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Thank you very much, Dr. Atkeson. One of the nicest things about being employed in the field of taxation is the pleasant associations you make. Certainly one of the most pleasant that I have had over the years has been with Dr. Atkeson. I worked quite closely with him back in his days in the IRS and learned to admire him not only for his high technical competence but also for his many fine personal qualities.

As Dr. Atkeson has indicated I have been asked to talk about 1968 tax legislation. First, I thought you might be interested in knowing the number of bills introduced and referred to the House Committee on Ways and Means. In the 90th Congress—the two years, 1967 and 1968—there were 3,806 measures referred to the Ways and Means Committee and close to one-half of these or 1,791 were tax measures. With a volume of this size it is, of course, impossible for the tax committees to act on most of these bills. The number actually reported to the House by the Ways and Means Committee was 23. Of these 22 passed the House, 18 were reported to the Senate, 17 passed the Senate and 14 became law. Five of these were enacted in 1967 and 9 in the year 1968. I will direct most of my attention to these nine measures.

Certainly the most important single measure enacted in 1968, in fact, more important that the other eight measures combined, is the Revenue and Expenditure Control Act of 1968. This has a most unusual history for a tax measure. The major part of this measure actually was not in the House bill at all and was not added by the Senate Finance Committee. Instead it was a floor amendment in the Senate. In other words, both the surcharge feature of this bill and the expenditure control items were added on the Senate floor. Ordinarily amendments of this magnitude are not accepted by the House because it guards closely its prerogative of initiating tax legislation. Ordinarily it would insist on major amendments of this type originating in the House and being considered by the Committee on Ways and Means. Of course, technically the bill did originate in the House because the House passed a bill continuing the manufacturers excise tax on the sale of automobiles and the excise tax on the provision of telephone service together with provision for a further speed up of corporate income tax payments. These, of course, were far overshadowed in importance by the Senate floor amendment.

Because of the significance of the Senate amendments after the bill got to conference, the Ways and Means Committee and also the House Appropriations Committee each considered and then passed resolutions endorsing in general terms the measures which were in this bill which related to the jurisdiction of their committees. In other words, an expenditure limitation was approved by the Appropriations Committee and the 10 percent surcharge was approved by the Ways and Means Committee. The expenditure limitation approved by the Appropriations Committee was a limit of at least $4 billion, but subsequently the House as a whole voted in favor of a $6 billion rather than a $4 billion cutback in spending. As a result, although the major features of this bill were added by the Senate, they were later approved by the two responsible House Committees. It was only after this occurred that the conference proceeded to act on the Senate amendments.

I know of no similar case where the major action has occurred in quite this manner before and I do not imagine this procedure will be repeated again in the near future. It was a titanic struggle in which there were major differences in views as to what should be done. Finally, it also was a matter of concern between the administration and the Congress as to whether the surcharge should, or should not, be accompanied by expenditure control measures. Agreement was not finally reached on this aspect of the bill between the administration and the Congress until after several months of consideration.

There actually are some 8 tax measures incorporated in this particular bill. However, the surcharge so overshadowed the rest of them that you may not have heard of some of the other items.

The surcharge (to dispose of that first) is a 10% increase in tax, on an annual basis, which under the present law lasts until June 30, 1969. There, of course, is considerable discussion at the present time as to whether this should, or should not be, extended beyond that time. The 10% surcharge applies not only to individuals but to corporations as well. For corporations the 10% surcharge applies for a year and a half, from January 1, 1968 to June 30, 1969. For individuals the surcharge runs just slightly over one year, from April 1, 1968 to June 30, 1969.

The surcharge alone is expected to bring in about 12 billion dollars in revenue in one year. The second measure in the bill, continuation of the automobile and telephone excise taxes, accounts for another 3 billion dollars of revenue. And the third measure in the bill, the speed up of corporate tax payments, accounts, for a limited number of years, for another billion dollars.

