than $5,000.

(c) CROSS REFERENCES.—

(1) For penalty imposed for unlawfully removing or permitting to be removed distilled spirits from a bonded warehouse, see section 5632.

(2) For penalty on collecting or disbursing officers trading in public funds or debts or property, see 18 U. S. C. 1901.

PART II—PENALTIES APPLICABLE TO CERTAIN TAXES

Sec. 7231. Failure to obtain license for collection of foreign items.
Sec. 7232. Failure to register or give bond, or false statement by manufacturer or producer of gasoline or lubricating oil.
Sec. 7233. Failure to pay, or attempt to evade payment of, tax on cotton futures, and other violations.
Sec. 7234. Violation of laws relating to oleomargarine or adulterated butter operations.
Sec. 7235. Violation of laws relating to adulterated butter and process or renovated butter.
Sec. 7236. Violation of laws relating to filled cheese.
Sec. 7237. Violation of laws relating to narcotic drugs and to marihuana.
Sec. 7238. Violation of laws relating to opium for smoking.
Sec. 7239. Violations of laws relating to white phosphorus matches.
Sec. 7240. Officials investing or speculating in sugar.

SEC. 7231. FAILURE TO OBTAIN LICENSE FOR COLLECTION OF FOREIGN ITEMS.

Any person required by section 7001 (relating to collection of certain foreign items) to obtain a license who knowingly undertakes to collect the payments described in section 7001 without having obtained a license therefor, or without complying with regulations prescribed under section 7001, shall be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $5,000, or imprisoned not more than 1 year, or both.

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SEC. 7232. FAILURE TO REGISTER OR GIVE BOND, OR FALSE STATEMENT BY MANUFACTURER OR PRODUCER OF GASOLINE OR LUBRICATING OIL.

Every person who fails to register or give bond as required by section 4101, or who in connection with any purchase of gasoline or lubricating oil falsely represents himself to be registered and bonded as provided by section 4101, or who willfully makes any false statement in an application for registration under section 4101, shall, upon conviction thereof, be fined not more than $5,000, or imprisoned not more than 5 years, or both, together with the costs of prosecution.

SEC. 7233. FAILURE TO PAY, OR ATTEMPT TO EVADE PAYMENT OF, TAX ON COTTON FUTURES, AND OTHER VIOLATIONS.

Any person—

(1) NONPAYMENT OR EVASION OF TAX.—Liable to the payment of any tax imposed by subchapter D of chapter 39, who fails to pay, or evades, or attempts to evade the payment of such tax; and

(2) OTHER VIOLATIONS.—Who otherwise violates any provision of subchapter D of chapter 39, or any rule or regulation made in pursuance thereof;

shall, upon conviction thereof, be fined not less than $100 nor more than $20,000, in the discretion of the court; and, in case of natural persons, may, in addition, be punished by imprisonment for not less than 60 days nor more than 3 years, in the discretion of the court.

SEC. 7234. VIOLATION OF LAWS RELATING TO OLEOMARGARINE OR ADULTERATED BUTTER OPERATIONS.

(a) FALSE BRANDING, SELLING, OR PACKING, IN VIOLATION OF LAW.—Every person who knowingly sells or offers for sale, or delivers or offers to deliver, any oleomargarine in any other form than in new wooden, tin-plate, or paper packages, as described in section 4594 (a) and (b), or who packs in any package any oleomargarine in any manner contrary to law, or who falsely brands any package or affixes a stamp on any package denoting a less amount of tax than that required by law shall be fined for each offense not more than $1,000, and be imprisoned not more than 2 years.

(b) REMOVAL OR DEFACEMENT OF STAMPS, MARKS, OR BRANDS.—Any person who shall willfully remove or deface the stamps, marks, or brands on a package containing oleomargarine or adulterated butter, taxed as provided by subchapter F of chapter 38, or subchapter C of chapter 39, respectively, shall be guilty of a misdemeanor, and shall be punished by a fine of not less than $100 nor more than $2,000, and by imprisonment for not less than 30 days nor more than 6 months.

(c) FAILURE OF WHOLESALE DEALERS TO KEEP OR PERMIT INSPECTION OF BOOKS, OR TO RENDER RETURNS.—Any person who willfully violates any of the provisions of section 4597 (a) shall for each such offense be fined not less than $50 and not exceeding $500, and imprisoned not less than 30 days nor more than 6 months.

(d) IMPORTED OLEOMARGARINE OR ADULTERATED BUTTER.—

(1) FAILURE OF CUSTOMS OFFICER TO COMPLY WITH LAW.—Every officer or employee of the Treasury Department having duties under section 4591 who permits any imported oleomargarine or adulterated butter to pass out of his custody or control without compliance by the owner or importer thereof with the provisions of section 4591 relating thereto, shall be fined not less than $1,000 nor more than

$5,000, and imprisoned not less than 6 months nor more than 3 years.

(2) EMPTY PACKAGES.—

(A) FAILURE TO DESTROY STAMPS.—Any person who willfully neglects or refuses to destroy utterly the stamps on any empty package which contained oleomargarine or adulterated butter, or filled cheese shall for each such offense be fined not exceeding $50, and imprisoned not less than 10 days nor more than 6 months; and

(B) TRAFFICKING.—Any person who fraudulently gives away or accepts from another, or who sells, buys, or uses for packing oleomargarine or adulterated butter, any such stamped package shall for each such offense be fined not exceeding $100, and be imprisoned not more than 1 year.

(3) SALE WHEN IMPROPERLY PACKED OR STAMPED.—Every person who sells or offers for sale any imported oleomargarine or adulterated butter, or oleomargarine or adulterated butter purporting or claimed to have been imported, not put up in packages and stamped as provided by subchapter F of chapter 38 or subchapter C of chapter 39, shall be fined not less than $500 nor more than $5,000, and be imprisoned not less than 6 months nor more than 2 years.

(4) FRAUD BY IMPORTER.—Whenever any person importing oleomargarine defrauds, or attempts to defraud, the United States of the tax on the oleomargarine imported by him, or any part thereof, he shall be fined not less than $500 nor more than $5,000, and shall be imprisoned not less than 6 months nor more than 3 years.

SEC. 7235. VIOLATION OF LAWS RELATING TO ADULTERATED BUTTER AND PROCESS OR RENOVATED BUTTER.

(a) ADULTERATED BUTTER—FALSE BRANDING, SALE, PACKING, OR STAMPING IN VIOLATION OF LAW.—Every person who knowingly sells or offers for sale, or delivers or offers to deliver, any adulterated butter in any other form than in new wooden, tin-plate, or paper packages as described in section 4815 (a), or who packs in any package any adulterated butter in any manner contrary to law, or who falsely brands any package or affixes a stamp on any package denoting a less amount of tax than that required by law, shall be fined for each offense not more than $1,000, and be imprisoned not more than 2 years.

(b) FAILURE OF WHOLESALE DEALERS TO KEEP OR PERMIT INSPECTION OF BOOKS, OR TO RENDER RETURNS.—Any person who willfully violates any of the provisions of section 4815 (b) shall for each such offense be fined not less than $50 and not exceeding $500, and imprisoned not less than 30 days nor more than 6 months.

(c) FAILURE TO COMPLY WITH PROVISIONS RELATING TO THE MANUFACTURE, STORAGE, AND MARKING OF PROCESS OR RENOVATED BUTTER.—Any person, firm, or corporation violating any of the provisions of section 4817 shall be deemed guilty of a misdemeanor and on conviction thereof shall be punished by a fine of not more than $1,000, or by imprisonment for not more than 6 months, or by both such fine and imprisonment, in the discretion of the court.

(d) DEALERS IN ADULTERATED BUTTER.—Every person who carries on the business of a dealer in adulterated butter without having paid the special tax therefor, as required by law, shall, besides being liable

to the payment of the tax, be fined not less than $50 nor more than $500 for each offense.

(e) FRAUD BY MANUFACTURER.—Whenever any person manufacturing adulterated butter defrauds, or attempts to defraud, the United States of the tax on the adulterated butter manufactured by him, or any part thereof, he shall be fined not less than $500 nor more than $5,000, and shall be imprisoned not less than 6 months nor more than 3 years.

SEC. 7236. VIOLATION OF LAWS RELATING TO FILLED CHEESE.

FALSE BRANDING, SALE, PACKING, OR STAMPING IN VIOLATION OF LAW.—Every person who knowingly sells or offers to sell, or delivers or offers to deliver, filled cheese in any other form than in new wooden or paper packages, marked and branded as provided for and described in section 4834 (b), or who packs in any package or packages filled cheese in any manner contrary to law, or who falsely brands any package or affixes a stamp on any package denoting a less amount of tax than that required by law, shall upon conviction thereof be fined for each and every offense not less than $50 and not more than $500, or be imprisoned not less than 30 days nor more than 1 year.

SEC. 7237. VIOLATION OF LAWS RELATING TO NARCOTIC DRUGS AND TO MARIHUANA.

(a) VIOLATION OF LAW RELATING TO OPIUM AND COCA LEAVES AND MARIHUANA.—Whoever commits an offense or conspires to commit an offense described in subpart C of part I, or part II of subchapter A of chapter 39 for which no specific penalty is otherwise provided, shall be fined not more than $2,000 and imprisoned not less than 2 or more than 5 years. For a second offense, the offender shall be fined not more than $2,000 and imprisoned not less than 5 or more than 10 years. For a third or subsequent offense, the offender shall be fined not more than $2,000 and imprisoned not less than 10 or more than 20 years. Upon conviction for a second or subsequent offense, the imposition or execution of sentence shall not be suspended and probation shall not be granted. For the purpose of this subsection, an offender shall be considered a second or subsequent offender, as the case may be, if he previously has been convicted of any offense the penalty for which is provided in this subsection or in section 2 (c) of the Narcotic Drugs Import and Export Act, as amended (21 U. S. C. 174), or if he previously has been convicted of any offense the penalty for which was provided in section 9, chapter 1, of the act of December 17, 1914 (38 Stat. 789), as amended; section 1, chapter 202, of the act of May 26, 1922 (42 Stat. 596), as amended; section 12, chapter 553, of the act of August 2, 1937 (50 Stat. 556), as amended; or sections 2557 (b) (1) or 2596 of the Internal Revenue Code enacted February 10, 1939 (ch. 2, 53 Stat. 274, 282), as amended. After conviction, but prior to pronouncement of sentence, the court shall be advised by the United States attorney whether the conviction is the offender's first or a subsequent offense. If it is not a first offense, the United States attorney shall file an information setting forth the prior convictions. The offender shall have the opportunity in open court to affirm or deny that he is identical with the person previously convicted. If he denies the identity, sentence shall be postponed for such time as to permit a trial before a jury on the sole issue of the offender's identity with the person previously convicted.

If the offender is found by the jury to be the person previously convicted, or if he acknowledges that he is such person, he shall be sentenced as prescribed in this subsection.

(b) UNLAWFUL DISCLOSURE OF INFORMATION ON RETURNS OR ORDER FORMS.—Any person who shall disclose the information contained in the statements or returns required under section 4732 (b) or in the duplicate order forms required in section 4705 (e), except as expressly provided in section 4773, and except for the purpose of enforcing the provisions of subpart C of part I of subchapter A of chapter 39, or for the purpose of enforcing any law of any State or Territory or the District of Columbia, or any insular possession of the United States, or ordinance of any organized municipality therein, regulating the sale, prescribing, dispensing, dealing in, or distribution of narcotic drugs, shall, on conviction, be fined or imprisoned as provided by subsection (a) of this section.

SEC. 7238. VIOLATION OF LAWS RELATING TO OPIUM FOR SMOKING.

A penalty of not less than $10,000 or imprisonment for not less than 5 years, or both, in the discretion of the court, shall be imposed for each and every violation of subpart B of part I of subchapter A of chapter 39 (relating to opium for smoking) by any person or persons.

SEC. 7239. VIOLATIONS OF LAWS RELATING TO WHITE PHOSPHORUS MATCHES.

(a) SELLING UNSTAMPED MATCHES.—Any manufacturer of matches who manufactures, sells, removes, distributes, or offers to sell or distribute, white phosphorus matches without there being affixed thereto an adhesive stamp, denoting the tax required by subchapter B of chapter 39 effectually canceled as provided by section 4804 (a) (2), shall, for each offense, be guilty of a felony and, upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 2 years, or both.

(b) USE OF INSUFFICIENT STAMPS.—Every person who affixes a stamp on any package of white phosphorus matches denoting a less amount of tax than that required by law shall, for each offense, be guilty of a felony and, upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 2 years, or both.

SEC. 7240. OFFICIALS INVESTING OR SPECULATING IN SUGAR.

Any person, while acting in any official capacity in the administration of subchapter A of chapter 37, relating to manufactured sugar, who invests or speculates in sugar or liquid sugar, contracts relating thereto, or the stock or membership interests of any association or corporation engaged in the production or manufacture of sugar or liquid sugar, shall be dismissed from office or discharged from employment and shall be guilty of a felony and, upon conviction thereof, be fined not more than $10,000, or imprisoned not more than 2 years, or both.

Subchapter B—Other Offenses

Sec. 7261. Representation that retailers' excise tax is excluded from price of article.
Sec. 7262. Violation of occupational tax laws relating to wagering—failure to pay special tax.
Sec. 7263. Penalties relating to cotton futures.
Sec. 7264. Offenses relating to renovated or adulterated butter.
Sec. 7265. Other offenses relating to oleomargarine or adulterated butter operations.
Sec. 7266. Offenses relating to filled cheese.
Sec. 7267. Offenses relating to white phosphorus matches.
Sec. 7268. Possession with intent to sell in fraud of law or to evade tax.
Sec. 7269. Failure to produce records.
Sec. 7270. Insurance policies.
Sec. 7271. Penalties for offenses relating to stamps.
Sec. 7272. Penalty for failure to register.
Sec. 7273. Penalties for offenses relating to special taxes.
Sec. 7274. Penalty for offenses relating to white phosphorus matches.
Sec. 7275. Failure to print correct price on tickets.

SEC. 7261. REPRESENTATION THAT RETAILERS' EXCISE TAX IS EXCLUDED FROM PRICE OF ARTICLE.

Whoever, in connection with the sale or lease, or offer for sale or lease, of any article taxable under chapter 31, makes any statement, written or oral, in advertisement or otherwise, intended or calculated to lead any person to believe that the price of the article does not include the tax imposed by chapter 31, shall on conviction thereof be fined not more than $1,000.

SEC. 7262. VIOLATION OF OCCUPATIONAL TAX LAWS RELATING TO WAGERING—FAILURE TO PAY SPECIAL TAX.

Any person who does any act which makes him liable for special tax under subchapter B of chapter 35 without having paid such tax, shall, besides being liable to the payment of the tax, be fined not less than $1,000 and not more than $5,000.

SEC. 7263. PENALTIES RELATING TO COTTON FUTURES.

(a) WITHHOLDING INFORMATION.—Any person engaged in the business of dealing in cotton who shall, within a reasonable time prescribed by the Secretary of Agriculture or any agent acting under his instructions, willfully fail or refuse to answer questions or to produce books, letters, papers, or documents, as required under section 4862 (b), or who shall willfully give any answer that is false or misleading, shall, upon conviction thereof, be fined not more than $500.

(b) CIVIL PENALTIES.—In addition to the criminal penalties provided by section 7233, there shall be imposed, on account of each violation of subchapter D of chapter 39, relating to cotton futures, a penalty of $2,000, to be recovered in a civil action founded on subchapter D of chapter 39 in the name of the United States as plaintiff, and when so recovered one-half of said amount shall be paid over to the person giving the information upon which such recovery was based.

It shall be the duty of United States attorneys, to whom satisfactory evidence of violations of subchapter D of chapter 39 is furnished, to institute and prosecute actions for the recovery of the penalties prescribed by this subsection.

SEC. 7264. OFFENSES RELATING TO RENOVATED OR ADULTERATED BUTTER.

Every person who carries on the business of a manufacturer of process or renovated butter or adulterated butter without having paid the special tax therefor, as required by law, shall, besides being liable to the payment of the tax, be fined not less than $1,000 nor more than $5,000.

SEC. 7265. OTHER OFFENSES RELATING TO OLEOMARGARINE OR ADULTERATED BUTTER OPERATIONS.

(a) OMISSION OR REMOVAL OF LABEL.—

(1) Every manufacturer of oleomargarine who neglects to affix the label described in section 4594 (c) to any package containing oleomargarine made by him, or sold or offered for sale by or for him, and every person who removes any such label so affixed from any such package, shall be fined $50 for each package in respect to which such offense is committed.

(2) Every manufacturer of adulterated butter who neglects to affix the label required under section 4814 (a) (1) to any package containing adulterated butter made by him, or sold or offered for sale for or by him, and every person who removes any such label so affixed from any such package shall be fined $50 for each package in respect to which such offense is committed.

(b) PURCHASING WHEN NOT PROPERLY BRANDED OR STAMPED.—Every person who knowingly purchases or receives for sale any oleomargarine or adulterated butter which has not been branded or stamped according to law shall be liable to a penalty of $50 for each such offense.

(c) OTHER OFFENSES.—If any manufacturer of oleomargarine or adulterated butter, any dealer therein or any importer or exporter thereof shall knowingly or willfully omit, neglect, or refuse to do, or cause to be done, any of the things required by law in the carrying on or conducting of his business, or shall do anything prohibited by subchapter F of chapter 38 or subchapter C of chapter 39, if there be no specific penalty or punishment imposed by any other provision of this chapter or chapter 68 for the neglecting, omitting, or refusing to do, or for the doing or causing to be done, the things required or prohibited, he shall pay a penalty of $1,000.

SEC. 7266. OFFENSES RELATING TO FILLED CHEESE.

(a) FAILURE TO PAY SPECIAL TAX.—Every person, firm, or corporation—

(1) MANUFACTURERS.—Who carries on the business of a manufacturer of filled cheese without having paid the special tax therefor, as required by law, shall, besides being liable to the payment of the tax, be fined not less than $400 nor more than $3,000; and

(2) WHOLESALE DEALERS.—Who carries on the business of a wholesale dealer in filled cheese without having paid the special tax therefor, as required by law, shall, besides being liable to the payment of the tax, be fined not less than $250 nor more than $1,000; and

(3) RETAIL DEALERS.—Who carries on the business of a retail dealer in filled cheese without having paid the special tax therefor, as required by law, shall, besides being liable for the payment of the tax, be fined not less than $40 nor more than $500 for each and every offense.

(b) OTHER OFFENSES.—Any manufacturer of filled cheese who fails to comply with the provisions of section 4833 (b) and (c), or with the regulations therein authorized, shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined not less than $500 nor more than $1,000.

(c) FAILURE OF WHOLESALE AND RETAIL DEALERS TO DISPLAY SIGNS.—Any wholesale or retail dealer in filled cheese who fails or neglects to comply with the provisions of section 4834 (a) shall be deemed guilty of a misdemeanor, and shall on conviction thereof be fined for each and every offense not less than $50 and not more than $200.

(d) OMISSION OR REMOVAL OF LABEL.—Every manufacturer of filled cheese who neglects to affix the label provided for in section 4833 (a) (2) to any package containing filled cheese made by him or sold or offered for sale by or for him, and every person who removes any such label so affixed from any such package, shall be fined $50 for each package in respect to which such offense is committed.

(e) PURCHASING WHEN SPECIAL TAX NOT PAID.—Every person who knowingly purchases or receives for sale any filled cheese from any manufacturer or importer who has not paid the special tax provided for in section 4841 shall be liable, for each offense, to a penalty of $100.

(f) PURCHASING WHEN NOT STAMPED, BRANDED, OR MARKED ACCORDING TO LAW.—Any person who knowingly purchases or receives for sale any filled cheese which has not been branded or stamped according to law, or which is contained in packages not branded or marked according to law, shall be liable to a penalty of $50 for each such offense.

SEC. 7267. OFFENSES RELATING TO WHITE PHOSPHORUS MATCHES.

(a) EXPORTATION OF MATCHES.—Any person guilty of violation of section 4805 (b) shall be fined not less than $1,000 and not more than $5,000.

(b) OFFENSES NOT SPECIFICALLY COVERED.—If any manufacturer of white phosphorus matches, or any importer or exporter of matches, shall omit, neglect, or refuse to do or cause to be done any of the things required by law in carrying on or conducting his business, or shall do anything prohibited by subchapter B of chapter 39, if there be no specific penalty or punishment imposed by any other provision of this chapter or chapter 68 for the neglecting, omitting, or refusing to do, or for the doing or causing to be done, the thing required or prohibited, he shall be fined $1,000 for each offense.

(c) OMISSION OF LABEL FROM PACKAGES.—Every manufacturer of white phosphorus matches who neglects to affix the label required by section 4804 (a) (4) to any original package containing stamped packages of white phosphorus matches made by him or sold or removed by or for him, and every person who removes any such label so affixed from any such original package, shall be fined not more

than $50 for each package in respect of which such offense is committed.

(d) OMISSION OF FACTORY NUMBER FROM PACKAGES.—Every manufacturer of white phosphorus matches who omits to mark, brand, affix, stamp, or print the factory number required under section 4804 (b) on every package of white phosphorus matches manufactured, sold, or removed by him shall be fined not more than $50 for each package in respect of which such offense is committed.

SEC. 7268. POSSESSION WITH INTENT TO SELL IN FRAUD OF LAW OR TO EVADE TAX.

Every person who shall have in his custody or possession any goods, wares, merchandise, articles, or objects on which taxes are imposed by law, for the purpose of selling the same in fraud of the internal revenue laws, or with design to avoid payment of the taxes imposed thereon, shall be liable to a penalty of $500 or not less than double the amount of taxes fraudulently attempted to be evaded.

SEC. 7269. FAILURE TO PRODUCE RECORDS.

Whoever fails to comply with any duty imposed upon him by section 6018, 6036 (in the case of an executor), or 6075 (a), or, having in his possession or control any record, file, or paper, containing or supposed to contain any information concerning the estate of the decedent, or, having in his possession or control any property comprised in the gross estate of the decedent, fails to exhibit the same upon request to the Secretary or his delegate who desires to examine the same in the performance of his duties under chapter 11 (relating to estate taxes), shall be liable to a penalty of not exceeding $500, to be recovered, with costs of suit, in a civil action in the name of the United States.

SEC. 7270. INSURANCE POLICIES.

Any person who fails to comply with the requirements of section 4374 (relating to the affixing of stamps on insurance policies, etc.), with intent to evade the tax shall, in addition to other penalties provided therefor, pay a fine of double the amount of the tax.

SEC. 7271. PENALTIES FOR OFFENSES RELATING TO STAMPS.

Any person who with respect to any tax payable by stamps—

(1) FAILURE TO ATTACH OR CANCEL STAMPS, ETC.—Fails to comply with rules or regulations prescribed pursuant to section 6804 (relating to attachment, cancellation, etc., of stamps), unless such failure is shown to be due to reasonable cause and not willful neglect; or

(2) MANUFACTURE OR OFFER FOR SALE.—Manufactures or imports and sells, or offers for sale, or causes to be manufactured or imported and sold, or offered for sale, any playing cards, package, or other article without the full amount of tax being duly paid; or

(3) INSTRUMENTS.—Makes, signs, issues, or accepts, or causes to be made, signed, issued, or accepted, any instrument, document, or paper of any kind or description whatsoever without the full amount of tax thereon being duly paid; or

(4) DISPOSAL AND RECEIPT OF STAMPED PACKAGES.—In the case of any container which is stamped, branded, or marked (whether or not under authority of law) in such manner as to show that the provisions of the internal revenue laws with respect to the contents

or intended contents thereof have been complied with, and which is empty or contains any contents other than contents therein when the container was lawfully stamped, branded, or marked—

(A) Transfers or receives (whether by sale, gift, or otherwise) such container knowing it to be empty or to contain such other contents; or

(B) Stamps, brands, or marks such container, or otherwise produces such a stamped, branded, or marked container, knowing it to be empty or to contain such other contents;

shall be liable for each such offense to a penalty of $50.

SEC. 7272. PENALTY FOR FAILURE TO REGISTER.

(a) IN GENERAL.—Any person who fails to register with the Secretary or his delegate as required by this title or by regulations issued thereunder shall be liable to a penalty of $50.

(b) CROSS REFERENCES.—

For provisions relating to persons required by this title to register, see sections 4101, 4273, 4412, 4455, 4722, 4753, 4804 (d), 5802, 5841, and 7011.

SEC. 7273. PENALTIES FOR OFFENSES RELATING TO SPECIAL TAXES.

(a) GENERAL RULE.—Any person who shall fail to place and keep stamps denoting the payment of the special tax as provided in section 6806 (a) or (b) (whichever is applicable) shall be liable to a penalty equal to the special tax for which his business rendered him liable (unless such failure is shown to be due to reasonable cause); but in no case shall said penalty be less than $10. Where the failure to comply with the provisions of section 6806 (a) or (b) shall be through willful neglect or refusal, then the penalty shall be double the amount above prescribed. Nothing in this subsection shall in any way affect the liability of any person for exercising or carrying on any trade, business, or profession, or doing any act for the exercising, carrying on, or doing of which a special tax is imposed by law, without the payment thereof.

(b) FAILURE TO POST OR EXHIBIT SPECIAL WAGERING TAX STAMP.—Any person who, through negligence, fails to comply with section 6806 (c) relating to the posting or exhibiting of the special wagering tax stamp, shall be liable to a penalty of $50. Any person who, through willful neglect or refusal, fails to comply with section 6806 (c) shall be liable to a penalty of $100.

SEC. 7274. PENALTY FOR OFFENSES RELATING TO WHITE PHOSPHORUS MATCHES.

Any manufacturer of white phosphorus matches who omits to mark, brand, affix, stamp, or print the factory number required under section 4804 (b) on every package of white phosphorus matches manufactured, sold, or removed by him shall be liable to a penalty of $50 for each package in respect of which such offense is committed.

SEC. 7275. FAILURE TO PRINT CORRECT PRICE ON TICKETS.

For penalty applicable to certain offenses relating to admissions taxes, see section 4234 (b).

Subchapter C—Forfeitures

Part I. Property subject to forfeiture.
Part II. Provisions common to forfeitures.

PART I—PROPERTY SUBJECT TO FORFEITURE

Sec. 7301. Property subject to tax.
Sec. 7302. Property used in violation of internal revenue laws.
Sec. 7303. Other property subject to forfeiture.
Sec. 7304. Penalty for fraudulently claiming drawback.

SEC. 7301. PROPERTY SUBJECT TO TAX.

(a) TAXABLE ARTICLES.—Any property on which, or for or in respect whereof, any tax is imposed by this title which shall be found in the possession or custody or within the control of any person, for the purpose of being sold or removed by him in fraud of the internal revenue laws, or with design to avoid payment of such tax, or which is removed, deposited, or concealed, with intent to defraud the United States of such tax or any part thereof, may be seized, and shall be forfeited to the United States.

(b) RAW MATERIALS.—All property found in the possession of any person intending to manufacture the same into property of a kind subject to tax for the purpose of selling such taxable property in fraud of the internal revenue laws, or with design to evade the payment of such tax, may also be seized, and shall be forfeited to the United States.

(c) EQUIPMENT.—All property whatsoever, in the place or building, or any yard or enclosure, where the property described in subsection (a) or (b) is found, or which is intended to be used in the making of property described in subsection (a), with intent to defraud the United States of tax or any part thereof, on the property described in subsection (a) may also be seized, and shall be forfeited to the United States.

(d) PACKAGES.—All property used as a container for, or which shall have contained, property described in subsection (a) or (b) may also be seized, and shall be forfeited to the United States.

(e) CONVEYANCES.—Any property (including aircraft, vehicles, vessels, or draft animals) used to transport or for the deposit or concealment of property described in subsection (a) or (b) may also be seized, and shall be forfeited to the United States.

SEC. 7302. PROPERTY USED IN VIOLATION OF INTERNAL REVENUE LAWS.

It shall be unlawful to have or possess any property intended for use in violating the provisions of the internal revenue laws, or regulations prescribed under such laws, or which has been so used, and no property rights shall exist in any such property. A search warrant may issue as provided in chapter 205 of title 18 of the United States Code and the Federal Rules of Criminal Procedure for the seizure of such property. Nothing in this section shall in any manner limit or

affect any criminal or forfeiture provision of the internal revenue laws, or of any other law. The seizure and forfeiture of any property under the provisions of this section and the disposition of such property subsequent to seizure and forfeiture, or the disposition of the proceeds from the sale of such property, shall be in accordance with existing laws or those hereafter in existence relating to seizures, forfeitures, and disposition of property or proceeds, for violation of the internal revenue laws.

SEC. 7303. OTHER PROPERTY SUBJECT TO FORFEITURE.

There may be seized and forfeited to the United States the following:

(1) COUNTERFEIT STAMPS.—Every stamp involved in the offense described in section 7208 (relating to counterfeit, reused, cancelled, etc., stamps), and the vellum, parchment, document, paper, package, or article upon which such stamp was placed or impressed in connection with such offense.

(2) OLEOMARGARINE AND FILLED CHEESE.—Any oleomargarine, filled cheese, or adulterated butter, intended for human consumption which contains any ingredient adjudged, as provided in section 4817, 4818, or 4835, whichever is applicable, to be deleterious to the public health.

(3) OFFENSES BY MANUFACTURER OR IMPORTER OF OR WHOLESALE DEALER IN OLEOMARGARINE OR ADULTERATED BUTTER.—All oleomargarine or adulterated butter owned by any manufacturer or importer of or wholesale dealer in oleomargarine or adulterated butter, or in which he has any interest as owner, if he shall knowingly or willfully omit, neglect, or refuse to do, or cause to be done, any of the things required by law in the carrying on or conducting of his business, or if he shall do anything prohibited by subchapter F of chapter 38, or subchapter C of chapter 39.

(4) PURCHASE OR RECEIPT OF FILLED CHEESE OR ADULTERATED BUTTER.—All articles of filled cheese or adulterated butter (or the full value thereof) knowingly purchased or received by any person from any manufacturer or importer who has not paid the special tax provided in section 4821 or 4841.

(5) PACKAGES OF OLEOMARGARINE OR FILLED CHEESE.—All packages of oleomargarine or filled cheese subject to the tax under subchapter F of chapter 38, or part II of subchapter C of chapter 39, whichever is applicable, that shall be found without the stamps or marks provided for in the applicable subchapter or part thereof.

(6) WHITE PHOSPHORUS MATCHES.—

(A) All packages of white phosphorus matches subject to tax under subchapter B of chapter 39 and found without the stamps required by subchapter B of chapter 39.

(B) All the white phosphorus matches owned by any manufacturer of white phosphorus matches, or any importer or exporter of matches, or in which he has any interest as owner if he shall omit, neglect, or refuse to do or cause to be done any of the things required by law in carrying on or conducting his business, or shall do anything prohibited by subchapter B of chapter 39, if there be no specific penalty or punishment imposed by any other provision of subchapter B of chapter 39 for the neglecting, omitting, or refusing to do, or for the doing or causing to be done, the thing required or prohibited.

(7) FALSE STAMPING OF PACKAGES.—Any container involved in the offense described in section 7271 (relating to disposal of stamped packages), and of the contents of such container.

(8) FRAUDULENT BONDS, PERMITS, AND ENTRIES.—All property to which any false or fraudulent instrument involved in the offense described in section 7207 relates.

SEC. 7304. PENALTY FOR FRAUDULENTLY CLAIMING DRAWBACK.

Whenever any person fraudulently claims or seeks to obtain an allowance of drawback on goods, wares, or merchandise on which no internal tax shall have been paid, or fraudulently claims any greater allowance of drawback than the tax actually paid, he shall forfeit triple the amount wrongfully or fraudulently claimed or sought to be obtained, or the sum of $500, at the election of the Secretary or his delegate.

PART II—PROVISIONS COMMON TO FORFEITURES

Sec. 7321. Authority to seize property subject to forfeiture.
Sec. 7322. Delivery of seized personal property to United States marshal.
Sec. 7323. Judicial action to enforce forfeiture.
Sec. 7324. Special disposition of perishable goods.
Sec. 7325. Personal property valued at $1,000 or less.
Sec. 7326. Disposal of forfeited or abandoned property in special cases.
Sec. 7327. Customs laws applicable.
Sec. 7328. Confiscation of matches exported.
Sec. 7329. Cross references.

SEC. 7321. AUTHORITY TO SEIZE PROPERTY SUBJECT TO FORFEITURE.

Any property subject to forfeiture to the United States under any provision of this title may be seized by the Secretary or his delegate.

SEC. 7322. DELIVERY OF SEIZED PERSONAL PROPERTY TO UNITED STATES MARSHAL.

Any forfeitable property which may be seized under the provisions of this title may, at the option of the Secretary or his delegate, be delivered to the United States marshal of the district, and remain in the care and custody and under the control of such marshal, pending disposal thereof as provided by law.

SEC. 7323. JUDICIAL ACTION TO ENFORCE FORFEITURE.

(a) NATURE AND VENUE.—The proceedings to enforce such forfeitures shall be in the nature of a proceeding in rem in the United States District Court for the district where such seizure is made.

(b) SERVICE OF PROCESS WHEN PROPERTY HAS BEEN RETURNED UNDER BOND.—In case bond as provided in section 7324 (3) shall have been executed and the property returned before seizure thereof by virtue of process in the proceedings in rem authorized in subsection (a) of this section, the marshal shall give notice of pendency of proceedings in court to the parties executing said bond, by personal service or publication, and in such manner and form as the court may direct, and the court shall thereupon have jurisdiction of said matter and parties in the same manner as if such property had been seized by virtue of the process aforesaid.

(c) COST OF SEIZURE TAXABLE.—The cost of seizure made before process issues shall be taxable by the court.

SEC. 7324. SPECIAL DISPOSITION OF PERISHABLE GOODS.

When any property which is seized under the provisions of section 7301 is liable to perish or become greatly reduced in price or value by keeping, or when it cannot be kept without great expense—

(1) APPLICATION FOR EXAMINATION.—The owner thereof, or the United States marshal of the district, may apply to the Secretary or his delegate to examine it; and

(2) APPRAISAL.—If, in the opinion of the Secretary or his delegate, it shall be necessary that such property should be sold to prevent such waste or expense, the Secretary or his delegate shall appraise the same; and thereupon

(3) RETURN TO OWNER UNDER BOND.—The owner shall have such property returned to him upon giving bond in an amount equal to such appraised value to abide the final order, decree, or judgment of the court having cognizance of the case, and to pay the amount of said appraised value to the Secretary or his delegate, the United States marshal, or otherwise, as may be ordered and directed by the court, which bond shall be filed by the Secretary or his delegate with the United States district attorney for the district in which the proceedings in rem authorized in section 7323 may be commenced.

(4) SALE IN ABSENCE OF BOND.—

(A) ORDER TO SELL.—If such owner shall neglect or refuse to give such bond, the Secretary or his delegate shall issue to any Treasury officer or employee or to the United States marshal an order to sell the same.

(B) MANNER OF SALE.—Such Treasury officer or employee or the marshal shall as soon as practicable make public sale of such property in accordance with such regulations as may be prescribed by the Secretary or his delegate.

(C) DISPOSITION OF PROCEEDS.—The proceeds of the sale, after deducting the reasonable costs of the seizure and sale, shall be paid to the court to abide its final order, decree, or judgment.

(5) FORM OF BOND AND SURETIES.—

For provisions relating to form and sureties on bonds, see section 7101.

SEC. 7325. PERSONAL PROPERTY VALUED AT $1,000 OR LESS.

