

89TH CONGRESS
1ST SESSION

S. 1013

[Report No. 710]

IN THE SENATE OF THE UNITED STATES

FEBRUARY 8, 1965

Mr. SALTONSTALL introduced the following bill; which was read twice and referred to the Committee on Finance

SEPTEMBER 14 (legislative day, SEPTEMBER 13), 1965

Reported by Mr. BYRD of Virginia, with amendments

[Omit the part struck through and insert the part printed in italic]

A BILL

To clarify the components of, and to assist in the management of, the national debt and the tax structure.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Secretary of the Treasury shall, on or before
4 March 31 of each year (beginning with 1966), submit to the
5 Senate and the House of Representatives a report setting
6 forth, as of the close of December 31 of the preceding year,
7 the aggregate and individual amounts of the contingent liabili-
8 ties *and the unfunded liabilities* of the Government, and of
9 each department, agency, and instrumentality thereof, in-
10 cluding, without limitation, trust fund liabilities, Govern-
11 ment-sponsored corporations' liabilities, indirect liabilities not

1 included as a part of the public debt, and liabilities of insur-
2 ance and annuity programs, including their actuarial status
3 on both a balance sheet and projected source and application
4 of funds basis. The report shall also set forth the collateral
5 pledged, or the assets available (or to be realized), as secu-
6 rity for such liabilities (Government securities to be separately
7 noted), and an analysis of their significance in terms of past
8 experience and probable ~~risk~~ risk, *and shall also set forth all*
9 *other assets available to liquidate liabilities of the Government.*
10 The report shall set forth the required data in a concise
11 form, with such explanatory material as the Secretary may
12 determine to be necessary or desirable, and shall include
13 total amounts of each category according to the department,
14 agency, or instrumentality involved.

COMPONENTS OF THE NATIONAL DEBT

SEPTEMBER 14 (legislative day, SEPTEMBER 13), 1965.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

REPORT

[To accompany S. 1013]

The Committee on Finance, to which was referred the bill (S. 1013) to clarify the components of, and to assist in the management of, the national debt and the tax structure, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

SUMMARY OF BILL

This bill would require the Secretary of the Treasury to submit annually to the Congress a brief report setting forth the amounts of the contingent and unfunded liabilities of the Federal Government, including those of agencies and instrumentalities of the Government.

GENERAL STATEMENT

In the past, it has been the practice of the Federal Government to determine its financial requirements on an annual basis. This bill does not depart from this practice. However, an annual system of budgeting does not present a complete picture of the financial condition of the United States because it fails to depict numerous categories of Federal obligations and commitments which are subject to contingencies. Similarly, it fails to reveal fully those situations where Congress has enacted spending authorizations, but has not specifically appropriated the moneys needed to fulfill the statutory commitment.

Moreover, by present methods, U.S. liability under many of its insurance and guarantee programs is difficult to measure and analyze. This is because sufficient information regarding these programs either is not available at all, or if it is available, it is inadequately presented.

In many cases information with respect to contingent liabilities of specific governmental programs now is available only in reports of specific agencies or corporations. However, these data frequently lose much of their usefulness because they are not combined with similar data with respect to other programs. Thus, although part of this information may now be available it is not published in one place or on a uniform basis, and does not facilitate understanding of the current financial condition of the United States.

Your committee believes that it is desirable to make available in a single, concise report, pertinent information with respect to the current status of the contingent liabilities of the Federal Government, including its long-range obligations and commitments. Indeed, the committee recognizes a responsibility to make available in such a report—as clear and complete as possible—the overall financial condition of our Government. Such a report, consolidating information now available only in part in many diverse reports with information which is not now available at all, will enable the Congress to have a better understanding of the current fiscal needs of the Federal Government.

For this reason, the committee has approved, and recommends enactment of a bill requiring the Secretary of the Treasury to submit to the Congress, by March 31 of each year, a report showing the amount (both on an aggregate and on an individual basis) of the contingent liabilities and the unfunded liabilities of the Federal Government, determined as of December 31 of each year, commencing with 1966.

The contingent liabilities referred to by the bill include (1) liability of the Government under its various trust funds, such as the old age and survivors insurance trust fund and the highway trust fund; (2) liabilities of Government-sponsored corporations (for example, the Commodity Credit Corporation); (3) indirect liabilities of the Federal Government not included as part of the public debt, such as Federal Housing Administration debentures; and (4) liabilities of Federal insurance and annuity programs.

Under the bill, data with respect to these insurance and annuity programs (which include the civil service retirement system, veterans' pension, and war risk insurance programs) is to include information regarding their actuarial status on both a balance-sheet basis and a projected source-and-application-of-funds basis.