The speed-up in corporate payments provided by this bill is divided into three parts. Tax liability over $100,000 already is on a current payment basis. For tax liability between $5,500 and $100,000 the bill provides for current payment over a transitional period of five years, beginning with the year 1968. Then, in the following five years, the remaining $5,500 will be placed on a current tax basis. You may wonder why Congress picked the $5,500 as the dividing line for these two transition periods. This is the tax on the first $25,000 of income, the line Congress previously had drawn between large and small corporations in providing special relief for small corporations. The third aspect of the speed-up is an increase from 70 to 80 percent of the amount of estimated tax corporations must pay currently.

Apart from these three major revenue measures, this bill also contained a provision which provides that tax deposits will be considered timely if they are mailed two or more days before the due date for the deposit.

A fifth feature in the bill, and a significant tax reform measure, deals with industrial development bonds. This arose from a Senate floor amendment. In fact, there were two quite different amendments in the Senate. But first let me indicate the setting in which the issue arose. The Treasury Department had just issued proposed regulations which in general terms held that the interest paid on industrial revenue bonds was taxable. The first measure adopted by the Senate provided that the tax treatment accorded interest on industrial revenue bonds before these new regulations were proposed was to be continued in effect. In other words, the interest on these bonds was to remain tax free. The next measure added to the bill by the Senate, two days later, provided that interest paid on industrial revenue bonds, with limited exceptions, was to be taxable. The conference committee compromised these differing provisions by deciding to tax industrial revenue bonds but only to the extent an issue exceeding one million dollars was involved. By this it is meant that interest on a bond issue of one million dollars or less will continue to be tax exempt, no matter how large the project is—the project might be for $50 million, in which case interest paid on $49 million of bonds would be taxable and interest paid on a separate $1 million issue would be tax exempt. There are, of course, other exceptions in this provision, such as for bonds issued for airports, docks, wharves, transportation facilities and so forth.

A sixth measure dealt with in this bill is the deduction for advertising in political presidential convention programs. Prior law was modified to provide that such advertising would be deductible but only where the funds were used exclusively to defray the cost of the convention and not for political campaign costs. In addition, the advertiser will have to establish that his expenditure was a legitimate advertising expense, either on the grounds that it could be expected to increase the sale of his products or on the grounds that as a local merchant it was desirable from the standpoint of his business to bring a convention to his town. In other words for such advertising to be deductible much the same tests would have to be met as in the case of advertising in non-political convention programs.

A seventh provision in this bill deals with joint hospital services provided on a cooperative basis. Most hospitals, as you know, are tax exempt organizations. The question had arisen as to the tax treatment of joint enterprises formed by hospitals to provide services to the hospitals on a cooperative basis. This bill makes it clear that where services are provided on a cooperative basis and just for exempt hospitals, the joint enterprises are to be exempt if specified types of services are provided, which do not include things such as laundry services.

The eighth tax provision in the bill was one added on the Senate floor which required the administration to submit a comprehensive tax reform proposal by December 31, 1968. Whether such a reform measure will in fact be presented in view of the change in administrations, I am uncertain.

In addition to the eight tax provisions that I have referred to, there also were four expenditure or related control items in the Revenue and Expenditure Control Act of 1968. One of these was the requirement that expenditure levels be cut back by 6 billion dollars from the then proposed budgetary level. The budget showed expenditures of 186.1 billion dollars and this required that they be cut back to 180.1 billion dollars although there were some six exceptions to this including expenditures for interest on the debt, veterans' pensions and payments, social security payments, and Vietnam costs. Later there was added to these exceptions expenditures by the Commodity Credit Corporation and public assistance payments. Taking the exceptions into account, it looks as if the effect of this provision will be to hold expenditures in this current fiscal year to about 185 billion dollars in lieu of what probably would be 191 billion dollars.