In all cases of seizure of any goods, wares, or merchandise as being subject to forfeiture under any provision of this title which, in the opinion of the Secretary or his delegate, are of the appraised value of $1,000 or less, the Secretary or his delegate shall, except in cases otherwise provided, proceed as follows:

(1) LIST AND APPRAISEMENT.—The Secretary or his delegate shall cause a list containing a particular description of the goods, wares, or merchandise seized to be prepared in duplicate, and an appraisement thereof to be made by three sworn appraisers, to be selected by the Secretary or his delegate who shall be respectable and disinterested citizens of the United States residing within the internal revenue district wherein the seizure was made. Such list and appraisement shall be properly attested by the Secretary or his delegate and such appraisers. Each appraiser shall be allowed for his services such compensation as the Secretary or his delegate shall by regulations prescribe, to be paid in the manner similar to that

provided for other necessary charges incurred in collecting internal revenue.

(2) NOTICE OF SEIZURE.—If such goods are found by such appraisers to be of the value of $1,000 or less, the Secretary or his delegate shall publish a notice for 3 weeks, in some newspaper of the district where the seizure was made, describing the articles and stating the time, place, and cause of their seizure, and requiring any person claiming them to appear and make such claim within 30 days from the date of the first publication of such notice.

(3) EXECUTION OF BOND BY CLAIMANT.—Any person claiming the goods, wares, or merchandise so seized, within the time specified in the notice, may file with the Secretary or his delegate a claim, stating his interest in the articles seized, and may execute a bond to the United States in the penal sum of $250, conditioned that, in case of condemnation of the articles so seized, the obligors shall pay all the costs and expenses of the proceedings to obtain such condemnation; and upon the delivery of such bond to the Secretary or his delegate, he shall transmit the same, with the duplicate list or description of the goods seized, to the United States district attorney for the district, and such attorney shall proceed thereon in the ordinary manner prescribed by law.

(4) SALE IN ABSENCE OF BOND.—If no claim is interposed and no bond is given within the time above specified, the Secretary or his delegate shall give reasonable notice of the sale of the goods, wares, or merchandise by publication, and, at the time and place specified in the notice, shall sell the articles so seized at public auction, or upon competitive bids, in accordance with such regulations as may be prescribed by the Secretary or his delegate.

SEC. 7326. DISPOSAL OF FORFEITED OR ABANDONED PROPERTY IN SPECIAL CASES.

(1) For provisions relating to disposal of forfeited narcotic drugs, see sections 4714, 4733, and 4745 (d).

(2) For provisions relating to disposal of forfeited firearms, see section 5862 (b).

SEC. 7327. CUSTOMS LAWS APPLICABLE.

The provisions of law applicable to the remission or mitigation by the Secretary or his delegate of forfeitures under the customs laws shall apply to forfeitures incurred or alleged to have been incurred under the internal revenue laws.

SEC. 7328. CONFISCATION OF MATCHES EXPORTED.

Any white phosphorus matches exported or attempted to be exported shall be confiscated to the United States and destroyed in such manner as may be prescribed by the Secretary or his delegate.

SEC. 7329. CROSS REFERENCES.

(1) For the issuance of certificates of probable cause relieving officers making seizures of responsibility for damages, see 28 U. S. C. 2465.

(2) For provisions relating to forfeitures generally in connection with alcohol taxes, see chapter 51.

(3) For provisions relating to forfeitures generally in connection with tobacco taxes, see chapter 52.

(4) For provisions relating to forfeitures generally in connection with taxes on certain firearms, see chapter 53.

Subchapter D—Miscellaneous Penalty and Forfeiture Provisions

Sec. 7341. Penalty for sales to evade tax.
Sec. 7342. Penalty for refusal to permit entry or examination.
Sec. 7343. Definition of term "person".
Sec. 7344. Extended application of penalties relating to officers of the Treasury Department.

SEC. 7341. PENALTY FOR SALES TO EVADE TAX.

(a) NONENFORCEABILITY OF CONTRACT.—Whenever any person who is liable to pay any tax imposed by this title upon, for, or in respect of, any property sells or causes or allows the same to be sold before such tax is paid, with intent to avoid such tax, or in fraud of the internal revenue laws, any debt contracted in such sale, and any security given therefor, unless the same shall have been bona fide transferred to an innocent holder, shall be void, and the collection thereof shall not be enforced in any court.

(b) FORFEITURE OF SUM PAID ON CONTRACT.—If such property has been paid for, in whole or in part, the sum so paid shall be deemed forfeited.

(c) MOIETY. Any person who shall sue for the sum so paid (in an action of debt) shall recover from the seller the amount so paid, one-half to his own use and the other half to the use of the United States.

SEC. 7342. PENALTY FOR REFUSAL TO PERMIT ENTRY OR EXAMINATION.

Any owner of any building or place, or person having the agency or superintendence of the same, who refuses to admit any officer or employee of the Treasury Department acting under the authority of section 7606 (relating to entry of premises for examination of taxable articles) or refuses to permit him to examine such article or articles, shall, for every such refusal, forfeit $500.

SEC. 7343. DEFINITION OF TERM "PERSON".

The term "person" as used in this chapter includes an officer or employee of a corporation, or a member or employee of a partnership, who as such officer, employee, or member is under a duty to perform the act in respect of which the violation occurs.

SEC. 7344. EXTENDED APPLICATION OF PENALTIES RELATING TO OFFICERS OF THE TREASURY DEPARTMENT.

All provisions of law imposing fines, penalties, or other punishment for offenses committed by an internal revenue officer or other officer of the Department of the Treasury, or under any agency or office thereof, shall apply to all persons whomsoever, employed, appointed, or acting under the authority of any internal revenue law, or any revenue provision of any law of the United States, when such persons are designated or acting as officers or employees in connection with such law, or are persons having the custody or disposition of any public money.

CHAPTER 76—JUDICIAL PROCEEDINGS

SUBCHAPTER A. Civil actions by the United States.
SUBCHAPTER B. Proceedings by taxpayers.
SUBCHAPTER C. The Tax Court.
SUBCHAPTER D. Court review of Tax Court decisions.
SUBCHAPTER E. Miscellaneous provisions.

Subchapter A—Civil Actions by the United States

Sec. 7401. Authorization.
Sec. 7402. Jurisdiction of district courts.
Sec. 7403. Action to enforce lien or to subject property to payment of tax.
Sec. 7404. Authority to bring civil action for estate taxes.
Sec. 7405. Action for recovery of erroneous refunds.
Sec. 7406. Disposition of judgments and moneys recovered.
Sec. 7407. Cross references.

SEC. 7401. AUTHORIZATION.

No civil action for the collection or recovery of taxes, or of any fine, penalty, or forfeiture, shall be commenced unless the Secretary or his delegate authorizes or sanctions the proceedings and the Attorney General or his delegate directs that the action be commenced.

SEC. 7402. JURISDICTION OF DISTRICT COURTS.

(a) TO ISSUE ORDERS, PROCESSES, AND JUDGMENTS.—The district courts of the United States at the instance of the United States shall have such jurisdiction to make and issue in civil actions, writs and orders of injunction, and of *ne exeat republica*, orders appointing receivers, and such other orders and processes, and to render such judgments and decrees as may be necessary or appropriate for the enforcement of the internal revenue laws. The remedies hereby provided are in addition to and not exclusive of any and all other remedies of the United States in such courts or otherwise to enforce such laws.

(b) TO ENFORCE SUMMONS.—If any person is summoned under the internal revenue laws to appear, to testify, or to produce books, papers, or other data, the district court of the United States for the district in which such person resides or may be found shall have jurisdiction by appropriate process to compel such attendance, testimony, or production of books, papers, or other data.

(c) FOR DAMAGES TO UNITED STATES OFFICERS OR EMPLOYEES.—Any officer or employee of the United States acting under authority of this title, or any person acting under or by authority of any such officer or employee, receiving any injury to his person or property in the discharge of his duty shall be entitled to maintain an action for damages therefor, in the district court of the United States, in the district wherein the party doing the injury may reside or shall be found.

(d) ACTION ON BONDS.—The United States district courts, concurrently with the courts of the several States, shall have jurisdiction

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of any action brought on the official bond of any internal revenue officer or employee required to give bond under regulations promulgated by authority of section 7803.

(e) GENERAL JURISDICTION.—

For general jurisdiction of the district courts of the United States in civil actions involving internal revenue, see section 1340 of title 28 of the United States Code.

SEC. 7403. ACTION TO ENFORCE LIEN OR TO SUBJECT PROPERTY TO PAYMENT OF TAX.

(a) FILING.—In any case where there has been a refusal or neglect to pay any tax, or to discharge any liability in respect thereof, whether or not levy has been made, the Attorney General or his delegate, at the request of the Secretary or his delegate, may direct a civil action to be filed in a district court of the United States to enforce the lien of the United States under this title with respect to such tax or liability or to subject any property, of whatever nature, of the delinquent, or in which he has any right, title, or interest, to the payment of such tax or liability.

(b) PARTIES.—All persons having liens upon or claiming any interest in the property involved in such action shall be made parties thereto.

(c) ADJUDICATION AND DECREE.—The court shall, after the parties have been duly notified of the action, proceed to adjudicate all matters involved therein and finally determine the merits of all claims to and liens upon the property, and, in all cases where a claim or interest of the United States therein is established, may decree a sale of such property, by the proper officer of the court, and a distribution of the proceeds of such sale according to the findings of the court in respect to the interests of the parties and of the United States.

(d) RECEIVERSHIP.—In any such proceeding, at the instance of the United States, the court may appoint a receiver to enforce the lien, or, upon certification by the Secretary or his delegate during the pendency of such proceedings that it is in the public interest, may appoint a receiver with all the powers of a receiver in equity.

SEC. 7404. AUTHORITY TO BRING CIVIL ACTION FOR ESTATE TAXES.

If the estate tax imposed by chapter 11 is not paid on or before the due date thereof, the Secretary or his delegate shall proceed to collect the tax under the provisions of general law; or appropriate proceedings in the name of the United States may be commenced in any court of the United States having jurisdiction to subject the property of the decedent to be sold under the judgment or decree of the court. From the proceeds of such sale the amount of the tax, together with the costs and expenses of every description to be allowed by the court, shall be first paid, and the balance shall be deposited according to the order of the court, to be paid under its direction to the person entitled thereto. This section insofar as it applies to the collection of a deficiency shall be subject to the provisions of sections 6213 and 6601.

SEC. 7405. ACTION FOR RECOVERY OF ERRONEOUS REFUNDS.

(a) REFUNDS AFTER LIMITATION PERIOD.—Any portion of a tax imposed by this title, refund of which is erroneously made, within the meaning of section 6514, may be recovered by civil action brought in the name of the United States.

(b) REFUNDS OTHERWISE ERRONEOUS.—Any portion of a tax imposed by this title which has been erroneously refunded (if such refund would not be considered as erroneous under section 6514) may be recovered by civil action brought in the name of the United States.

(c) INTEREST.—

For provision relating to interest on erroneous refunds, see section 6602.

(d) PERIODS OF LIMITATION.—

For periods of limitations on actions under this section, see section 6532 (b).

SEC. 7406. DISPOSITION OF JUDGMENTS AND MONEYS RECOVERED.

All judgments and moneys recovered or received for taxes, costs, forfeitures, and penalties shall be paid to the Secretary or his delegate as collections of internal revenue taxes.

SEC. 7407. CROSS REFERENCES.

(1) For provisions for collecting taxes in general, see chapter 64.

(2) For venue in a civil action for the collection of any tax, see section 1396 of Title 28 of the United States Code.

(3) For venue of a proceeding for the recovery of any fine, penalty, or forfeiture, see section 1395 of Title 28 of the United States Code.

Subchapter B—Proceedings by Taxpayers

Sec. 7421. Prohibition of suits to restrain assessment or collection.
Sec. 7422. Civil actions for refund.
Sec. 7423. Repayments to officers or employees.
Sec. 7424. Civil action to clear title to property.
Sec. 7425. Cross references.

SEC. 7421. PROHIBITION OF SUITS TO RESTRAIN ASSESSMENT OR COLLECTION.

(a) TAX.—Except as provided in sections 6212 (a) and (c), and 6213 (a), no suit for the purpose of restraining the assessment or collection of any tax shall be maintained in any court.

(b) LIABILITY OF TRANSFEREE OR FIDUCIARY.—No suit shall be maintained in any court for the purpose of restraining the assessment or collection (pursuant to the provisions of chapter 71) of—

(1) the amount of the liability, at law or in equity, of a transferee of property of a taxpayer in respect of any internal revenue tax, or

(2) the amount of the liability of a fiduciary under section 3467 of the Revised Statutes (31 U. S. C. 192) in respect of any such tax.

SEC. 7422. CIVIL ACTIONS FOR REFUND.

(a) NO SUIT PRIOR TO FILING CLAIM FOR REFUND.—No suit or proceeding shall be maintained in any court for the recovery of any internal revenue tax alleged to have been erroneously or illegally assessed or collected, or of any penalty claimed to have been collected without authority, or of any sum alleged to have been excessive or in any manner wrongfully collected, until a claim for refund or credit has been duly filed with the Secretary or his delegate, according to the provisions of law in that regard, and the regulations of the Secretary or his delegate established in pursuance thereof.

(b) PROTEST OR DURESS.—Such suit or proceeding may be maintained whether or not such tax, penalty, or sum has been paid under protest or duress.

(c) SUITS AGAINST COLLECTION OFFICER A BAR.—A suit against any officer or employee of the United States (or former officer or employee) or his personal representative for the recovery of any internal revenue tax alleged to have been erroneously or illegally assessed or collected, or of any penalty claimed to have been collected without authority, or of any sum alleged to have been excessive or in any manner wrongfully collected shall be treated as if the United States had been a party to such suit in applying the doctrine of res judicata in all suits instituted after June 15, 1942, in respect of any internal revenue tax, and in all proceedings in the Tax Court and on review of decisions of the Tax Court where the petition to the Tax Court was filed after such date.

(d) CREDIT TREATED AS PAYMENT.—The credit of an overpayment of any tax in satisfaction of any tax liability shall, for the purpose of any suit for refund of such tax liability so satisfied, be deemed to be a payment in respect of such tax liability at the time such credit is allowed.

(e) STAY OF PROCEEDINGS.—If the Secretary or his delegate prior to the hearing of a suit brought by a taxpayer in a district court or the Court of Claims for the recovery of any income tax, estate tax, or gift tax (or any penalty relating to such taxes) mails to the taxpayer a notice that a deficiency has been determined in respect of the tax which is the subject matter of taxpayer's suit, the proceedings in taxpayer's suit shall be stayed during the period of time in which the taxpayer may file a petition with the Tax Court for a redetermination of the asserted deficiency, and for 60 days thereafter. If the taxpayer files a petition with the Tax Court, the district court or the Court of Claims, as the case may be, shall lose jurisdiction of taxpayer's suit to whatever extent jurisdiction is acquired by the Tax Court of the subject matter of taxpayer's suit for refund. If the taxpayer does not file a petition with the Tax Court for a redetermination of the asserted deficiency, the United States may counterclaim in the taxpayer's suit, or intervene in the event of a suit as described in subsection (c) (relating to suits against officers or employees of the United States), within the period of the stay of proceedings notwithstanding that the time for such pleading may have otherwise expired. The taxpayer shall have the burden of proof with respect to the issues raised by such counterclaim or intervention of the United States except as to the issue of whether the taxpayer has been guilty of fraud with intent to evade tax. This subsection shall not apply to a suit by a taxpayer which, prior to the date of enactment of this title, is commenced, instituted, or pending in a district court or the Court of Claims for the recovery of any income tax, estate tax, or gift tax (or any penalty relating to such taxes).

(f) CROSS REFERENCES.—

(1) For provisions relating generally to claims for refund or credit, see chapter 65 (relating to abatements, credit, and refund) and chapter 66 (relating to limitations).

(2) For duty of United States district attorneys to defend suits, see section 507 of Title 28 of the United States Code.

(3) For jurisdiction of United States district courts, see section 1346 of Title 28 of the United States Code.

(4) For payment by the Treasury of judgments against internal revenue officers or employees, upon certificate of probable cause, see section 2006 of Title 28 of the United States Code.

SEC. 7423. REPAYMENTS TO OFFICERS OR EMPLOYEES.

The Secretary or his delegate, subject to regulations prescribed by the Secretary or his delegate, is authorized to repay—

(1) COLLECTIONS RECOVERED.—To any officer or employee of the United States the full amount of such sums of money as may be recovered against him in any court, for any internal revenue taxes collected by him, with the cost and expense of suit; also

(2) DAMAGES AND COSTS.—All damages and costs recovered against any officer or employee of the United States in any suit brought against him by reason of anything done in the due performance of his official duty under this title.

SEC. 7424. CIVIL ACTION TO CLEAR TITLE TO PROPERTY.

(a) OBTAINING LEAVE TO FILE.—

(1) REQUEST FOR INSTITUTION OF PROCEEDINGS BY UNITED STATES.—Any person having a lien upon or any interest in the property referred to in section 7403, notice of which has been duly

filed of record in the jurisdiction in which the property is located, prior to the filing of notice of the lien of the United States as provided in section 6323, or any person purchasing the property at a sale to satisfy such prior lien or interest, may make written request to the Secretary or his delegate to authorize the filing of a civil action as provided in section 7403.

(2) PETITION TO COURT.—If the Secretary or his delegate fails to authorize the filing of such civil action within 6 months after receipt of such written request, such person or purchaser may, after giving notice to the Secretary or his delegate, file a petition in the district court of the United States for the district in which the property is located, praying leave to file a civil action for a final determination of all claims to or liens upon the property in question.

(3) COURT ORDER.—After a full hearing in open court, the district court may in its discretion enter an order granting leave to file such civil action, in which the United States and all persons having liens upon or claiming any interest in the property shall be made parties.

(b) ADJUDICATION.—Upon the filing of such civil action, the district court shall proceed to adjudicate the matters involved therein, in the same manner as in the case of civil actions filed under section 7403. For the purpose of such adjudication, the assessment of the tax upon which the lien of the United States is based shall be conclusively presumed to be valid.

(c) COSTS.—All costs of the proceedings on the petition and the civil action shall be borne by the person filing the civil action.

SEC. 7425. CROSS REFERENCES.

(1) For exclusion of tax liability from discharge in bankruptcy, see section 17 of the Bankruptcy Act, as amended (52 Stat. 851; 11 U. S. C. 35).

(2) For limit on amount allowed in bankruptcy proceedings on debts owing to the United States, see section 57 (j) of the Bankruptcy Act, as amended (52 Stat. 867; 11 U. S. C. 93).

(3) For recognition of tax liens in proceedings under the Bankruptcy Act, see section 67 (b) and (c) of that act, as amended (52 Stat. 876–877; 11 U. S. C. 107).

(4) For collection of taxes in connection with wage earners' plans in bankruptcy courts, see section 680 of the Bankruptcy Act, as added June 22, 1938 (52 Stat. 938; 11 U. S. C. 1080).

(5) For provisions permitting the United States to be made party defendant in a proceeding in a State court for the foreclosure of a lien upon real estate where the United States may have claim upon the premises involved, see section 2410 of Title 28 of the United States Code.

(6) For priority of lien of the United States in case of insolvency, see R. S. 3466 (31 U. S. C. 191).

(7) For interest on judgments for overpayments, see section 2411 (a) of Title 28 of the United States Code.

(8) For review of a Tax Court decision, see section 7482.

(9) For statute prohibiting suits to replevy property taken under revenue laws, see section 2463 of Title 28 of the United States Code.

Subchapter C—The Tax Court

Part I. Organization and jurisdiction.
Part II. Procedure.
Part III. Miscellaneous provisions.

PART I—ORGANIZATION AND JURISDICTION

Sec. 7441. Status.
Sec. 7442. Jurisdiction.
Sec. 7443. Membership.
Sec. 7444. Organization.
Sec. 7445. Offices.
Sec. 7446. Times and places of sessions.
Sec. 7447. Retirement.

SEC. 7441. STATUS.

The Board of Tax Appeals shall be continued as an independent agency in the Executive Branch of the Government, and shall be known as the Tax Court of the United States. The members thereof shall be known as the chief judge and the judges of the Tax Court.

SEC. 7442. JURISDICTION.

The Tax Court and its divisions shall have such jurisdiction as is conferred on them by this title, by chapters 1, 2, 3, and 4 of the Internal Revenue Code of 1939, by title II and title III of the Revenue Act of 1926 (44 Stat. 10–87), or by laws enacted subsequent to February 26, 1926.

SEC. 7443. MEMBERSHIP.

(a) NUMBER.—The Tax Court shall be composed of 16 members.

(b) APPOINTMENT.—Judges of the Tax Court shall be appointed by the President, by and with the advice and consent of the Senate, solely on the grounds of fitness to perform the duties of the office.

(c) SALARY.—Each judge shall receive salary at the rate of $15,000 per annum, to be paid in monthly installments.

(d) EXPENSES FOR TRAVEL AND SUBSISTENCE.—Judges of the Tax Court shall receive necessary traveling expenses, and expenses actually incurred for subsistence while traveling on duty and away from their designated stations, subject to the same limitations in amount as are now or may hereafter be applicable to the United States Customs Court.

(e) TERM OF OFFICE.—The terms of office of all judges of the Tax Court shall expire 12 years after the expiration of the terms for which their predecessors were appointed; but any judge appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed only for the unexpired term of his predecessor.

(f) REMOVAL FROM OFFICE.—Judges of the Tax Court may be removed by the President, after notice and opportunity for public hearing, for inefficiency, neglect of duty, or malfeasance in office, but for no other cause.

(g) DISBARMENT OF REMOVED JUDGES.—A judge of the Tax Court removed from office in accordance with subsection (f) shall not be permitted at any time to practice before the Tax Court.

SEC. 7444. ORGANIZATION.

(a) SEAL.—The Tax Court shall have a seal which shall be judicially noticed.

(b) DESIGNATION OF CHIEF JUDGE.—The Tax Court shall at least biennially designate a judge to act as chief judge.

(c) DIVISIONS.—The chief judge may from time to time divide the Tax Court into divisions of one or more judges, assign the judges of the Tax Court thereto, and in case of a division of more than one judge, designate the chief thereof. If a division, as a result of a vacancy or the absence or inability of a judge assigned thereto to serve thereon, is composed of less than the number of judges designated for the division, the chief judge may assign other judges to the division or direct the division to proceed with the transaction of business without awaiting any additional assignment of judges thereto.

(d) QUORUM.—A majority of the judges of the Tax Court or of any division thereof shall constitute a quorum for the transaction of the business of the Tax Court or of the division, respectively. A vacancy in the Tax Court or in any division thereof shall not impair the powers nor affect the duties of the Tax Court or division nor of the remaining judges of the Tax Court or division, respectively.

SEC. 7445. OFFICES.

The principal office of the Tax Court shall be in the District of Columbia, but the Tax Court or any of its divisions may sit at any place within the United States.

SEC. 7446. TIMES AND PLACES OF SESSIONS.

The times and places of the sessions of the Tax Court and of its divisions shall be prescribed by the chief judge with a view to securing reasonable opportunity to taxpayers to appear before the Tax Court or any of its divisions, with as little inconvenience and expense to taxpayers as is practicable.

SEC. 7447. RETIREMENT.

(a) DEFINITIONS.—For purposes of this section—

(1) The term "Tax Court" means the Tax Court of the United States.

(2) The term "Civil Service Commission" means the United States Civil Service Commission.

(3) The term "judge" means the chief judge or a judge of the Tax Court; but such term does not include any individual performing judicial duties pursuant to subsection (c).

(4) The term "Civil Service Retirement Act" means the Civil Service Retirement Act of May 29, 1930, as amended.

(5) In any determination of length of service as judge there shall be included all periods (whether or not consecutive) during which an individual served as judge or as a member of the Board.

(b) RETIREMENT.—

(1) Any judge who has served as judge for 18 years or more may retire at any time.

(2) Any judge who has served as judge for 10 years or more and has attained the age of 70 shall retire not later than the close of the

third month beginning after whichever of the following months is the latest:

(A) the month in which he attained age 70;

(B) The month in which he completed 10 years of service as judge; or

(C) August 1953.

Section 2 (a) of the Civil Service Retirement Act (relating to automatic separation from the service) shall not apply in respect of judges.

(c) RECALLING OF RETIRED JUDGES.—Any individual who is receiving retired pay under subsection (d) may be called upon by the chief judge of the Tax Court to perform such judicial duties with the Tax Court as may be requested of him for any period or periods specified by the chief judge; except that in the case of any such individual—

(1) the aggregate of such periods in any one calendar year shall not (without his consent) exceed 90 calendar days; and

(2) he shall be relieved of performing such duties during any period in which illness or disability precludes the performance of such duties.

Any act, or failure to act, by an individual performing judicial duties pursuant to this subsection shall have the same force and effect as if it were the act (or failure to act) of a judge of the Tax Court; but any such individual shall not be counted as a judge of the Tax Court for purposes of section 7443 (a). Any individual who is performing judicial duties pursuant to this subsection shall be paid the same compensation (in lieu of retired pay) and allowances for travel and other expenses as a judge.

(d) RETIRED PAY.—Any individual who after August 7, 1953—

(1) ceases to be a judge by reason of paragraph (2) of subsection (b), or ceases to be a judge after having served as judge for 18 years or more; and

(2) elects under subsection (e) to receive retired pay under this subsection,

shall receive retired pay at a rate which bears the same ratio to the rate of the salary payable to him as judge at the time he ceases to be a judge as the number of years he has served as judge bears to 24; except that the rate of such retired pay shall be not less than one-half of the rate of such salary and not more than the rate of such salary. Such retired pay shall begin to accrue on the day following the day on which his salary as judge ceases to accrue, and shall continue to accrue during the remainder of his life. Retired pay under this subsection shall be paid in the same manner as the salary of a judge. In computing the rate of the retired pay under this subsection for any individual who is entitled thereto, that portion of the aggregate number of years he has served as a judge which is a fractional part of 1 year shall be eliminated if it is less than 6 months, or shall be counted as a full year if it is 6 months or more.

(e) ELECTION TO RECEIVE RETIRED PAY.—Any judge may elect to receive retired pay under subsection (d). Such an election—

(1) may be made only while an individual is a judge (except that in the case of an individual who fails to be reappointed as judge at the expiration of a term of office, it may be made at any

time before the day after the day on which his successor takes office);

(2) once made, shall be irrevocable;

(3) in the case of any judge other than the chief judge, shall be made by filing notice thereof in writing with the chief judge; and

(4) in the case of the chief judge, shall be made by filing notice thereof in writing with the Civil Service Commission.

The chief judge shall transmit to the Civil Service Commission a copy of each notice filed with him under this subsection.

(f) INDIVIDUALS RECEIVING RETIRED PAY TO BE AVAILABLE FOR RECALL.—Any individual who has elected to receive retired pay under subsection (d) who thereafter—

(1) accepts civil office or employment under the Government of the United States (other than the performance of judicial duties pursuant to subsection (c)); or

(2) performs (or supervises or directs the performance of) legal or accounting services in the field of Federal taxation or in the field of the renegotiation of Federal contracts for his client, his employer, or any of his employer's clients,

shall forfeit all rights to retired pay under subsection (d) for all periods beginning on or after the first day on which he accepts such office or employment or engages in any activity described in paragraph (2). Any individual who has elected to receive retired pay under subsection (d) who thereafter during any calendar year fails to perform judicial duties required of him by subsection (c) shall forfeit all rights to retired pay under subsection (d) for the 1-year period which begins on the first day on which he so fails to perform such duties.

(g) COORDINATION WITH CIVIL SERVICE RETIREMENT.—

(1) GENERAL RULE.—Except as otherwise provided in this subsection, the provisions of the Civil Service Retirement Act (including the provisions relating to the deduction and withholding of amounts from basic pay, salary, and compensation) shall apply in respect of service as a judge (together with other service as an officer or employee to whom such Act applies) as if this section had not been enacted.

(2) EFFECT OF ELECTING RETIRED PAY.—In the case of any individual who has filed an election to receive retired pay under subsection (d) and who has not filed a waiver under paragraph (3) of this subsection—

(A) he shall not be entitled to any annuity under section 1, 2, 3A, 6, or 7 of the Civil Service Retirement Act for any period beginning on or after the day on which he files such election;

(B) no amount shall be returned to him under section 7 (a) of such Act;

(C) subsections (b) and (c) of section 4 of such Act, and subsection (c) of section 12 of such Act, shall apply in respect of such individual as if he were retiring or had retired under section 1 of such Act on the date on which his retired pay under subsection (d) of this section began to accrue; except that—

(i) the amount of any annuity payable to a survivor of such individual under subsection (b) or (c) of such section 4 or under subsection (c) of such section 12 shall be based on a life annuity

for such individual computed as provided in subsection (a) of such section 4, and

(ii) if such individual makes the election provided by subsection (b) or (c) of such section 4, his retired pay under subsection (d) of this section shall be reduced by the amount by which a life annuity computed as provided in subsection (a) of such section 4 would be reduced;

(D) in computing the aggregate amount of the annuity paid for purposes of section 12 (g) of such Act, any retired pay which has accrued under subsection (d) of this section (including any such retired pay forfeited under subsection (f)) shall be included as if it were an annuity payable to him under such Act; and

(E) no deduction for purposes of the civil service retirement and disability fund shall be made from the retired pay payable to him under subsection (d) of this section, or from any other salary, pay, or compensation payable to him, for any period after the date on which such retired pay began to accrue.

(3) WAIVER OF CIVIL SERVICE BENEFITS.—

(A) Any individual who has elected to receive retired pay under subsection (d) of this section may (at any time thereafter during the period prescribed by subsection (e) (1)) waive all benefits under the Civil Service Retirement Act. Such a waiver—

(i) once made, shall be irrevocable, and

(ii) shall be made in the same manner as is provided for an election by such individual under subsection (e). The chief judge shall transmit to the Civil Service Commission a copy of each notice of waiver filed with him under this paragraph.

(B) In the case of any individual who has made a waiver under this paragraph—

(i) no annuity shall be payable to any person under the Civil Service Retirement Act with respect to any service performed by such individual (whether performed before or after such waiver is filed and whether performed as judge or otherwise);

(ii) no deduction shall be made from any salary, pay, or compensation of such individual for purposes of the civil service retirement and disability fund for any period beginning after the day on which such waiver is filed;

(iii) except as provided in clause (iv), no refund shall be made under the Civil Service Retirement Act of any amount credited to the account of such individual or of any interest on any amount so credited;

(iv) additional sums voluntarily deposited by such individual under the second paragraph of section 10 of the Civil Service Retirement Act shall be promptly refunded, together with interest on such additional sums at 3 percent per annum (compounded on December 31 of each year) to the day of such filing; and

(v) subsections (e) and (g) of section 12 of the Civil Service Retirement Act shall not apply.

(4) EMPLOYEES' COMPENSATION.—The fourth and sixth paragraphs of section 6 of the Civil Service Retirement Act shall apply

in respect of retired pay accruing under subsection (d) of this section as if such retired pay were an annuity payable under such act.

PART II—PROCEDURE

Sec. 7451. Fee for filing petition.
Sec. 7452. Representation of parties.
Sec. 7453. Rules of practice, procedure, and evidence.
Sec. 7454. Burden of proof in fraud and transferee cases.
Sec. 7455. Service of process.
Sec. 7456. Administration of oaths and procurement of testimony.
Sec. 7457. Witness fees.
Sec. 7458. Hearings.
Sec. 7459. Reports and decisions.
Sec. 7460. Provisions of special application to divisions.
Sec. 7461. Publicity of proceedings.
Sec. 7462. Publication of reports.
Sec. 7463. Provisions of special application to transferees.

SEC. 7451. FEE FOR FILING PETITION.

The Tax Court is authorized to impose a fee in an amount not in excess of $10 to be fixed by the Tax Court for the filing of any petition for the redetermination of a deficiency.

SEC. 7452. REPRESENTATION OF PARTIES.

The Secretary or his delegate shall be represented by the Assistant General Counsel of the Treasury Department serving as Chief Counsel of the Internal Revenue Service, or the delegate of such Chief Counsel, in the same manner before the Tax Court as he has heretofore been represented in proceedings before such Court. The taxpayer shall continue to be represented in accordance with the rules of practice prescribed by the Court. No qualified person shall be denied admission to practice before the Tax Court because of his failure to be a member of any profession or calling.

SEC. 7453. RULES OF PRACTICE, PROCEDURE, AND EVIDENCE.

The proceedings of the Tax Court and its divisions shall be conducted in accordance with such rules of practice and procedure (other than rules of evidence) as the Tax Court may prescribe and in accordance with the rules of evidence applicable in trials without a jury in the United States District Court of the District of Columbia.

SEC. 7454. BURDEN OF PROOF IN FRAUD AND TRANSFEREE CASES.

(a) FRAUD.—In any proceeding involving the issue whether the petitioner has been guilty of fraud with intent to evade tax, the burden of proof in respect of such issue shall be upon the Secretary or his delegate.

(b) CROSS REFERENCE.—

For provisions relating to burden of proof as to transferee liability, see section 6902 (a).

SEC. 7455. SERVICE OF PROCESS.

The mailing by registered mail of any pleading, decision, order, notice, or process in respect of proceedings before the Tax Court shall be held sufficient service of such pleading, decision, order, notice, or process.

SEC. 7456. ADMINISTRATION OF OATHS AND PROCUREMENT OF TESTIMONY.

(a) IN GENERAL.—For the efficient administration of the functions vested in the Tax Court or any division thereof, any judge of the Tax Court, the clerk of the court or his deputies, as such, or any other employee of the Tax Court designated in writing for the purpose by the chief judge, may administer oaths, and any judge of the Tax Court may examine witnesses and require, by subpoena ordered by the Tax Court or any division thereof and signed by the judge (or by the clerk of the Tax Court or by any other employee of the Tax Court when acting as deputy clerk)—

(1) the attendance and testimony of witnesses, and the production of all necessary returns, books, papers, documents, correspondence, and other evidence, from any place in the United States at any designated place of hearing, or

(2) the taking of a deposition before any designated individual competent to administer oaths under this title. In the case of a deposition the testimony shall be reduced to writing by the individual taking the deposition or under his direction and shall then be subscribed by the deponent.

(b) PRODUCTION OF RECORDS IN THE CASE OF FOREIGN CORPORATIONS, FOREIGN TRUSTS OR ESTATES AND NONRESIDENT ALIEN INDIVIDUALS.—The Tax Court or any division thereof, upon motion and notice by the Secretary or his delegate, and upon good cause shown therefor, shall order any foreign corporation, foreign trust or estate, or nonresident alien individual, who has filed a petition with the Tax Court, to produce, or, upon satisfactory proof to the Tax Court or any of its divisions, that the petitioner is unable to produce, to make available to the Secretary or his delegate, and, in either case, to permit the inspection, copying, or photographing of, such books, records, documents, memoranda, correspondence and other papers, wherever situated, as the Tax Court or any division thereof, may deem relevant to the proceedings and which are in the possession, custody or control of the petitioner, or of any person directly or indirectly under his control or having control over him or subject to the same common control. If the petitioner fails or refuses to comply with any of the provisions of such order, after reasonable time for compliance has been afforded to him, the Tax Court or any division thereof, upon motion, shall make an order striking out pleadings or parts thereof, or dismissing the proceeding or any part thereof, or rendering a judgment by default against the petitioner. For the purpose of this subsection, the term "foreign trust or estate" includes an estate or trust, any fiduciary of which is a foreign corporation or nonresident alien individual; and the term "control" is not limited to legal control.