Where appropriate, the report is also to indicate the collateral pledged, or the assets available, as security for the specified liabilities, and an analysis of their significance in terms of past experience and probable risks. Thus, for example, in the case of federally insured home mortgages the assets available on foreclosure may, in favorable circumstances, offset the potential Federal liability. But the reporting of assets is not to stop with a recording of assets related to the liabilities. Under a committee amendment the Secretary of the Treasury is to set forth all other assets which would be available to liquidate liabilities of the Federal Government.

In order to provide flexibility and to present data included in the report from being misconstrued or misleading, the bill provides that the Secretary of the Treasury may set forth such explanatory material as he determines to be necessary or desirable. Under this provision, if he believes particular data are likely to lead to improper conclusions, he may qualify that data sufficiently to negate such conclusions.

Although the Bureau of the Budget does not favor the bill, in its report to the committee on a virtually identical bill in the 88th Congress (dated December 12, 1963), it indicated its agreement with the objectives of the bill as follows:

We agree with the objective of S. 2281 that the Congress and its committees should have available whatever information they need with respect to the financial status of the Government. In accordance with this objective, the Treasury Department has been preparing, semiannually, for a number of years, a statement on long-range commitments and contingencies of the U.S. Government.¹ The Bureau of the Budget has on occasion worked informally with Treasury staff on this matter, and consideration has been given to possible extensions and refinements of the data. I believe that more can be done in this respect and, together with the Treasury Department, we shall work with the responsible Government agencies to this end.

If, in addition, your committee or any other committee of the Congress would like to have particular tabulations, such as those described in S. 2281, we believe it would be appropriate to ask the Treasury Department to supply them when needed. However, we believe the nature of such tabulations should be left flexible, to be determined from time to time, rather than being fixed in a statute.

It is the opinion of the Committee on Finance, as already indicated, that the bill, as reported, preserves the flexibility of tabulations urged in the departmental report.

Moreover, the committee fully recognizes the desirability of refining data now being compiled in order to make it more meaningful and useful, and the bill as reported permits this. By drawing together tabulations regarding contingent liabilities of various departments, agencies, and Government-sponsored corporations, no doubt the Treasury Department will find new ways by which statistical refinements can be made, and tabulating methods improved. This can only serve to increase the quality of the report required by the bill.

The report will fill a need which has been felt by the Congress for many years.

APPENDIX

The following data prepared by the Treasury Department indicates for the items included therein the type of information which would be presented on a Government-wide basis in the reports called for by the bill. This data was compiled as of December 31, 1962, and is the last such report the Treasury has issued except in response to a special request made at the June 23, 1964, hearing before the Committee on Finance on H.R. 11375, relating to a temporary increase in the public debt. The preliminary information submitted by the Treasury Department in response to this special request (which appears on pp. 44-46 of the printed hearings) employs statistical and tabulation methods different from those previously used by the Treasury Department and these new methods may replace the earlier procedures.

¹ For statement prepared as of Dec. 31, 1962, see appendix to this report.

LONG-RANGE COMMITMENTS AND CONTINGENCIES OF THE U.S.
GOVERNMENT, AS OF DECEMBER 31, 1962

The attached statement covers the major financial commitments of the U.S. Government, except the public debt outstanding and those involving recurring costs for which funds are regularly appropriated by the Congress and are not yet obligated, such as aid to States for welfare programs and participation in employee retirement systems. The statement is segregated into four categories, namely (a) loans guaranteed and insured, etc., by Government agencies; (b) insurance in force; (c) obligations issued on credit of the United States; and (d) undisbursed commitments, etc.

The items appearing in this statement are quite different from the direct debt of the United States. They are programs of a long-range nature that may or may not commit the Government to expend funds at a future time. The extent to which the Government may be called upon to meet these commitments varies widely. The liability of the Government and the ultimate disbursements to be made are of a contingent nature and are dependent upon a variety of factors, including the nature of and value of the assets held as a reserve against the commitments, the trend of prices and employment, and other economic factors.

Caution should be exercised in any attempt to combine the amounts in the statement with the public debt outstanding for that would involve not only duplication but would be combining things which are quite dissimilar. As indicated by the enclosed statement, there are \$118.1 billion of public debt securities held by Government and other agencies as part of the assets that would be available to meet future losses. The following examples illustrate the need for extreme caution in using data on the contingencies and other commitments of the U.S. Government.