A second requirement in this bill provided that new obligational authority should be reduced 10 billion dollars below the level in the budget. And a third requirement in the bill specifies that there must be recommendations in, or submitted with, the next budget for recisions of some 8 billion dollars. In other words, reductions in new obligational authority plus recommendations for recisions had to total 18 billion dollars. This in turn was matched on the expenditure side by the 6 billion dollar expenditure cut. In other words, there was not only to be a reduction in expenditures currently but also a reduction in potential expenditures for future years. Undoubtedly these restrictions combined with the surcharge are largely responsible for the turn around in our deficit position. Insofar as the current fiscal year is concerned it looks as if the deficit is going to be reduced from the 25.4 billion, which it was last year, to something less than 3 billion dollars in the current fiscal year. I believe that this is about the largest reduction in deficits we have ever had—except for one at the end of World War II reflecting largely a change in cash balance.

A fourth requirement in the bill limited the hiring of employees by the Federal Government. This provision requires in the case of permanent employees that an agency could fill only three out of four vacancies as they occurred until the overall employment in the government got down to the level it was on June 30, 1966. In the case of temporary and part-time employees, an agency must limit the number of employees in any month to the number in the corresponding month of 1967. And I might add that the latest report I have seen indicates that through September this has resulted in a reduction in total federal employees of something like 105,000 persons of which over 23,000 were full-time permanent employees.

This is all I have to say on this one big act. However, I have a series of lesser measures yet to outline. Some of these are quite limited in their application. Others are more general. Probably among the more important of these is one dealing with statutory mergers, H.R. 18942. This permits the use of the parent's stock in a tax-free statutory merger in acquiring the stock of another corporation in much the same way as can be done in the case of stock-for-stock and stock-for-assets reorganizations. In other words, the shareholders of a corporation being merged into a subsidiary corporation can be given stock of the subsidiary's parent in lieu of stock of the subsidiary itself. This can be done indirectly under present law by merging the corporation into the parent and then contributing its assets to the subsidiary. However, in this case there are some different consequences insofar as liabilities are concerned, because in that event the liabilities of the corporation being merged would then become liabilities of the parent and the later transfer of the assets to the subsidiary would not lessen the responsibility of the parent in this regard. That may make a difference in some cases. This result may also take longer to accomplish.

Another bill relates to some of what Mr. Fischer said earlier this morning. It is an H.R. 10 problem and the bill was H.R. 18253. You will recall if you have worked in this area of the tax law where capital is a material income-producing factor in the earning of any income, at one time only 30% of the income could be considered as earned income. In 1966 this 30% limitation was eliminated but only for 1968 and subsequent years. Moreover, at that time Congress did not amend the feature of the law which involves a three-year averaging provision where contributions to the H.R. 10 plan take the form of premiums on annuity, endowment, or life insurance policies. In these cases contributions to the retirement plans in excess of the amounts generally permitted are allowed without penalties if these amounts do not exceed what could have been deducted in the prior three years based on the average income in those years. Since the 30 percent limitation applied to income in the years before 1968, for those contributing to retirement plans by these types of premiums this meant that the effect of the 30 percent limit was not wholly repealed until 1971. This bill removed this effect by repealing the application of the 30% restriction insofar as the three year averaging period is concerned in the case of contributions paid in 1968 and subsequent years.