(c) COMMISSIONERS.—The chief judge may from time to time by written order designate an attorney from the legal staff of the Tax Court to act as a commissioner in a particular case. The commissioner so designated shall proceed under such rules and regulations as may be promulgated by the Tax Court. The commissioner shall receive the same travel and subsistence allowances now or hereafter provided by law for commissioners of the United States Court of Claims.

SEC. 7457. WITNESS FEES.

(a) AMOUNT.—Any witness summoned or whose deposition is taken under section 7456 shall receive the same fees and mileage as witnesses in courts of the United States.

(b) PAYMENT.—Such fees and mileage and the expenses of taking any such deposition shall be paid as follows:

(1) WITNESSES FOR SECRETARY OR HIS DELEGATE.—In the case of witnesses for the Secretary or his delegate, such payments shall be made by the Secretary or his delegate out of any moneys appropriated for the collection of internal revenue taxes, and may be made in advance.

(2) OTHER WITNESSES.—In the case of any other witnesses, such payments shall be made, subject to rules prescribed by the Tax Court, by the party at whose instance the witness appears or the deposition is taken.

SEC. 7458. HEARINGS.

Notice and opportunity to be heard upon any proceeding instituted before the Tax Court shall be given to the taxpayer and the Secretary or his delegate. If an opportunity to be heard upon the proceeding is given before a division of the Tax Court, neither the taxpayer nor the Secretary nor his delegate shall be entitled to notice and opportunity to be heard before the Tax Court upon review, except upon a specific order of the chief judge. Hearings before the Tax Court and its divisions shall be open to the public, and the testimony, and, if the Tax Court so requires, the argument, shall be stenographically reported. The Tax Court is authorized to contract (by renewal of contract or otherwise) for the reporting of such hearings, and in such contract to fix the terms and conditions under which transcripts will be supplied by the contractor to the Tax Court and to other persons and agencies.

SEC. 7459. REPORTS AND DECISIONS.

(a) REQUIREMENT.—A report upon any proceeding instituted before the Tax Court and a decision thereon shall be made as quickly as practicable. The decision shall be made by a judge in accordance with the report of the Tax Court, and such decision so made shall, when entered, be the decision of the Tax Court.

(b) INCLUSION OF FINDINGS OF FACT OR OPINIONS IN REPORT.—It shall be the duty of the Tax Court and of each division to include in its report upon any proceeding its findings of fact or opinion or memorandum opinion. The Tax Court shall report in writing all its findings of fact, opinions, and memorandum opinions.

(c) DATE OF DECISION.—A decision of the Tax Court (except a decision dismissing a proceeding for lack of jurisdiction) shall be held to be rendered upon the date that an order specifying the amount of the deficiency is entered in the records of the Tax Court. If the Tax Court dismisses a proceeding for reasons other than lack of jurisdiction and is unable from the record to determine the amount of the deficiency determined by the Secretary or his delegate, or if the Tax Court dismisses a proceeding for lack of jurisdiction, an order to that effect shall be entered in the records of the Tax Court, and the decision of the Tax Court shall be held to be rendered upon the date of such entry.

(d) EFFECT OF DECISION DISMISSING PETITION.—If a petition for a redetermination of a deficiency has been filed by the taxpayer, a deci-

sion of the Tax Court dismissing the proceeding shall be considered as its decision that the deficiency is the amount determined by the Secretary or his delegate. An order specifying such amount shall be entered in the records of the Tax Court unless the Tax Court cannot determine such amount from the record in the proceeding, or unless the dismissal is for lack of jurisdiction.

(e) EFFECT OF DECISION THAT TAX IS BARRED BY LIMITATION.—If the assessment or collection of any tax is barred by any statute of limitations, the decision of the Tax Court to that effect shall be considered as its decision that there is no deficiency in respect of such tax.

(f) FINDINGS OF FACT AS EVIDENCE.—The findings of the Board of Tax Appeals made in connection with any decision prior to February 26, 1926, shall, notwithstanding the enactment of the Revenue Act of 1926 (44 Stat. 9), continue to be prima facie evidence of the facts therein stated.

(g) PENALTY.—

For penalty for taxpayer instituting proceedings before Tax Court merely for delay, see section 6673.

SEC. 7460. PROVISIONS OF SPECIAL APPLICATION TO DIVISIONS.

(a) HEARINGS, DETERMINATIONS, AND REPORTS.—A division shall hear, and make a determination upon, any proceeding instituted before the Tax Court and any motion in connection therewith, assigned to such division by the chief judge, and shall make a report of any such determination which constitutes its final disposition of the proceeding.

(b) EFFECT OF ACTION BY A DIVISION.—The report of the division shall become the report of the Tax Court within 30 days after such report by the division, unless within such period the chief judge has directed that such report shall be reviewed by the Tax Court. Any preliminary action by a division which does not form the basis for the entry of the final decision shall not be subject to review by the Tax Court except in accordance with such rules as the Tax Court may prescribe. The report of a division shall not be a part of the record in any case in which the chief judge directs that such report shall be reviewed by the Tax Court.

SEC. 7461. PUBLICITY OF PROCEEDINGS.

All reports of the Tax Court and all evidence received by the Tax Court and its divisions, including a transcript of the stenographic report of the hearings, shall be public records open to the inspection of the public; except that after the decision of the Tax Court in any proceeding has become final the Tax Court may, upon motion of the taxpayer or the Secretary or his delegate, permit the withdrawal by the party entitled thereto of originals of books, documents, and records, and of models, diagrams, and other exhibits, introduced in evidence before the Tax Court or any division; or the Tax Court may, on its own motion, make such other disposition thereof as it deems advisable.

SEC. 7462. PUBLICATION OF REPORTS.

The Tax Court shall provide for the publication of its reports at the Government Printing Office in such form and manner as may be best adapted for public information and use, and such authorized publication shall be competent evidence of the reports of the Tax Court therein contained in all courts of the United States and of the

several States without any further proof or authentication thereof. Such reports shall be subject to sale in the same manner and upon the same terms as other public documents.

SEC. 7463. PROVISIONS OF SPECIAL APPLICATION TO TRANSFEREES.

(1) For rules of burden of proof in transferee proceedings, see section 6902 (a).

(2) For authority of Tax Court to prescribe rules by which a transferee of property of a taxpayer shall be entitled to examine books, records and other evidence, see section 6902 (b).

PART III—MISCELLANEOUS PROVISIONS

Sec. 7471. Employees.
Sec. 7472. Expenditures.
Sec. 7473. Disposition of fees.
Sec. 7474. Fee for transcript of record.

SEC. 7471. EMPLOYEES.

(a) APPOINTMENT AND COMPENSATION.—The Tax Court is authorized in accordance with the civil service laws to appoint, and in accordance with the Classification Act of 1949 (63 Stat. 954; 5 U. S. C. chapter 21), as amended, to fix the compensation of, such employees as may be necessary efficiently to execute the functions vested in the Tax Court.

(b) EXPENSES FOR TRAVEL AND SUBSISTENCE.—The employees of the Tax Court shall receive their necessary traveling expenses, and expenses for subsistence while traveling on duty and away from their designated stations, as provided in the Travel Expense Act of 1949 (63 Stat. 166; 5 U. S. C. chapter 16).

(c) COMMISSIONERS.—

For travel and subsistence allowances of commissioners of the Tax Court, see section 7456 (c).

SEC. 7472. EXPENDITURES.

The Tax Court is authorized to make such expenditures (including expenditures for personal services and rent at the seat of Government and elsewhere, and for law books, books of reference, and periodicals), as may be necessary efficiently to execute the functions vested in the Tax Court. All expenditures of the Tax Court shall be allowed and paid, out of any moneys appropriated for purposes of the Tax Court, upon presentation of itemized vouchers therefor signed by the certifying officer designated by the chief judge.

SEC. 7473. DISPOSITION OF FEES.

All fees received by the Tax Court shall be covered into the Treasury as miscellaneous receipts.

SEC. 7474. FEE FOR TRANSCRIPT OF RECORD.

The Tax Court is authorized to fix a fee, not in excess of the fee fixed by law to be charged and collected therefor by the clerks of the district courts, for comparing, or for preparing and comparing, a transcript of the record, or for copying any record, entry, or other paper and the comparison and certification thereof.

Subchapter D—Court Review of Tax Court Decisions

Sec. 7481. Date when Tax Court decision becomes final.
Sec. 7482. Courts of review.
Sec. 7483. Petition for review.
Sec. 7484. Change of incumbent in office.
Sec. 7485. Bond to stay assessment and collection.
Sec. 7486. Refund, credit, or abatement of amounts disallowed.
Sec. 7487. Cross reference.

SEC. 7481. DATE WHEN TAX COURT DECISION BECOMES FINAL.

The decision of the Tax Court shall become final—

(1) TIMELY PETITION FOR REVIEW NOT FILED.—Upon the expiration of the time allowed for filing a petition for review, if no such petition has been duly filed within such time; or

(2) DECISION AFFIRMED OR PETITION FOR REVIEW DISMISSED.—

(A) PETITION FOR CERTIORARI NOT FILED ON TIME.—Upon the expiration of the time allowed for filing a petition for certiorari, if the decision of the Tax Court has been affirmed or the petition for review dismissed by the United States Court of Appeals and no petition for certiorari has been duly filed; or

(B) PETITION FOR CERTIORARI DENIED.—Upon the denial of a petition for certiorari, if the decision of the Tax Court has been affirmed or the petition for review dismissed by the United States Court of Appeals; or

(C) AFTER MANDATE OF SUPREME COURT.—Upon the expiration of 30 days from the date of issuance of the mandate of the Supreme Court, if such Court directs that the decision of the Tax Court be affirmed or the petition for review dismissed.

(3) DECISION MODIFIED OR REVERSED.—

(A) UPON MANDATE OF SUPREME COURT.—If the Supreme Court directs that the decision of the Tax Court be modified or reversed, the decision of the Tax Court rendered in accordance with the mandate of the Supreme Court shall become final upon the expiration of 30 days from the time it was rendered, unless within such 30 days either the Secretary or his delegate or the taxpayer has instituted proceedings to have such decision corrected to accord with the mandate, in which event the decision of the Tax Court shall become final when so corrected.

(B) UPON MANDATE OF THE COURT OF APPEALS.—If the decision of the Tax Court is modified or reversed by the United States Court of Appeals, and if—

(i) the time allowed for filing a petition for certiorari has expired and no such petition has been duly filed, or

(ii) the petition for certiorari has been denied, or

(iii) the decision of the United States Court of Appeals has been affirmed by the Supreme Court, then the decision of the Tax Court rendered in accordance with the mandate of the United States Court of Appeals shall become final on the expiration of 30 days from the time such decision of the Tax Court was rendered, unless within such 30 days either the

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Secretary or his delegate or the taxpayer has instituted proceedings to have such decision corrected so that it will accord with the mandate, in which event the decision of the Tax Court shall become final when so corrected.

(4) REHEARING.—If the Supreme Court orders a rehearing; or if the case is remanded by the United States Court of Appeals to the Tax Court for a rehearing, and if—

(A) the time allowed for filing a petition for certiorari has expired and no such petition has been duly filed, or

(B) the petition for certiorari has been denied, or

(C) the decision of the United States Court of Appeals has been affirmed by the Supreme Court,

then the decision of the Tax Court rendered upon such rehearing shall become final in the same manner as though no prior decision of the Tax Court has been rendered.

(5) DEFINITION OF "MANDATE".—As used in this section, the term "mandate", in case a mandate has been recalled prior to the expiration of 30 days from the date of issuance thereof, means the final mandate.

SEC. 7482. COURTS OF REVIEW.

(a) JURISDICTION.—The United States Courts of Appeals shall have exclusive jurisdiction to review the decisions of the Tax Court, except as provided in section 1254 of Title 28 of the United States Code, in the same manner and to the same extent as decisions of the district courts in civil actions tried without a jury; and the judgment of any such court shall be final, except that it shall be subject to review by the Supreme Court of the United States upon certiorari, in the manner provided in section 1254 of Title 28 of the United States Code.

(b) VENUE.—

(1) IN GENERAL.—Except as provided in paragraph (2), such decisions may be reviewed by the United States Court of Appeals for the circuit in which is located the office to which was made the return of the tax in respect of which the liability arises, or, if no return was made, then by the United States Court of Appeals for the District of Columbia.

(2) BY AGREEMENT.—Notwithstanding the provisions of paragraph (1), such decisions may be reviewed by any United States Court of Appeals which may be designated by the Secretary or his delegate and the taxpayer by stipulation in writing.

(c) POWERS.—

(1) TO AFFIRM, MODIFY, OR REVERSE.—Upon such review, such courts shall have power to affirm or, if the decision of the Tax Court is not in accordance with law, to modify or to reverse the decision of the Tax Court, with or without remanding the case for a rehearing, as justice may require.

(2) TO MAKE RULES.—Rules for review of decisions of the Tax Court shall be those prescribed by the Supreme Court under section 2074 of title 28 of the United States Code. Until such rules become effective the rules adopted under authority of section 1141 (c) (2) of the Internal Revenue Code of 1939 shall remain in effect.

(3) To REQUIRE ADDITIONAL SECURITY.—Nothing in section 7483 shall be construed as relieving the petitioner from making or filing such undertakings as the court may require as a condition of or in connection with the review.

(4) To IMPOSE DAMAGES.—The United States Court of Appeals and the Supreme Court shall have power to impose damages in any case where the decision of the Tax Court is affirmed and it appears that the petition was filed merely for delay.

SEC. 7483. PETITION FOR REVIEW.

The decision of the Tax Court may be reviewed by a United States Court of Appeals as provided in section 7482 if a petition for such review is filed by either the Secretary (or his delegate) or the taxpayer within 3 months after the decision is rendered. If, however, a petition for such review is so filed by one party to the proceeding, a petition for review of the decision of the Tax Court may be filed by any other party to the proceeding within 4 months after such decision is rendered.

SEC. 7484. CHANGE OF INCUMBENT IN OFFICE.

When the incumbent of the office of Secretary or his delegate changes, no substitution of the name of his successor shall be required in proceedings pending before any appellate court reviewing the action of the Tax Court.

SEC. 7485. BOND TO STAY ASSESSMENT AND COLLECTION.

(a) UPON PETITION FOR REVIEW.—Notwithstanding any provision of law imposing restrictions on the assessment and collection of deficiencies, the review under section 7483 shall not operate as a stay of assessment or collection of any portion of the amount of the deficiency determined by the Tax Court unless a petition for review in respect of such portion is duly filed by the taxpayer, and then only if the taxpayer—

(1) on or before the time his petition for review is filed has filed with the Tax Court a bond in a sum fixed by the Tax Court not exceeding double the amount of the portion of the deficiency in respect of which the petition for review is filed, and with surety approved by the Tax Court, conditioned upon the payment of the deficiency as finally determined, together with any interest, additional amounts, or additions to the tax provided for by law, or

(2) has filed a jeopardy bond under the income or estate tax laws.

If as a result of a waiver of the restrictions on the assessment and collection of a deficiency any part of the amount determined by the Tax Court is paid after the filing of the review bond, such bond shall, at the request of the taxpayer, be proportionately reduced.

(b) CROSS REFERENCES.—

(1) For requirement of additional security notwithstanding this section, see section 7482 (c) (3).

(2) For deposit of United States bonds or notes in lieu of sureties, see 6 U. S. C. 15.

SEC. 7486. REFUND, CREDIT, OR ABATEMENT OF AMOUNTS DISALLOWED.

In cases where assessment or collection has not been stayed by the filing of a bond, then if the amount of the deficiency determined by

the Tax Court is disallowed in whole or in part by the court of review, the amount so disallowed shall be credited or refunded to the taxpayer, without the making of claim therefor, or, if collection has not been made, shall be abated.

SEC. 7487. CROSS REFERENCE.

For authority of the Tax Court to fix fees for transcripts of records, see section 7474.

Subchapter E—Miscellaneous Provisions

Sec. 7491. Burden of proof of exemptions in case of marihuana offenses.
Sec. 7492. Enforceability of cotton futures contracts.
Sec. 7493. Immunity of witnesses in cases relating to cotton futures.

SEC. 7491. BURDEN OF PROOF OF EXEMPTIONS IN CASE OF MARIHUANA OFFENSES.

It shall not be necessary to negative any exemptions set forth in part II of subchapter A of chapter 39, relating to marihuana, in any complaint, information, indictment, or other writ or proceeding laid or brought with respect to part II of subchapter A of chapter 39 and the burden of proof of any such exemption shall be upon the defendant. In the absence of the production of evidence by the defendant that he has complied with the provisions of section 4753 relating to registration, or that he has complied with the provisions of section 4742 relating to order forms, he shall be presumed not to have complied with such provisions of such section, as the case may be.

SEC. 7492. ENFORCEABILITY OF COTTON FUTURES CONTRACTS.

No contract of sale of cotton for future delivery mentioned in section 4851 (a), which does not conform to the requirements of section 4853 and has not the necessary stamps affixed thereto as required by section 4871, shall be enforceable in any court of the United States by, or on behalf of, any party to such contract or his privies.

SEC. 7493. IMMUNITY OF WITNESSES IN CASES RELATING TO COTTON FUTURES.

No person whose evidence is deemed material by the officer prosecuting on behalf of the United States in any case brought under any provision of subchapter D of chapter 39 (relating to cotton futures) shall withhold his testimony because of complicity by him in any violation of subchapter D of chapter 39, or of any regulation made pursuant to such chapter, but any such person called by such officer who testifies in such case shall be exempt from prosecution for any offense to which his testimony relates.

CHAPTER 77—MISCELLANEOUS PROVISIONS

Sec. 7501. Liability for taxes withheld or collected.
Sec. 7502. Timely mailing treated as timely filing.
Sec. 7503. Time for performance of acts where last day falls on Saturday, Sunday, or legal holiday.
Sec. 7504. Fractional parts of a dollar.
Sec. 7505. Sale of personal property purchased by the United States.
Sec. 7506. Administration of real estate acquired by the United States.
Sec. 7507. Exemption of insolvent banks from tax.
Sec. 7508. Time for performing certain acts postponed by reason of war.
Sec. 7509. Expenditures incurred by the Post Office Department.
Sec. 7510. Exemption from tax of domestic goods purchased for the United States.
Sec. 7511. Exemption of consular officers and employees of foreign states from payment of internal revenue taxes on imported articles.

SEC. 7501. LIABILITY FOR TAXES WITHHELD OR COLLECTED.

(a) GENERAL RULE.—Whenever any person is required to collect or withhold any internal revenue tax from any other person and to pay over such tax to the United States, the amount of tax so collected or withheld shall be held to be a special fund in trust for the United States. The amount of such fund shall be assessed, collected, and paid in the same manner and subject to the same provisions and limitations (including penalties) as are applicable with respect to the taxes from which such fund arose.

(b) PENALTIES.—

For penalties applicable to violations of this section, see sections 6672 and 7202.

SEC. 7502. TIMELY MAILING TREATED AS TIMELY FILING.

(a) GENERAL RULE.—If any claim, statement, or other document (other than a return or other document required under authority of chapter 61), required to be filed within a prescribed period or on or before a prescribed date under authority of any provision of the internal revenue laws is, after such period or such date, delivered by United States mail to the agency, officer, or office with which such claim, statement, or other document is required to be filed, the date of the United States postmark stamped on the cover in which such claim, statement, or other document is mailed shall be deemed to be the date of delivery. This subsection shall apply only if the postmark date falls within the prescribed period or on or before the prescribed date for the filing of the claim, statement, or other document, determined with regard to any extension granted for such filing, and only if the claim, statement, or other document was, within the prescribed time, deposited in the mail in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the agency, office, or officer with which the claim, statement, or other document is required to be filed.

(b) STAMP MACHINE.—This section shall apply in the case of postmarks not made by the United States Post Office only if and to the extent provided by regulations prescribed by the Secretary or his delegate.

(c) 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.

(d) EXCEPTION.—This section shall not apply with respect to the filing of a document in any court other than the Tax Court.

SEC. 7503. TIME FOR PERFORMANCE OF ACTS WHERE LAST DAY FALLS ON SATURDAY, SUNDAY, OR LEGAL HOLIDAY.

When the last day prescribed under authority of the internal revenue laws for performing any act falls on Saturday, Sunday, or a legal holiday, the performance of such act shall be considered timely if it is performed on the next succeeding day which is not a Saturday, Sunday, or a legal holiday. For purposes of this section, the last day for the performance of any act shall be determined by including any authorized extension of time; the term "legal holiday" means a legal holiday in the District of Columbia; and in the case of any return, statement, or other document required to be filed, or any other act required under authority of the internal revenue laws to be performed, at any office of the Secretary or his delegate, or at any other office of the United States or any agency thereof, located outside the District of Columbia but within an internal revenue district, the term "legal holiday" also means a Statewide legal holiday in the State where such office is located.

SEC. 7504. FRACTIONAL PARTS OF A DOLLAR.

The Secretary or his delegate may by regulations provide that in the allowance of any amount as a credit or refund, or in the collection of any amount as a deficiency or underpayment, of any tax imposed by this title, a fractional part of a dollar shall be disregarded, unless it amounts to 50 cents or more, in which case it shall be increased to 1 dollar.

SEC. 7505. SALE OF PERSONAL PROPERTY PURCHASED BY THE UNITED STATES.

(a) SALE.—Any personal property purchased by the United States under the authority of section 6335 (e) (relating to purchase for the account of the United States of property sold under levy) may be sold by the Secretary or his delegate in accordance with such regulations as may be prescribed by the Secretary or his delegate.

(b) ACCOUNTING.—In case of the resale of such property, the proceeds of the sale shall be paid into the Treasury as internal revenue collections, and there shall be rendered a distinct account of all charges incurred in such sales.

SEC. 7506. ADMINISTRATION OF REAL ESTATE ACQUIRED BY THE UNITED STATES.

(a) PERSON CHARGED WITH.—The Secretary or his delegate shall have charge of all real estate which is or shall become the property of the United States by judgment of forfeiture under the internal revenue

laws, or which has been or shall be assigned, set off, or conveyed by purchase or otherwise to the United States in payment of debts or penalties arising under the laws relating to internal revenue, or which has been or shall be vested in the United States by mortgage or other security for the payment of such debts, and of all trusts created for the use of the United States in payment of such debts due them.

(b) SALE.—The Secretary or his delegate, may, at public sale, and upon not less than 20 days' notice, sell and dispose of any real estate owned or held by the United States as aforesaid.

(c) LEASE.—Until such sale, the Secretary or his delegate may lease such real estate owned as aforesaid on such terms and for such period as the Secretary or his delegate shall deem proper.

(d) RELEASE TO DEBTOR.—In cases where real estate has or may become the property of the United States by conveyance or otherwise, in payment of or as security for a debt arising under the laws relating to internal revenue, and such debt shall have been paid, together with the interest thereon, at the rate of 1 percent per month, to the United States, within 2 years from the date of the acquisition of such real estate, it shall be lawful for the Secretary or his delegate to release by deed or otherwise convey such real estate to the debtor from whom it was taken, or to his heirs or other legal representatives.

SEC. 7507. EXEMPTION OF INSOLVENT BANKS FROM TAX.

(a) ASSETS IN GENERAL.—Whenever and after any bank or trust company, a substantial portion of the business of which consists of receiving deposits and making loans and discounts, has ceased to do business by reason of insolvency or bankruptcy, no tax shall be assessed or collected, or paid into the Treasury of the United States, on account of such bank or trust company, which shall diminish the assets thereof necessary for the full payment of all its depositors; and such tax shall be abated from such national banks as are found by the Comptroller of the Currency to be insolvent; and the Secretary or his delegate, when the facts shall appear to him, is authorized to remit so much of the said tax against any such insolvent banks and trust companies organized under State law as shall be found to affect the claims of their depositors.

(b) SEGREGATED ASSETS; EARNINGS.—Whenever any bank or trust company, a substantial portion of the business of which consists of receiving deposits and making loans and discounts, has been released or discharged from its liability to its depositors for any part of their claims against it, and such depositors have accepted, in lieu thereof, a lien upon subsequent earnings of such bank or trust company, or claims against assets segregated by such bank or trust company or against assets transferred from it to an individual or corporate trustee or agent, no tax shall be assessed or collected, or paid into the Treasury of the United States, on account of such bank or trust company, such individual or corporate trustee or such agent, which shall diminish the assets thereof which are available for the payment of such depositor claims and which are necessary for the full payment thereof. The term "agent", as used in this subsection, shall be deemed to include a corporation acting as a liquidating agent.

(c) REFUND; REASSESSMENT; STATUTES OF LIMITATION.—

(1) Any such tax collected shall be deemed to be erroneously collected, and shall be refunded subject to all provisions and limita-

tions of law, so far as applicable, relating to the refunding of taxes.

(2) Any tax, the assessment, collection, or payment of which is barred under subsection (a), or any such tax which has been abated or remitted after May 28, 1938, shall be assessed or reassessed whenever it shall appear that payment of the tax will not diminish the assets as aforesaid.

(3) Any tax, the assessment, collection, or payment of which is barred under subsection (b), or any such tax which has been refunded after May 28, 1938, shall be assessed or reassessed after full payment of such claims of depositors to the extent of the remaining assets segregated or transferred as described in subsection (b).

(4) The running of the statute of limitations on the making of assessment and collection shall be suspended during, and for 90 days beyond, the period for which, pursuant to this section, assessment or collection may not be made, and a tax may be reassessed as provided in paragraphs (2) and (3) of this subsection and collected, during the time within which, had there been no abatement, collection might have been made.

(d) EXCEPTION OF EMPLOYMENT TAXES.—This section shall not apply to any tax imposed by chapter 21 or chapter 23.

SEC. 7508. TIME FOR PERFORMING CERTAIN ACTS POSTPONED BY REASON OF WAR.

(a) TIME TO BE DISREGARDED.—In the case of an individual serving in the Armed Forces of the United States, or serving in support of such Armed Forces, in an area designated by the President of the United States by Executive order as a "combat zone" for purposes of section 112, at any time during the period designated by the President by Executive order as the period of combatant activities in such zone for purposes of such section, or hospitalized outside the States of the Union and the District of Columbia as a result of injury received while serving in such an area during such time, the period of service in such area, plus the period of continuous hospitalization outside the States of the Union and the District of Columbia attributable to such injury, and the next 180 days thereafter, shall be disregarded in determining, under the internal revenue laws, in respect of any tax liability (including any interest, penalty, additional amount, or addition to the tax) of such individual—

(1) Whether any of the following acts was performed within the time prescribed therefor:

(A) Filing any return of income, estate, or gift tax (except income tax withheld at source and income tax imposed by subtitle C or any law superseded thereby);

(B) Payment of any income, estate, or gift tax (except income tax withheld at source and income tax imposed by subtitle C or any law superseded thereby) or any installment thereof or of any other liability to the United States in respect thereof;

(C) Filing a petition with the Tax Court for redetermination of a deficiency, or for review of a decision rendered by the Tax Court;

(D) Allowance of a credit or refund of any tax;

(E) Filing a claim for credit or refund of any tax;

(F) Bringing suit upon any such claim for credit or refund;

(G) Assessment of any tax;

(H) Giving or making any notice or demand for the payment of any tax, or with respect to any liability to the United States in respect of any tax;

(I) Collection, by the Secretary or his delegate, by levy or otherwise, of the amount of any liability in respect of any tax;

(J) Bringing suit by the United States, or any officer on its behalf, in respect of any liability in respect of any tax; and

(K) Any other act required or permitted under the internal revenue laws specified in regulations prescribed under this section by the Secretary or his delegate;

(2) The amount of any credit or refund (including interest).

(b) EXCEPTIONS.—

(1) TAX IN JEOPARDY; BANKRUPTCY AND RECEIVERSHIPS; AND TRANSFERRED ASSETS.—Notwithstanding the provisions of subsection (a), any action or proceeding authorized by section 6851 (regardless of the taxable year for which the tax arose), chapter 70, or 71, as well as any other action or proceeding authorized by law in connection therewith, may be taken, begun, or prosecuted. In any other case in which the Secretary or his delegate determines that collection of the amount of any assessment would be jeopardized by delay, the provisions of subsection (a) shall not operate to stay collection of such amount by levy or otherwise as authorized by law. There shall be excluded from any amount assessed or collected pursuant to this paragraph the amount of interest, penalty, additional amount, and addition to the tax, if any, in respect of the period disregarded under subsection (a). In any case to which this paragraph relates, if the Secretary or his delegate is required to give any notice to or make any demand upon any person, such requirement shall be deemed to be satisfied if the notice or demand is prepared and signed, in any case in which the address of such person last known to the Secretary or his delegate is in an area for which United States post offices under instructions of the Postmaster General are not, by reason of the combatant activities, accepting mail for delivery at the time the notice or demand is signed. In such case the notice or demand shall be deemed to have been given or made upon the date it is signed.

(2) ACTION TAKEN BEFORE ASCERTAINMENT OF RIGHT TO BENEFITS.—The assessment or collection of any internal revenue tax or of any liability to the United States in respect of any internal revenue tax, or any action or proceeding by or on behalf of the United States in connection therewith, may be made, taken, begun, or prosecuted in accordance with law, without regard to the provisions of subsection (a), unless prior to such assessment, collection, action, or proceeding it is ascertained that the person concerned is entitled to the benefits of subsection (a).

SEC. 7509. EXPENDITURES INCURRED BY THE POST OFFICE DEPARTMENT.

The Postmaster General or his delegate shall at least once a month transfer to the Treasury of the United States, together with the receipts required to be deposited under section 6803 (a), a statement of

the additional expenditures in the District of Columbia and elsewhere incurred by the Post Office Department in performing the duties, if any, imposed upon such Department with respect to chapter 21, relating to the tax under the Federal Insurance Contributions Act, and the Secretary or his delegate shall be authorized and directed to advance from time to time to the credit of the Post Office Department, from appropriations made for the collection of the taxes imposed by chapter 21, such sums as may be required for such additional expenditures incurred by the Post Office Department.

SEC. 7510. EXEMPTION FROM TAX OF DOMESTIC GOODS PURCHASED FOR THE UNITED STATES.

The privilege existing by provision of law on December 1, 1873, or thereafter of purchasing supplies of goods imported from foreign countries for the use of the United States, duty free, shall be extended, under such regulations as the Secretary or his delegate may prescribe, to all articles of domestic production which are subject to tax by the provisions of this title.

SEC. 7511. EXEMPTION OF CONSULAR OFFICERS AND EMPLOYEES OF FOREIGN STATES FROM PAYMENT OF INTERNAL REVENUE TAXES ON IMPORTED ARTICLES.

(a) RULE OF EXEMPTION.—No internal revenue tax shall be imposed with respect to articles imported by a consular officer of a foreign state or by an employee of a consulate of a foreign state, whether such articles accompany the officer or employee to his post in the United States, its insular possessions, or the Panama Canal Zone, or are imported by him at any time during the exercise of his functions therein, if—

(1) such officer or employee is a national of the state appointing him and not engaged in any profession, business, or trade within the territory specified in this subsection;

(2) the articles are imported by the officer or employee for his personal or official use; and

(3) the foreign state grants an equivalent exemption to corresponding officers or employees of the Government of the United States stationed in such foreign state.

(b) CERTIFICATE BY SECRETARY OF STATE.—The Secretary of State shall certify to the Secretary of the Treasury the names of the foreign states which grant an equivalent exemption to the consular officers or employees of the Government of the United States stationed in such foreign states.

CHAPTER 78—DISCOVERY OF LIABILITY AND ENFORCEMENT OF TITLE

SUBCHAPTER A. Examination and inspection.
SUBCHAPTER B. General powers and duties.
SUBCHAPTER C. Supervision of operations of certain manufacturers.
SUBCHAPTER D. Possessions.

Subchapter A—Examination and Inspection

Sec. 7601. Canvass of districts for taxable persons and objects.
Sec. 7602. Examination of books and witnesses.
Sec. 7603. Service of summons.
Sec. 7604. Enforcement of summons.
Sec. 7605. Time and place of examination.
Sec. 7606. Entry of premises for examination of taxable objects.
Sec. 7607. Cross references.

SEC. 7601. CANVASS OF DISTRICTS FOR TAXABLE PERSONS AND OBJECTS.

(a) GENERAL RULE.—The Secretary or his delegate shall, to the extent he deems it practicable, cause officers or employees of the Treasury Department to proceed, from time to time, through each internal revenue district and inquire after and concerning all persons therein who may be liable to pay any internal revenue tax, and all persons owning or having the care and management of any objects with respect to which any tax is imposed.

(b) PENALTIES.—

For penalties applicable to forcible obstruction or hindrance of Treasury officers or employees in the performance of their duties, see section 7212.

SEC. 7602. EXAMINATION OF BOOKS AND WITNESSES.

For the purpose of ascertaining the correctness of any return, making a return where none has been made, determining the liability of any person for any internal revenue tax or the liability at law or in equity of any transferee or fiduciary of any person in respect of any internal revenue tax, or collecting any such liability, the Secretary or his delegate is authorized—

(1) To examine any books, papers, records, or other data which may be relevant or material to such inquiry;

(2) To summon the person liable for tax or required to perform the act, or any officer or employee of such person, or any person having possession, custody, or care of books of account containing entries relating to the business of the person liable for tax or required to perform the act, or any other person the Secretary or his delegate may deem proper, to appear before the Secretary or his delegate at a time and place named in the summons and to produce such books, papers, records, or other data, and to give such testimony, under oath, as may be relevant or material to such inquiry; and

(3) To take such testimony of the person concerned, under oath, as may be relevant or material to such inquiry.

SEC. 7603. SERVICE OF SUMMONS.

A summons issued under section 7602 shall be served by the Secretary or his delegate, by an attested copy delivered in hand to the person to whom it is directed, or left at his last and usual place of abode; and the certificate of service signed by the person serving the summons shall be evidence of the facts it states on the hearing of an application for the enforcement of the summons. When the summons requires the production of books, papers, records, or other data, it shall be sufficient if such books, papers, records, or other data are described with reasonable certainty.

SEC. 7604. ENFORCEMENT OF SUMMONS.

(a) JURISDICTION OF DISTRICT COURT.—If any person is summoned under the internal revenue laws to appear, to testify, or to produce books, papers, records, or other data, the United States district court for the district in which such person resides or is found shall have jurisdiction by appropriate process to compel such attendance, testimony, or production of books, papers, records, or other data.

(b) ENFORCEMENT.—Whenever any person summoned under section 7602 neglects or refuses to obey such summons, or to produce books, papers, records, or other data, or to give testimony, as required, the Secretary or his delegate may apply to the judge of the district court or to a United States commissioner for the district within which the person so summoned resides or is found for an attachment against him as for a contempt. It shall be the duty of the judge or commissioner to hear the application, and, if satisfactory proof is made, to issue an attachment, directed to some proper officer, for the arrest of such person, and upon his being brought before him to proceed to a hearing of the case; and upon such hearing the judge or the United States commissioner shall have power to make such order as he shall deem proper, not inconsistent with the law for the punishment of contempts, to enforce obedience to the requirements of the summons and to punish such person for his default or disobedience.

(c) CROSS REFERENCES.—

(1) AUTHORITY TO ISSUE ORDERS, PROCESSES, AND JUDGMENTS.—

For authority of district courts generally to enforce the provisions of this title, see section 7402.

(2) PENALTIES.—

For penalties applicable to violation of section 7602, see section 7210.

SEC. 7605. TIME AND PLACE OF EXAMINATION.

(a) TIME AND PLACE.—The time and place of examination pursuant to the provisions of section 7602 shall be such time and place as may be fixed by the Secretary or his delegate and as are reasonable under the circumstances. In the case of a summons under authority of paragraph (2) of section 7602 the date fixed for appearance before the Secretary or his delegate shall not be less than 10 days from the date of the summons.