1. The Federal Deposit Insurance Corporation had insurance outstanding as of December 28, 1962, estimated to be \$179.1 billion. The experience of the Federal Deposit Insurance Corporation has been most favorable. During the period this Corporation has been in existence, premiums and other income have substantially exceeded losses which has permitted the retirement of Treasury and Federal Reserve capital amounting to \$289.3 million (all repaid to Treasury), and the accumulation of \$2.5 billion reserve as of December 31, 1962. The Corporation's holdings of public debt securities as of that date amounted to \$2.6 billion which already appears in the public debt total. Out of \$335.9 billion of assets in insured banks as of December 28, 1962, \$70.6 billion are in public debt securities (also reflected in the public debt). The assets, both of insured banks and the Federal Deposit Insurance Corporation, as well as the continued income of the Corporation from assessments and other sources, stand between insured deposits and the Government's obligation to redeem them.

2. The face value of life insurance policies issued to veterans and in force as of December 31, 1962, amounted to \$39.8 billion. This does not represent the Government's potential liabilities under these programs since some of these policies will probably be permitted to lapse and future premiums, interest, and the invested reserves amounting to \$6.9 billion of public debt securities should cover the normal mortality risk.

3. Under the Federal Reserve Act of 1913, as amended, Federal Reserve notes are obligations of the United States which, as of December 31, 1962, amounted to \$29.4 billion. The full faith and credit of the United States is behind the Federal Reserve currency. These notes are a first lien against the \$53.9 billion of assets of the issuing Federal Reserve banks which includes \$30.8 billion of Government securities already included in the public debt. These notes are specifically secured by collateral deposited with the Federal Reserve agents which, as of December 31, 1962, amounted to \$25.2 billion in Government securities and \$7.6 billion in gold certificates.

*Long-range commitments and contingencies of the U.S. Government, as of
Dec. 31, 1962*

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Loans guaranteed, insured, etc., by Government agencies:		
Agriculture Department:		
Commodity Credit Corporation	(1) 395	
Farmers Home Administration: Agricultural credit insurance fund		
Commerce Department:		
Office of the Secretary: Aircraft loan guarantees	28	
Maritime Administration: Federal ship mortgage insurance revolving fund	2 435	9
Export-Import Bank of Washington	3 652	
Housing and Home Finance Agency:		
Federal Housing Administration:		
Property improvement loans	4 398	104
Mortgage loans	39,506	589
Office of the Administrator: Urban renewal fund	903	
Public Housing Administration:		
Local housing authority bonds and notes (commitments covered by annual contributions)	3,256	
Local housing authority temporary notes	957	
Interior Department: Bureau of Commercial Fisheries: Federal ship mortgage insurance fund, fishing vessels	1	
Interstate Commerce Commission	149	
Small Business Administration: Revolving fund	23	
Treasury Department:		
Reconstruction Finance Corporation liquidation fund	(6 7) 6 1	
Federal Civil Defense Act of 1950, as amended	8 16,122	
Veterans' Administration	110	
Defense Production Act of 1950, as amended		
Total loans guaranteed, insured, etc., by Government agencies	62,936	702
Insurance and guarantees in force:		
Agency for International Development: Industrial guarantees	916	
Agriculture Department: Federal Crop Insurance Corporation	9 358	
Commerce Department: Maritime Administration: War risk insurance revolving fund	39	3
Export-Import Bank of Washington:		
War risk and expropriation insurance	2	
Insurance on exports issued through Foreign Credit Insurance Association	474	
Federal Deposit Insurance Corporation	10 179,088	2,603
Held by insured commercial and mutual savings banks		70,606
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation	10 77,349	641
Held by insured institutions		5,302
U.S. Information Agency: Informational media guarantees	4	
Veterans' Administration:		
National service life insurance	38,596	5,859
U.S. Government life insurance	1,252	1,002
Total insurance and guarantees in force	298,078	86,016

See footnotes at end of table, p. 7.

*Long-range commitments and contingencies of the U.S. Government, as of
Dec. 31, 1962—Continued*