A fourth measure adopted this year was H.R. 11394. This related to certain technical problems in distilled spirits taxes. However, there are some other amendments to this bill on other matters which I will explain to you in just a moment. The distilled spirits provisions in this bill were an attempt to clear up some administrative problems and hardships in these tax laws. For example, the bill provides for the abatement of tax in the case of disaster where the packaging of the distilled spirits has been completed but the distilled spirits packages have not been removed from the distilled spirits plant premises. The disaster loss provision already applied where the distilled spirits were not yet packaged, so this merely moved that provision forward to the level where the packaging occurred. Provision was also made in this bill for the stamping or marking of bottled distilled spirits for export where they had already left the bottling premises. Previously if it was thought that distilled spirits were going to be sold domestically and this market subsequently did not develop, the distilled spirits could not be transferred to export account with a refund of the tax without bringing the spirits back to the bottling premises for restamping or remarking at that location. Under the bill the stamping or marking for export can occur at other than the bottling premises so long as there is adequate supervision. This change also applies to distilled spirits exported in bulk. Another provision in this bill permits imported distilled spirits to be withdrawn from custom warehouse for transfer to internal revenue bond without payment of tax. This treatment already applies where the distilled spirits are of 185 proof. The bill provides this treatment where the spirits are of lesser proof. This makes it possible to postpone the time when the distilled spirits tax has to be paid and is an aid to the industry in that it lessens working capital requirements.

The tax features of this distilled spirits bill which I have discussed up to this point are the features this bill contained when it passed the House and when it was reported out by the Senate Finance Committee. On the next to the last day of this Congress, amendments on two unrelated matters were added to this bill. I can best explain what happened by reviewing some of the Senate floor action up to that point of time. The Senate had for a period of approximately two to two and one half weeks been debating the bill, H.R. 2767. This bill at the end of the Senate action contained a series of amendments. The basic bill dealt with the deductibility of assessments made by drainage districts on their members for property subject to depreciation. This bill finally was passed by the Senate but when so approved contained 15 other tax, social security and expenditure control amendments. However, there was not enough time for the House conferees to consider this many amendments. Nevertheless, the House members indicated their willingness to consider the drainage district provision itself as an amendment to the distilled spirits bill I have already discussed. As a result this bill which had its legislative history written under the title of H.R. 2767 became public law under the heading of H.R. 11394. Actions like this lead to tangled legislative histories but sometimes are necessary if legislative action is to be completed on a bill as the Congress is drawing to a close.

This drainage district amendment simply provides that when a soil or water conservation or drainage district buys depreciable property and its members are assessed specifically for the property, they can amortize these assessment costs for this property, generally over a ten year period. Under prior law they already could deduct the cost of assessments which were not made with respect to depreciable property or land.

One other amendment was taken from H.R. 2767 as it passed the Senate and added to the distilled spirits bill as finally enacted. This amendment is usually referred to as the Duke Endowment Trust provision, although it apparently will have application to a number of other trusts as well. However, it was representatives of the Duke Endowment trust who took the lead in seeking the adoption of this amendment. This amendment relates to cases where inter vivos trusts were set up before 1951. The significance of that date is the fact that that was the effective date of a provision adopted by Congress prohibiting unreasonable accumulation by trusts and charitable corporations. Present law already provided an exception, however, for trusts set up by will if they were set up before 1951. They already were not subject to this unreasonable accumulations provision. The Duke Endowment Trust was an inter vivos trust established by Mr. Duke who died before 1951. In addition the trust is irrevocable and has a mandatory provision for accumulations of certain amounts of income. It was felt that as a transitional matter it was unfair to require irrevocable, inter vivos trusts set up before 1951, to comply with the provisions relating to accumulations any more than trusts set up by will before 1951. As a result an exception to the accumulations provision was provided in this bill for property transferred before 1951 to irrevocable, inter vivos trusts.

Let me turn now to a fifth measure which became public law this year. I am referring to H.R. 14095 which relates to the production of wine.

This bill dealt with a number of aspects of the production of wine and was basically designed to make it easier to produce wine. For example it permits wine spirits of one producer within a state to be added to natural wine by another producer within the same state, something which was not previously allowed. Many of the restrictions relating to the production of wine, while they may have been useful in the past when the Internal Revenue Service thought it must maintain strict control over wine production to be sure that no tax was avoided, are unnecessary with today's technology. As a result this bill eliminates some of the more restrictive provisions in the case of the taxes on wine.