(b) RESTRICTIONS ON EXAMINATION OF TAXPAYER.—No taxpayer shall be subjected to unnecessary examination or investigations, and only one inspection of a taxpayer's books of account shall be made for

each taxable year unless the taxpayer requests otherwise or unless the Secretary or his delegate, after investigation, notifies the taxpayer in writing that an additional inspection is necessary.

SEC. 7606. ENTRY OF PREMISES FOR EXAMINATION OF TAXABLE OBJECTS.

(a) ENTRY DURING DAY.—The Secretary or his delegate may enter, in the daytime, any building or place where any articles or objects subject to tax are made, produced, or kept, so far as it may be necessary for the purpose of examining said articles or objects.

(b) ENTRY AT NIGHT.—When such premises are open at night, the Secretary or his delegate may enter them while so open, in the performance of his official duties.

(c) PENALTIES.—

For penalty for refusal to permit entry or examination, see section 7342.

SEC. 7607. CROSS REFERENCES.

(a) INSPECTION OF BOOKS, PAPERS, RECORDS, OR OTHER DATA.—

For inspection of books, papers, records, or other data in the case of—

(1) Wholesale dealers in oleomargarine, see section 4597.

(2) Wholesale dealers in process or renovated butter or adulterated butter, see section 4815 (b).

(3) Opium, opiates, and coca leaves, see sections 4702 (a), 4705, 4721, and 4773.

(4) Marihuana, see sections 4742, 4753 (b), and 4773.

(5) Wagering, see section 4423.

(b) SEARCH WARRANTS.—

For provisions relating to—

(1) Searches and seizures see Rule 41 of the Federal Rules of Criminal Procedure.

(2) Search warrants in connection with industrial alcohol, etc., see sections 5314 and 7302.

Subchapter B—General Powers and Duties

Sec. 7621. Internal revenue districts.
Sec. 7622. Authority to administer oaths and certify.
Sec. 7623. Expenses of detection and punishment of frauds.

SEC. 7621. INTERNAL REVENUE DISTRICTS.

(a) ESTABLISHMENT AND ALTERATION.—The President shall establish convenient internal revenue districts for the purpose of administering the internal revenue laws. The President may from time to time alter such districts.

(b) BOUNDARIES.—For the purpose mentioned in subsection (a), the President may subdivide any State, Territory, or the District of Columbia, or may unite two or more States or Territories into one district.

SEC. 7622. AUTHORITY TO ADMINISTER OATHS AND CERTIFY.

(a) INTERNAL REVENUE PERSONNEL.—Every officer or employee of the Treasury Department designated by the Secretary or his delegate for that purpose is authorized to administer such oaths or affirmations and to certify to such papers as may be necessary under the internal revenue laws or regulations made thereunder.

(b) OTHERS.—Any oath or affirmation required or authorized under any internal revenue law or under any regulations made thereunder may be administered by any person authorized to administer oaths for general purposes by the law of the United States, or of any State, Territory, or possession of the United States, or of the District of Columbia, wherein such oath or affirmation is administered. This subsection shall not be construed as an exclusive enumeration of the persons who may administer such oaths or affirmations.

SEC. 7623. EXPENSES OF DETECTION AND PUNISHMENT OF FRAUDS.

The Secretary or his delegate, under regulations prescribed by the Secretary or his delegate, is authorized to pay such sums, not exceeding in the aggregate the sum appropriated therefor, as he may deem necessary for detecting and bringing to trial and punishment persons guilty of violating the internal revenue laws, or conniving at the same, in cases where such expenses are not otherwise provided for by law.

Subchapter C—Supervision of Operations of Certain Manufacturers

Sec. 7641. Supervision of operations of certain manufacturers.

SEC. 7641. SUPERVISION OF OPERATIONS OF CERTAIN MANUFACTURERS.

Every manufacturer of filled cheese, oleomargarine, opium suitable for smoking purposes, process or renovated butter or adulterated butter, or white phosphorous matches shall conduct his business under such surveillance of officers or employees of the Treasury Department as the Secretary or his delegate may by regulations require.

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Subchapter D—Possessions

Sec. 7651. Administration and collection of taxes in possessions.
Sec. 7652. Shipments to the United States.
Sec. 7653. Shipments from the United States.
Sec. 7654. Payment to Guam and American Samoa of proceeds of tax on coconut and other vegetable oils.
Sec. 7655. Cross references.

SEC. 7651. ADMINISTRATION AND COLLECTION OF TAXES IN POSSESSIONS.

Except as otherwise provided in this subchapter and in sections 4705 (b), 4735, and 4762 (relating to taxes on narcotic drugs and marihuana), and except as otherwise provided in section 28 (a) of the Revised Organic Act of the Virgin Islands and section 30 of the Organic Act of Guam (relating to the covering of the proceeds of certain taxes into the treasuries of the Virgin Islands and Guam, respectively)—

(1) APPLICABILITY OF ADMINISTRATIVE PROVISIONS.—All provisions of the laws of the United States applicable to the assessment and collection of any tax imposed by this title or of any other liability arising under this title (including penalties) shall, in respect of such tax or liability, extend to and be applicable in any possession of the United States in the same manner and to the same extent as if such possession were a State, and as if the term "United States" when used in a geographical sense included such possession.

(2) TAX IMPOSED IN POSSESSION.—In the case of any tax which is imposed by this title in any possession of the United States—

(A) INTERNAL REVENUE COLLECTIONS.—Such tax shall be collected under the direction of the Secretary or his delegate, and shall be paid into the Treasury of the United States as internal revenue collections; and

(B) APPLICABLE LAWS.—All provisions of the laws of the United States applicable to the administration, collection, and enforcement of such tax (including penalties) shall, in respect of such tax, extend to and be applicable in such possession of the United States in the same manner and to the same extent as if such possession were a State, and as if the term "United States" when used in a geographical sense included such possession.

(3) OTHER LAWS RELATING TO POSSESSIONS.—This section shall apply notwithstanding any other provision of law relating to any possession of the United States.

(4) CANAL ZONE.—For purposes of this section, the term "possession of the United States" includes the Canal Zone.

(5) VIRGIN ISLANDS.—

(A) For purposes of this section, the reference in section 28 (a) of the Revised Organic Act of the Virgin Islands to "any tax specified in section 3811 of the Internal Revenue Code" shall be deemed to refer to any tax imposed by chapter 2 or by chapter 21.

(B) For purposes of this title, section 28 (a) of the Revised

Organic Act of the Virgin Islands shall be effective as if such section had been enacted subsequent to the enactment of this title.

SEC. 7652. SHIPMENTS TO THE UNITED STATES.

(a) PUERTO RICO.—

(1) RATE OF TAX.—Except as provided in section 5318, articles of merchandise of Puerto Rican manufacture coming into the United States and withdrawn for consumption or sale shall be subject to a tax equal to the internal revenue tax imposed in the United States upon the like articles of merchandise of domestic manufacture.

(2) PAYMENT OF TAX.—The Secretary or his delegate shall by regulations prescribe the mode and time for payment and collection of the tax described in paragraph (1), including any discretionary method described in section 6302 (b) and (c). Such regulations shall authorize the payment of such tax before shipment from Puerto Rico, and the provisions of section 7651 (2) (B) shall be applicable to the payment and collection of such tax in Puerto Rico.

(3) DEPOSIT OF INTERNAL REVENUE COLLECTIONS.—All taxes collected under the internal revenue laws of the United States on articles produced in Puerto Rico and transported to the United States, or consumed in the island, shall be covered into the treasury of Puerto Rico.

(b) VIRGIN ISLANDS.—

(1) TAXES IMPOSED IN THE UNITED STATES.—Except as provided in section 5318, there shall be imposed in the United States, upon articles coming into the United States from the Virgin Islands, a tax equal to the internal revenue tax imposed in the United States upon like articles of domestic manufacture.

(2) EXEMPTION FROM TAX IMPOSED IN THE VIRGIN ISLANDS.—Such articles shipped from such islands to the United States shall be exempt from the payment of any tax imposed by the internal revenue laws of such islands.

(3) DISPOSITION OF INTERNAL REVENUE COLLECTIONS.—Beginning with the fiscal year ending June 30, 1954, and annually thereafter, the Secretary or his delegate shall determine the amount of all taxes imposed by, and collected during the fiscal year under, the internal revenue laws of the United States on articles produced in the Virgin Islands and transported to the United States. The amount so determined less 1 percent and less the estimated amount of refunds or credits shall be subject to disposition as follows:

(A) There shall be transferred and paid over to the government of the Virgin Islands from the amounts so determined a sum equal to the total amount of the revenue collected by the government of the Virgin Islands during the fiscal year, as certified by the Government Comptroller of the Virgin Islands. The moneys so transferred and paid over shall constitute a separate fund in the treasury of the Virgin Islands and may be expended as the legislature may determine: *Provided*, That the approval of the President or his designated representative shall be obtained before such moneys may be obligated or expended.

(B) There shall also be transferred and paid over to the government of the Virgin Islands during each of the fiscal years ending

June 30, 1955, and June 30, 1956, the sum of $1,000,000 or the balance of the internal revenue collections available under this paragraph (3) after payments are made under subparagraph (A), whichever amount is greater. The moneys so transferred and paid over shall be deposited in the separate fund established by subparagraph (A), but shall be obligated or expended for emergency purposes and essential public projects only, with the prior approval of the President or his designated representative.

(C) Any amounts remaining shall be deposited in the Treasury of the United States as miscellaneous receipts.

If at the end of any fiscal year the total of the Federal contribution made under subparagraph (A) at the beginning of that fiscal year has not been obligated or expended for an approved purpose, the balance shall continue available for expenditure during any succeeding fiscal year, but only for approved emergency relief purposes and essential public projects as provided in subparagraph (B). The aggregate amount of moneys available for expenditure for emergency relief purposes and essential public projects only, including payments under subparagraph (B), shall not exceed the sum of $5,000,000 at the end of any fiscal year. Any unobligated or unexpended balance of the Federal contribution remaining at the end of a fiscal year which would cause the moneys available for emergency relief purposes and essential public projects only to exceed the sum of $5,000,000 shall thereupon be transferred and paid over to the Treasury of the United States as miscellaneous receipts.

SEC. 7653. SHIPMENTS FROM THE UNITED STATES.

(a) TAX IMPOSED.—

(1) PUERTO RICO.—All articles of merchandise of United States manufacture coming into Puerto Rico shall be entered at the port of entry upon payment of a tax equal in rate and amount to the internal revenue tax imposed in Puerto Rico upon the like articles of Puerto Rican manufacture.

(2) VIRGIN ISLANDS.—There shall be imposed in the Virgin Islands upon articles imported from the United States a tax equal to the internal revenue tax imposed in such islands upon like articles there manufactured.

(b) EXEMPTION FROM TAX IMPOSED IN THE UNITED STATES.—Articles, goods, wares, or merchandise going into Puerto Rico, the Virgin Islands, Guam, and American Samoa from the United States shall be exempted from the payment of any tax imposed by the internal revenue laws of the United States.

(c) DRAWBACK OF TAX PAID IN THE UNITED STATES.—All provisions of law for the allowance of drawback of internal revenue tax on articles exported from the United States are, so far as applicable, extended to like articles upon which an internal revenue tax has been paid when shipped from the United States to Puerto Rico, the Virgin Islands, Guam, or American Samoa.

(d) CROSS REFERENCE.—

For the disposition of the proceeds of all taxes collected under the internal revenue laws of the United States on articles produced in Guam and transported into the United States, its Territories or possessions, or consumed in Guam, see the Act of August 1, 1950 (c. 512, 64 Stat. 392, section 30; 48 U. S. C. 1421h).

SEC. 7654. PAYMENT TO GUAM AND AMERICAN SAMOA OF PROCEEDS OF TAX ON COCONUT AND PALM OIL.

All taxes collected under subchapter B of chapter 37 with respect to coconut oil wholly of the production of Guam or American Samoa, or produced from materials wholly of the growth or production of Guam or American Samoa, shall be held as separate funds and paid to the treasury of Guam or American Samoa, respectively. No part of the money from such funds shall be used, directly or indirectly, to pay a subsidy to the producers or processors of copra, coconut oil, or allied products, except that this sentence shall not be construed as prohibiting the use of such money, in accordance with regulations prescribed by the Secretary or his delegate, for the acquisition or construction of facilities for the better curing of copra or for bona fide loans to copra producers of Guam or American Samoa.

SEC. 7655. CROSS REFERENCES.

(a) IMPOSITION OF TAX IN POSSESSIONS.—

For provisions imposing tax in possessions, see—
(1) Chapter 2, relating to self-employment tax;
(2) Chapter 21, relating to the tax under the Federal Insurance Contributions Act;
(3) Parts I and III of subchapter A of chapter 39, relating to taxes in respect of narcotic drugs;
(4) Parts II and III of subchapter A of chapter 39, relating to taxes in respect of marihuana;
(5) Chapter 51, relating to alcohol taxes;
(6) Subchapter A of chapter 37, relating to tax on sugar.

(b) OTHER PROVISIONS.—

For other provisions relating to possessions of the United States, see—
(1) Section 933, relating to income tax on residents of Puerto Rico;
(2) Section 6418 (b), relating to exportation of sugar to Puerto Rico.

SEC. 7652. PAYMENT TO GUAM AND AMERICAN SAMOA OF PROCEEDS OF TAX ON COCONUT AND PALM OIL.

All taxes collected under subchapter B of chapter 37 with respect to coconut oil wholly of the production of Guam or American Samoa, or produced from materials wholly of the growth or production of Guam or American Samoa, shall be held as separate funds and paid to the treasury of Guam or American Samoa, respectively. No part of the money from such funds shall be used, directly or indirectly, to pay a subsidy to the producers or processors of copra, coconut oil, or allied products, except that this sentence shall not be construed as prohibiting the use of such money, in accordance with regulations prescribed by the Secretary or his delegate, for the acquisition or construction of facilities for the better curing of copra or for bona fide loans to copra producers of Guam or American Samoa.

SEC. 7653. CROSS REFERENCES.

(a) IMPOSITION OF TAX IN POSSESSIONS.—

For provisions imposing tax in possessions, see—

(1) Chapter 2, relating to self-employment tax;

(2) Chapter 21, relating to the tax under the Federal Insurance Contributions Act;

(3) Parts I and III of subchapter A of chapter 35, relating to taxes in respect of narcotic drugs;

(4) Parts II and III of subchapter A of chapter 35, relating to taxes in respect of marihuana;

(5) Chapter 51, relating to alcohol taxes;

(6) Subchapter A of chapter 37, relating to tax on sugar.

(b) OTHER PROVISIONS.—

For other provisions relating to possessions of the United States, see—

(1) Section 933, relating to income tax on residents of Puerto Rico;

(2) Section 6418 (b), relating to exportation of sugar to Puerto Rico.

CHAPTER 79—DEFINITIONS

Sec. 7701. Definitions.

SEC. 7701. DEFINITIONS.

(a) When used in this title, where not otherwise distinctly expressed or manifestly incompatible with the intent thereof—

(1) PERSON.—The term "person" shall be construed to mean and include an individual, a trust, estate, partnership, association, company or corporation.

(2) PARTNERSHIP AND PARTNER.—The term "partnership" includes a syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and which is not, within the meaning of this title, a trust or estate or a corporation; and the term "partner" includes a member in such a syndicate, group, pool, joint venture, or organization.

(3) CORPORATION.—The term "corporation" includes associations, joint-stock companies, and insurance companies.

(4) DOMESTIC.—The term "domestic" when applied to a corporation or partnership means created or organized in the United States or under the law of the United States or of any State or Territory.

(5) FOREIGN.—The term "foreign" when applied to a corporation or partnership means a corporation or partnership which is not domestic.

(6) FIDUCIARY.—The term "fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person acting in any fiduciary capacity for any person.

(7) STOCK.—The term "stock" includes shares in an association, joint-stock company, or insurance company.

(8) SHAREHOLDER.—The term "shareholder" includes a member in an association, joint-stock company, or insurance company.

(9) UNITED STATES.—The term "United States" when used in a geographical sense includes only the States, the Territories of Alaska and Hawaii, and the District of Columbia.

(10) STATE.—The term "State" shall be construed to include the Territories and the District of Columbia, where such construction is necessary to carry out provisions of this title.

(11) SECRETARY.—The term "Secretary" means the Secretary of the Treasury.

(12) DELEGATE.—The term "Secretary or his delegate" means the Secretary of the Treasury, or any officer, employee, or agency of the Treasury Department duly authorized by the Secretary (directly, or indirectly by one or more redelegations of authority) to perform the function mentioned or described in the context, and the term "or his delegate" when used in connection with any other official of the United States shall be similarly construed.

(13) COMMISSIONER.—The term "Commissioner" means the Commissioner of Internal Revenue.

(14) TAXPAYER.—The term "taxpayer" means any person subject to any internal revenue tax.

(15) MILITARY OR NAVAL FORCES AND ARMED FORCES OF THE UNITED STATES.—The term "military or naval forces of the United States" and the term "Armed Forces of the United States" each includes all regular and reserve components of the uniformed services which are subject to the jurisdiction of the Secretary of Defense, the Secretary of the Army, the Secretary of the Navy, or the Secretary of the Air Force, and each term also includes the Coast Guard. The members of such forces include commissioned officers and personnel below the grade of commissioned officers in such forces.

(16) WITHHOLDING AGENT.—The term "withholding agent" means any person required to deduct and withhold any tax under the provisions of section 1441, 1442, 1443, 1451, or 1461.

(17) HUSBAND AND WIFE.—As used in sections 71, 152 (b) (4), 215, and 682, if the husband and wife therein referred to are divorced, wherever appropriate to the meaning of such sections, the term "wife" shall be read "former wife" and the term "husband" shall be read "former husband"; and, if the payments described in such sections are made by or on behalf of the wife or former wife to the husband or former husband instead of vice versa, wherever appropriate to the meaning of such sections, the term "husband" shall be read "wife" and the term "wife" shall be read "husband."

(18) INTERNATIONAL ORGANIZATION.—The term "international organization" means a public international organization entitled to enjoy privileges, exemptions, and immunities as an international organization under the International Organizations Immunities Act (22 U. S. C. 288–288f).

(19) DOMESTIC BUILDING AND LOAN ASSOCIATION.—The term "domestic building and loan association" means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members.

(20) EMPLOYEE.—For the purpose of applying the provisions of sections 104, 105, and 106 with respect to accident and health insurance or accident and health plans, for the purpose of applying the provisions of section 101 (b) with respect to employees' death benefits, and for the purpose of applying the provisions of subtitle A with respect to contributions to or under a stock bonus, pension, profit-sharing, or annuity plan, and with respect to distributions under such a plan, or by a trust forming part of such a plan, the term "employee" shall include a full-time life insurance salesman who is considered an employee for the purpose of chapter 21, or in the case of services performed before January 1, 1951, who would be considered an employee if his services were performed during 1951.

(21) LEVY.—The term "levy" includes the power of distraint and seizure by any means.

(22) ATTORNEY GENERAL.—The term "Attorney General" means the Attorney General of the United States.

(23) TAXABLE YEAR.—The term "taxable year" means the calendar year, or the fiscal year ending during such calendar year, upon the basis of which the taxable income is computed under subtitle A. "Taxable year" means, in the case of a return made for a fractional part of a year under the provisions of subtitle A or under regulations prescribed by the Secretary or his delegate, the period for which such return is made.

(24) FISCAL YEAR.—The term "fiscal year" means an accounting period of 12 months ending on the last day of any month other than December.

(25) PAID OR INCURRED, PAID OR ACCRUED.—The terms "paid or incurred" and "paid or accrued" shall be construed according to the method of accounting upon the basis of which the taxable income is computed under subtitle A.

(26) TRADE OR BUSINESS.—The term "trade or business" includes the performance of the functions of a public office.

(27) TAX COURT.—The term "Tax Court" means the Tax Court of the United States.

(28) OTHER TERMS.—Any term used in this subtitle with respect to the application of, or in connection with, the provisions of any other subtitle of this title shall have the same meaning as in such provisions.

(29) INTERNAL REVENUE CODE.—The term "Internal Revenue Code of 1954" means this title, and the term "Internal Revenue Code of 1939" means the Internal Revenue Code enacted February 10, 1939, as amended.

(b) INCLUDES AND INCLUDING.—The terms "includes" and "including" when used in a definition contained in this title shall not be deemed to exclude other things otherwise within the meaning of the term defined.

(c) COMMONWEALTH OF PUERTO RICO.—Where not otherwise distinctly expressed or manifestly incompatible with the intent thereof, references in this title to possessions of the United States shall be treated as also referring to the Commonwealth of Puerto Rico.

(d) CROSS REFERENCES.—

(1) OTHER DEFINITIONS.—

For other definitions, see the following sections of Title 1 of the United States Code:

(1) Singular as including plural, section 1.
(2) Plural as including singular, section 1.
(3) Masculine as including feminine, section 1.
(4) Officer, section 1.
(5) Oath as including affirmation, section 1.
(6) County as including parish, section 2.
(7) Vessel as including all means of water transportation, section 3.
(8) Vehicle as including all means of land transportation, section 4.
(9) Company or association as including successors and assigns, section 5.

(2) EFFECT OF CROSS REFERENCES.—

For effect of cross references in this title, see section 7806 (a).

CHAPTER 80—GENERAL RULES

SUBCHAPTER A. Application of internal revenue laws.
SUBCHAPTER B. Effective date and related provisions.

Subchapter A—Application of Internal Revenue Laws

Sec. 7801. Authority of Department of the Treasury.
Sec. 7802. Commissioner of Internal Revenue.
Sec. 7803. Other personnel.
Sec. 7804. Effect of reorganization plans.
Sec. 7805. Rules and regulations.
Sec. 7806. Construction of title.
Sec. 7807. Rules in effect upon enactment of this title.
Sec. 7808. Depositaries for collections.
Sec. 7809. Deposit of collections.

SEC. 7801. AUTHORITY OF DEPARTMENT OF THE TREASURY.

(a) POWERS AND DUTIES OF SECRETARY.—Except as otherwise expressly provided by law, the administration and enforcement of this title shall be performed by or under the supervision of the Secretary of the Treasury.

(b) GENERAL COUNSEL FOR THE DEPARTMENT.—There shall be in the Department of the Treasury the office of General Counsel for the Department of the Treasury. The General Counsel shall be appointed by the President, by and with the advice and consent of the Senate. The General Counsel shall be the chief law officer of the Department and shall perform such duties as may be prescribed by the Secretary. The Secretary may appoint and fix the duties of an Assistant General Counsel who shall serve as Chief Counsel of the Internal Revenue Service and may appoint and fix the duties of not to exceed five other Assistant General Counsels. All Assistant General Counsels shall be appointed without regard to the provisions of the civil service laws. The Secretary may also appoint and fix the duties of such other attorneys as he may deem necessary.

(c) FUNCTIONS OF DEPARTMENT OF JUSTICE UNAFFECTED.—Nothing in this section shall be considered to affect the duties, powers, or functions imposed upon or vested in the Department of Justice, or any officer thereof, by law existing on May 10, 1934.

SEC. 7802. COMMISSIONER OF INTERNAL REVENUE.

There shall be in the Department of the Treasury a Commissioner of Internal Revenue, who shall be appointed by the President, by and with the advice and consent of the Senate. The Commissioner of Internal Revenue shall have such duties and powers as may be prescribed by the Secretary.

SEC. 7803. OTHER PERSONNEL.

(a) APPOINTMENT AND SUPERVISION.—The Secretary or his delegate is authorized to employ such number of persons as the Secretary or his delegate deems proper for the administration and enforcement of the internal revenue laws, and the Secretary or his delegate shall

issue all necessary directions, instructions, orders, and rules applicable to such persons.

(b) POSTS OF DUTY OF EMPLOYEES IN FIELD SERVICE OR TRAVELING.—

(1) DESIGNATION OF POST OF DUTY.—The Secretary or his delegate shall determine and designate the posts of duty of all such persons engaged in field work or traveling on official business outside of the District of Columbia.

(2) DETAIL OF PERSONNEL FROM FIELD SERVICE.—The Secretary or his delegate may order any such person engaged in field work to duty in the District of Columbia, for such periods as the Secretary or his delegate may prescribe, and to any designated post of duty outside the District of Columbia upon the completion of such duty.

(c) BONDS OF EMPLOYEES.—Whenever the Secretary or his delegate deems it proper, he may require any such officer or employee to furnish such bond, or he may purchase such blanket or schedule bonds, as the Secretary or his delegate deems appropriate. The premium of any such bond or bonds may, in the discretion of the Secretary or his delegate, be paid from the appropriation for expenses of the Internal Revenue Service.

(d) DELINQUENT INTERNAL REVENUE OFFICERS AND EMPLOYEES.—If any officer or employee of the Treasury Department acting in connection with the internal revenue laws fails to account for and pay over any amount of money or property collected or received by him in connection with the internal revenue laws, the Secretary or his delegate shall issue notice and demand to such officer or employee for payment of the amount which he failed to account for and pay over, and, upon failure to pay the amount demanded within the time specified in such notice, the amount so demanded shall be deemed imposed upon such officer or employee and assessed upon the date of such notice and demand, and the provisions of chapter 64 and all other provisions of law relating to the collection of assessed taxes shall be applicable in respect of such amount.

SEC. 7804. EFFECT OF REORGANIZATION PLANS.

(a) APPLICATION.—The provisions of Reorganization Plan Numbered 26 of 1950 and Reorganization Plan Numbered 1 of 1952 shall be applicable to all functions vested by this title, or by any act amending this title (except as otherwise expressly provided in such amending act), in any officer, employee, or agency, of the Department of the Treasury.

(b) PRESERVATION OF EXISTING RIGHTS AND REMEDIES.—Nothing in Reorganization Plan Numbered 26 of 1950 or Reorganization Plan Numbered 1 of 1952 shall be considered to impair any right or remedy, including trial by jury, to recover any internal revenue tax alleged to have been erroneously or illegally assessed or collected, or any penalty claimed to have been collected without authority, or any sum alleged to have been excessive or in any manner wrongfully collected under the internal revenue laws. For the purpose of any action to recover any such tax, penalty, or sum, all statutes, rules, and regulations referring to the collector of internal revenue, the principal officer for the internal revenue district, or the Secretary or his delegate, shall be deemed to refer to the officer whose act or acts referred to in the preceding

sentence gave rise to such action. The venue of any such action shall be the same as under existing law.

SEC. 7805. RULES AND REGULATIONS.

(a) AUTHORIZATION.—Except where such authority is expressly given by this title to any person other than an officer or employee of the Treasury Department, the Secretary or his delegate shall prescribe all needful rules and regulations for the enforcement of this title, including all rules and regulations as may be necessary by reason of any alteration of law in relation to internal revenue.

(b) RETROACTIVITY OF REGULATIONS OR RULINGS.—The Secretary or his delegate may prescribe the extent, if any, to which any ruling or regulation, relating to the internal revenue laws, shall be applied without retroactive effect.

(c) PREPARATION AND DISTRIBUTION OF REGULATIONS, FORMS, STAMPS, AND OTHER MATTERS.—The Secretary or his delegate shall prepare and distribute all the instructions, regulations, directions, forms, blanks, stamps, and other matters pertaining to the assessment and collection of internal revenue.

SEC. 7806. CONSTRUCTION OF TITLE.

(a) CROSS REFERENCES.—The cross references in this title to other portions of the title, or other provisions of law, where the word "see" is used, are made only for convenience, and shall be given no legal effect.

(b) ARRANGEMENT AND CLASSIFICATION.—No inference, implication, or presumption of legislative construction shall be drawn or made by reason of the location or grouping of any particular section or provision or portion of this title, nor shall any table of contents, table of cross references, or similar outline, analysis, or descriptive matter relating to the contents of this title be given any legal effect. The preceding sentence also applies to the sidenotes and ancillary tables contained in the various prints of this Act before its enactment into law.

SEC. 7807. RULES IN EFFECT UPON ENACTMENT OF THIS TITLE.

(a) INTERIM PROVISION FOR ADMINISTRATION OF TITLE.—Until regulations are promulgated under any provision of this title which depends for its application upon the promulgation of regulations (or which is to be applied in such manner as may be prescribed by regulations) all instructions, rules or regulations which are in effect immediately prior to the enactment of this title shall, to the extent such instructions, rules, or regulations could be prescribed as regulations under authority of such provision, be applied as if promulgated as regulations under such provision.

(b) PROVISIONS OF THIS TITLE CORRESPONDING TO PRIOR INTERNAL REVENUE LAWS.—

(1) REFERENCE TO LAW APPLICABLE TO PRIOR PERIOD.—Any provision of this title which refers to the application of any portion of this title to a prior period (or which depends upon the application to a prior period of any portion of this title) shall, when appropriate and consistent with the purpose of such provision, be deemed to refer to (or depend upon the application of) the corresponding provision of the Internal Revenue Code of 1939 or of such other internal revenue laws as were applicable to the prior period.

(2) ELECTIONS OR OTHER ACTS.—If an election or other act under the provisions of the Internal Revenue Code of 1939 would, if this title had not been enacted, be given effect for a period subsequent to the date of enactment of this title, and if corresponding provisions are contained in this title, such election or other act shall be given effect under the corresponding provisions of this title.

SEC. 7808. DEPOSITARIES FOR COLLECTIONS.

The Secretary or his delegate is authorized to designate one or more depositaries in each State for the deposit and safe-keeping of the money collected by virtue of the internal revenue laws; and the receipt of the proper officer of such depositary to the proper officer or employee of the Treasury Department for the money deposited by him shall be a sufficient voucher for such Treasury officer or employee in the settlement of his accounts.

SEC. 7809. DEPOSIT OF COLLECTIONS.

(a) GENERAL RULE.—Except as provided in subsection (b), sections 4735, 4762, 7651, 7652, and 7654, the gross amount of all taxes and revenues received under the provisions of this title, and collections of whatever nature received or collected by authority of any internal revenue law, shall be paid daily into the Treasury of the United States under instructions of the Secretary or his delegate as internal revenue collections, by the officer or employee receiving or collecting the same, without any abatement or deduction on account of salary, compensation, fees, costs, charges, expenses, or claims of any description. A certificate of such payment, stating the name of the depositor and the specific account on which the deposit was made, signed by the Treasurer of the United States, designated depositary, or proper officer of a deposit bank, shall be transmitted to the Secretary or his delegate.

(b) DEPOSIT FUNDS.—In accordance with instructions of the Secretary or his delegate, there shall be deposited with the Treasurer of the United States in a deposit fund account—

(1) SUMS OFFERED IN COMPROMISE.—Sums offered in compromise under the provisions of section 7122;

(2) SUMS OFFERED FOR PURCHASE OF REAL ESTATE.—Sums offered for the purchase of real estate under the provisions of section 7506; and

(3) SURPLUS PROCEEDS IN SALES UNDER LEVY.—Surplus proceeds in any sale under levy, after making allowance for the amount of the tax, interest, penalties, and additions thereto, and for costs and charges of the levy and sale.

Upon the acceptance of such offer in compromise or offer for the purchase of such real estate, the amount so accepted shall be withdrawn from such deposit fund account and deposited in the Treasury of the United States as internal revenue collections. Upon the rejection of any such offer, the Secretary or his delegate shall refund to the maker of such offer the amount thereof.

Subchapter B—Effective Date and Related Provisions

Sec. 7851. Applicability of revenue laws.
Sec. 7852. Other applicable rules.

SEC. 7851. APPLICABILITY OF REVENUE LAWS.

(a) GENERAL RULES.—Except as otherwise provided in any section of this title—

(1) SUBTITLE A.—

(A) Chapters 1, 2, 4, and 6 of this title shall apply only with respect to taxable years beginning after December 31, 1953, and ending after the date of enactment of this title, and with respect to such taxable years, chapters 1 (except sections 143 and 144) and 2, and section 3801, of the Internal Revenue Code of 1939 are hereby repealed.

(B) Chapters 3 and 5 of this title shall apply with respect to payments and transfers occurring after December 31, 1954, and as to such payments and transfers sections 143 and 144 and chapter 7 of the Internal Revenue Code of 1939 are hereby repealed.

(C) Any provision of subtitle A of this title the applicability of which is stated in terms of a specific date (occurring after December 31, 1953), or in terms of taxable years ending after a specific date (occurring after December 31, 1953), shall apply to taxable years ending after such specific date. Each such provision shall, in the case of a taxable year subject to the Internal Revenue Code of 1939, be deemed to be included in the Internal Revenue Code of 1939, but shall be applicable only to taxable years ending after such specific date. The provisions of the Internal Revenue Code of 1939 superseded by provisions of subtitle A of this title the applicability of which is stated in terms of a specific date (occurring after December 31, 1953) shall be deemed to be included in subtitle A of this title, but shall be applicable only to the period prior to the taking effect of the corresponding provision of subtitle A.

(D) Effective with respect to taxable years ending after March 31, 1954, and subject to tax under chapter 1 of the Internal Revenue Code of 1939—

(i) Sections 13 (b) (3), 26 (b) (2) (C), 26 (h) (1) (C) (including the comma and the word "and" immediately preceding such section), 26 (i) (3), 108 (k), 207 (a) (1) (C), 207 (a) (3) (C), and the last sentence of section 362 (b) (3) of such Code are hereby repealed; and

(ii) Sections 13 (b) (2), 26 (b) (2) (B), 26 (h) (1) (B), 26 (i) (2), 207 (a) (1) (B), 207 (a) (3) (B), 421 (a) (1) (B), and the second sentence of section 362 (b) (3) of such Code are hereby amended by striking out "and before April 1, 1954" (and any accompanying punctuation) wherever appearing therein.

(2) SUBTITLE B.—

(A) Chapter 11 of this title shall apply with respect to estates of decedents dying after the date of enactment of this title, and with respect to such estates chapter 3 of the Internal Revenue Code of 1939 is hereby repealed.

(B) Chapter 12 of this title shall apply with respect to the calendar year 1955 and all calendar years thereafter, and with respect to such years chapter 4 of the Internal Revenue Code of 1939 is hereby repealed.

(3) SUBTITLE C.—Subtitle C of this title shall apply only with respect to remuneration paid after December 31, 1954, except that chapter 22 of such subtitle shall apply only with respect to remuneration paid after December 31, 1954, which is for services performed after such date. Chapter 9 of the Internal Revenue Code of 1939 is hereby repealed with respect to remuneration paid after December 31, 1954, except that subchapter B of such chapter (and subchapter E of such chapter to the extent it relates to subchapter B) shall remain in force and effect with respect to remuneration paid after December 31, 1954, for services performed on or before such date.

(4) SUBTITLE D.—Subtitle D of this title shall take effect on January 1, 1955. Subtitles B and C of the Internal Revenue Code of 1939 (except chapters 7, 9, 15, 26, and 28, subchapter B of chapter 25, and parts VII and VIII of subchapter A of chapter 27 of such code) are hereby repealed effective January 1, 1955. Provisions having the same effect as section 6416 (b) (2) (H), and so much of section 4082 (c) as refers to special motor fuels, shall be considered to be included in the Internal Revenue Code of 1939 effective as of May 1, 1954. Section 2450 (a) of the Internal Revenue Code of 1939 (as amended by the Excise Tax Reduction Act of 1954) applies to the period beginning on April 1, 1954, and ending on December 31, 1954.

(5) SUBTITLE E.—Subtitle E shall take effect on January 1, 1955, except that the provisions in section 5411 permitting the use of a brewery under regulations prescribed by the Secretary or his delegate for the purpose of producing and bottling soft drinks, section 5554, and chapter 53 shall take effect on the day after the date of enactment of this title. Subchapter B of chapter 25, and part VIII of subchapter A of chapter 27, of the Internal Revenue Code of 1939 are hereby repealed effective on the day after the date of enactment of this title. Chapters 15 and 26, and part VII of subchapter A of chapter 27, of the Internal Revenue Code of 1939 are hereby repealed effective January 1, 1955.