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Loans guaranteed, insured:		
Obligations issued on the faith of the United States:		
Postal savings certificates:		
U.S. Postal Savings System.....	11 531	556
Canal Zone Postal Savings System.....	11 4	4
Total postal savings certificates.....	535	560
Other obligations: Federal Reserve notes (face amount).....	29,378	12 30,820
Undisbursed commitments, etc.:		
To make future loans:		
Agency for International Development:		
Development loans.....	791	
Alliance for Progress, development loans.....	93	
Development loan fund liquidation account.....	827	
Loans to U.S. firms and domestic or foreign countries.....	9	
Other U.S. dollar and foreign currency loans.....	1,971	
Agriculture Department:		
Commodity Credit Corporation.....	3	
Farmers Home Administration:		
Agricultural credit insurance fund.....	12	
Direct loan account.....	12	
Emergency credit revolving fund.....	2	
Rural housing and other loans.....	15	
Rural Electrification Administration.....	892	
Export-Import Bank of Washington: Regular lending activities.....	1,612	
Housing and Home Finance Agency:		
Office of the Administrator:		
College housing loans.....	395	
Public facility loans.....	108	
Urban renewal fund.....	654	
Housing for the elderly.....	31	
Public Housing Administration.....	131	
Interior Department:		
Bureau of Commercial Fisheries: Fisheries loan fund.....	(7)	
Defense Minerals Exploration Administration: Defense Production Act of 1950, as amended.....	(7)	
Small Business Administration (revolving fund).....	108	
Veterans' Administration (veterans' direct loan program).....	37	
Total undisbursed commitments to make future loans.....	7,703	
To purchase mortgages:		
Housing and Home Finance Agency:		
Federal National Mortgage Association:		
Secondary market operations.....	28	
Special assistance functions.....	327	
Total commitments to purchase mortgages.....	355	
To guarantee and insure loans:		
Agriculture Department: Farmers Home Administration: Agricultural credit insurance fund.....	13	
Commerce Department: Maritime Administration: Federal ship mortgage insurance revolving fund.....	39	
Housing and Home Finance Agency: Federal Housing Administration.....	6,132	
Defense Production Act of 1950, as amended.....	22	
Total commitments to guarantee and insurance loans.....	6,206	
To purchase investment company debentures: Small Business Administration (revolving fund).....	37	

See footnotes at end of table, p. 7.

*Long-range commitments and contingencies of the U.S. Government, as of
Dec. 31, 1962—Continued*

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or con- tingency	Public debt securities held by Government and other agencies
Loans guaranteed, insured—Continued		
Unpaid subscriptions, etc.:		
International Bank for Reconstruction and Development.....	5,715	-----
Inter-American Development Bank.....	200	-----
International Development Association.....	123	-----
Total unpaid subscriptions, etc.....	6,038	-----

¹ Guaranteed loans and certificates of interest, amounting to \$1,113,000,000 as of Dec. 31, 1962, are included in the Corporation's balance sheet with the direct loans.

² Includes accrued interest.

³ Includes political risk export guarantees amounting to \$333,000,000.

⁴ Represents Administration's portion of insurance liability. Estimated amount of insurance in force and loan reports in process as of Dec. 31, 1962, is \$1,592,000,000. Loan insurance shall not exceed 10 percent of such loans.

⁵ The full faith and credit of the United States is pledged to the payment of all amounts agreed to be paid as per sec. 302 of Public Law 87-70 approved June 30, 1961.

⁶ Represents deferred participations.

⁷ Less than \$500,000.

⁸ Represents the Veterans' Administration portion of insurance liability. The total amount of loans in the hands of private lenders is estimated at \$29,754,000,000.

⁹ Represents estimated insurance coverage for the 1962 crop year.

¹⁰ Estimated insurance liability.

¹¹ Excludes accrued interest.

¹² Includes public debt securities amounting to \$25,179,000,000 that have been deposited by the Federal Reserve bank system with the Federal Reserve agents as specific collateral.

NOTE.—The above figures are subject to the limitations and precautionary remarks, as explained in the foreword to this statement.

[P. 23320]

THE MANAGEMENT OF THE NATIONAL DEBT AND TAX STRUCTURE

The Senate proceeded to consider the bill (S. 1013) to clarify the components of and to assist in the management of the national debt and the tax structure which had been reported from the Committee on Finance with amendments on page 1, line 8, after the word "liabilities," to insert "and the unfunded liabilities"; and, on page 2, line 8, after the word "probable", to strike out "risk" and insert "risk, and shall also set forth all other assets available to liquidate liabilities of the Government"; so as to make the bill read:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury shall, on or before March 31 of each year (beginning with 1966), submit to the Senate and the House of Representatives a report setting forth, as of the close of December 31 of the preceding year, the aggregate and individual amounts of the contingent liabilities and the unfunded liabilities of the Government, and of each department, agency, and instrumentality thereof, including, without limitation, trust fund liabilities, Government-sponsored corporations' liabilities, indirect liabilities not included as a part of the public debt, and liabilities of insurance and annuity programs, including their actuarial status on both a balance sheet and projected source and application of funds basis. The report shall also set forth the collateral pledged, or the assets available (or to be realized), as security for such liabilities (Government securities to be separately noted), and an analysis of their significance in terms of past experience and probable risk, and shall also set forth all other assets available to liquidate liabilities of the Government. The report shall set forth the required data in a concise form, with such explanatory material as the Secretary may determine to be necessary or desirable, and shall include total amounts of each category according to the department, agency, or instrumentality involved.