A sixth measure enacted into law was H.R. 18486. This is concerned with the tax treatment of the foreign partners in Intelsat. Now you the communications satellite system presently carrying telecommunications between the various continents is owned in part by Comsat (the American partner) and in part by a series of foreign partners. The question with which this bill is concerned is, "How are these foreign partners to be taxed by the United States?" One of the questions raised is, "Is this income from sources within the United States?" The income actually is attributable to leasing the use of the satellite in the sky to carry telecommunications. A second question is concerned with the type of foreign partners involved. Many of these foreign entities are instrumentalities of foreign governments and as such are not subject to U. S. tax. However, some of them are private companies designated by the foreign government to be its representative. This bill provides an exemption from U. S. tax for foreign entities designated by foreign governments to participate in communication satellite systems in which the United States participates under the Communications Satellite Act of 1962.

A seventh bill to be passed by Congress, H.R. 7735, relates to the period for filing claims for refunds in the case of the distilled spirits tax where the distilled spirits are withdrawn for non-beverage purposes. This measure was added to a bill dealing with tariff matters concerned with alumina and bauxite. This provision extends from three to six months, the statutory period during which a refund of tax may be claimed where distilled spirits are withdrawn for non-beverage purposes. This provision was added in the Senate Finance Committee and at that time applied retroactively for a limited period of time. The House conferees approved of the idea of a longer period of limitations but said that they did not want to provide relief for any particular cases, so the provision was applied prospectively only.

The eighth bill enacted into law was H.R. 17324. This bill was primarily concerned with extending the Renegotiation Act for an additional three years. But the Senate also added to this bill a provision dealing with industrial revenue bonds. You will recall that in connection with my discussion of the Revenue and Expenditure Control Act I pointed out that this act contained a provision making the interest on industrial revenue bonds taxable if the bond issue exceeded a million dollars. After the passage of that act, however, there continued to be a dispute as to whether this million dollar exception was adequate. Congress in an amendment to the Renegotiation Act bill decided that the million dollar exception was too small to provide for some of the plants where it was considered desirable to make this tax benefit available. As a result this bill provides a 5 million dollar exception, instead of a one million dollar exception. There is a big difference, however, in how these two exceptions work. In approving a five milion dollar exception the conferees decided they didn't want to provide any aid for larger plants, such as those involving expenditures of $20 to $50 million. They simply wanted to aid those plants where the total expenditures for the plant were not over 5 million dollars. As a result a provision was adopted as an alternative to the one million exception, but, if this alternative is elected, total capital expenditures at that location by a company may not within a six year period—three years before and three years after the bonds are issued—exceed a total of five million dollars. If capital expenditures should exceed five million dollars in this period the revenue bonds become taxable from that time on. While this alternative is more generous than the $1 million exception in many respects, there also are problems in using it—such as, how are bond buyers to be indemnified should their bonds become taxable because capital expenditures exceed $5 million. To overcome this problem I understand provisions are being added to bond issues to provide for their redemption as soon as possible after they become taxable, if they do. Alternatively, in other cases I understand provision is being made for an increase in the interest rate to compensate for the loss of the tax exempt status should this occur.

The ninth, and last, of the tax bills I have to discuss with you is HJ Res. 1223. This simply provided a one month extension—for the month of April—of the excise taxes on automobiles and telephone services during part of the time when the Revenue and Expenditure Control Act was being debated and further considered in conference.

There also were other bills which went part way through Congress this last year and which probably will be reintroduced and come up again this next year. Let me just indicate a few of the general topics involved in these bills. One of these, H.R. 17332, deals with the statute of limitations in the case of gasoline tax refunds. Another, H.R. 18101, deals with the liquidation of a corporation within a twelve month period. This bill contains features which both limit the application of this provision and on the other hand make the provision available in certain cases where it is not under present law. A third such bill, H. R. 15023, deals with development corporations taxed as mutual investment companies. These are illustrations of the many bills which start in one Congress but are not finally acted upon until a later Congress, if they are acted upon at all.

Thank you very much.