(6) SUBTITLE F.—

(A) GENERAL RULE.—The provisions of subtitle F shall take effect on the day after the date of enactment of this title and shall be applicable with respect to any tax imposed by this title. The provisions of subtitle F shall apply with respect to any tax imposed by the Internal Revenue Code of 1939 only to the extent provided in subparagraphs (B) and (C) of this paragraph.

(B) ASSESSMENT, COLLECTION, AND REFUNDS.—Notwithstanding the provisions of subparagraph (A), and notwithstanding any contrary provision of subchapter A of chapter 63 (relating to assessment), chapter 64 (relating to collection), or chapter 65

(relating to abatements, credits, and refunds) of this title, the provisions of part II of subchapter A of chapter 28 and chapters 35, 36, and 37 (except section 3777) of subtitle D of the Internal Revenue Code of 1939 shall remain in effect until January 1, 1955, and shall also be applicable to the taxes imposed by this title. On and after January 1, 1955, the provisions of subchapter A of chapter 63, chapter 64, and chapter 65 (except section 6405) of this title shall be applicable to all internal revenue taxes (whether imposed by this title or by the Internal Revenue Code of 1939), notwithstanding any contrary provision of part II of subchapter A of chapter 28, or of chapter 35, 36, or 37, of the Internal Revenue Code of 1939. The provisions of section 6405 (relating to reports of refunds and credits) shall be applicable with respect to refunds or credits allowed after the date of enactment of this title, and section 3777 of the Internal Revenue Code of 1939 is hereby repealed with respect to such refunds and credits.

(C) TAXES IMPOSED UNDER THE 1939 CODE.—After the date of enactment of this title, the following provisions of subtitle F shall apply to the taxes imposed by the Internal Revenue Code of 1939, notwithstanding any contrary provisions of such code:

(i) Chapter 73, relating to bonds.

(ii) Chapter 74, relating to closing agreements and compromises.

(iii) Chapter 75, relating to crimes and other offenses, but only insofar as it relates to offenses committed after the date of enactment of this title, and in the case of such offenses, section 6531, relating to periods of limitation on criminal prosecution, shall be applicable. The penalties (other than penalties which may be assessed) provided by the Internal Revenue Code of 1939 shall not apply to offenses, committed after the date of enactment of this title, to which chapter 75 of this title is applicable.

(iv) Chapter 76, relating to judicial proceedings.

(v) Chapter 77, relating to miscellaneous provisions, except that section 7502 shall apply only if the mailing occurs after the date of enactment of this title, and section 7503 shall apply only if the last date referred to therein occurs after the date of enactment of this title.

(vi) Chapter 78, relating to discovery of liability and enforcement of title.

(vii) Chapter 79, relating to definitions.

(viii) Chapter 80, relating to application of internal revenue laws, effective date, and related provisions.

(D) CHAPTER 28 AND SUBTITLE D OF 1939 CODE.—Except as otherwise provided in subparagraphs (B) and (C), the provisions of chapter 28 and of subtitle D of the Internal Revenue Code of 1939 shall remain in effect with respect to taxes imposed by the Internal Revenue Code of 1939.

(7) OTHER PROVISIONS.—If the effective date of any provision of the Internal Revenue Code of 1954 is not otherwise provided in this section or in any other section of this title, such provision shall take effect on the day after the date of enactment of this title. If the repeal of any provision of the Internal Revenue Code of 1939

is not otherwise provided by this section or by any other section of this title, such provision is hereby repealed effective on the day after the date of enactment of this title.

(b) EFFECT OF REPEAL OF INTERNAL REVENUE CODE OF 1939.—

(1) EXISTING RIGHTS AND LIABILITIES.—The repeal of any provision of the Internal Revenue Code of 1939 shall not affect any act done or any right accruing or accrued, or any suit or proceeding had or commenced in any civil cause, before such repeal; but all rights and liabilities under such code shall continue, and may be enforced in the same manner, as if such repeal had not been made.

(2) EXISTING OFFICES.—The repeal of any provision of the Internal Revenue Code of 1939 shall not abolish, terminate, or otherwise change—

(A) any internal revenue district,

(B) any office, position, board, or committee, or

(C) the appointment or employment of any officer or employee, existing immediately preceding the enactment of this title, the continuance of which is not manifestly inconsistent with any provision of this title, but the same shall continue unless and until changed by lawful authority.

(3) EXISTING DELEGATIONS OF AUTHORITY.—Any delegation of authority made pursuant to the provisions of Reorganization Plan Numbered 26 of 1950 or Reorganization Plan Numbered 1 of 1952, including any redelegation of authority made pursuant to any such delegation of authority, and in effect under the Internal Revenue Code of 1939 immediately preceding the enactment of this title shall, notwithstanding the repeal of such code, remain in effect for purposes of this title, unless distinctly inconsistent or manifestly incompatible with the provisions of this title. The preceding sentence shall not be construed as limiting in any manner the power to amend, modify, or revoke any such delegation or redelegation of authority.

(c) CRIMES AND FORFEITURES.—All offenses committed, and all penalties or forfeitures incurred, under any provision of law hereby repealed, may be prosecuted and punished in the same manner and with the same effect as if this title had not been enacted.

(d) PERIODS OF LIMITATION.—All periods of limitation, whether applicable to civil causes and proceedings, or to the prosecution of offenses, or for the recovery of penalties or forfeitures, hereby repealed shall not be affected thereby, but all suits, proceedings, or prosecutions, whether civil or criminal, for causes arising, or acts done or committed, prior to said repeal, may be commenced and prosecuted within the same time as if this title had not been enacted.

(e) REFERENCE TO OTHER PROVISIONS.—For the purpose of applying the Internal Revenue Code of 1939 or the Internal Revenue Code of 1954 to any period, any reference in either such code to another provision of the Internal Revenue Code of 1939 or the Internal Revenue Code of 1954 which is not then applicable to such period shall be deemed a reference to the corresponding provision of the other code which is then applicable to such period.

SEC. 7852. OTHER APPLICABLE RULES.

(a) SEPARABILITY CLAUSE.—If any provision of this title, or the application thereof to any person or circumstances, is held invalid,

the remainder of the title, and the application of such provision to other persons or circumstances, shall not be affected thereby.

(b) REFERENCE IN OTHER LAWS TO INTERNAL REVENUE CODE OF 1939.—Any reference in any other law of the United States or in any Executive order to any provision of the Internal Revenue Code of 1939 shall, where not otherwise distinctly expressed or manifestly incompatible with the intent thereof, be deemed also to refer to the corresponding provision of this title.

(c) ITEMS NOT TO BE TWICE INCLUDED IN INCOME OR DEDUCTED THEREFROM.—Except as otherwise distinctly expressed or manifestly intended, the same item (whether of income, deduction, credit, or otherwise) shall not be taken into account both in computing a tax under subtitle A of this title and a tax under chapter 1 or 2 of the Internal Revenue Code of 1939.

(d) TREATY OBLIGATIONS.—No provision of this title shall apply in any case where its application would be contrary to any treaty obligation of the United States in effect on the date of enactment of this title.

Subtitle G—The Joint Committee on Internal Revenue Taxation

CHAPTER 91. Organization and membership of the Joint Committee.
CHAPTER 92. Powers and duties of the Joint Committee.

CHAPTER 91—ORGANIZATION AND MEMBERSHIP OF THE JOINT COMMITTEE

Sec. 8001. Authorization.
Sec. 8002. Membership.
Sec. 8003. Election of chairman and vice chairman.
Sec. 8004. Appointment and compensation of staff.
Sec. 8005. Payment of expenses.

SEC. 8001. AUTHORIZATION.

There shall be a joint congressional committee known as the Joint Committee on Internal Revenue Taxation (hereinafter in this subtitle referred to as the "Joint Committee").

SEC. 8002. MEMBERSHIP.

(a) NUMBER AND SELECTION.—The Joint Committee shall be composed of 10 members as follows:

(1) FROM COMMITTEE ON FINANCE.—Five members who are members of the Committee on Finance of the Senate, three from the majority and two from the minority party, to be chosen by such Committee; and

(2) FROM COMMITTEE ON WAYS AND MEANS.—Five members who are members of the Committee on Ways and Means of the House of Representatives, three from the majority and two from the minority party, to be chosen by such Committee.

(b) TENURE OF OFFICE.—

(1) GENERAL LIMITATION.—No person shall continue to serve as a member of the Joint Committee after he has ceased to be a member of the Committee by which he was chosen, except that—

(2) EXCEPTION.—The members chosen by the Committee on Ways and Means who have been reelected to the House of Representatives may continue to serve as members of the Joint Committee notwithstanding the expiration of the Congress.

(c) VACANCIES.—A vacancy in the Joint Committee—

(1) EFFECT.—Shall not affect the power of the remaining members to execute the functions of the Joint Committee; and

(2) MANNER OF FILLING.—Shall be filled in the same manner as the original selection, except that—

(A) ADJOURNMENT OR RECESS OF CONGRESS.—In case of a vacancy during an adjournment or recess of Congress for a period of more than 2 weeks, the members of the Joint Committee who are members of the Committee entitled to fill such vacancy

may designate a member of such Committee to serve until his successor is chosen by such Committee; and

(B) EXPIRATION OF CONGRESS.—In the case of a vacancy after the expiration of a Congress which would be filled by the Committee on Ways and Means, the members of such Committee who are continuing to serve as members of the Joint Committee may designate a person who, immediately prior to such expiration, was a member of such Committee and who is re-elected to the House of Representatives, to serve until his successor is chosen by such Committee.

(d) ALLOWANCES.—The members shall serve without compensation in addition to that received for their services as members of Congress; but they shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of the duties vested in the Joint Committee, other than expenses in connection with meetings of the Joint Committee held in the District of Columbia during such times as the Congress is in session.

SEC. 8003. ELECTION OF CHAIRMAN AND VICE CHAIRMAN.

The Joint Committee shall elect a chairman and vice chairman from among its members.

SEC. 8004. APPOINTMENT AND COMPENSATION OF STAFF.

Except as otherwise provided by law, the Joint Committee shall have power to appoint and fix the compensation of a clerk and such experts and clerical, stenographic, and other assistants as it deems advisable.

SEC. 8005. PAYMENT OF EXPENSES.

The expenses of the Joint Committee shall be paid one-half from the contingent fund of the Senate and one-half from the contingent fund of the House of Representatives, upon vouchers signed by the chairman or the vice chairman.

CHAPTER 92—POWERS AND DUTIES OF THE JOINT COMMITTEE

Sec. 8021. Powers.
Sec. 8022. Duties.
Sec. 8023. Additional powers to obtain data.

SEC. 8021. POWERS.

(a) TO OBTAIN DATA AND INSPECT INCOME RETURNS.—

For powers of the Joint Committee to obtain and inspect income returns, see section 6103 (d).

(b) RELATING TO HEARINGS AND SESSIONS.—The Joint Committee, or any subcommittee thereof, is authorized—

(1) TO HOLD.—To hold hearings and to sit and act at such places and times;

(2) TO REQUIRE ATTENDANCE OF WITNESSES AND PRODUCTION OF BOOKS.—To require by subpoena (to be issued under the signature of the chairman or vice chairman) or otherwise the attendance of such witnesses and the production of such books, papers, and documents;

(3) TO ADMINISTER OATHS.—To administer such oaths; and

(4) TO TAKE TESTIMONY.—To take such testimony;

as it deems advisable.

(c) TO PROCURE PRINTING AND BINDING.—The Joint Committee, or any subcommittee thereof, is authorized to have such printing and binding done as it deems advisable.

(d) TO MAKE EXPENDITURES.—

(1) GENERAL AUTHORITY.—The Joint Committee, or any subcommittee thereof, is authorized to make such expenditures as it deems advisable.

(2) LIMITATION.—The cost of stenographic services in reporting such hearings as the Joint Committee may hold shall not be in excess of 25 cents per 100 words.

SEC. 8022. DUTIES.

It shall be the duty of the Joint Committee—

(1) INVESTIGATION.—

(A) OPERATION AND EFFECTS OF LAW.—To investigate the operation and effects of the Federal system of internal revenue taxes;

(B) ADMINISTRATION.—To investigate the administration of such taxes by the Internal Revenue Service or any executive department, establishment, or agency charged with their administration; and

(C) OTHER INVESTIGATIONS.—To make such other investigations in respect of such system of taxes as the Joint Committee may deem necessary.

(2) SIMPLIFICATION OF LAW.—

(A) INVESTIGATION OF METHODS.—To investigate measures and methods for the simplification of such taxes, particularly the income tax; and

(B) PUBLICATION OF PROPOSALS.—To publish, from time to time, for public examination and analysis, proposed measures and methods for the simplification of such taxes.

(3) REPORTS.—To report, from time to time, to the Committee on Finance and the Committee on Ways and Means, and, in its discretion, to the Senate or the House of Representatives, or both, the results of its investigations, together with such recommendations as it may deem advisable.

(4) CROSS REFERENCE.—

For duties of the Joint Committee relating to refunds of income and estate taxes, see section 6405.

SEC. 8023. ADDITIONAL POWERS TO OBTAIN DATA.

(a) SECURING OF DATA.—The Joint Committee or the Chief of Staff of the Joint Committee, upon approval of the Chairman or Vice Chairman, is authorized to secure directly from the Internal Revenue Service (including the Assistant General Counsel of the Treasury Department serving as the Chief Counsel of the Internal Revenue Service), or directly from any executive department, board, bureau, agency, independent establishment, or instrumentality of the Government, information, suggestions, rulings, data, estimates, and statistics, for the purpose of making investigations, reports, and studies relating to internal revenue taxation.

(b) FURNISHING OF DATA.—The Internal Revenue Service (including the Assistant General Counsel of the Treasury Department serving as the Chief Counsel of the Internal Revenue Service), executive departments, boards, bureaus, agencies, independent establishments, and instrumentalities are authorized and directed to furnish such information, suggestions, rulings, data, estimates, and statistics directly to the Joint Committee or to the Chief of Staff of the Joint Committee, upon request made pursuant to this section.

(c) Subsections (a) and (b) shall be applied in accordance with their provisions without regard to Reorganization Plan Numbered 26 of 1950 or to any other reorganization plan becoming effective on, before, or after February 28, 1951.

MISCELLANEOUS TITLE

SEC. 201. (a) Section 3748 (a) of the Internal Revenue Code of 1939 (relating to periods of limitations applicable to criminal prosecutions) is amended by inserting after "within three years next after the commission of the offense," the following: "except that the period of limitation shall be five years for offenses enumerated in section 4047 (e) (relating to unlawful acts of revenue officers or agents) and".

(b) The amendment made by this section shall be effective with respect to offenses committed on or before the date of enactment of this Act, if on such date prosecution therefor is not barred by provisions of law in effect before such date.

Approved August 16, 1954, 9:45 a. m., E. D. T.

APPENDIX

The following tables have been prepared as aids in comparing provisions of the Internal Revenue Code of 1954 with provisions of the Internal Revenue Code of 1939. No inference, implication, or presumption of legislative construction or intent shall be drawn or made by reason of such tables.

TABLE I

1939 Code section number	1954 Code section number
1	
2	7806(a).
3	
4	
11	1.
12(a)	
12(b)(1), (2)	
12(b)(3)	1.
12(c)	1.
12(d)	2.
12(e)	
12(f)	1.
12(g)	
13(a)	
13(b)	11.
13(c)–(f)	
14	
15(a), (b)	11.
15(c)	1551.
21	63.
22(a)	61.
22(b)(1)	101.
22(b)(2)(A)	72.
22(b)(2)(B)	72, 403.
22(b)(2)(C)	72.
22(b)(3)	102.
22(b)(4)	103.
22(b)(5)	104.
22(b)(6)	107.
22(b)(7)	894.
22(b)(8)	115, 526, 892, 893, 911, 912, 933, 943.
22(b)(9)	108.
22(b)(10)	108.
22(b)(11)	109.
22(b)(12)	111.
22(b)(13)	112.
22(b)(14)	113.
22(b)(15)	621.
22(b)(16)	114.
22(b)(17)	121.
22(c)	471.
22(d)(1)–(5)	472.
22(d)(6)	1321, 6155(a).
22(e)	301(a).
22(f)	1001.
22(g)	861, 862, 863, 864.
22(h)	Chapter 1, Subchapter G, Part III.
22(i)	
22(j)	76.
22(k)	71.
22(l)	691.
22(m)	73, 6201(c).
22(n)	62.
22(o)	75.
23	161, 211.
23(a)(1)(A)	162.
23(a)(1)(B)	162.
23(a)(1)(C)	263.
23(a)(2)	212.
23(b)	163, 265.
23(c)(1)	164.
23(c)(2)	
23(c)(3)	164.
23(d)	164.
23(e)	165.
23(f)	165.
23(g)	165.
23(h)	165.
23(i)	165.
23(j)	1091.
23(k)(1)	166, 593.
23(k)(2)	165(g)(1), 166(e), 582.
23(k)(3)	165(g)(2).
23(k)(4)	166.
23(k)(5)	166.
23(k)(6)	271, 166.
23(l)	167.
23(m)	611.
23(n)	167.
23(o)	170.
23(p)	404.
23(q)	170.
23(r)	591.
23(s)	172.
23(t)	168, 169.
23(u)	215.
23(v)	171.
23(w)	691.
23(x)	213.
23(y)	

TABLE I—Continued

1939 Code section number	1954 Code section number
23(z)	216.
23(aa)(1)	141.
23(aa)(2)	36.
23(aa)(3)	144.
23(aa)(4)	4, 142.
23(aa)(5)	142.
23(aa)(6)	143.
23(aa)(7)	144.
23(bb)	173.
23(cc)	616.
23(dd)	592.
23(ee)	1202.
23(ff)	615.
24(a)	261.
24(a)(1)	262.
24(a)(2),(3)	263.
24(a)(4)	264.
24(a)(5)	265.
24(a)(6)	264.
24(a)(7)	266.
24(b)	267.
24(c)	267.
24(d)	273.
24(e)	1451.
24(f)	268.
25(a)	35.
25(b)(1)	151.
25(b)(2)	153.
25(b)(3)	152.
26	241.
26(a)	242.
26(b)(1)	243.
26(b)(2)	244.
26(b)(3)	245.
26(b)	246.
26(c)	545, 556.
26(d)	535, 545, 601.
26(e)	
26(f)	561, 562, 564.
26(g)	565.
26(h)	247.
26(i)	922.
27(a)	561.
27(b)	535, 562.
27(c)–(i)	562, 564.
28	565.
31	33.
32	32.
33	6401.
34	
35	31.
41	441, 446.
42(a)	451.
42(b)–(d)	454.
43	461.
44	453, 7101.
45	482.
46	442.
47	443, 6011(a).
48	441, 7701.
51	6001, 6011(a).
51(a)	6001, 6012(a), 6065(b).
51(b)	6013(a), 6012(b)(1), 6014(b).
51(c)	6012(b).
51(d)	
51(e)	6065(a).
51(f)	6014(a) and (b), 6151(a), (b), 6155 (a).
51(g)	6012(b), 6013(b), 6653(a), 6659.
52	6012(a), (b), 6062.
53	6072, 6081, 6091.
54(a)–(b)	6001.
54(c)–(e)	
54(f)	6033(a), 6065(b).
55	6103, 7213(a).
56(a)	6151(a).
56(b)	6152, 6601(c)(2).
56(c)	6161(a), 6162(a), 6165, 7101.
56(d)–(f)	
56(g)	6313.
56(h)	
56(i)	6151(b).
56(j)	
57	
58	6012(b), 6015, 6064, 6065, 6073(a), (c), 6081(a), 6091(b), 6103, 6161(a).
59(a)–(c)	6153.
59(d)	6201(b), 6315, 6601(g).
60	6015(g), 6073(b), (d), (e); 6091(b), 6153(b), (d), (e).
61	
62	7805.
63	6108.
64	7701.
101(1)–(11), (13)–(19).	501.
101(12)	521, 522.
101	502.
102(a)	531, 532.
102(b), (c)	533.
102(d)	535.
102(e)	541.
102(f)	536.
103	891.
104(a)	581.
104(b)	11.
105	632.
106	1347.
107(a)	1301.
107(b)	1302.
107(c)	1304(a).
107(d)	1303.

TABLE I—Continued

1939 Code section number	1954 Code section number
107(e)	1304(b).
108	21.
109	921.
110	594.
111	1001.
112(a)	1002.
112(b)(1)	1031.
112(b)(2)	1036.
112(b)(3)	354, 355.
112(b)(4)	361.
112(b)(5)	351.
112(b)(6)	332.
112(b)(6)(D)	7101.
112(b)(7)	333.
112(b)(8)	1081.
112(b)(9)	373.
112(b)(10)	371.
112(b)(11)	355.
112(c)	351, 356, 371, 1031.
112(d)	361, 371.
112(e)	351, 356, 361, 371, 1031.
112(f)	1033.
112(g)	368.
112(h)	368.
112(i)	367.
112(j)	
112(k)	357, 371.
112(l)	371.
112(m)	1071.
112(n)	1034.
113(a)	1012.
113(a)(1)	1013.
113(a)(2)	1015.
113(a)(3)	1015.
113(a)(4)	1015.
113(a)(5)	1014.
113(a)(6)	358, 1031.
113(a)(7)	362.
113(a)(8)	362.
113(a)(9)	1033.
113(a)(10)	1091.
113(a)(11)	1051.
113(a)(12)	1052.
113(a)(13)	723, 732.
113(a)(14)	1053.
113(a)(15)	334.
113(a)(16)	1052.
113(a)(17)	1082.
113(a)(18)	334.
113(a)(19)	307.
113(a)(20)	373.
113(a)(21)	373.
113(a)(22)	372.
113(a)(23)	358.
113(b)	1011.
113(b)(1)	1016.
113(b)(2)	1016.
113(b)(3)	1017.
113(b)(4)	1018.
113(c)	1019.
113(d)	1020.
113(e)	1022.
114(a)	167(f).
114(b)(1)	612.
114(b)(2)	
114(b)(3)	613(b)(3).
114(b)(4)	613(b)(4).
115(a)	301, 316.
115(b)	301, 316.
115(c)	302, 312, 331, 342.
115(d)	301.
115(e)	301.
115(f)	305.
115(g)(1)	302.
115(g)(2)	304.
115(g)(3)	303.
115(h)	312.
115(i)	302, 346.
115(j)	301.
115(k)	
115(l)	312.
115(m)	312.
116(a)	911.
116(b)	
116(c)	892.
116(d)	115.
116(e)	115.
116(f)	943.
116(g)	526.
116(h)	893.
116(i)	121(a)(17).
116(j)	912.
116(k)	912.
116(l)	933.
117(a)	1221, 1222.
117(b)	1202.
117(c)	1201.
117(d)	1211.
117(e)(1)	1212.
117(e)(2)	
117(f)	1232.
117(g)(1)	1233.
117(g)(2)	1234.
117(g)(3)	1238.
117(h)	1223.
117(i)	582.
117(j)	1231.
117(k)	631.
117(l)	1233.
117(m)	341.
117(n)	1236.
117(o)	1239.
117(p)	1240.
118	1091.
119(a), (b)	861.
119 (c), (d)	862.
119(e)	861, 862, 863.
119(f)	864.
120	170.
121	583.
122	172.
123	77.
124	

TABLE I—Continued

1939 Code section number	1954 Code section number
124A	168.
124B	169.
125	171.
126	691.
127(a), (b)	
127(c)(1)	1331.
127(c)(2)	1332.
127(c)(3)	1333.
127(c)(4)	1334.
127(c)(5)	1335.
127(d)	1336.
127(e)	1337.
127(f)	1337.
128	1346.
129	269.
130	270.
130A	421.
131(a)	901.
131(b)	904.
131(c)	905, 6155(a), 7101.
131(d)	905.
131(e)	905.
131(f)	902.
131(g)	901(c).
131(h)	903.
131(i)	905.
141	1501, 1502, 6071, 6081 (a), 6091(b)(2), 6503(a)(2),
142	6012(a), (b), 6065(a).
143(a)	1451.
143(b)	1441.
143(c)	1461, 6011(a), 6072(a), 6091(b), 6151(a).
143(d)	1462.
143(e)	1463.
143(f)	1464, 6414.
143(g)	1461.
143(h)	1443, 6151.
144	1442, 6151(a).
145	7201, 7202, 7203, 7343.
146	443, 6155(a), 6601(a), 6658, 6851, 7101.
147	6041(b), (c); 6071, 6081(a), 6091(a).
148	6042, 6043, 6044, 6065(a), 6071, 6081(a), 6091(a).
149	6045, 6065(a), 6071, 6081 (a), 6091 (a).
150	6071, 6081(a), 6091(a), 7001(a). 7231.
151	
153(a)	6033(b), 6071, 6081(a), 6091(a).
153(b)	6034, 6071, 6081(b), 6091(a).
153(c)	6104.
153(d)	7201, 7203.
154	692.
161	641.
162(a)	642(c).
162(b)	651, 652, 661, 662.
162(c)	661.
162(d)	643, 663.
162(e)	642.
162(f)	642.
162(g)	681.
163(a)(1)	642.
163(a)(2)	642.
163(b)	642.
163(c)	642(a), (1).
164	652, 662.
165(a)	401, 501(a).
165(b)	402.
165(c)	402.
165(d)	402.
166	676.
167	677.
168	642.
169(a)–(c)	584, 6065.
169(d)(1)–(3)	584.
169(d)(4)	584.
169(e)	584.
169(f)	6032, 6065(a).
169(g)	584.
170	642, 584.
171	682.
172	642.
181	701.
182	702.
183(a), (b)	702, 703.
183(c)	702.
183(d)	703(a).
184	702.
186	702.
187	6031, 6063, 6065(a).
188	706.
189	702, 703.
190	
191	704.
201(a)(1)	802.
201(a)(2), (3)	807.
201(b)	801.
201(c)(1)	803(a).
201(c)(2)	803(b).
201(c)(3)	803(c).
201(c)(4)	803(d).
201(c)(5)	803(e).
201(c)(6)	803(f).
201(c)(7)	803(g).
201(d)	803(h).
201(e)	803(i).
201(f)	803(j).
201(g)	
202(a)	
202(b)	804(a).
202(c)	806.
203	

TABLE I—Continued

1939 Code section number	1954 Code section number
203A	805.
204(a)(1)	831(a).
204(a)(2)	831(b), 832.
204(a)(3)	831(b).
204(b)(1)	832(b)(1).
204(b)(2)	832(a).
204(b)(3)	832(b)(2).
204(b)(4)	832(b)(3).
204(b)(5)	832(b)(4).
204(b)(6)	832(b)(5).
204(b)(7)	832(b)(6).
204(c)	832(c).
204(d)	832(d).
204(e)	832(e).
204(f)	832(c)(12).
205	841.
206	842.
207(a)(1), (2)	821(a).
207(a)(3)	821(b).
207(a)(4)	821(c).
207(a)(5)	822(e).
207(a)(6)	821(d).
207(b)(1)	822(a), (b).
207(b)(2)	823(1).
207(b)(3)	823(2).
207(b)(4)	822(a).
207(b)(4)(A)–(F).	822(c).
207(c)	822(d)(1).
207(d)	822(d)(2).
207(e)	822(e).
207(f)	822(d)(3).
207(g)	
208	
211	871.
212	872.
213(a)–(c)	873.
213(d)	142(b)(1).
214	873.
215	874, 6011(a),6065 (b).
216	874.
217	6011(a), 6012(a), 6072(c).
218(a)	6151(a).
219	875.
220	876.
221	877.
231(a)	881.
231(b)	882(a).
231(c)	882(b).
231(d)	883.
232(a)	882.
232(b)	882.
233	882, 6065(a).
234	882.
235(a)	882, 6011(a), 6012(a), 6072(c).
235(b)	6012(a).
236(a)	6151(a).
236(b)	884(1).
237	884(3).
238	884(4).
251	931, 6011(a).
252	932.
261	11.
262	941.
263	942.
265	943.
271	6211, 6653(c)(1).
272(a)	6212(a), (b)(2); 6213(a).
272(b)	6155(a), 6215(a).
272(c)	6155(a), 6213(c).
272(d)	6213(d).
272(e)	6214(a).
272(f)	6212(c), 6213(b)(1).
272(g)	6214(b).
272(h)	6214(c).
272(i)	6152(c), 6601(c)(2).
272(j)	6161(b), 6165, 7101.
272(k)	6212(b).
273(a)–(i), (k)	6155, 6861, 6863(a), (b), 7101.
273(j)	6404(b).
274	6036, 6155(a), 6161(c), 6503(b), 6871, 6872, 6873.
275	6501.
276	6501(c), 6502(a).
277	6503(a).
291	6651(a), 6659.
292	6155(a), 6601.
293	6653(a), 6659.
294	6601, 6651(c), 6654(a).
295	6601.
296	6601.
297	6601.
298	6601.
299	6658.
311	6901.
312	6903.
313	
321	6403.
322(a)(1)–(3)	6401, 6402.
322(a)(4)	31.
322(b)(1)	6511.
322(b)(2)	6511.
322(b)(3)	6511.
322(b)(4)	6151(c), 6513(a), 6611(d).
322(b)(5)	6511(d).
322(b)(6)	6511(d).
322(c)	6512(a).
322(d)	6512(b).
322(e)	6151(c), 6513(b), 6611(d).
322(f)	
322(g)	6511(d).
331	552.
332	553.
333	554.
334	555.
335	556.

TABLE I—Continued

1939 Code section number	1954 Code section number
336(a), (b), (c)	556.
336(d)	557.
337	551.
338	6035(a).
339	6035(b).
340	7201, 7203.
361	851.
362	852, 855.
371	1081.
372	1082.
373	1083.
391	
392	
393	
394(a)–(c)	
394(d)	312.
394(e), (f)	
395	
396	
400	3.
401	4.
402	4.
403	36.
404	4.
421(a), (b)	501, 511.
421(c), (d)	512.
422(a)	512.
422(b)	513.
423	514.
424	515.
480	1401.
481	1402.
482	1403, 6017.
500	541.
501	542.
502	543.
503	544.
504(a), (b)	545.
504(c)	562, 563.
504(d)	
504(e)	545.
505(a)–(c)	545.
505(d)	
505(e)	546.
506(a)–(h)	547.
506(i)	
506(j)	
507(a)	
507(b)	543.
508	
509	531.
510	Chapter 1, Subchapter G, Part III.
511	6103, 7213(a).
650	1471.
651	1471.
722(g)	6105.
800	2001, 2101.
801	
802	
810	2001(a), 2011(a), 2011(b).
811	2031(a).
811(a)	2033.
811(b)	2034.
811(c)	2035, 2036, 2037.
811(d)(1)	2038(a)(1).
811(d)(2)	2038(a)(2).
811(d)(3)	2038(b).
811(d)(4)	
811(e)	2040.
811(f)	2041.
811(g)	2042.
811(h)	2044.
811(i)	2043(a).
811(j)	2032.
811(k)	2031(b).
811(l)	2035.
811(m)	
812	2051.
812(a)	
812(b)	2043(b), 2053, 2054.
812(c)	
812(d)	2055.
812(e)	2056.
813(a)(1)	
813(a)(2)	2012.
813(b)	2011.
813(c)	2014.
820	6036, 6091(a).
821(a)	6018, 6065(a).
821(b)	6071, 6075(a), 6081(a).
821(c)	6091(b).
821(d)	6001.
821(e)	
822(a)(1)	6151(a).
822(a)(2)	6161(a)(2), 6165, 6503(d), 7101.
822(b)	2002.
823	6314(b).
824	
825	2204.
826(a)	7404.
826(b)	2205.
826(c)	2206.
826(d)	2207.
827(a)	6324(a)(1), 6325(a)(1).
827(b)	6324(a)(2).
827(c)	6324(a)(3).
828	
840	
841	
850	2202.
851	
860	2101.
861	2102, 2103, 2106.
862	2104.
863	2105.
864(a)	6018, 6065(a).
864(b)	6071, 6075(a), 6081(a).
864(c)	6091(b).

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1939 Code section number	1954 Code section number
865	
870	6211(a), 6653(c)(1).
871(a)	6212(a), 6213(a).
871(b)	6155(a), 6215(a).
871(c)	6155(a), 6213(c).
871(d)	6213(d).
871(e)	6214(a).
871(f)	6212(c), 6213(b).
871(g)	6214(c).
871(h)	6161(b)(2), 6165, 6503(d), 7101.
871(i)	6653(b), 6659(a).
872(a)	6155(a), 6861(a).
872(b)	6861(b).
872(c)	6861(c).
872(d)	6861(d).
872(e)	6861(e).
872(f)	6863(a), (b)(2); 7101.
872(g)	6155(a), 6863(b)(1).
872(h)	6863(a), (b)(2).
872(i)	6155(a), 6861(f).
872(j)	6861(g).
873	6404(b).
874(a)	6501(a).
874(b)(1)	6501(c)(1),6501(c)(3).
874(b)(2)	6502(a).
874(b)(3)	2016, 6071, 6081, 6091, 6155.
875	6503(a)(1).
876	
890	6601(a), 6601(b), 6601(f)(1).
891	6155(a), 6601(a), 6601(d), 6601(f)(1).
892	6601(a), 6601(c)(3).
893	6601(a),(c), (f).
894(a)	6651(a), 6653(a).
894(b)	7201, 7202, 7203, 7207, 7269, 7343.
900(a)	6901(a), (b).
900(b)	6901(c).
900(c)	6901(f).
900(d)	6904, 7421(b).
900(e)	6901(h).
901(a)	6903(a).
901(b)	6903(a).
901(c)	6903(b).
901(d)	6212(b).
910	6511.
911	6512(a).
912	6512(b).
913	
920	
921	
925	6601(a), (b), 6163(a).
926	6163(a), 7101.
927	2015.
930(a)	2203.
930(b)	
930(c)	
930(d)	

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931	
935	2001, 2101, 2052.
936(a)	
936(b)	2012.
936(c)	2014.
937	6018(a), 7203.
938	6103.
939	2201.
1000(a)	2501.
1000(b)	2511(a).
1000(c)	2514.
1000(d)	
1000(e)	
1000(f)	2513.
1000(g)	
1001(a)	2502(a).
1001(b)	2502(c).
1001(c)	
1002	2512(b).
1003	2503.
1004(a)(1)	2521.
1004(a)(2)	2522.
1004(a)(3)	2523.
1004(b)	2522.
1004(c)	2524.
1005	2512(a).
1006(a)	6019(a), 6065(a).
1006(b)	6075(b), 6091(b)(1).
1007	6001.
1008(a)	2502(d), 6151(a).
1008(b)	6161(a)(1).
1008(c)	
1008(d)	6313.
1008(e)	6314(a).
1009	6324(b), 6325(a)(1).
1010	
1011	6211(a), 6653(c)(1).
1012(a)	6212(a), 6213(a).
1012(b)	6155(a), 6215(a).
1012(c)	6155(a), 6213(c).
1012(d)	6213(d).
1012(e)	6214(a).
1012(f)	6212(c), 6213(b).
1012(g)	6214(b).
1012(h)	6214(c).
1012(i)	6161(b)(1), 6165, 7101.
1012(j)	6212(b).
1013(a)	6155(a), 6861(a).
1013(b)	6861(b).
1013(c)	6861(c).
1013(d)	6861(d).
1013(e)	6861(e).
1013(f)	6863(a), 6863(b)(2), 7101.
1013(g)	6155(a), 6863(b)(1).
1013(h)	6863(a),(b)(2).
1013(i)	6155(a), 6861(f).
1013(j)	6861(g).
1014	6404(b).
1015(a)	6871.

