

may be some question as to its merits, and we decided that as of July 1967, it will come to an end. So, for practical purposes, we have closed that loophole, if it was a loophole. We felt the Treasury Department should not be able, without legislative direction, to change the law on its own.

So we have provided that those who are now in business must file on January 1, 1967, a registration statement with the SEC and they must have deposited the stock by May 1, 1967, and they must have concluded their transfers by July 1, 1967.

Those who do not think the tax-free exchange of securities with respect to investment funds is a good practice—and I happen to be one of those—have provided for its end in July 1967. It seems to me that is a fair and logical way to handle the matter.

To get up on the floor and say something that should not have been done has been done, when there have been written approvals of such transactions by the U.S. Government, is not a fair statement. I do not know where anyone got that notion. But we are going to stop the practice completely as of July 1. We felt it should be stopped, and we so provided.

Mr. LONG of Louisiana. The Treasury Department wanted to provide by regulation that if the fund had been organized and the stocks had been deposited by July 14, 1966, those transfers prior to that would be all right and would not be taxed on those exchanges, but if such a transfer were to take place July 15 or later, a capital gains tax would have to be paid on the appreciation in value of the property transferred.

Frankly, it seemed fairer, since Treasury did not see fit to take a published position on this problem until July of this year to provide that firms would have until January 1, 1967, to file their registration statements and then 6 months later the tax-free exchanges would stop.

Mr. SMATHERS. Let me read the present law on this matter. I read from section 351(a):

SEC. 351. TRANSFER TO CORPORATION CONTROLLED BY TRANSFEROR.

[Sec. 351(a)]

(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.

Source: Sec. 112(b) (5), 1939 Code.

There is the law, and there is no way it can be changed by Treasury regulation. It must be changed by Congress. That is what we are now going to do.

We are not going to let Treasury usurp our legislative responsibility.

Mr. LONG of Louisiana. The Senator is correct.

Mr. President, I have heard many complaints today about the many provisions in this bill. There are many good, structural changes in the bill which will basically improve the tax laws. They are good changes:

First, there is the section broadening the application of the provision where one corporation acquires the assets of another corporation.

The law provides that when one acquires 80 percent of a corporation he does not have to pay a tax, but if he acquires 60 percent from one source and indirectly acquires 40 percent from another source where he has acquired control of a company, he must pay a tax because he acquired this stock from a controlled corporation other than by purchase. It is a technicality. It is a trap some people fall into. It is much like a manhole cover being left open to trap the unwary. So we have taken care of that technicality.

Another provision is the one excluding rents from property manufactured by a taxpayer from the personal holding company tax.

A third provision is the one improving the tax treatment of straddles.

That is another good, constructive change.

Another provision is the one dealing with the taxation of cooperatives and patrons with respect to per-unit retain certificates, making their treatment comparable to that of patronage dividends under present law.

That is a matter which has been studied for some time, and it is a good structural change in the law.

There are three provisions removing discrimination in the case of the interest equalization tax. These are provisions very much needed by businessmen and companies abroad, which help bring the services of banks to visiting American company representatives and Americans who have investments there.

Then there is the Williams amendment, offered by the Senator from Delaware, providing for a new type retirement savings bond for those holding bonds 10 to 30 years, which should also improve the balance of our debt between long- and short-term obligations.

Here is an amendment by the same Senator who made that charge about special interests. His amendment provides for a bond bearing a higher interest rate, designed to attract retirement money into the purchase of those bonds.

The Treasury thinks this is a good amendment.

The Senator stated that everything in this bill was for special interests. How about the Williams amendment, the amendment of the very Senator who made that statement?