Mr. DIRKSEN. In the absence of the Senator from Massachusetts [Mr. SALTONSTALL], I think I should say, with respect to this bill, that what he proposes is to set up a complete balance sheet for every activity of government. That has never been done before, and I think it will prove to be one of the most useful documents that the Senate will ever have authorized. I may wish to amplify my remarks on it at some later time.

Mr. SALTONSTALL subsequently said: Mr. President, while I was absent for a few minutes when Senator DIRKSEN spoke on this bill I would like to speak briefly on the need for better reporting of the Federal debt. I am very pleased that the Senate today passed my bill, S. 1013.

We now have a statutory national debt of \$318 billion, and also acknowledge in addition contingent debt and Federal

guarantees of about \$400 billion. Actual payments under guarantees will, of course, be much smaller than that, and many of the accounts are covered by adequate reserves. But, this bill is concerned with a growing area of Federal debt which is reported sporadically or not at all. The amount here may approach a trillion dollars. At present we do not know.

In 1957, I introduced legislation to require the regular reduction of the statutory Federal debt in years when no national emergency existed. Friends have pointed out to me that we have been in a state of continual national emergency and, furthermore, while our statutory debt has been increasing, our unreported Federal liabilities have been increasing even faster and are not even fully known. Realizing the importance of this area, in the next Congress, I included in my debt reduction bill, a requirement for reports on this unreported debt. In the 87th Congress, when the international situation continued to be difficult, I decided that it would be best to concentrate on the better reporting of the Federal debt, for all our debt has had to increase regularly in order to meet the growing liabilities of the Federal Government.

We have many kinds of Federal obligations—salaries, real estate leases—at my suggestion a full report on these and real estate owned is now made each year to the Senate Appropriations Committee, copies are available to those people interested—procurement of goods and services, and others including some of our international obligations. Reports are made on many of these items, while others are less well recognized.

A very important area, however, which, as I say, is reported sporadically or not at all, is that of future payments for past services rendered, such as retirement funds, social security funds, and other types of payments with insurance characteristics. Both on an annual operating basis, and on a capital or balance sheet basis, the total amount of these Federal Government liabilities is very large.

Some of these obligations are carried under separate trust funds, such as social security or civil service retirement. Others are provided for under annual appropriations. But, in all cases, the payee looks to the Federal Treasury for his security, and this we must guarantee.

I believe strongly that under these circumstances we should know the size of these obligations and, more important, the public is entitled to know what the status of these funds is. If a special fund is assigned to make the payment, will the money be in the fund? If the money is to be appropriated on an annual basis, what will be the effect on the Federal budget? These are two vital questions which many household-

ers try to ascertain for themselves in their own affairs. We in the Federal Government should attempt to do likewise.

Recently, I asked the Treasury Department, which in past years during discussion of my earlier bills has offered to make statements available to Mem-

bers of Congress, what figures they could give me. I attach the table they sent me in response. I ask unanimous consent that it be printed at this point in my remarks.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Title	Most recent actuarial valuation	Valuation interest rate	Actuarial deficit	Supported by cash projection (yes or no)
Federal civilian employees retirement systems:				
Civil Service.....	June 30, 1953	Percent 3.5	Millions \$24,060	No.
Foreign Service.....	Dec. 31, 1952	4.0	203	Yes.
Retirement system of the Tennessee Valley Authority.....	June 30, 1954	3.5	39	No.
Federal judiciary.....	(1)			
Judiciary of territories.....	(1)			
Judiciary of District of Columbia.....	(1)			
Judiciary of Puerto Rico.....	(1)			
Judiciary of Tax Court.....	Dec. 31, 1951	3.0	13	Yes.
Tax Court judges survivors annuity fund.....	(1)			
[P. 23321]				
Social security:				
Old-age, survivors, and disability insurance system.....	Jan. 1, 1952	Percent 3.0	Millions \$21,000	Yes.
Railroad retirement system.....	Dec. 31, 1952	3.0	4,244	No.
Uniformed services retirement systems:				
Retired pay, Defense.....	July 1, 1953	3.0	55,200	No.
Retired pay, U. S. Coast Guard (includes lighthouse and lifesaving services).....	June 30, 1953	3.0	744	No.
Retired pay of commissioned officers, Coast and Geodetic Survey.....	(1)			
Veterans benefit programs:				
Veterans compensation program (service-connected disability or death).....	(1)			
Veterans pension program (Non-service-connected disability or death or for service).....	(1)			
Servicemen's indemnity program.....	(1)			
Miscellaneous:				
District of Columbia teachers' retirement system.....	June 30, 1951	3.0	101	Yes.
Policemen and firemen's retirement and disability, District of Columbia.....	Dec. 31, 1952	3.0	92	No.
Annuitants under special acts:				
Panama Canal construction workers.....	June 30, 1953	3.0	17	No.
Widows of former employees of the Lighthouse Service.....	(1)			
Federal Employees' Compensation Act.....	(1)			
Board of Governors plan of the Federal Reserve banks retirement system.....	Feb. 28, 1953	3.0	None	No.