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1939 Code section number	1954 Code section number
1015(b)	6155(a), 6161(c), 6503(b), 6873(a).
1016	6501, 6502(a).
1017	6503(a)(1).
1018	
1019	6653, 6659(b).
1020	6601(a),(f)(1).
1021	6155(a), 6601(a), (d),(f)(1).
1022	6601(a),(c)(3).
1023	6601(a), 6601(c)(1), 6601(f)(1).
1024(a)	7201, 7203.
1024(b)	7201.
1025(a)	6901(a),(b).
1025(b)	6901(c).
1025(c)	6901(e).
1025(d)	6901(f).
1025(e)	6904, 7421(b).
1025(f)	6901(h).
1025(g)	6901(g).
1026(a)	6903(a).
1026(b)	6903.
1026(c)	6903(b).
1027(a)	6402(a).
1027(b)	6511(a),(b).
1027(c)	6512(a).
1027(d)	6512(b)
1028	
1029	7805(a).
1030(a)	2502(b).
1030(b)	2511(b).
1031	6103.
1100	7441.
1101	7442.
1102(a)–(g)	7443(a)–(g).
1103(a)–(d)	7444(a)–(d).
1104	7445.
1105	7446.
1106	7447.
1110	7451.
1111	7453.
1112	7454(a).
1113	7455.
1114	7456(a).
1114(b)	7456(c).
1115(a)	7457(a).
1115(b)	7457(b).
1116	7458.
1117(a)–(f)	7459(a)–(f).
1117(g)	6155(a), 6659, 6673.
1117(h)	
1118	7460.
1119	6902.
1120	7461.
1121	7462.
1130	7471.
1131	7472.
1132	7473.
1133	7474
1140	7481.
1141	7482.
1142	7483.
1143	7484.
1144	
1145	7101, 7485(a).
1146	7486.
1250	1491.
1251	1492.
1252	1493.
1253	1494, 6071, 6081(a), 6091(a), 6151(a).
1400	3101.
1401(a), (b)	3102(a), (b).
1401(c)	6205(a), 6413(a)(1).
1401(d)(1)	
1401(d)(2)	
1401(d)(3)	6413(c)(1).
1401(d)(4)	6413(c)(2).
1402	3502.
1403	6051(a).
1410	3111.
1411	6205(a), 6413(a).
1412	3112.
1420(a)	3501.
1420(b)	6601(a),(f)(1).
1420(c)	6011(a), 6071, 6081(a), 6091(a), 6302(b).
1420(d)	6313.
1420(e)	3122.
1421	6205(b), 6413(b).
1422	3503.
1423(a)	6802(1).
1423(b)	6803(a)(1).
1423(c)	6803(a)(2).
1424	7509.
1425(a)	7209.
1425(b)	7208(1).
1426(a)–(e)	3121(a)–(e).
1426(f)	7701(a)(1).
1426(g)–(l)	3121(f)–(k).
1427	3123.
1428	3124.
1429	7805(a), (c).
1430	
1431	
1432	3125.
1500	3201.
1501(a), (b)	3202(a), (b).
1501(c)	6205(a)(1), 6413(a)(1).
1502	6205(b), 6413(b).
1503	3502(a).
1510	3211.
1511	3212.
1512	3502.
1520	3221.
1521	6205(a)(1), 6413(a)(1).
1522	6205(b), 6413(b).
1530(a)	3501.
1530(b)	6011(a), 6071, 6081(a), 6091(a), 6151(a).

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1939 Code section number	1954 Code section number
1530(c)	6601(a), (f)(1).
1530(d)	6313.
1531	3503.
1532(a)–(e)	3231(a)–(e).
1532(f)	7701(a)(9).
1532(g), (h)	3231(f), (g).
1532(i)	7701(a)(1).
1534	3232.
1535	7805(a), (c).
1536	
1537	
1538	3233.
1600	3301.
1601(a), (b), (c).	3302.
1601(d)	6413(d).
1602	3303.
1603	3304.
1604(a)	6011(a), 6065, 6071, 6091(b)(1) and (2).
1604(b)	6081(a).
1604(c)	6106.
1605(a)	3501.
1605(b)	6601(a), (f)(1).
1605(c)	6152(a)(3), (b), 6155(a), 6601(c)(2).
1605(d)	6161(a)(1).
1605(e)	6313.
1606	3305.
1607(a)–(j)	3306(a)–(j).
1607(k)	7701(a)(1).
1607(l)–(o)	3306(k)–(n).
1608	3307.
1609	7805(a), (c).
1610	
1611	3308.
1621	3401.
1622(a), (b)	3402(a), (b).
1622(c)(1)(A)	
1622(c)(1)(B), (2)–(5).	3402(c).
1622(d)	3402(d).
1622(e)	3502(b).
1622(f)(1)	6414.
1622(f)(2)	6401, 6402.
1622(g)–(k)	3402(e)–(i).
1623	3403.
1624	3404, 6011(a).
1625(c)	6081(a).
1626(a)	7204.
1626(b)	6674.
1626(d)	7205.
1627	
1631	6651(a).
1632	3504.
1633(a), (b)	6051(a)–(d).
1633(c)	6081(a).
1634(a)	7204.
1634(b)	6659, 6674.
1635(a)	6501(a).
1635(b)	6501(c)(1), (3).
1635(c)	6501(c)(2).
1635(d)	6502(a).
1635(e)	6501(b)(2).
1635(f)	
1635(g)	
1636(a)(1)	6511(a), (b)(1).
1636(a)(2)	6511(b)(2).
1636(b)	
1636(c)	6513(c).
1636(d)	
1636(e)	
1650	4001, 4011, 4021, 4471.
1651	4031.
1652	
1653	
1654	
1655	
1656(a)(b)(c)	5063(a)(b)(c).
1657	
1658	
1659	
1700	4231, 4232, 6011(a).
1701	4233.
1702	4234.
1703	4234.
1704	4232.
1710	4241.
1711	4243.
1712	4242.
1715(a)	4291.
1715(b), (c)	6151(a).
1715(d)	6415(b), (c), (d), 6416(a).
1716(a)	6011(a), 6065(a).
1716(b)	6071, 6081(a).
1716(c)	6091(b)(1), (2).
1717	6601(a), (f)(1).
1718(a)	7201, 7203.
1718(b)	7201, 7202.
1718(c)	6659, 6671(a), 6672.
1718(d)	6671(b), 7343.
1719	6302(b).
1720	6001.
1721	
1722	
1723	
1800	4301, 4311, 4321.
1801	4311, 4312, 4313, 4314, 4315, 4381,
1802	4301, 4302, 4304, 4321, 4322, 4323, 4341, 4342, 4343, 4344, 4351, 4352, 4353, 4381.
1804	4371, 4372, 4373.
1805	4891, 4892, 4894, 4895, 4896, 7701(a)(1).
1807	4451.
1808	4303, 4373, 4382.
1809	4383, 4454, 4893, 6201(a)(2), 6801(a), (b).

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1939 Code section number	1954 Code section number
1815	6804.
1816	
1817(a)	6802(1).
1817(b)	6802(2).
1817(c)	6802(3).
1818(a)	6803(b)(1), 7101.
1818(b)	6803(b)(2).
1819	
1820	7271(2), (3).
1821(a)(1)	7201, 7203.
1821(a)(2)	7201, 7202.
1821(a)(3)	6653(e), 6659, 6671(a), 6672.
1821(a)(4)	6671(b), 7343.
1821(b)(3)	4374, 7270.
1821(b)(4)	7201.
1822	7208(3), 7271(1).
1823	7303(1).
1823(a)	7208(2).
1823(b)	7208(3).
1823(c)	7208(4).
1830	4453.
1831	4452, 4455, 7272.
1832	4456.
1835	6001.
1836	
1837	
1838	
1850	4286.
1851	4291.
1852(a)	6011(a), 6065 (a), 6071.
1852(b)	6091(b)(1), (2).
1853(a)	6151(a).
1853(b)	6151(a).
1853(c)	6601(a), (f)(1).
1854	6415(a), (b), (d).
1855	
1856	
1857	4287.
1858	
1859	
1900	4881
1901	4883.
1902	4884.
1902(a)(1)	6011(a), 6065(a), 6071.
1902(a)(2)	6091(b)(1), (2).
1902(a)(3)	6151(a).
1902(b)	6151(a).
1903	4885.
1904	
1905	4882.
1906	4883.
1907	
1920	4851, 4871.
1920(b)	
1920(c)	6804.
1921	4861.
1922	4863.
1923	4864.
1924	4865.
1925	4853, 7492.
1926	4854.
1927	4862.
1928	4872, 6001.
1929(a)	7233(1), (2).
1929(b)	7263(b).
1929(c)	7263(a).
1930	4874, 7493.
1931	4852, 7701(a)(1).
1932	4873.
1933	4876.
1934	
1935	4875.
2000(a)	5701(a).
2000(b)	5701(a).
2000(c)(1)	5701(b).
2000(c)(2)	5701(c).
2000(d)	5701(d), (e).
2000(g)(1)	5707(a).
2000(g)(2)	5707(b).
2000(g)(3)	5707(c).
2001(a)	5703(a).
2002(b)	5703(d).
2002(c)	5703(a).
2010	5702(b).
2012	5712.
2013	5711(a), (b).
2014	5713(a), (b).
2017	5721.
2018	5741.
2019	5722.
2030	5702(e).
2032	5712.
2033	5711(a), (b).
2036	5721.
2037	5741.
2038	5722.
2039(a)	5711(a), (b).
2039(b)	5722, 5741.
2040	5704(c).
2050	5702(1).
2052	5712.
2053	5711(a), (b).
2054	5713(a), (b).
2056	5741.
2058	5732.
2059	5731.
2060	5731.
2100(a)	5723(a).
2100(b)	5723(a).
2100(c)(1)	5723(d).
2100(c)(2)	5723(a).
2100(d)	5723(b), (c).
2100(e)	5723(a).
2101	5704(c).
2102	5723(a).
2103(a)(1)	5723(a).
2103(e)	5752.
2104(a)	5751(a).
2110(a)	5702(c).
2110(b)	5702(d).
2111(a)(1)	5723(a).

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1939 Code section number	1954 Code section number
2111(a)(2)	5723(a).
2111(a)(3)	5723(d).
2111(b)	5723(a).
2111(c)	5723(b), (c).
2111(d)	5723(a).
2111(e)(1)	5723(a).
2111(e)(2)	5723(d).
2111(f)	5704(a), 5723(d).
2112(a)(1)	5723(a).
2112(e)	5752.
2113	5751(a).
2130(a)	5723(a), 5762(a)(4), 5762(a)(6).
2130(b)	5723(a), 5762(a)(4), 5762(a)(6).
2130(c)	5723(a), 5762.
2130(d)	5704(d).
2135(a)(1)	5704(b).
2135(a)(2)	5704(c).
2135(a)(3)	5704(b).
2136(a)	5706.
2137	5705(a).
2151	5762(a)(5).
2155(a)	5762(a)(4), 5762(a)(5).
2155(b)	5763(a).
2156(a)	5762(a)(2), 5762(a)(3).
2156(b)	5762(a)(3).
2156(c)	5761(b).
2160(a)	5762(a)(4).
2160(b)	5762(a)(5).
2160(c)	5762(a)(5).
2160(d)	5762(a)(5).
2160(e)	5762(a)(6).
2160(g)(1)	5762(a)(8).
2160(g)(2)	5762(a)(9).
2160(g)(3)	5762(a)(6).
2160(h)	5763(a).
2160(i)	5762(a)(9), 5762(a)(10).
2161(a)	5762(a)(1).
2161(b)	5763(c).
2161(c)	5762(a)(1).
2161(e)	5762(a)(2).
2161(f)	5762(a)(2).
2161(g)	5762(a)(2).
2161(h)	5763(b).
2161(i)(1)	5763(b).
2161(j)(1)	5763(b).
2161(l)(1)	5763(b).
2161(m)(1)	5761(a).
2161(m)(2)	5763(b).
2162(a)(2)	5762(a)(1).
2162(a)(3)	5762(a)(2).
2162(a)(4)	5762(a)(2).
2162(a)(5)	5762(a)(2).
2162(b)(1)	5762(a)(4), 5762(a)(5).
2170(a)(2)	5751(a), 5762(a)(5).
2170(a)(4)	5762(a)(6).
2170(b)	5762(a)(5), 5763(a).
2171(a)	5763(a).
2171(b)(1)	5762(a)(4).
2171(b)(2)	5762(a)(4), (a)(5).
2172(a)	5762(a)(8).
2172(b)	5762(a)(6).
2172(c)	5762(a)(9).
2172(d)	5762(a)(6).
2172(e)	5762(a)(9).
2172(f)	5762(a)(9).
2173(a)	5762(a)(5).
2174	5762(a)(5).
2175	5763(a).
2176(a)(2)	5762(a)(10).
2176(a)(3)	5762(a)(8).
2180(a)	5762(a)(1).
2180(b)	5763(c).
2180(d)	5762(a)(2).
2180(e)	5762(a)(2).
2180(f)	5762(a)(2).
2180(g)(1)	5763(b).
2180(h)	5763(b).
2180(i)(1)	5763(b).
2180(k)(1)	5763(b).
2180(l)(1)	5761(a).
2180(l)(2)	5763(b).
2190	5753.
2194	5703(a), 5722, 5741.
2197(b)	5704(b).
2198	5705(a).
2300	4592, 4593.
2302	4594, 4596, 6001, 7101, 7641.
2303	4595, 4597, 6001.
2304	4595.
2305	4813.
2306	4591, 4812.
2307	4593, 4816.
2308(a)	7234(a).
2308(b)	7265(a)(1).
2308(c)	7234(b).
2308(d)	7234(d)(4).
2308(e)	7265(b).
2308(f)	
2308(g)	7234(d)(2).
2308(h)	7234(c).
2308(i)	7234(d).
2308(j)	7265(c).
2309	7303(2)(3)(5).
2310	
2311	4591, 4818.
2312	
2313	
2314	
2320	4826.
2321	4811, 4813.
2322	4814, 4826, 6001, 7101, 7641.
2323	4815, 4826.
2324	4815, 6001.
2325	4817.
2326(a)	7235(a), 7265(a).
2326(b)	7235(b).

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2326(c)	7235(c).
2327	4812, 4813, 4816, 4818, 7235(e), 7265(b), (c).
2350	4846.
2351	4831, 4832, 6201(a)(2)(A).
2352	4833, 4846, 6001, 7101, 7641.
2353	4834, 4846.
2354	4834, 4846.
2355	4832.
2356	4831, 4832.
2357	7236, 7266(b)–(f),
2358	7303(2), (4), (5).
2359	
2360	4835.
2361	4832.
2362	
2400	4001, 4003.
2401	4011, 4012.
2402	4021, 4022.
2403(a)	6011(a), 6065(a), 6071, 6081(a), 6091(b)(1), (2).
2403(b)	6151(a), 6601(a), (f)(1).
2403(c)	4051.
2404	4052.
2405	4053.
2406	4055, 4056.
2407	6416(a), (b).
2408	
2409	7261.
2410	
2411	
2412	4002, 4003, 4012, 4013.
2413	4054.
2450	4041.
2451(a)	6011(a), 6071, 6081(a), 6091(b)(1), (2), 6151(a).
2451(b)	6151(a), 6601(a), (f)(1).
2452(a)	6416(b)(2)(D).
2452(b)	6416(a).
2453	4055, 6416(b)(2)(A).
2454	
2455	
2456	4222.
2470	4511, 4513.
2471	6011(a), 6065(a), 6071, 6081(a), 6091(b)(1), (2).
2472	6151(a).
2473	6417(a).
2474	4513, 6417(b), 7101.
2475	6601(a), (f)(1).
2477	4512.
2478	
2479	
2480	7809(a).
2481	
2482	
2483	7654.
2490	4561, 4571, 4581.
2491	4561, 4562, 4571, 4572, 4581, 4582.
2492	4582, 4602.
2493	4601.
2494	
2550	4701, 4771.
2550(c)	6302(b).
2551	4702.
2552	4703, 4771.
2553	4704, 4723.
2554	4705.
2555	4732, 6001.
2555(a)	6065(a).
2555(b)	6071.
2555(c)	6065(a), 6071.
2555(c)(1)	6081(a), 6091(a).
2556	4773.
2557(a)	7237(b).
2557(b)(1)	7237(a).
2557(b)(2)	7201, 7203.
2557(b)(3)	7201, 7202.
2557(b)(4)	6671(a), 6672.
2557(b)(8)	6671(b), 7343.
2558	4706, 4733, 7301(a).
2559	
2560	
2561	4734.
2562	4736.
2563	4774.
2564	4735.
2565	
2567	4711, 4712.
2568	4712.
2569	4713.
2569(b)	7101.
2569(d)	6001.
2569(d)(4)	7641.
2570	7238.
2571	4714, 7301(a).
2590	4741, 4771.
2591	4742.
2592	4743, 4771.
2593	4744.
2594(a)	6001.
2595	4773.
2596	7237(a).
2597	7491.
2598	4745, 7301(a).
2599	
2600	
2601	4756.
2602	4774.
2603	4762.
2604	
2606	
2650	4802.

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1939 Code section number	1954 Code section number
2651	4801, 4803.
2651(c)(2)	6201(a)(2)(A).
2652(a)	6801(a).
2653	4804.
2653(b)	6001, 7641.
2653(d)	7101.
2654	4805.
2655	4805.
2656	7274.
2656(a)	7206(4).
2656(b)	7239(a).
2656(c)	7271(1), 7303(6)(B).
2656(d)	7239(b).
2656(f)	7201.
2656(g)	7272.
2656(h)	7267(d).
2656(i)	7267(c).
2656(j)	7267(a).
2656(k)	7267(b).
2657(a)	7303(6)(B).
2657(b)	7303(6)(B).
2657(c)	7303(6)(A).
2657(d)	7328.
2657(e)	7301(c).
2657(f)	7303(6)(B).
2658	
2659	4803.
2660	
2700	4181, 4182, 4224, 5831.
2701	6011(a), 6065(a), 6071, 6081(a). 6091(b)(1), (2).
2702	6151(a).
2703(a)	6416(f).
2704	4216.
2705	4225, 6416(e).
2706	6601(a), (f)(1).
2707(a)	6671(a), 6672.
2707(b)	7201, 7203.
2707(c)	7201, 7202.
2707(d)	6671(b), 7343.
2708	6302(b).
2709	6001.
2710	
2711	
2712	
2720	5811.
2721	5812.
2722	5813.
2723	5814.
2724	5842, 6001(a).
2725	5843.
2726(a)	5851.
2726(b)	5852.
2726(c)	5853.
2727	5844.
2728	5845.
2729	5861.
2730(a)	5862(a).
2730(b)	5862(b).
2731	5846.
2732	5847.
2733	5848.
2733(a)	7701(a)(1).
2734	5821.
2734(e)	6071, 6091(a).
2800(a)	5001(a)(9).
2800(a)(1)	5001(a)(1), 5005(a), 5006(a).
2800(a)(1)(A)	5026(a)(1), 5007(a).
2800(a)(1)(B)	5689.
2800(a)(2)	5001(a)(2).
2800(a)(3)	5001(a)(3), 5007(b)(2).
2800(a)(4)	5001(a)(4), 5007(c).
2800(a)(5)	5021(a), 5025(b).
2800(a)(6)	5001(a)(5).
2800(b)(2)	5006(c).
2800(c)	5001(b).
2800(d)	5005(b).
2800(e)(1)	5004(a)(1).
2800(e)(2)	5004(a)(2).
2800(e)(3)	5004(a)(3).
2800(e)(4)	5004(a)(4).
2800(f)	5006(d), 5007(b)(1).
2801(b)	5021(b).
2801(c)(1)	5391.
2801(c)(2)	5025(e).
2801(d)	5281.
2801(e)	5025.
2801(e)(1)	5272(a), 5281(a).
2801(e)(2)	5273(a), 5627.
2801(e)(3)	5386(b), 5391.
2801(e)(4)	5386(a).
2801(e)(5)	5023.
2801(f)	5628.
2802(a)	5009(a), 5010(a).
2802(b)	5010(b).
2802(c)	5027(a).
2803(a)	5008(b)(1)(E).
2803(b)	5008(b)(3).
2803(c)	5008(b)(4).
2803(d)	5008(b)(2).
2803(e)	5008(b)(5).
2803(f)	5640.
2803(g)	5642.
2804	5211.
2805(a)	5688(a).
2805(b)	5688(b).
2806(a)(1), (2)	5634.
2806(b)(1)	5645.
2806(c)	5625.
2806(d)	5639.
2806(e)	5646.
2806(f)	5626.
2806(g)	5687.
2807	5622.
2808(a)	5212(a).
2809(a)	5002(a).
2809(b)(1)	5002(b)(1).
2809(b)(2)	5002(b)(2).
2809(c)	5002(c).
2809(d)	5002(d).

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2810(a)	5174(a), 5601(a).
2811	5213(a), 5609.
2812(a)	5175(a), 5271, 5603.
2813(a)	5282.
2814(a)(1)	5176(a), (c), 5177(c), 5604.
2814(a)(2)	5176(d).
2815(a)	5177(a), 5605.
2815(b)(1)(A)	5177(b)(1).
2815(b)(1)(B)	5177(b)(2).
2815(b)(1)(C)	5177(b)(3).
2815(b)(1)(D)	5177(b)(4).
2815(c)	5551(a).
2815(d)	5551(b)(1).
2815(e)	5551(c).
2816(a)	5178.
2817(a)	5179(a).
2817(b)	5179(b).
2818(a)	5105(a).
2818(b)	5602.
2819	5171, 5607.
2820(a)	5173(b), 5192(b), 5193(a).
2821	5682.
2822(a)	5173(a), 5618.
2823(a)	5173(c).
2825	5215.
2826(a)	5196(a), 5617.
2827(a)	5196(b), 5616.
2828(a)	5196(c), 5283, 5615.
2829(a)	5552.
2830(a)	5196(d), 5283.
2831	5116(a), 5180(a), 5274(a), 5681(a).
2832	5172.
2833(a)	5606(a).
2834	5216(a), 5608(a), (b).
2836	5195(a), 5613.
2838	5192(c), 5612.
2839(a)	5196(e), 5619.
2841(a)	5197(a)(1)(A).
2841(b)	5197(a)(1)(B).
2841(c)	5620.
2842	5611.
2843	5610.
2844(a)	5197(b).
2845	
2846(a)	5007(e)(1).
2847(a)	5007(e)(2).
2849	5191(a).
2850(a)	5191(a), 5650.
2851	5682.
2852	5624.
2853(a)	5623.
2854	5649.
2855(a)	5285(a).
2856	5629.
2857(a)	5114(a), 5285(b), 5621.
2858	5114(b).
2859	5197(a)(2), 5621.
2861(a)	5282(b).
2862(a)	5282(c).
2863(a)	5115(a).
2865(a)	5630.
2866	5010(c), 5636.
2867	5635.
2868	5637.
2869	5638.
2870	5195(b), 5614.
2871	5214(a), 5641.
2872	5241(b), 5231.
2873	5241(a), 5231.
2874(a)	5252.
2875	5231, 5246(a).
2876	5631.
2877(a)	5192(d).
2878(a)	5193(a).
2878(b)	5009(c), 5193(b).
2878(c)	5193(c).
2878(d)	5193(d).
2879(a)	5242(a).
2879(b)	5006(a).
2879(c)	5232(a).
2879(d)	5232(a), (c).
2880(a)	5006(b).
2881(a)	5245.
2882(a)	5244.
2883(a)	5194(a).
2883(b)	5194(d).
2883(c)	5194(c).
2883(d)	5194(e)(1).
2883(e)	5025(d), 5194(f).
2883(f)	5194(g).
2883(g)	5194(h).
2884(a)	5250(a).
2885(a)	5247(a).
2885(b)	5009(b), 5247(b).
2885(d)	5648.
2886(a)	5247(c).
2887	5012(a).
2888(a)	5247(d).
2891(a)	5522(a).
2891(b)	5011(a).
2900	5006(a).
2901(a)(1)	5011(a)(1)(A).
2901(a)(2)	5011(a)(1)(B), 5011(b).
2901(b)	5011(a)(1)(B), (2).
2901(c)	5011(a)(3).
2901(d)	5011(a)(4).
2903(a)	5243(a).
2903(b)	5008(a)(1).
2903(c)	5008(a)(2).
2903(d)	5008(a)(3).
2903(e)	5008(a)(4).
2903(f)	5243(d).
2903(g)	5243(c).
2904(a)	5243(a), (b).
2905	5243(e).
2908	5643.
2909	5644.
2910(a)	5243(b).
2911	5243(f).

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2912	5632.
2913	5632.
2914(a)	5633.
2915(a)	5241(c).
2916(a)	5194(b).
3030(a)	5001(a)(9).
3030(a)(1)	5001(a)(5), (9), 5041(a), 5041(b), 5042(a)(2), 5362, 5368(b).
3030(a)(2)	5022, 5041(b)(4).
3030(b)	5043(b).
3031(a)	5354, 5362, 5373(b)(1), 5373(b)(3), 5391.
3032(a)	5373(a), 5382(b)(2).
3033(a)	5373(b)(1).
3034(a)	5366.
3035	5366.
3036	5025(f), 5373(a), 5381, 5382(a), (b)(1), (2); 5383(a), (b)(3), (4); 5392.
3037(a)	5362, 5373(b)(4).
3038(a)	5362.
3039(a)	5370(a)(1).
3040(a)	5351, 5354, 5356, 5368(a), (b); 5369.
3041(a)	5043(b), 5368(a).
3042(a)	5192(a), 5366.
3043(a)	5661(a), (b); 5385(b).
3044	5381, 5382, 5383, 5392.
3045	5381, 5382, 5384.
3070(a)	5331(a).
3070(b)	5331(b), (c).
3072	5647.
3073(a)	5332.
3074(a)	5333.
3100(a)	5301.
3101(a)	5302.
3102	5303.
3103	5306.
3104(a)	5309, 5412.
3105(a)	5305.
3106(a)	5307.
3107	5308.
3108(a)	5310(a).
3108(b)	5310(b).
3108(c)	5310(c).
3108(d)	5310(d).
3109	5310(a).
3110	5502.
3111	5001(a)(6).
3112(a)	5004(b), 5005(c).
3112(b)	5007(d), 5689.
3113(a)	5011(c).
3114(a)	5304(a).
3114(b)	5304(b).
3114(c)	5304(c).
3114(d)	5304(d).
3115(a)	5686(a), (b).
3116	5686(a), (b); 7302.
3117(a)	5314.
3118	5688(d).
3119	5315.
3120	5316.
3121(a)	5313(a).
3121(c)	5313(b).
3121(d)	5317(b).
3122	5317(a).
3123	5318.
3124(a)	5319.
3125(a)	5001(a)(8), 5007(d), 5311.
3125(b)	5310(b).
3150(a)	5051(a).
3150(b)(1)	5054.
3150(b)(2)	5055.
3150(b)(3)	5689.
3150(c)	5051(b).
3153(b)	5053(a), 5401(b).
3153(c)	5053(b).
3155(a)	5401(a).
3155(b)	5401(b).
3155(c)	5415(a).
3155(f)	5412, 5413, 5675.
3157(a)	5055.
3158	5402(a), 5411.
3159(a)–(c)	5671, 5672, 5673, 5674.
3159(e)	5676(1).
3159(f)	5676(2).
3159(g)	5676(3).
3159(h)	5676(4).
3159(i)	5676(5).
3159 (j)	5674.
3160	5052(b).
3171(a)	5367, 5555(a).
3172(a)	5061(b).
3173(a)	5683.
3173(b)(1)–(3)	5684.
3173(b)(4)	5690.
3173(c)	5685.
3173(d)	5688(c).
3174	5064.
3175	5557.
3176(a)	5556.
3177(a)	5521(a).
3177(b)	5521(c)(1), (2).
3177(c)	5521(b).
3177(d)(1)	5521(d)(1).
3177(d)(2)	5521(d)(2).
3178	5523.
3179(a)	5062(a).
3179(b)	5062(b).
3182(a)	5511.
3182(b)	5001(a)(7).
3183(a)	5217(a).
3183(b)	5217(b).
3183(c)	5217(c).
3206	4821.
3207	7235(d), 7264.
3208	4822, 4826.
3210	4841.

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3211	7266(a).
3212	4842.
3220	4721, 6001, 6151(a).
3221	4722.
3222	4772.
3223	
3224	4724.
3225	7237(a).
3226	4775.
3227	4725.
3228	4731, 7343, 7701(a).
3230	4751, 4752, 6151(a).
3231	4753.
3232	4772.
3233	4754, 6001, 6065(a), 6071, 6081(a), 6091(a).
3234	4755.
3235	7237(a).
3236	4775.
3237	4756.
3238	4761, 7701(a).
3239	
3250(a)(1)	5111(a)(1), 5121(b)(1).
3250(a)(3)	5111(a)(2).
3250(a)(4)	5113(a).
3250(b)(1)	5121(a)(1).
3250(b)(2)	5122(c).
3250(b)(4)	5121(a)(2).
3250(c)(1)	5091.
3250(d)(1)	5111(b)(1).
3250(d)(2)	5111(b)(2).
3250(d)(3)	5091, 5113(b).
3250(e)(1)	5121(b)(1).
3250(e)(2)	5121(b)(2).
3250(e)(3)	5121(c).
3250(e)(4)	5123(a).
3250(f)(1)	5081.
3250(g)	5113(c).
3250(h)	5025(g).
3250(i)	5025(h).
3250(j)(1)	5101.
3250(j)(3)	5106.
3250(l)(1)	5131(a).
3250(l)(2)	5131(b).
3250(l)(3)	5132.
3250(l)(4)	5133.
3250(l)(5)	5134.
3251(a)	5113(d)(1).
3251(b)	5113(d)(2).
3251(c)	5123(c).
3252(a)	5124(a).
3252(b)	5124(b).
3252(c)	5124(c).
3252(d)	5692.
3253	5691, 7301(a).
3254(b)	5112(a).
3254(c)(1)	5122(a).
3254(c)(2)	5111.
3254(d)	5052(a), 5092, 5402(a).
3254(e)	5112(b).
3254(f)	5122(b).
3254(g)	5025(c), 5082, 5387(c).
3254(h)	5102.
3255(a)	5123 (b) (1).
3255(b)	5123 (b) (2).
3255(c)	5123 (b) (3).
3260	5801(a).
3261(a)	5802.
3261(b)	5841.
3262	5803.
3263(a)	5854(a).
3263(b)	5854(a), (b).
3267	4461, 4463, 4462.
3268	4472, 4473, 4471.
3270(a)	5141, 7011(a).
3271	4901.
3271(a)	5142(a).
3271(b)	5142(b), 6151(a).
3271(c)(1)	5104, 5142(c).
3272(a)	5143(a), 6011(a). 6065(a), 6071, 6081(a), 6091(b), 6151(a).
3273(a)	5145, 6801(a).
3273(b)	5146, 6806(a).
3274	5693, 7273(a).
3275	5147, 6107.
3276	4906, 5148.
3277	4902, 5144(a).
3278	4903, 5144(c).
3279	4904, 5144(b).
3280(a)	4905, 5144, 7011(b).
3281	6302(b).
3282	5149, 6302(b).
3283	4907, 5144(e).
3285	4401, 4404, 4402, 4421.
3286	6419.
3287	4403.
3290	4411.
3291	4412, 6091(b).
3292	4413, 4903, 4907, 6107.
3293	6806(c).
3294	7262, 7273(b).
3297	4422.
3298	4423.
3300(a)	6801(a).
3300(b)	7208.
3300(c)	
3301(a)	6801(b), 6804.
3301(b)	
3303	
3304(a)	6805(a).
3304(b)	6805(b).
3804(c)	6805(c).
3804(d)	6805(d).
3304(e)	
3305	
3310	6331(a).

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3310(a)	6011(a), 6071, 6601(c)(4), 6659.
3310(b)	6011(a), 6601(c)(4), 6659.
3310(c)	6601(a), 6601(f)(1), 6659.
3310(d)	6155(a), 6601(f)(1), 6659.
3310(e)	6659.
3310(f)(1)	5703(c), 6011(a), 6071, 6081(a).
3310(f)(2)	6302(c).
3311	6155(a), 6201(a)(2)(A), 6601(c)(4), 6659.
3312(a)	6501(a).
3312(b)	6501(c)(1), 6501(c)(3).
3312(c)	6501(c)(2).
3312(d)	6502(a).
3313	5705(a), 6511(a), 6511(b)(1), (2).
3314	
3320(a)	7268.
3320(b)	
3321	7206(4).
3321(b)	7301.
3321(c)	
3322	7301(d).
3323(a)(1)	7271(4).
3323(a)(2)	7271(4).
3323(a)(3)	7208(5).
3323(b)	7303(7).
3324(a)	7341(a).
3324(b)	7341(b).
3324(c)	7341(c).
3325	7211.
3326	7304.
3330	6065(a).
3331	5704(b), 7510.
3332–3335	
3350(a)	7652(b)(1).
3350(b)	7652(b)(2).
3351(a)	7653(a)(2).
3351(b)	7653(b).
3351(c)	7653(c).
3360(a)	7652(a)(1).
3360(b)	7101, 7652(a)(2), 7803(c).
3360(c)	7652(a)(3).
3361(a)	7653(a)(1).
3361(b)	7653(b).
3361(c)	7653(c).
3400(a), (c)	4071, 4072, 4073.
3400(b)	
3401	
3403	4061, 4062, 4063.
3403(e)	6416(c).
3404	4141, 4142, 4143, 4151, 4152.
3405	4111, 4112, 4113.
3406(a)(1)	4161.
3406(a)(2)	
3406(a)(3)	4121.
3406(a)(4)	4171, 4172, 4173.
3406(a)(5)	
3406(a)(6)	4191, 4192.
3406(a)(7)	
3406(a)(8)	
3406(a)(9)	
3406(a)(10)	4131.
3406(b)	4221.
3406(c)	
3407	4181, 4182, 4224, 5831.
3408	4201, 4221.
3408(b)	6416(d).
3409(a)	4211.
3409(b)	
3412(a)–(f)	4081, 4082, 4083, 4101, 4102, 7101, 7232.
3412(g)	6412(b).
3413	4091, 4092, 4093, 7101.
3414	
3415	
3420	4521, 4531, 4541, 4551.
3422	4521.
3423	4531, 4532.
3424	4551, 4552, 4553.
3425	4541, 4542.
3430	4601.
3431	
3440	4217.
3441	4216.
3442	4220, 4224.
3443	6416, 6611.
3444	4218.
3445	4219.
3446	4223.
3447	
3448(a)	6011(a), 6065(a), 6071, 6081(a), 6091(b), 6151(a).
3448(b)	6151(a), 6601(a), (f)(1).
3449	
3450	
3451	4222.
3453	
3460	4281, 4282, 4283.
3461	6011(a), 6065(a), 6071, 6081, 6091(b), 6151(a).
3462	
3465	4251, 4252, 4253, 4254.
3466	4292, 4253.
3467	4291, 6011(a), 6065(a), 6071, 6081(a), 6091(b), 6151(a), 6161(a).
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3469(a), (b), (c)	4261, 4262.
3469(d)	4291, 6011(a), 6065(a), 6071, 6091(b), 6151(a).
3469(e)	6081(a), 6161(a).
3469(f)	4262, 4292.
3470	6151(a), 6601(a), (f).
3471	6415, 6416(f).
3472	
3473	
3474	
3475(a)	4271, 4272.
3475(b)	4272, 4292.
3475(c)	4271, 4291, 6011(a), 6065(a), 6071, 6091(b), 6151(a).
3475(d)	6081(a), 6161(a).
3475(e)	4273, 7272.
3480	4331, 4361.
3481	4331, 4332, 4341, 4342, 4343, 4344, 4351, 4352, 4353.
3482	4361, 4362.
3483	4382.
3490	4501, 4503.
3491	4501, 6011(a), 6071, 6091(b), 6151(a).
3492	4502.
3493(a)	6418(b).
3493(b)	6511(e)(2).
3494(a)	6418(a).
3494(b)	6511(e)(1).
3495	6601(a), 6601(f).
3496	
3497	
3498	
3500	4501.
3501	4504.
3506	7240.
3507	4502, 7701(a).
3508	4501, 6412(c).
3600	7601(a).
3601(a)(1)	7606(a).
3601(a)(2)	7606(b).
3601(b)	7342.
3601(c)	7212(a), (b).
3602	
3603	6001.
3604(a)	6046(a), 6071, 6091(a).
3604(b)	6046(b), 6046(c), 6065(a).
3604(c)	7203, 7201.
3611(a)(1)	6011(a), 6081(a), 6091(a), 6091(b)(1), 6091(b)(2).
3611(a)(2)	6020(a).
3611(b)	6071.
3611(c)	6065(a), 6071, 6091(a), 6091(b)(1), 6091(b)(2).
3612(a)	6020(b).
3612(c)	6020(b).
3612(d)(1)	6651(a).
3612(d)(2)	6653(b).
3612(e)	
3612(f)	6201(a)(1).
3613	6021.
3614	7602, 7605(a).
3615	7605(a).
3615(a)	7602.
3615(b)	7602.
3615(c)	7602.
3615(d)	7603.
3615(e)	7604(b).
3616(a)	7207.
3616(b)	7210.
3616(c)	
3617	
3630	6101.
3631	7605(b).
3632(a)	7622(a).
3632(a)(1)	7602.
3632(b)	7622(b).
3633	7402(b).
3633(a)	7604(a).
3633(b)	
3634	6081(a).
3640	6201(a).
3641	6203.
3642	6204.
3643	
3644	6202.
3645	
3646	
3647	6201(a).
3650	7621.
3651(a)(1)	6301.
3651(a)(2)	
3651(b)	
3652	6302(a).
3653(a)	7421(a).
3653(b)	7421(b).
3654	
3655(a)	6303(a), 6659
3655(b)	6601(a), 6601(f)(1), 6659.
3656(a)(1)	6311(a).
3656(a)(2)(A)	6311(b)(1).
3656(a)(2)(B)	6311(b)(2).
3656(b)(1)	6311(a).
3656(b)(2)	6311(b)(1).
3657	6312(a).
3658	6313.
3659(a)	6314(a).
3659(b)	
3660	6331(a).
3660(a)	6155(a), 6862.
3660(b)	6863(a), 7101.
3661	7501.
3662	
3663	
3670	6321.
3671	6322.

