

give you until January to get your house in order; you will not have to pay any taxes on what you have done."

This tax-free exchange of securities is a loophole that benefits only seven or eight operations in America.

Mr. President, I yield to the Senator from Ohio.

Mr. LAUSCHE. Mr. President, am I correct is my understanding that all that has been done to supposedly improve the original bad provision is to establish a cutoff date as of July 1?

Mr. WILLIAMS of Delaware. The Senator is correct. That would be July 1 of next year. However, it contains a January 1 date by which they must file with the Securities Exchange. They must file at the end of this year with the Securities and Exchange Commission.

Mr. LAUSCHE. The situation is that the Treasury Department concluded that there was a loophole that had to be blocked, and they proceeded to do so.

Along came the Senate committee, and the Senate, with this new legislation to prohibit the Secretary of the Treasury from blocking the loophole.

Mr. WILLIAMS of Delaware. The Senator is correct. The Secretary said that under the existing law he could stop this practice. This provision would prohibit him from issuing rulings against the past practices or any other exchange made prior to next July. It would give a clear ruling to all of those who have not been able to get a favorable ruling. It would also include all transactions that took place hereafter, up to the date mentioned.

This is a loophole with a termination date of next July.

Mr. LAUSCHE. Mr. President, is it not correct that the Secretary felt that the practice in effect cheated the taxpayer because of the loophole that existed in the law? He concluded that he could block the loophole, and when he reached such conclusion, the Senate committee adopted an amendment to stop him from doing what he thought was in the best interest of the taxpayer.

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Mr. WILLIAMS of Delaware. The Senator is correct. I will cite an example of how this would work.

We will assume that there are four investors. This could only operate with relation to larger interests because the average fellows could not get together to form such a group.

Suppose that Mr. A has \$1 million worth of bonds. Mr. B has \$1 million worth of a certain stock acquired at a cost of \$100,000, and Mr. C has \$1 million worth of General Electric or General Motors stock.

If these three men get together and contact Mr. D, who has very large holdings in real estate and would like to diversify his holdings, exchanging his land for bonds and securities, they

could not do so under the present law without paying a capital gains tax.

Under the present law any of the individuals whom I have mentioned, if he wanted to diversify, would have to sell a part of his holdings and pay a capital gains tax on the portion which he sold. He could then invest the remainder after the payment of taxes in other corporations.

Under the present proposal, these four gentlemen could get together and put up their securities and real estate. They could then issue shares out of a new fund in proportion to the amount that had been put up.

These men would thus have diversified their interests and the man who owned the real estate would own a percentage of those bonds and securities and the other men would be the owners of the real estate. No capital gains tax would have been paid under this transaction.

The pending measure would provide that that procedure would be permissible on former transactions and new transactions until next July.

A few of these corporations have been formed, and the Treasury Department ruled that such procedure was an avoidance of the capital gains tax and that a capital gains tax must be paid.

This provision would overrule the ruling of the Secretary of the Treasury and provide that such transactions would be tax exempt. In effect, it would say: "Keep on doing it until this next July and then go and sin no more."

Mr. LAUSCHE. The Treasury Department said that the scheme of setting up a pool and then taking stock in the pool enabled those investors to escape the payment of a capital gains tax and that this procedure was illegal. A ruling was issued.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. LAUSCHE. The Senate committee, however, through the provision in the pending bill is attempting to prevent the Secretary of the Treasury from issuing a regulation that would prevent such practice.

Mr. WILLIAMS of Delaware. The Senator is correct. The Senate committee's first proposal would extend this in perpetuity. The conference report does contain a termination date, but it does at the same time legalize all of these pending transactions which have heretofore been rejected by the Treasury Department.

The pending measure would allow these people to keep their tax-free exchange status up to next July.

This is the proposal which the Treasury Department described as one of the most glaring loopholes ever proposed by the Senate Finance Committee.

All the conferees did was to place a termination date on such transactions. That is better than permitting this to be done in perpetuity, but nevertheless it