1 Not available.

2 Not a formal actuarial study, based on estimates.

NOTE.—This table was compiled from the latest available actuaries' statements of other official sources. By nature, the concepts which are subject to wide variation. Unfunded liability rests on broad assumptions of the most common are the assumption that the interest rates will remain constant, and the assumption that there will be no general salary increases. It cannot be said that the bases for the various components of the benefits are entirely uniform.

There are 2 different concepts of actuarial deficit as used by the actuaries in their development of the data. All systems listed except the old-age, survivors, and disability insurance and the railroad retirement use a concept based primarily on the financing of benefits for past services, disregarding the provision, or lack of provision, for future contributions to the fund. In the computation of the deficit for OASDI and RR the concept which is used is based on past services, benefit accruals, plus future benefit accruals to the extent covered by existing financing provisions. Both concepts are defective systems. The validity of this latter assumption as a basis for expressing actuarial status, particularly for the national compulsory social insurance

system, has been seriously questioned as being "artificial and unrealistic," and as a result the unfunded liability for OASDI "is not significant from a long-range standpoint." (See Robert Myers' testimony, December 1953, before OASDI, June 1954, in their 23d annual report, December 28, 1953, for OASI and DI trust funds, in "Record," and the statement of the Board of Trustees, "that the system as a whole remains in close actuarial balance.")

A general definition of an actuarial deficit may be stated as the present value of future benefits, less the present value of future normal contributions, less the existing fund. For example, the civil service retirement concept differs from the OASDI concept only insofar as they use different assumptions for the flow of future contributions for the closed group. The civil service retirement system computation is based on "normal contributions," which roughly approximate the amount of that year's service to be paid into the fund each year to cover the cost of that year's service (whether or not the employee is actually working). The OASDI computation is based on "normal contributions" as any given date; but if the normal contributions are not made, the actuarial deficit is likely to be made in a consideration in the computation of the deficit. The deficit continues to increase—other things being equal. The OASDI computation, on the other hand, is based on scheduled contributions under existing law, or, in other words, estimated future contributions by the existing group or covered employees and employers at the rates presently prescribed by law.

Mr. SALTONSTALL. You will note that the actuarial evaluations in cases such as social security and civil service have not been figured for a number of years, and in other cases less important have not been figured at all. The fact that we have had several increases in retirement benefits since those evaluations were made only increases the problem.

Besides those mentioned in the above table, there are a number of other insurance-type programs such as FHA programs, ship mortgage programs and FDIC. Payment forecasts for these are much more difficult than for the pension, for the actuarial calculations have more guesswork in them. But, better reports to the best of the Federal Government's ability, should also be made on these. Category totals are now listed under the contingency statement, but not the predicted payments.

I am awfully pleased that the Finance Committee has seen fit to report my bill favorably and the Senate has passed it unanimously. Last year following Senate passage, the House was unable to take it up in the Ways and Means Committee due to the long hours spent on the tax cut. I hope that this year they will have an opportunity to act on it, and to send it to the President during this Congress. There is a need for better management of our budget in this area, and it is my hope that this bill will contribute to improved responsibility in our Federal Government's affairs.

The ACTING PRESIDENT pro tempore. The question is on agreeing to the committee amendment.

The amendments were agreed to.

The bill was ordered to be engrossed for a third reading, was read the third time, and passed.

EXCERPT FROM THE REPORT SUMMARY OF THE BILL

This bill would require the Secretary of the Treasury to submit annually to the Congress a brief report setting forth the amounts of the contingent and unfunded liabilities of the Federal Government, including those of agencies and instrumentalities of the Government.

GENERAL STATEMENT

In the past it has been the practice of the Federal Government to determine its financial requirements on an annual basis. This bill does not depart from this practice. However, an annual system of budgeting does not present a complete picture of the financial condition of the United States because it fails to depict numerous categories of Federal obligations and commitments which are subject to contingencies. Similarly, it fails to reveal fully those situations where Congress has enacted spending authorizations, but has not specifically appropriated the moneys needed to fulfill the statutory commitment.

Moreover, by present methods, U.S. liability under many of its insurance and guarantee programs is difficult to measure and analyze. This is because sufficient information regarding these programs either is not

available at all, or if it is available, it is inadequately presented.

In many cases information with respect to contingent liabilities of specific governmental programs now is available only in reports of specific agencies or corporations. However, these data frequently lose much of their usefulness because they are not combined with similar data with respect to other programs. Thus, although part of this information may now be available it is not published in one place or on a uniform basis, and does not facilitate understanding of the current financial condition of the United States.