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1939 Code section number	1954 Code section number
3672	7207.
3672(a)	6323(a).
3672(b)	6323(d).
3673(a)	6325(a)(1).
3673(b)	6325(a)(2).
3674(a)	6325(b)(1).
3674(b)	6325(b)(2).
3675	6325(c).
3676	7102.
3677	
3678	7403.
3679(a)	7424(a).
3679(b)	
3679(c)	7424(b).
3679(d)	7424(c).
3680	
3690	6331(a), (b).
3691	6334.
3692	6331(a), 6331(b), 6334(c).
3693	6335(e)(2)(E).
3693(a)	6335(a).
3693(b)	6335(b).
3693(c)	6335(d).
3693(d)	6335(e)(2)(F).
3694	6342(a).
3695(a)	6335(e)(1), 6335(e)(2)(A).
3695(b)	6335(e)(2), 7505(a).
3695(c)	7505(b).
3696	6337(a).
3697(a)	6339(a)(1).
3697(b)	6339(a)(2).
3697(c)	6339(a)(3).
3697(d)	6339(a)(4).
3698	
3700	6331(a), 6331(b).
3701	6335(e)(2)(E).
3701(a)	6335(a).
3701(b)	6335(b).
3701(c)	6335(d).
3701(d)	6335(e)(1), (2)(A), (B).
3701(e)	6335(e)(1).
3701(f)	6335(e)(2)(D), (F); 6335(e)(3).
3702(a)	6337(a).
3702(b)(1)	6337(b)(1).
3702(b)(2)	6337(b)(2).
3702(c)	6337(c).
3703(a)	6338(c).
3703(b)	6338(a).
3704(a)	6338(c).
3704(b)	6338(b).
3704(c)(1)	6339(b)(1).
3704(c)(2)	6339(b)(2).
3705	
3706(a)	6340(a).
3706(b)	6340(a).
3706(c)–(e)	
3706(f)	6340(b).
3707	
3710(a)	6332(a).
3710(b)	6332(b).
3710(c)	6332(c), 7343.
3711	6333.
3712	6335(c), 6342(b).
3713	
3714(a)	
3714(b)	6502(b).
3715	6331(c).
3716	6341.
3717	
3720(a)(1)	7301(a).
3720(a)(2)	7301(b).
3720(a)(3)	7301(c).
3720(b)	7321.
3720(c)	
3721	7322.
3722	7324.
3722(a)	7324(1).
3722(b)	7324(2).
3722(c)	7324(3).
3722(d)	7324(4).
3723(a)	7323(a).
3723(b)	7323(b).
3723(c)	7323(c).
3723(d)	
3724	7101, 7325.
3725	6807.
3726	7327.
3727	
3740	7401.
3742	
3743	
3745	
3746(a)	7405(a).
3746(b)	6532(b), 7405(b).
3746(c)	
3746(d)	6602
3747	7406.
3748	6531.
3760	7121.
3761	7122.
3762	7206(5).
3770(a)(1)	6402(a), 6404(a).
3770(a)(2)	6401(a).
3770(a)(3)	6407.
3770(a)(4)	6402(a).
3770(a)(5)	6402(a). 6404(a).
3770(b)	7423.
3770(b)(1)	7423(1).
3770(b)(2)	7423(2).
3770(c)	6401(c).
3771(a)	6611(a).
3771(b)(1)	6611(b)(1).
3771(b)(2)	6611(b)(2), 6611(e).
3771(c)	6611(c).
3771(d)	
3771(e)	6611(f).
3771(f), (g)	
3772(a)(1)	7422(a).
3772(a)(2)	6532(a)(1).
3772(a)(3)	6532(a)(4).

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1939 Code section number	1954 Code section number
3772(b)	7422(b).
3772(c)	
3772(d)	7422(c).
3772(e)	7422(d).
3773	
3774	6514(a).
3774(b)	6532(a)(2).
3775	6514(b).
3777(a)	6405(a).
3777(b)	6405(b).
3777(c)	6405(c).
3778	
3779(a)	6091(a). 6164(a).
3779(b)	6065(a), 6071. 6081(a), 6164(b).
3779(c)	6164(c).
3779(d)	6164(d).
3779(e)	6164(e).
3779(f)	6164(f).
3779(g)	6164(g).
3779(h)	6155(a), 6164(h).
3779(i)	6601(a), 6601(e), 6601(f)(1).
3780(a)	6065(a), (b); 6071, 6091(a), 6411(a).
3780(b)	6411(b).
3780(c)	6213(b)(2).
3781	6164(i), 6411(c).
3790	6406, 6611(g).
3791(a)	6071, 6081(a), 6091(a), 6091(b)(1), (2); 7805(a).
3791(b)	7805(b).
3792	7623.
3793	7206(3).
3793(a)(2)	7303(8).
3793(b)	7206(2), 7207.
3793(b)(2)	7343.
3794	6601(a).
3795(a)	7506(a).
3795(b)	7506(b).
3795(c)	7506(c).
3795(d)	7506(d).
3797(a)(1)–(11)	7701(a)(1)–(11).
3797(a)(12)	7701(a)(13).
3797(a)(13)	
3797(a)(14)–(20).	1465, 7701(a)(14)–(20).
3797(b)	7701(b).
3797(c)	7701(c).
3798	7507.
3799	77.
3800	7402(a).
3801	1311–1314.
3802	7511.
3803	7852(a).
3893	
3893	
3804(a)	7508(a).
3804(b), (c)	
3804(d)	7508(b).
3804(e)	
3804(f)	7508(a).
3805	6072(e).
3806	1481.
3808	
3809(a)	7206(1).
3809(b)	6061, 6064.
3809(c)	6065(a).
3810	
3811	7651.
3812	6521.
3813	503.
3814	504.
3900	7802.
3901(a)	6801(a), 7805(c).
3901(b)	7803(b)(2).
3905	
3906	
3910	
3911	
3915	
3916	
3920	7803(a).
3921	7803(a).
3930(a)	7801(b).
3930(b)	
3931	7801(b).
3932	7801(c).
3940	
3941	
3942	
3943	7803(c), 7101.
3944	
3950	
3951	
3952	
3953	
3954	
3955	
3960	
3961	
3962	
3963	
3964	
3965	
3966	
3967	
3970	7808.
3971(a)	7809(a).
3971(b)	7809(b).
3971(b)(1)	7809(b)(1).
3971(b)(2)	7809(b)(2).
3971(b)(3)	7809(b)(3).
3975	7803(d).
3976	7803(d).
3977	7803(d).
3978	7803(d).
3990	
3991	
3992	7101, 7402(d), 7803(c).

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1939 Code section number	1954 Code section number	1939 Code section number	1954 Code section number
3993		4031	
3994		4032	
3995(c)	7402(d).	4033	
3996		4040	7803(b)(1).
3997		4041(a)	7803(a).
4000	7803(a).	4041(b)	
4001		4042	7402(c).
4002		4043	
4003		4044	
4010	7101, 7803(c).	4045	
4011		4046	
4012		4047(a)(1)	7213(b).
4013(a)	5241.	4047(b)	7214(b).
4013(b)–(d)		4047(c), (d)	
4014		4047(e)	7214(a).
4015		4048	7344.
4016		5000	8001.
4017		5001	8002.
4018		5002	8003.
4019		5003	8004.
4020		5004	8005.
4021		5010	8021.
4022		5011	8022.
4030		5012	8023.

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1	11, 12(b)(3), (c), (f).
2	12(d).
3	400.
4	23(aa)(4), 401, 402, 404.
5	
11	13, 15, 104(b), 261.
12	
21	108.
31	35, 322(a)(4).
32	32.
33	31.
34	
35	25.
36	23(aa)(2).
37	
38	
61	22(a).
62	22(n).
63	21.
71	22(k).
72	22(b)(2).
73	22(m).
74	
75	22(o).
76	22(j), 3799.
77	123.
101	22(b)(1).
102	22(b)(3).
103	22(b)(4).
104	22(b)(5).
105	
106	
107	22(b)(6).
108	22(b)(9), (10).
109	22(b)(11).
110	
111	22(b)(12).
112	22(b)(13).
113	22(b)(14).
114	22(b)(16).
115	22(b)(8), 116(d), (e).
116	
117	
118	
119	
120	
121	22(b)(17), 116(i).
141	23(aa)(1).
142	23(aa)(4), (5), 213(d).
143	23(aa)(6).
144	23(aa)(3), (7).
145	
151	25(b)(1).
152	25(b)(3).
153	25(b)(2).
154	
161	23.
162	23(a)(1).
163	23(b).
164	23(c), (d).
165	23(e), (f), (g)(1), (2), (3), (4), (h), (i), (k)(2).
166	23(k).
167	23(l), 23(n), 114(a).
168	23(t), 124A.
169	23(t), 124B.
170	23(o), (q), 120.
171	23(v), 125.
172	23(s), 122.
173	23(bb).
174	
175	
211	23.
212	23(a)(2).
213	23(x).
214	
215	23(u).
216	23(z).
217	
241	26.
242	26(a).
243	26(b)(1).
244	26(b)(2).
245	26(b)(3).
246	26(b).
247	26(h).
248	
261	24(a).
262	24(a)(1).
263	23(a)(1)(C), 24(a)(2), (3).
264	24(a)(4), (6).
265	23(b), 24(a)(5).
266	24(a)(7).
267	24(b), (c).
268	24(f).
269	129.
270	130.
271	23(k)(6).
272	
273	24(d).
301	22(e), 115(a), (b), (d), (e), (j).
302	115(c), (g)(1), (i).
303	115(g)(3).
304	115(g)(2).
305	115(f).
306	
307	113(a)(19).

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311	
312	115(c), (h), (l), (m), 394(d).
316	115(a), (b).
317	
318	
331	115(c).
332	112(b)(6).
333	112(b)(7).
334	113(a)(15), (18).
336	
337	
338	
341	117(m).
342	115(c).
346	115(i).
351	112(b)(5), (c), (e).
354	112(b)(3).
355	112(b)(3), (11).
356	112(c), (e).
357	112(k).
358	113(a)(6), (23).
361	112(b)(4), (d), (e).
362	113(a)(7), (8).
363	
367	112(i).
368	112(g)(1), (2), (h).
371	112(b)(10), (c), (d), (e), (k), (l).
372	113(a)(22).
373	112(b)(9), 113(a)(20), (21).
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391	
392	
393	
394	
395	
401	165(a).
402	165(b), (c), (d).
403	22(b)(2)(B).
404	23(p).
421	130A.
441	41, 48(a), (b).
442	46.
443	47(a), (c), (e), (g); 146(a).
446	41.
451	42(a)
452	
453	44.
454	42(b), (c), (d).
461	43.
462	
471	22(c).
472	22(d)(1)–(5).
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482	45.
501	101 except (12) and last par.; 165(a), 421.
502	Last par. 101.
503	3813.
504	3814.
511	421.
512	421(c), (d); 422.
513	422(b).
514	423.
515	424.
521	101(12)(A).
522	101(12)(B).
526	116(g).
531	102(a).
532	102(a).
533	102(b), (c).
534	
535	26(d), 27(b)(2), 102(d).
536	102(f).
537	
541	500.
542	501.
543	502, 507(b).
544	503.
545	26(c), (d); 504, 505.
546	505(e).
547	506
551	337.
552	331.
553	332.
554	333.
555	334.
556	26(c), 335, 336.
557	336(d).
561	26(f), 27(a).
562	26(f), 27(b)–(i).
563	504(c).
564	26(f), 27(c)–(i).
565	26(g), 28.
581	104(a).
582	23(k)(2), 117(i)
583	121.
584	169, second sentence of 170.
591	23(r).
592	23(dd).
593	23(k).
594	110.
601	26(d).
611	23(m).
612	114(b)(1).
613	114(b)(3), (4).
614	
615	23(ff).
616	23(ee).
621	22(b)(15).
631	117(k).
632	105.
641	161.
642	162(a), (e), (f); 163, 168, 170, 172.
643	162(d).
651	162(b).
652	162(b), 164.
661	162(b), (c).
662	162(b), (c), 164.
663	162(d).
665	

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666	
667	
668	
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672	
673	
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675	
676	166.
677	167.
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681	162(g).
682	171.
683	
691	126.
692	154.
701	181.
702	182, 183, 184, 186, 189.
703	183, 189.
704	191, 3797(a)(2).
705	
706	188.
707	
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722	
723	113(a)(13).
731	
732	113(a)(13).
733	
734	
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741	
742	
743	
751	
752	
753	
754	
755	
761	3797(a)(2).
771	
801	201(b).
802	201(a)(1).
803	201(c)(1)–(7), (d), (e).
804	202(b).
805	203A(b), (c), (d).
806	202(c).
807	201(a)(2), (3).
821	207(a).
822	207(a)(5), (b)(1), (4), (c), (d), (e), (f).
823	207(b)(2), (3).
831	204(a).
832	204(a)(2), (b)–(f).
841	205.
842	206.
851	361.
852	362(a), (b)(1)–(7).
853	
854	
855	362(b)(8).
861	119(a), (b), (e).
862	119(c), (d), (e).
863	119(e).
864	119(f).
871	211(a), (b), (c).
872	212.
873	213, 214.
874	215, 216.
875	219.
876	220.
877	221.
881	231(a).
882	231(b), (c); 232(a), (b); 233, 234, 235(a).
883	231(d).
884	236(b), 237, 238.
891	103.
892	116(c).
893	116(h).
894	22(b)(7).
901	131(a), (g).
902	131(f)(1), (2).
903	131(h).
904	131(b)(1).
905	131(c), (d), (e).
911	116(a).
912	116(j), (k).
921	109.
922	26(j).
931	251.
932	252.
933	116(1).
941	262.
942	263.
943	116(f), 265.
1001	111.
1002	112(a).
1011	113(b), except (1)–(4).
1012	113(a).
1013	113(a)(1).
1014	113(a)(5).
1015	113(a)(2), (3), (4).
1016	113(b)(1), (2).
1017	113(b)(3).
1018	113(b)(4).
1019	113(c).
1020	113(d).
1021	
1022	113(e).
1031	112(b)(1), (c)(1), (e), 113(a)(6).
1032	
1033	112(f), 113(a)(9).
1034	112(n).
1035	
1036	112(b)(2).
1051	113(a)(11).
1052	113(a)(12), (16).
1053	113(a)(14).
1054	
1071	112(m).

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1081	112(b)(8), 371.
1082	372, 113(a)(17).
1083	373.
1091	118, 113(a)(10).
1201	117(c).
1202	23(ee), 117(b).
1211	117(d).
1212	117(e).
1221	117(a)(1).
1222	117(a)(2)–(10).
1223	117(h).
1231	117(j).
1232	117(f).
1233	117(e), (g)(1).
1234	117(g)(2).
1235	
1236	117(n).
1237	
1238	117(g)(3).
1239	117(o).
1240	117(p).
1241	
1301	107(a).
1302	107(b).
1303	107(d).
1304	107(c), (e).
1311	3801(b).
1312	3801(b).
1313	3801(a).
1314	3801(c), (d), (e), (f), (g).
1315	
1321	22(d)(6).
1331	127(c)(1).
1332	127(c)(2).
1333	127(c)(3).
1334	127(c)(4).
1335	127(c)(5).
1336	127(d).
1337	127(e), (f).
1341	
1346	128.
1347	106.
1351	
1361	
1401	480.
1402	481.
1403	482.
1441	143(b).
1442	144.
1443	143(h).
1451	143(a).
1461	143(c).
1462	143(d).
1463	143(e).
1464	143(f).
1465	3797(a)(16).
1471	650, 651.
1481	3806.
1491	1250.
1492	1251.
1493	1252.
1494	1253.
1501	141(a).
1502	141(b).
1503	141(c).
1504	141(d), (e), (f), (g).
1505	141(h), (i).
1551	15(c).
1552	
2001	810, 935.
2002	822(b).
2011	810, 813(b).
2012	813(a)(2), 936(b).
2013	
2014	813(c), 936(c).
2015	927.
2016	874(b)(3).
2031	811(k).
2032	811(j).
2033	811(a).
2034	811(b).
2035	811(c)(1)(A), 811(l).
2036	811(c)(1)(B).
2037	811(c)(1)(C), (c)(2), (3).
2038	811(d).
2039	
2040	811(e).
2041	811(f); 403(d)(2) R.A. 1942; 2, P.L. 635 (80th Cong.).
2042	811(g).
2043	811(i), 812(b).
2044	811(h).
2051	812.
2052	935(c).
2053	812(b).
2054	812(b).
2055	812(d).
2056	812(e).
2101	860, 935.
2102	861(a)(2).
2103	861(a).
2104	862.
2105	863.
2106	861.
2201	939.
2202	850.
2203	930(a).
2204	825(a).
2205	826(b).
2206	826(c).
2207	826(d).
2501	1000(a).
2502	1001(a), (b); 1008(a), 1030(a).
2503	1003(a), 1003(b).
2504	
2511	1000(b), 1030(b).
2512	1002, 1005
2513	1000(f).
2514	1000(c); 452(b)(2) R.A. 1942; 2, P.L. 635 (80th Cong.).
2515	

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2516	
2521	1004(a)(1).
2522	1004(a)(2), 1004(b).
2523	1004(a)(3).
2524	1004(c).
3101	1400.
3102	1401(a), (b).
3111	1410.
3112	1412.
3121	1426(a)–(e), (g)–(l).
3122	1420(e).
3123	1427.
3124	1428.
3125	1432.
3201	1500.
3202	1501(a), (b).
3211	1510.
3212	1511.
3221	1520.
3231	1532(a)–(e), (g), (h).
3232	1534.
3233	1538.
3301	1600.
3302	1601(a), (b), (c).
3303	1602.
3304	1603.
3305	1606.
3306	1607(a)–(j), (l)–(o)
3307	1608.
3308	1611.
3401	1621.
3402	1622(a)–(d), (g)–(k).
3403	1623.
3404	1624.
3501	1420(a), 1530(a), 1605(a).
3502	1402, 1503, 1512, 1622(e).
3503	1422, 1531.
3504	1632.
4001	1650, 2400.
4002	2412(a).
4003	2400, 2412(b).
4011	1650, 2401.
4012	2401, 2412(a).
4013	2412(b).
4021	1650, 2402(a).
4022	2402(a), (b).
4031	1651(a).
4041	2450.
4051	2403(c).
4052	2404.
4053	2405.
4054	2413.
4055	2406, 2453.
4056	2406.
4057	
4061	3403(a), (b), (c).
4062	
4063	3403(c), (d).
4071	3400(a).
4072	3400(c).
4073	3400(a).
4081	3412(a).
4082	3412(b), 3412(c).
4083	3412(a).
4091	3413.
4092	3413.
4093	3413.
4101	3412(d).
4102	3412(e).
4111	3405.
4112	3405.
4113	3405(b).
4121	3406(a)(3).
4131	3406(a).
4141	3404(a).
4142	3404(b).
4143	3404(a), 3404(b).
4151	3404(d).
4152	3404(d).
4161	3406(a)(1).
4171	3406(a).
4172	3406(a)(4).
4173	3406(a)(4).
4181	2700(a), 3407.
4182	2700(b)(2), 3407; 706, P.L. 911 (81st Cong.).
4191	3406(a)(6).
4192	3406(a)(6).
4201	3408(a).
4211	3409(a).
4216	2704, 3441.
4217	3440.
4218	3444.
4219	3445.
4220	3442.
4221	3406(b), 3408(b).
4222	2456, 3451.
4223	3446.
4224	2700(b), 3407, 3442(3).
4225	2705.
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4231	1700.
4232	1700(e), 1704.
4233	1701.
4234	1702, 1703.
4241	1710.
4242	1712.
4243	1711.
4251	3465.
4252	3465.
4253	3465, 3466(b), (c).
4254	3465.
4261	3469.
4262	3469(a), (b), (f).
4271	3475(a), (c).
4272	3475(a), (b).
4273	3475(e).
4281	3460(a).
4282	3460(b).
4283	3460(c).
4286	1850.
4287	1857.
4291	1715(a), 1851, 3467(b), 3469(d), 3475(c).

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4292	3466(a), 3469(f), 3475(b)(1).
4293	307 R. A. 1943.
4294	
4301	1800, 1802(a).
4302	1802(a).
4303	1808(g).
4304	1802(a).
4305	
4311	1800, 1801.
4312	1801.
4313	1801.
4314	1801.
4315	1801.
4316	
4321	1800, 1802(b).
4322	1802(b).
4323	1802(b).
4324	
4331	3480, 3481(a).
4332	3481(a).
4333	
4341	1802(b), 3481(a).
4342	1802(b), 3481(a).
4343	1802(c), 3481(b).
4344	1802(b), 3481.
4345	
4351	1802(b), 3481(a).
4352	1802(b), 3481(a).
4353	1802(b), 3481(a).
4354	
4361	3480, 3482.
4362	3482.
4363	
4371	1804(a)–(c).
4372	1804(a)–(d).
4373	1804, 1808(b).
4374	1821(b)(3).
4375	
4381	1801, 1802(a), (b).
4382	1808(a)–(f), except (b), 3483.
4383	1809(a).
4401	3285(a), (c), (d).
4402	3285(e).
4403	3287.
4404	3285(f).
4405	
4411	3290.
4412	3291.
4413	3292.
4414	
4421	3285(b).
4422	3297.
4423	3298.
4451	1807.
4452	1831(a).
4453	1830.
4454	1809(a).
4455	1831(b).
4456	1832.
4457	
4461	3267(a).
4462	3267(b).
4463	3267(c).
4471	1650, 3268(a).
4472	3268(a).
4473	3268(a).
4474	
4501	3490(a), 3491(a), 3500, 3508.
4502	3492, 3507.
4503	3490(b).
4504	3501.
4511	2470(a)(1), (2).
4512	2477.
4513	2470(a)(2), 2470(b), 2474.
4514	
4521	3420, 3422.
4531	3420, 3423.
4532	3423.
4541	3420, 3425.
4542	3425.
4551	3420, 3424.
4552	3424.
4553	3424(a).
4561	2490, 2491(a).
4562	2491(a).
4571	2490, 2491(b), 2491(d).
4572	2491(f).
4581	2490, 2491(c).
4582	2491(c),(g), 2492.
4591	2306, 2311(a).
4592	2300.
4593	2300, 2307.
4594	2302.
4595	2303, 2404.
4596	2302(e).
4597	2303(c).
4601	2493, 3430.
4602	2492.
4603	
4701	2550(a), (b).
4702	2551(a), (b), (c).
4703	2552(a).
4704	2553.
4705	2554.
4706	2558(a), (c).
4707	
4711	2567(a).
4712	2567(b), 2568.
4713	2569.
4714	2571.
4715	
4721	3220.
4722	3221.
4723	2553(a).
4724	3224.
4725	3227(a).
4726	
4731	P. L. 240, (83d Cong.); 3228(a).
4732	2555.
4733	2558(b).

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4734	2561.
4735	2564; P. L. 238, (83d Cong.).
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4741	2590(a), (b).
4742	2591.
4743	2592(a).
4744	2593.
4745	2598.
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4751	3230(a).
4752	3230(b), (c), (d).
4753	3231.
4754	3233.
4755	3234.
4756	2601, 3237.
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4761	3238.
4762	2603.
4771	2550(c)(1), (2); 2552(b), 2590(c), 2592(b).
4772	3222, 3232.
4773	2556, 2595.
4774	2563, 2602.
4775	3226, 3236.
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4801	2651(a), (b).
4802	2650.
4803	2651(c), 2659(a).
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4805	2654, 2655.
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4811	2321(a), (b).
4812	2306, 2327(a).
4813	2305, 2321(c), 2327(a), (d).
4814	2322(b)–(e).
4815	2323(c), 2324.
4816	2307, 2327(a).
4817	2325.
4818	2311, 2327(a).
4819	
4821	3206.
4822	3208.
4826	2320, 2322(a), 2323(a), (b); 3208.
4831	2351(a), (b); 2356.
4832	2351(c), 2355, 2356, 2361.
4833	2352(b)–(e).
4834	2353(b), 2354(b), (c).
4835	2360.
4836	
4841	3210.
4842	3212.
4846	2350, 2352(a), 2353(a), 2354(a).
4851	1920(a), (b).
4852	1931.
4853	1925.
4854	1926.
4861	1921.
4862	1927.
4863	1922.
4864	1923.
4865	1924.
4871	1920(c).
4872	1928.
4873	1932.
4874	1930.
4875	1935.
4876	1933.
4877	
4881	1900.
4882	1905.
4883	1901, 1906.
4884	1902.
4885	1903.
4886	
4891	1805.
4892	1805.
4893	1809(a).
4894	1805.
4895	1805.
4896	1805.
4897	
4901	3271.
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4903	3278, 3292
4904	3279.
4905	3280.
4906	3276.
4907	3283, 3292.
5001	2800(a)(1), (4), (6), (c); 3030 (a)(1); 3111; 3125(a); 3182(b).
5002	2809(a), (b)(1), (2), (c), (d).
5003	
5004	2800(e)(1), (2), (3), (4); 3112.
5005	2800(a)(1), (d); 3112.
5006	2800(a)(1), (b)(2), (f); 2879(b); 2880, 2900(a).
5007	2800(f), (a)(3), (4); 2846(a), 2847(a); 3112(b); 3125(a).
5008	2803(a)–(e), 2903(b)–(e).
5009	2802, 2885, 2878.
5010	2802(a), (b); 2866.
5011	2891(b), 2901(a), (b), (c), (d); 3113.
5012	2887.
5021	2800(a)(5), 2801(b).
5022	3030(a)(2).
5023	2801(e)(5).
5024	
5025	2800(a)(5); 2801(c)(2), (e); 2883(e), 3036(a), 3250(h), (i); 3254(g).
5026	2800(a)(1)(A).
5027	2802(c).
5028	
5041	3030(a)(1), (2).
5042	3030(a)(1).
5043	3030(b), 3041.
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5045	

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5051	3150(a), (c).
5052	3160, 3254.
5053	3153(b)(c).
5054	3150(b)(1).
5055	3150(b)(2), 3157(a).
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5057	
5061	3172(a).
5062	3179(a), (b).
5063	1656(a), (b), (c).
5064	3174.
5065	
5081	3250(f)(1).
5082	3254(g).
5083	
5084	
5091	3250(c)(1), (d)(3).
5092	3254(d).
5093	
5101	3250(j)(1).
5102	3254(h).
5103	
5104	3271(c)(1).
5105	2818(a).
5106	3250(j)(3).
5111	3250(a)(1), (a)(3), (d)(1), (d)(2); 3254(c)(2).
5112	3254(b), (e).
5113	3250(a)(4), (d)(3), (g); 3251(a), (b).
5114	2857, 2858.
5115	2863.
5116	2831.
5121	3250(b)(1), (b)(4), (e)(1), (2), (3).
5122	3250(b)(2), 3254(c)(1), (f).
5123	3250(e)(4); 3251(c); 3255(a), (b), (c).
5124	3252(a), (b), (c).
5131	3250(l)(1), (2).
5132	3250(l)(3).
5133	3250(l)(4).
5134	3250(l)(5).
5141	3270.
5142	3271(a), (b), (c).
5143	3272(a).
5144	3277, 3278, 3279, 3280(a), 3283.
5145	3273(a).
5146	3273(b).
5147	3275(a).
5148	3276.
5149	3282.
5171	2819.
5172	2832.
5173	2820(a), 2822, 2823.
5174	2810.
5175	2812.
5176	2814(a)(1), (a)(2).
5177	2814(a)(1); 2815(a), (b)(1)(A), (B), (C), (D).
5178	2816.
5179	2817(a), (b).
5180	2831.
5191	2849, 2850(a).
5192	2820, 2838, 2877, 3042.
5193	2820, 2878(a), (b), (c), (d).
5194	2883(a)–(g), 2916.
5195	2836, 2870.
5196	2826, 2827, 2828, 2830, 2839.
5197	2841, 2844, 2859.
5211	2804.
5212	2808.
5213	2811.
5214	2871.
5215	2825.
5216	2834.
5217	3183(a), (b), (c).
5231	2872, 2873, 2875.
5232	2879(c), (d).
5233	
5241	2872, 2873, 2915, 4013(a).
5242	2879(a).
5243	2903(a), (f), (g); 2904, 2905, 2910, 2911.
5244	2882.
5245	2881.
5246	2875.
5247	2885(a), (b), 2886, 2888.
5248	
5249	
5250	2884.
5251	
5252	2874.
5271	2812.
5272	2801(e)(1).
5273	2801(e)(2).
5274	2831.
5275	
5281	2801(e)(1), (d).
5282	2813, 2861, 2862.
5283	2828, 2830.
5284	
5285	2855, 2857.
5301	3100.
5302	3101.
5303	3102.
5304	3114.
5305	3105.
5306	3103.
5307	3106.
5308	3107.
5309	3104.
5310	3108(a)–(d); 3109, 3125(b).
5311	3125(a).
5312	
5313	3121(a), (c).
5314	3117.
5315	3119.
5316	3120.
5317	3121(d), 3122.

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5318	3123.
5319	3124.
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5331	3070(a), (b).
5332	3073.
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5351	3040.
5352	
5353	
5354	3031(a), 3040.
5355	
5356	3040.
5357	
5361	
5362	3030(a)(1), 3031(a), 3037, 3038; 19 U. S. C. 81(c), 1309, 1311.
5363	
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5366	3034, 3035, 3042.
5367	3171.
5368	3030(a)(1), 3040, 3041.
5369	3040.
5370	3039.
5371	
5372	
5373	3031, 3032, 3033, 3036, 3037(a).
5381	3036, 3044(a), 3045.
5382	3032, 3036, 3044, 3045.
5383	3036, 3044(b), (c).
5384	3045.
5385	3043(a).
5386	2801(e)(3), (4).
5387	3254(g).
5388	
5391	2801(c), (e)(3); 3031(a).
5392	3036, 3044(b), 3045.
5401	3153(b); 3155(a), (b).
5402	3158, 3254(d).
5403	
5411	3158.
5412	3104, 3155(f).
5413	3155(f).
5414	
5415	3155(c).
5416	
5501	
5502	3110.
5511	3182(a).
5512	
5521	3177(a), (b), (c), (d)(1).
5522	2891(a).
5523	3178.
5551	2815(c), (d), (e).
5552	2829.
5553	
5554	
5555	3171.
5556	3176.
5557	3175.
5601	2810.
5602	2818.
5603	2812.
5604	2814.
5605	2815(a).
5606	2833.
5607	2819.
5608	2834.
5609	2811.
5610	2843.
5611	2842.
5612	2838.
5613	2836.
5614	2870.
5615	2828.
5616	2827.
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5618	2822.
5619	2839.
5620	2841.
5621	2857(a), 2859.
5622	2807.
5623	2853.
5624	2852.
5625	2806(c).
5626	2806(f).
5627	2801(e)(2).
5628	2801(f).
5629	2856.
5630	2865.
5631	2876.
5632	2912, 2913.
5633	2914(a).
5634	2806(a)(1)(2).
5635	2867.
5636	2866.
5637	2868.
5638	2869.
5639	2806(d).
5640	2803(f).
5641	2871.
5642	2803(g).
5643	2908.
5644	2909.
5645	2806(b)(1).
5646	2806(e).
5647	3072.
5648	2885(d).
5649	2854.
5650	2850.
5661	3043.
5662	
5663	
5671	3159.
5672	3159.
5673	3159.
5674	3159.
5675	3155(f).
5676	3159(e), (f), (g), (h), (i).
5681	2831.
5682	2821, 2851.