Your committee believes that it is desirable to make available in a single, concise report, pertinent information with respect to the current status of the contingent liabilities of the Federal Government, including its long-range obligations and commitments. Indeed, the committee recognizes a responsibility to make available in such a report—as clear and complete as possible—the overall financial condition of our Government. Such a report, consolidating information now available only in part in many diverse reports with information which is not now available at all, will enable the Congress to have a better understanding of the current fiscal needs of the Federal Government.

For this reason, the committee has approved, and recommends enactment of a bill requiring the Secretary of the Treasury to submit to the Congress, by March 31 of each year, a report showing the amount (both on an aggregate and on an individual basis) of the contingent liabilities and the unfunded liabilities of the Federal Government determined as of December 31 of each year, commencing with 1966.

The contingent liabilities referred to by the bill include (1) liability of the Government under its various trust funds, such as the old age and survivors insurance trust fund and the highway trust fund; (2) liabilities of Government-sponsored corporations (for example, the Commodity Credit Corporation); (3) indirect liabilities of the Federal Government not included as part of the public debt, such as Federal Housing Administration debentures; and (4) liabilities of Federal insurance and annuity programs.

Under the bill, data with respect to these insurance and annuity programs (which include the civil service retirement system, veterans' pension, and war risk insurance programs) is to include information regarding their actuarial status on both a balance-sheet basis and a projected source-and-application-of-funds basis.

Where appropriate, the report is also to indicate the collateral pledged, or the assets available, as security for the specified liabilities, and an analysis of their significance in terms of past experience and probable risks. Thus, for example, in the case of federally insured home mortgages the assets available on foreclosure may, in favorable circumstances, offset the potential Federal liability. But the reporting of assets is not

[P. 23322]

to stop with a recording of assets related to the liabilities. Under a committee amendment the Secretary of the Treasury is to set forth all other assets which would be available to liquidate liabilities of the Federal Government.

In order to provide flexibility and to prevent data included in the report from being misconstrued or misleading, the bill pro-

vides that the Secretary of the Treasury may set forth such explanatory material as he determines to be necessary or desirable. Under this provision, if he believes particular data are likely to lead to improper conclusions, he may qualify that data sufficiently to negate such conclusions.

Although the Bureau of the Budget does not favor the bill, in its report to the committee on a virtually identical bill in the 88th Congress (dated Dec. 12, 1963), it indicated its agreement with the objectives of the bill as follows:

"We agree with the objectives of S. 2281 that the Congress and its committees should have available whatever information they need with respect to the financial status of the Government. In accordance with this objective, the Treasury Department has been preparing, semiannually, for a number of years, a statement on long-range commitments and contingencies of the U.S. Government. The Bureau of the Budget has on occasion worked informally with Treasury staff on this matter, and consideration has been given to possible extensions and refinements of the data. I believe that more can be done in this respect and, together with the Treasury Department, we shall work with the responsible Government agencies to this end.

"If, in addition, your committee or any other committee of the Congress would like to have particular tabulations, such as those described in S. 2281, we believe it would be appropriate to ask the Treasury Department to supply them when needed. However, we believe the nature of such tabulations should be left flexible, to be determined from time to time, rather than being fixed in a statute."

It is the opinion of the Committee on Finance, as already indicated, that the bill, as reported, preserves the flexibility of tabulations urged in the departmental report.

Moreover, the committee fully recognizes the desirability of refining data now being compiled in order to make it more meaningful and useful, and the bill as reported permits this. By drawing together tabulations regarding contingent liabilities of various departments, agencies, and Government-sponsored corporations, no doubt the Treasury Department will find new ways by which statistical refinements can be made, and tabulating methods improved. This can only serve to increase the quality of the report required by the bill.

The report will fill a need which has been felt by the Congress for many years.

S. 1013

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 20, 1965

Referred to the Committee on Ways and Means

AN ACT

To clarify the components of, and to assist in the management of, the national debt and the tax structure.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Secretary of the Treasury shall, on or before
4 March 31 of each year (beginning with 1966), submit to the
5 Senate and the House of Representatives a report setting
6 forth, as of the close of December 31 of the preceding year,
7 the aggregate and individual amounts of the contingent liabili-
8 ties and the unfunded liabilities of the Government, and of
9 each department, agency, and instrumentality thereof, in-
10 cluding, without limitation, trust fund liabilities, Govern-
11 ment-sponsored corporations' liabilities, indirect liabilities not

1 included as a part of the public debt, and liabilities of insur-
2 ance and annuity programs, including their actuarial status
3 on both a balance sheet and projected source and application
4 of funds basis. The report shall also set forth the collateral
5 pledged, or the assets available (or to be realized), as secu-
6 rity for such liabilities (Government securities to be sepa-
7 rately noted), and an analysis of their significance in terms
8 of past experience and probable risk, and shall also set forth
9 all other assets available to liquidate liabilities of the Govern-
10 ment. The report shall set forth the required data in a
11 concise form, with such explanatory material as the Secre-
12 tary may determine to be necessary or desirable, and shall
13 include total amounts of each category according to the de-
14 partment, agency, or instrumentality involved.