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5683	3173(a).
5684	3173(b).
5685	3173(c).
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5687	2806(g).
5688	2805(a)–(b); 3118, 3173(d), 63 Stat. 377 et seq.
5689	2800(a)(1)(B), 3112(b), 3150(b)(3).
5690	3173(b)(4).
5691	3253.
5692	3252.
5693	3274.
5701	2000.
5702	2010, 2030, 2050, 2110.
5703	2001, 2002(b), (c), 2194, 3310(f)(2).
5704	2040, 2101, 2111(f); 2130(d); 2135(a)(1), (2), (3); 2197(b); 2130(d).
5705	2137, 2198, 3313.
5706	2136.
5707	2000(g)(1), (2), (3).
5711	2013, 2033, 2039(a), 2053.
5712	2012, 2032, 2052.
5713	2014, 2054.
5721	2017, 2036.
5722	2019, 2038, 2039(b), 2194.
5723	2100, 2102, 2103(a)(1), 2111, 2112(a)(1), 2130(a)(b)(c).
5731	2059, 2060.
5732	2058.
5741	2018, 2037, 2039(b)(1), 2056, 2194.
5751	2104(a), 2113, 2170(a)(2).
5752	2103(e), 2112(e).
5753	2190.
5761	2156(c), 2161(m)(1), 2180(1).
5762	2130(a), (b), (c); 2151(a), (c); 2155(a), 2156, 2160(a)–(e), (g), (i); 2161(a), (c), (e)–(g); 2162(a)(2), (4), (b); 2170(a)(2), (4), (b); 2171(a), (b)(2); 2172, 2173(a), 2174, 2176(a)(2), (3); 2180(a), (d)–(f).
5763	2155(b), 2160(h), 2161(b), (h), (i)(1), (j)(1), (l)(1), (m)(2); 2170(b), 2171(a), 2175, 2180(b), (g)(1), (h), (i), (k), (l)(1), (2).
5801	3260.
5802	3261(a).
5803	3262.
5811	2720.
5812	2721.
5813	2722.
5814	2723.
5821	2734.
5831	2700, 3407.
5841	3261(b).
5842	2724.
5843	2725.
5844	2727.
5845	2728.
5846	2731.
5847	2732.
5848	2733.
5851	2726(a).
5852	2726(b).
5853	2726(c).
5854	3263.
5861	2729.
5862	2730.
6001	51, 54(a), (b); 821(d), 1007(a), (b); 1720. 1835, 1928(b), 2302, 2303, 2322(c), 2324, 2352, 2555, 2569(d), 2594(a), 2653(b), 2709, 2724, 3220(c), 3233(a), 3603.
6011(a)	47(a), 51, 143(c), 215(a), 217, 235, 251(g), 1420(c), 1530(b), 1604(a), 1624, 1700(c)(2), (d)(2), (e)(2); 1716(a), 1852(a), 1902(a)(1), 2403(a), 2451(a), 2471, 2701, 3272(a), 3310(a), (b), (f)(1), 3448(a), 3461, 3467(b), 3469(d), 3475(c), 3491(a), 3611(a)(1)
6011(b)	
6012(a)	51(a), 52(a), 142(a)(2), (3), (4); 217(b), 235(b).
6012(b)(1)	51(b)(4), (c), (g)(5); 142(a)(1).
6012(b)(2)	51(c); 58(f), 142(a).
6012(b)(3)	52(a).
6012(b)(4)	142(a).
6012(b)(5)	142(b).
6013(a)	51(b)(1), (2), (3), (4), (5).
6013(b)	51(g)(1)–(5).
6014(a)	51(f)(1), (2), (4).
6014(b)	51(b)(1), 51(f)(3).
6015(a)	58(a).
6015(b)	58(c).
6015(c)	58(b).
6015(d)	58(b).
6015(e)	58(d)(2).
6015(f)	58(d)(3).
6015(g)	60(b).
6015(h)	58(a).
6016	
6017	482(a).

TABLE II—Continued

1954 Code section number	1939 Code section number
6018(a)	821(a)(1), 864(a)(1), 937.
6018(b)	821(a)(2), 864(a)(2).
6019(a)	1006(a).
6019(b)	
6020(a)	3611(a)(2).
6020(b)	3612(a), (c).
6020(c)	
6021	3613.
6031	187.
6032	169(f).
6033(a)	54(f).
6033(b)	153(a).
6033(c)	
6034(a)	153(b).
6034(b)	153(b).
6035(a)	338.
6035(b)	339.
6036	274(a), 820.
6037	
6041(a)	147(b)(2).
6041(b)	147(b)(1).
6041(c)	147(c).
6041(d)	
6042	148(a), (b), (c).
6043	148(d), (e).
6044(a)	148(f).
6044(b)	148(f).
6044(c)	148(f).
6045	149.
6046(a)	3604(a).
6046(b)	3604(b).
6046(c)	3604(b).
6046(d)	
6051(a)	1403, 1633(a), (b).
6051(b)	1633(a).
6051(c)	1633(b).
6051(d)	1633(b).
6061	3809(b).
6062	52(a).
6063	187.
6064	58(g), 3809(b).
6065(a)	142(a), (b), 148(a), (d), (e); 149, 169(f), 187, 233, 821(a), 864(a), 1006(a), 1604(a), 1716(a), 1852(a), 1902(a)(1), 2403(a), 2471, 2555(a), (c); 2701, 3233(a), 3272(a), 3330, 3448(a), 3461, 3467(b), 3469(d), 3475(c), 3604(b), 3611(a), (c), 3779(b), 3780(a), 3809(c).
6065(b)	51(a), 54(f), 58(b), 215(a), 3780(a).
6071	141(b), 147(a), 148(a), (b), (c), (e); 149, 150, 153(a), (b), 821(b), 864(b), 874(b)(3), 1253(a), 1420(c), 1530(b), 1604(a), 1716(b),
6071	1852(a), 1902(a)(1), 2403(a), 2451(a), 2471, 2555(b), (c), 2701, 2734(e), 3233(a), 3272(a), 3310(a), (f)(1); 3448(a), 3461, 3467(b), 3469(d), 3475(c), 3491(a), 3604(a), 3611(b), (c); 3779(b), 3780(a), 3791(a).
6072(a)	53(a)(1), 143(c).
6072(b)	53(a).
6072(c)	217(a), 235(a).
6072(d)	
6072(e)	3805.
6073(a)	58(d)(1).
6073(b)	60(a).
6073(c)	58(d)(2).
6073(d)	60(b).
6073(e)	60(c).
6074(a)	
6074(b)	
6074(c)	
6075(a)	821(b), 864(b).
6075(b)	1006(b).
6081(a)	53(a)(2), 58(e), 141(b), 147(a), 148(a), (b), (c), (e); 149, 150, 153(a), (b); 821(b), 864(b), 874(b)(3), 1253(a), 1420(c), 1530(b), 1604(b), 1625(c), 1633(c), 1716(b), 2403(a), 2451(a), 2471, 2555(c)(1), 2701, 3233(a), 3272(a), 3310(f)(1), 3448(a), 3461, 3467(b), 3469(e), 3475(d), 3611(a)(1), 3634, 3779(b), 3791(a).
6081(b)	
6081(c)	
6091(a)	147(a), 148(b), (c), (d), 149, 150, 153(a), (b), 820, 874(b)(3), 1253(a), 1420(c), 1530(b), 2555(c)(1), 2734(e), 3233(a), 3604(a), 3611(a)(1), (c); 3779(a), 3780(a), 3791(a).
6091(b)(1)	53(b)(1), 58(d)(2), 60(b), 143(c), 821(c), 864(c), 1006(b), 1604(a), 1716(c), 1852(b), 1902(a)(2), 2403(a), 2451(a), 2471, 2701, 3272(a), 3291(a), 3448(a), 3461, 3467(b), 3469(d), 3475(c), 3491(c), 3611(a)(1), (c); 3791(a).

TABLE II—Continued

1954 Code section number	1939 Code section number
6091(b)(2)	53(b)(2), 141(b), 143(c), 1604(a), 1716(c), 1852(b), 1902(a)(2), 2403(a), 2451(a), 2471, 2701, 3272(a), 3291(a), 3448(a), 3461, 3467(b), 3469(d), 3475(c), 3491(c), 3611(a)(1), (c); 3791(a).
6091(b)(3)	821(c), 864(c).
6091(b)(4)	
6101	3630.
6102	
6103(a)	55(a).
6103(b)	55(b).
6103(c)	55(c).
6103(d)	55(d).
6103(e)	58(h).
6103(f)	55(e).
6104	153(c).
6105	722(g).
6106	1604(c).
6107	3275, 3292.
6108	63.
6109	
6151(a)	56(a), 143(c), (h); 144, 218(a), 236(a), 822(a)(1), 1008(a), 1253(a), 1530(b), 1715(b), (c); 1853(a), (b); 1902(a)(3), (b); 2403(b), 2451(a), (b); 2472, 2702(a), 3220, 3230, 3271(b), 3272(a), 3448(a), (b); 3461, 3467(b), 3469(b), 3470, 3475(c), 3491(a), (c).
6151(b)	51(f)(2), 56(i).
6151(c)	322(b)(4), (e).
6152(a)(1)	56(b)(2)(A).
6152(a)(1)(A)	56(b)(2)(A).
6152(a)(1)(B)	56(b)(2)(B).
6152(a)(2)	56(b)(1).
6152(a)(3)	1605(c).
6152(b)(1)	56(b)(3)(A), 1605(c).
6152(b)(2)	56(b)(3)(B).
6152(c)	272(i).
6152(d)	56(b)(4).
6153(a)	59(a).
6153(b)	60(a).
6153(c)	59(b).
6153(d)	60(b).
6153(e)	60(c).
6153(f)	59(c).
6154	
6155(a)	22(d)(6)(F), 51(f)(2), 131(c), 146(a), 272(b), (c); 273(a), (g), (i); 274(b), 292(a), 871(b), (c), (i); 872(a), (g), (i);
6155(a)	874(b)(3), 891, 1012(b), (c); 1013(a), (g), (i); 1015(b), 1021, 1117(g), 1605(c), 3310(d), 3311, 3660(a), 3779(h).
6155(b)	
6156	
6161(a)(1)	56(c), 58(e), 1008(b), 1605(d), 3467(b), 3469(e), 3475(d).
6161(a)(2)	822(a)(2).
6161(b)(1)	272(j), 1012(i).
6161(b)(2)	871(h).
6161(c)	274(b), 1015(b).
6161(d)	
6162(a)	56(c)(2).
6162(b)	
6163(a)	925, 926.
6163(b)	
6164(a)	3779(a).
6164(b)	3779(b).
6164(c)	3779(c).
6164(d)	3779(d).
6164(e)	3779(e).
6164(f)	3779(f).
6164(g)	3779(g).
6164(h)	3779(h).
6164(i)	3781.
6165	56(c)(2), 272(j), 822(a)(2), 871(h), 1012(i).
6201(a)	3640, 3647.
6201(a)(1)	3612(f).
6201(a)(2)(A)	1809(b)(2), 2351(c)(2), 2651(c)(2), 3311.
6201(a)(2)(B)	
6201(a)(3)	
6201(b)	59(d).
6201(c)	22(m)(4).
6201(d)	
6202	3644.
6203	3641.
6204	3642.
6205(a)(1)	1401(c), 1411, 1501(c), 1521.
6205(a)(2)	1411.
6205(b)	1421, 1502, 1522.
6206	
6211(a)	271(a), 870, 1011.
6211(b)(1)	271(b)(1).
6211(b)(2)	271(b)(2).
6211(b)(3)	271(b)(3).
6212(a)	272(a), 871(a), 1012(a).
6212(b)(1)	272(k), 1012(j).
6212(b)(2)	272(a).
6212(b)(3)	901(d).
6212(c)(1)	272(f), 871(f), 1012(f).
6212(c)(2)	
6213(a)	272(a), 871(a), 1012(a).
6213(b)(1)	272(f), 871(f), 1012(f).
6213(b)(2)	3780(c).
6213(b)(3)	

TABLE II—Continued

1954 Code section number	1939 Code section number
6213(c)	272(c), 871(c), 1012(c).
6213(d)	272(d), 871(d), 1012(d).
6213(e)	
6214(a)	272(e), 871(e), 1012(e).
6214(b)	272(g), 1012(g).
6214(c)	272(h), 871(g), 1012(h).
6215(a)	272(b), 871(b), 1012(b).
6215(b)	
6216	
6301	3651(a)(1).
6302(a)	3652.
6302(b)	1420(c), 1719, 2550(c), 2708, 3281, 3282.
6302(c)	3310(f)(2).
6303(a)	3655(a).
6303(b)	
6304	
6311(a)	3656(a)(1), (b)(1).
6311(b)(1)	3656(a)(2)(A), (b)(2).
6311(b)(2)	3656(a)(2)(B).
6312(a)	3657.
6312(b)	
6313	56(g), 1008(d), 1420(d), 1530(d), 1605(e), 3658.
6314(a)	1008(e), 3659(a).
6314(b)	823.
6314(c)	
6315	59(d).
6316	
6321	3670.
6322	3671.
6323(a)	3672(a).
6323(a)(1)	3672(a)(1).
6323(a)(2)	3672(a)(2).
6323(a)(3)	3672(a)(3).
6323(b)	
6323(c)	
6323(d)(1)	3672(b)(1).
6323(d)(2)	3672(b)(2).
6323(e)	
6324(a)(1)	827(a).
6324(a)(2)	827(b).
6324(a)(3)	827(c).
6324(b)	1009.
6324(c)	
6325(a)(1)	827(a), 1009, 3673(a).
6325(a)(2)	3673(b).
6325(b)(1)	3674(a).
6325(b)(2)	3674(b).
6325(c)	3675.
6325(d)	
6326	
6331(a)	3310, 3660, 3690, 3692, 3700.
6331(b)	3690, 3692, 3700.
6331(c)	3715.
6331(d)	
6332(a)	3710(a).
6332(b)	3710(b).
6332(c)	3710(c).
6333	3711.
6334(a)	3691(a).
6334(b)	3691(b).
6334(c)	3692.
6335(a)	3693(a), 3701(a).
6335(b)	3693(b), 3701(b).
6335(c)	3712.
6335(d)	3693(c), 3701(c).
6335(e)(1)	3695(a), 3701(d), (e).
6335(e)(2)	3695(b).
6335(e)(2)(A)	3695(a), 3701(d).
6335(e)(2)(B)	3701(d).
6335(e)(2)(C)	
6335(e)(2)(D)	3701(f).
6335(e)(2)(E)	3693, 3701.
6335(e)(2)(F)	3693(d), 3701(f).
6335(e)(3)	3701(f).
6336	
6337(a)	3696, 3702.
6337(b)(1)	3702(b)(1).
6337(b)(2)	3702(b)(2).
6337(c)	3702(c).
6338(a)	3703(b).
6338(b)	3704(b).
6338(c)	3703(a), 3704(a).
6339(a)(1)	3697(a)(1).
6339(a)(2)	3697(b).
6339(a)(3)	3697(c).
6339(a)(4)	3697(d).
6339(a)(5)	
6339(b)(1)	3704(c)(1).
6339(b)(2)	3704(c)(2).
6340(a)	3706(a), (b).
6340(b)	3706(f).
6341	3716.
6342(a)	3694.
6342(b)	3712.
6343	
6344	
6401(a)	3770(a)(2).
6401(b)	322(a)(2).
6401(c)	3770(c).
6402(a)	1027(a), 3770(a)(1), (4), (5).
6402(b)	322(a)(3).
6403	321.
6404(a)	3770(a)(1), (5).
6404(b)	273(j), 873, 1014.
6404(c)	
6405(a)	3777(a).
6405(b)	3777(b).
6405(c)	3777(c).
6406	3790.
6407	3770(a)(3).
6411(a)	3780(a).
6411(b)	3780(b).
6411(c)	3781.
6412(a)	

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1954 Code section number	1939 Code section number
6412(b)(1)	3412(g)(1).
6412(b)(2)	3412(g)(2).
6412(c)	
6412(d)	3508.
6412(e)	
6413(a)(1)	1401(c), 1411, 1501(c), 1521.
6413(a)(2)	1411.
6413(b)	1421, 1502, 1522.
6413(c)(1)	1401(d)(3).
6413(c)(2)	1401(d)(4).
6413(d)	1601(d).
6414	143(f), 1622(f)(1).
6415(a)	1854(a), 3471(a).
6415(b)	1715(d)(1), (2); 1854(b), (c); 3471(b), (c).
6415(c)	1715(d)(2).
6415(d)	1715(d)(1), 1854(c), 3471(c).
6416(a)	1715(d), 2407(b), 2452(b), 3443(a)(3)(B), (b), (d).
6416(b)(1)	2407(a), 3443(a)(2).
6416(b)(2)(A)	3443(a)(3)(A)(i).
6416(b)(2)(B)	3443(a)(3)(A)(ii).
6416(b)(2)(C)	3443(a)(3)(A)(iii).
6416(b)(2)(D)	2452(a).
6416(b)(2)(E)	3443(a)(3)(A)(iv).
6416(b)(2)(F)	3443(a)(3)(A)(v).
6416(b)(2)(G)	3443(a)(3)(A)(vi).
6416(b)(2)(H)	3443(a)(3)(A)(vii).
6416(b)(3)	3443(a)(1).
6416(c)	3403(e).
6416(d)	3408(b).
6416(e)	2705.
6416(f)	2703(a), 3471(b).
6417(a)	2473.
6417(b)	2474.
6418(a)	3494(a).
6418(b)	3493(a).
6419	3286.
6420	
6501(a)	275(a), 874(a), 1016(a), 1635(a), 3312(a).
6501(b)(1)	275(f).
6501(b)(2)	1635(e).
6501(b)(3)	
6501(c)(1)	276(a), 874(b)(1), 1016(b)(1), 1635(b), 3312(b).
6501(c)(2)	1635(c); 3312(c).
6501(c)(3)	276(a), 874(b)(1), 1016(b)(1), 1635(b), 3312(b).
6501(c)(4)	276(b).
6501(c)(5)	
6501(d)	275(b).
6501(e)(1)(A)	275(c).
6501(e)(1)(B)	275(d)(1).
6501(e)(2)	
6501(f)	
6501(g)	
6502(a)	276(c), 874(b)(2), 1016(b)(2), 1635(d), 3312(d).
6502(b)	3714(b).
6503(a)(1)	277, 875, 1017.
6503(a)(2)	141(h).
6503(b)	274(b), 1015(b).
6503(c)	
6503(d)	822(a)(2), 871(h).
6503(e)	
6504	
6511(a)	322(b)(1), 910, 1027(b)(1), 1636(a)(1), 3313.
6511(b)(1)	322(b)(1), 910, 1027(b)(1), 1636(a)(1), 3313.
6511(b)(2)	322(b)(2), 910, 1027(b)(2), 1636(a)(2), 3313.
6511(c)	322(b)(3).
6511(d)(1)	322(b)(5).
6511(d)(2)(A)	322(b)(6).
6511(d)(2)(B)	322(g).
6511(d)(3)	
6511(e)(1)	3494(b).
6511(e)(2)	3493(b).
6511(f)	
6512(a)	322(c), 911, 1027(c).
6512(b)	322(d), 912, 1027(d).
6513(a)	322(b)(4).
6513(b)	322(e).
6513(c)	1636(c).
6513(d)	
6514(a)	3774.
6514(b)	3775.
6515	
6521	3812.
6531	3748(a).
6532(a)(1)	3772(a)(2).
6532(a)(2)	3774(b).
6532(a)(3)	
6532(a)(4)	3772(a)(3).
6532(b)	3746(a), (b), (c).
6533	
6601(a)	146(f), 292(a), (c), (d); 294(a)(1), (2), (b), (c); 295, 296, 297, 298, 890(a), (b), 891, 892, 893(a)(1), (2); (b)(1), (2), (3), (4); 925, 1020(a), (b), 1021, 1022, 1023(a)(1), (2); (b)(1), (2), (3), (4), (5), 1420(b), 1530(c),

TABLE II—Continued

1954 Code section number	1939 Code section number
6601(a)	1605(b), 1717, 1853(c), 2403(b), 2451(b), 2475, 2706, 3310(c), 3448(b), 3470, 3495, 3655(b), 3779(i), 3794.
6601(b)	890(a), 925.
6601(c)(1)	294(a)(2), 296, 893(a)(2), (b)(3); 1023(a)(2), (b)(3).
6601(c)(2)	56(b), 272(i), 1605(c).
6601(c)(3)	297, 892, 1022.
6601(c)(4)	3310(a), (b), 3311.
6601(d)	292(a), 891, 1021.
6601(e)	292(c), 3779(i).
6601(f)(1)	292(a), 294(b), 295, 296, 298, 890(a), (b), 891, 893(a), (b), 1020(a), (b), 1021, 1023(a), (b), 1420(b), 1530(c), 1605(b), 1717, 1853(c), 2403(b), 2451(b), 2475, 2706, 3310(c), (d), 3448(b), 3470, 3495, 3655(b), 3779(i).
6601(f)(2)	
6601(f)(3)	
6601(g)	59(d).
6601(h)	
6602	3746(d).
6611(a)	3443(c), 3771(a).
6611(b)(1)	3771(b)(1).
6611(b)(2)	3771(b)(2).
6611(c)	3771(c).
6611(d)	322(b)(4), (e); 1636.
6611(e)	3771(b)(2).
6611(f)	3771(e).
6611(g)	3790.
6612	
6651(a)	291, 894(a), 1631, 3612(d)(1).
6651(b)	
6651(c)	294(d)(1)(A).
6652	
6653(a)	51(g)(6)(A), 293(a), 894(a) 1019(a).
6653(b)	51(g)(6)(B), 293(b), 871(i), 1019(b), 3612(d)(2).
6653(c)(1)	271, 870, 1011.
6653(c)(2)	
6653(d)	
6653(e)	1821(a)(3).
6654	294(d)(1)(B).
6655	
6656	
6657	
6658	146(f).
6659	51(g)(6), 291, 293, 871(i), 1019, 1117(g), 1634(b), 1718(c), 1821(a)(3), 3310(a)–(e), 3311, 3655(a)(b).
6671(a)	1718(c), 1821(a)(3), 2557(b)(4), 2707(a).
6671(b)	1718(d), 1821(a)(4), 2557(b)(8), 2707(d).
6672	1718(c), 1821(a)(3), 2557(b)(4), 2707(a).
6673	1117(g).
6674	1634(b).
6801(a)	1809(b)(1), 2652(a), 3273(a), 3300(a), 3901(a)(2).
6801(b)	1809(b)(1), 3301(a).
6802(1)	1423(a), 1817(a).
6802(2)	1817(b).
6802(3)	1817(c).
6803(a)(1)	1423(b).
6803(a)(2)	1423(c).
6803(b)(1)	1818(a).
6803(b)(2)	1818(b).
6804	1815, 1920(c), 3301(a).
6805(a)	3304(a).
6805(b)	3304(b).
6805(c)	3304(c).
6805(d)	3304(d).
6806(a)	3273(b).
6806(b)	
6806(c)	3293.
6807	3725.
6808	
6851(a)(1)	146(a)(1).
6851(a)(2)	146(a)(2).
6851(b)	
6851(c)	146(d).
6851(d)	146(e).
6851(e)	146(b).
6861(a)	273(a), 872(a), 1013(a).
6861(b)	273(b), 872(b), 1013(b).
6861(c)	273(c), 872(c), 1013(c).
6861(d)	273(d), 872(d), 1013(d).
6861(e)	273(e), 872(e), 1013(e).
6861(f)	273(i), 872(i), 1013(i).
6861(g)	273(k), 872(j), 1013(j).
6861(h)	
6862(a)	3660(a).
6862(b)	
6863(a)	273(f), (h); 872(f), (h); 1013(f), (h); 3660(b).
6863(b)(1)	273(g), 872(g), 1013(g).
6863(b)(2)	273(f), (h); 872(f), (h); 1013(f), (h).
6864	
6871(a)	274(a), 1015(a).
6871(b)	274(a), 1015(a).
6872	274(a).
6873(a)	274(b), 1015(b).
6873(b)	
6901(a)	311(a), 900(a), 1025(a).
6901(b)	311(a), 900(a), 1025(a).
6901(c)	311(b), 900(b), 1025(b).
6901(d)	311(b)(4).
6901(e)	311(c), 1025(c).
6901(f)	311(d), 900(c), 1025(d).

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6901(g)	311(e), 1025(g).
6901(h)	311(f), 900(e), 1025(f).
6901(i)	
6902(a)	1119(a).
6902(b)	1119(b).
6903(a)	312(a), 901(a), 1026(a).
6903(b)	312(c), 901(c), 1026(c).
6904	
7001(a)	150.
7001(b)	
7011(a)	3270(a).
7011(b)	3280(a).
7012	
7101	44(d), 56(c)(2), 112(b)(6)(D), 131(c), 146(b), 272(j), 273(f), 822(a)(2), 871(h), 872(f), 926, 1012(i), 1013(f), 1145, 1818(a), 2302(e), 2322(e), 2352(e), 2474, 2569(b), 2653(d), 3360(d)(2)(B), 3412(d), 3413, 3660(b), 3722(c), 3724(c), 3943, 3992, 4010, and 6 U.S.C. 15.
7102	3676.
7103	
7121(a)	3760.
7121(b)	3760.
7122(a)	3761.
7122(b)	3761.
7123	
7201	145(a), (b), 153(d), 340, 894(b)(2)(B), (C); 937, 1024(a), (b); 1718(a), (b); 1821(a)(1), (2), (b)(4); 2557(b)(2), (b)(3); 2656(f), 2707(b), 2707(c), 3604(c).
7202	145(b), 894(b)(2)(C), 1718(b), 1821(a)(2), 2557(b)(3), 2707(c).
7203	145(a), 153(d), 340, 894(b)(2)(B), 937, 1024(a), 1718(a), 1821(a)(1), 2557(b)(2), 2707(b), 3604(c).
7204	1634(a).
7205	1626(d).
7206(1)	3809(a).
7206(2)	3793(b).
7206(3)	3793(a).
7206(4)	2656(a), 3321.
7206(5)	3762.
7207	894(b)(2), 3616(a), 3672, 3793(b).
7208	3300(b).
7208(1)	1425(b).
7208(2)	1823(a).
7208(3)	1822, 1823(b).
7208(4)	1823(c).
7208(5)	3323(a)(3).
7209	1425(a).
7210	3616(b).
7211	3325.
7212(a)	3601(c).
7212(b)	3601(c)(2).
7213(a)(1)	55(f)(1).
7213(a)(2)	55(f)(2).
7213(a)(3)	55(f)(3).
7213(b)	4047(a)(1).
7213(c)	
7214(a)	4047(e).
7214(b)	4047.
7214(c)	
7231	150.
7232	3412(d).
7233(1)	1929(a)(1).
7233(2)	1929(a)(2).
7234(a)	2308(a).
7234(b)	2308(c).
7234(c)	2308(h).
7234(d)(1)	2308(i)(1).
7234(d)(2)(A)	2308(g)(1).
7234(d)(2)(B)	2308(g)(2).
7234(d)(3)	2308(i)(2).
7234(d)(4)	2308(d).
7235(a)	2326(a).
7235(b)	2326(b).
7235(c)	2326(c).
7235(d)	3207(b).
7235(e)	2327.
7236	2357(b).
7237(a)	2557(b)(1), 2596, 3225, 3235.
7237(b)	2557(a).
7238	2570.
7239(a)	2656(b).
7239(b)	2656(d).
7240	3506.
7261	2409.
7262	3294(a).
7263(a)	1929(c).
7263(b)	1929(b).
7264	3207(a).
7265(a)(1)	2308(b).
7265(a)(2)	2326(a)(2).
7265(b)	2308(e), 2327(a).
7265(c)	2308(j), 2327(a).
7266(a)(1)	3211(a).
7266(a)(2)	3211(b).
7266(a)(3)	3211(c).
7266(b)	2357(a).
7266(c)	2357(c).
7266(d)	2357(d).
7266(e)	2357(e).
7266(f)	2357(f).
7267(a)	2656(j).
7267(b)	2656(k).
7267(c)	2656(i).
7267(d)	2656(h).
7268	3320(a).

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7270	1821(b)(3).
7271(1)	1822, 2656(c).
7271(2)	1820(b).
7271(3)	1820(a).
7271(4)	3323(a)(1), (2).
7272(a)	1831(c), 2656(g), 3475(e).
7272(b)	
7273(a)	3274.
7273(b)	3294(b).
7274	2656.
7275	
7301(a)	2558(a), (b); 2571, 2598(a), (b), (c); 3253, 3321(b)(1), 3720(a)(1).
7301(b)	3321(b)(1), 3720(a)(2).
7301(c)	2657(e), 3321(b)(1), 3720(a)(3).
7301(d)	3321(b)(2), 3322.
7301(e)	3321(b)(3).
7302	3116.
7303(1)	1823.
7303(2)	2309(b), 2358(b).
7303(3)	2309(d).
7303(4)	2358(a).
7303(5)	2309(b), 2358(b).
7303(6)(A)	2657(c).
7303(6)(B)	2656(c), 2657(a)(b), (f).
7303(7)	3323(b).
7303(8)	3793(a)(2).
7304	3326.
7321	3720(b).
7322	3721.
7323(a)	3723(a).
7323(b)	3723(b).
7323(c)	3723(c).
7324	3722.
7325	3724.
7326	
7327	3726.
7328	2657.
7329	
7341(a)	3324(a).
7341(b)	3324(b).
7341(c)	3324(c).
7342	3601(b).
7343	145(d), 894(b)(2)(D), 1718(d), 1821(a)(4), 2557(b)(8), 2707(d), 3228, 3710(c), 3793(b)(2).
7344	4048.
7401	3740.
7402(a)	3800.
7402(b)	3633.
7402(c)	4042.
7402(d)	3992, 3995(c).
7402(e)	
7403(a)	3678(a).
7403(b)	3678(b).
7403(c)	3678(c).
7403(d)	3678(d).
7404	826(a).
7405(a)	3746(a).
7405(b)	3746(b).
7405(c)	
7405(d)	
7406	3747.
7407	
7421(a)	3653(a).
7421(b)	3653(b).
7422(a)	3772(a)(1).
7422(b)	3772(b).
7422(c)	3772(d).
7422(d)	3772(e).
7422(e)	
7422(f)	
7423(1)	3770(b)(1).
7423(2)	3770(b)(2).
7424(a)(1)	3679(a)(1).
7424(a)(2)	3679(a)(2).
7424(a)(3)	3679(a)(3).
7424(b)	3679(c).
7424(c)	3679(d).
7425	
7441	1100.
7442	1101.
7443(a)	1102(a).
7443(b)	1102(b).
7443(c)	1102(c).
7443(d)	1102(d).
7443(e)	1102(e).
7443(f)	1102(f).
7443(g)	1102(g).
7444(a)	1103(a).
7444(b)	1103(b).
7444(c)	1103(c).
7444(d)	1103(d).
7445	1104.
7446	1105.
7447(a)	1106(a).
7447(b)	1106(b).
7447(c)	1106(c).
7447(d)	1106(d).
7447(e)	1106(e).
7447(f)	1106(f).
7447(g)	1106(g).
7451	1110.
7452	504(b), R.A. 1942.
7453	1111.
7454(a)	1112.
7454(b)	
7455	1113.
7456(a)	1114.
7456(b)	
7456(c)	1114(b).
7457(a)	1115(a).
7457(b)	1115(b).
7458	1116.
7459(a)	1117(a).
7459(b)	1117(b).
7459(c)	1117(c).
7459(d)	1117(d).
7459(e)	1117(e).

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7459(g)	
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7460(b)	1118(b).
7461	1120.
7462	1121.
7463	
7471(a)	1130(a).
7471(b)	1130(b).
7471(c)	
7472	1131.
7473	1132.
7474	1133.
7481	1140.
7482(a)	1141(a).
7482(b)	1141(b).
7482(c)	1141(c).
7483	1142.
7484	1143.
7485(a)	1145.
7485(b)	
7486	1146.
7487	
7491	2597.
7492	1925(b).
7493	1930.
7501(a)	3661.
7501(b)	
7502	
7503	
7504	
7505(a)	3695(b).
7505(b)	3695(c).
7506(a)	3795(a).
7506(b)	3795(b).
7506(c)	3795(c).
7506(d)	3795(d).
7507(a)	3798(a).
7507(b)	3798(b).
7507(c)	3798(c).
7507(d)	3798(d).
7508(a)	3804(a).
7508(b)	3804(d).
7509	1424.
7510	3331.
7511	3802.
7601(a)	3600.
7601(b)	
7602	3614, 3615(a), (b), (c); 3632(a)(1).
7603	3615(d).
7604(a)	3633(a).
7604(b)	3615(e).
7604(c)	
7605(a)	3614, 3615.
7605(b)	3631.
7606(a)	3601(a)(1).
7606(b)	3601(a)(2).
7606(c)	
7607	
7621	3650.
7622(a)	3632(a).
7622(b)	3632(b).
7623	3792.
7641	2302(c), 2322(c), 2352(c), 2569(d)(4), 2653(b).
7651(2)(A)	3811.
7652(a)(1)	3360(a).
7652(a)(2)	3360(b).
7652(a)(3)	3360(c).
7652(b)(1)	3350(a).
7652(b)(2)	3350(b).
7653(a)(1)	3361(a).
7653(a)(2)	3351(a).
7653(b)	3351(b), 3361(b).
7653(c)	3351(c), 3361(c).
7653(d)	
7654	2483.
7655	
7701(a)(1)	1426(f), 1532(i), 1607(k), 1805, 1931(b), 2733(i), 3228(a), 3238(a), 3507(a), 3797(a)(1).
7701(a)(2)	3797(a)(2).
7701(a)(3)	3797(a)(3).
7701(a)(4)	3797(a)(4).
7701(a)(5)	3797(a)(5).
7701(a)(6)	3797(a)(6).
7701(a)(7)	3797(a)(7).
7701(a)(8)	3797(a)(8).
7701(a)(9)	3797(a)(9).
7701(a)(10).	3797(a)(10).
7701(a)(11).	3797(a)(11).
7701(a)(12).	
7701(a)(13).	3797(a)(12).
7701(a)(14).	3797(a)(14).
7701(a)(15).	3797(a)(15).
7701(a)(16).	3797(a)(16).
7701(a)(17).	3797(a)(17).
7701(a)(18).	3797(a)(18).
7701(a)(19).	3797(a)(19).
7701(a)(20).	3797(a)(20).
7701(a)(21).	
7701(a)(22).	
7701(a)(23).	48(a).
7701(a)(24).	48(b).
7701(a)(25).	48(c).

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7701(a)(27).	
7701(a)(28).	
7701(b)	3797(b).
7701(c)(1)	3797(c).
7701(c)(2)	
7801(a)	Reorg. Plan No. 26 of 1950.
7801(b)	3930(a), 3931.
7801(c)	3932.
7802	3900.
7803(a)	3920, 3921, 4000, 4041(a).
7803(b)(1)	4040.
7803(b)(2)	3901(b).
7803(c)	3360(b)(2)(B), 3943, 3992, 4010.
7803(d)	3975, 3976, 3977, 3978.
7804(a)	616 R. A. 1951.
7804(b)	3, P. L. 567 (82d Cong.).
7805(a)	62, 3791(a).
7805(b)	3791(b).
7805(c)	3901(a)(2).
7806(a)	2.
7806(b)	Ch. 1, Sec. 6, P. L. 1.
7807(a)	
7807(b)	
7808	3970.
7809(a)	2480, 3971(a).
7809(b)	3971(b).
7809(b)(1)	3971(b)(1).
7809(b)(2)	3971(b)(2).
7809(b)(3)	3971(b)(3).
7851(a)	*See* 26 U. S. C. 3, 4.
7851(b)	*See* 26 U. S. C. 4(b).
7851(c)	*See* 26 U. S. C. 4(c).
7851(d)	*See* 26 U. S. C. 4(d).
7852(a)	3803.
7852(b)	*See* 26 U. S. C. 4(a), 5, 7.
7852(c)	
7852(d)	108 R. A. 1941; 109 R. A. 1942; 136 R. A. 1943; 214 R. A. 1950; 615 R. A. 1951; *See* 22(b)(7).
8001	5000.
8002	5001.
8003	5002.
8004	5003.
8005	5004.
8021	5010.
8022	5011.
8023	5012.

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2	213, 6014, 6015.
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73	6201.
75	171, 1016.
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106	104, 7701.
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111	381, 1333.
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163	216, 267, 691, 832.
164	216, 434, 535, 545, 556, 691, 703, 832, 853, 901, 903, 905, 1001, 1012.
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317	301, 302, 306.
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342	551, 6162.
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513	512.
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