Passed the Senate September 17, 1965.

Attest:

FELTON M. JOHNSTON,

Secretary.

S. 1013

[Report No. 2280]

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 20, 1965

Referred to the Committee on Ways and Means

OCTOBER 14, 1966

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

AN ACT

To clarify the components of, and to assist in the management of, the national debt and the tax structure.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Secretary of the Treasury shall, on or before
4 March 31 of each year (beginning with 1966), submit to the
5 Senate and the House of Representatives a report setting
6 forth, as of the close of December 31 of the preceding year,
7 the aggregate and individual amounts of the contingent liabili-
8 ties and the unfunded liabilities of the Government, and of
9 each department, agency, and instrumentality thereof, in-
10 cluding, without limitation, trust fund liabilities, Govern-
11 ment-sponsored corporations' liabilities, indirect liabilities not

1 included as a part of the public debt, and liabilities of insur-
 2 ance and annuity programs, including their actuarial status
 3 on both a balance sheet and projected source and application
 4 of funds basis. The report shall also set forth the collateral
 5 pledged, or the assets available (or to be realized), as secu-
 6 rity for such liabilities (Government securities to be sepa-
 7 rately noted), and an analysis of their significance in terms
 8 of past experience and probable risk, and shall also set forth
 9 all other assets available to liquidate liabilities of the Govern-
 10 ment. The report shall set forth the required data in a
 11 concise form, with such explanatory material as the Secre-
 12 tary may determine to be necessary or desirable, and shall
 13 include total amounts of each category according to the de-
 14 partment, agency, or instrumentality involved.

15 *That the Secretary of the Treasury shall, on the first day*
 16 *of each regular session of the Congress, submit to the Senate*
 17 *and the House of Representatives a report setting forth, as*
 18 *of the close of the preceding June 30 (beginning with the re-*
 19 *port as of June 30, 1967), the aggregate and individual*
 20 *amounts of the contingent liabilities and the unfunded liabili-*
 21 *ties of the Government, and of each department, agency, and*
 22 *instrumentality thereof, including, so far as practicable, trust*
 23 *fund liabilities, Government corporations' liabilities, indirect*
 24 *liabilities not included as a part of the public debt, and liabili-*
 25 *ties of insurance and annuity programs, including their ac-*

1 *tuarial status. The report shall also set forth the collateral*
2 *pledged, or the assets available (or to be realized), as security*
3 *for such liabilities (Government securities to be separately*
4 *noted), and shall also set forth all other assets specifically*
5 *available to liquidate such liabilities of the Government. The*
6 *report shall set forth the required data in a concise form,*
7 *with such explanatory material (including such analysis of*
8 *the significance of the liabilities in terms of past experience*
9 *and probable risk) as the Secretary may determine to be nec-*
10 *essary or desirable, and shall include total amounts of each*
11 *category according to the department, agency, or instrumen-*
12 *tality involved.*

Passed the Senate September 17, 1965.

Attest:

FELTON M. JOHNSTON,

Secretary.

CONTINGENT LIABILITIES OF THE GOVERNMENT

OCTOBER 14, 1966.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MILLS, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany S. 1013]

The Committee on Ways and Means, to whom was referred the bill (S. 1013) to clarify the components of, and to assist in the management of, the national debt and the tax structure, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert:

That the Secretary of the Treasury shall, on the first day of each regular session of the Congress, submit to the Senate and the House of Representatives a report setting forth, as of the close of the preceding June 30 (beginning with the report as of June 30, 1967), the aggregate and individual amounts of the contingent liabilities and the unfunded liabilities of the Government, and of each department, agency, and instrumentality thereof, including, so far as practicable, trust fund liabilities, Government corporations' liabilities, indirect liabilities not included as a part of the public debt, and liabilities of insurance and annuity programs, including their actuarial status. The report shall also set forth the collateral pledged, or the assets available (or to be realized), as security for such liabilities (Government securities to be separately noted), and shall also set forth all other assets specifically available to liquidate such liabilities of the Government. The report shall set forth the required data in a concise form, with such explanatory material (including such analysis of the significance of the liabilities in terms of past experience and probable risk) as the Secretary may determine to be necessary or desirable, and shall include total amounts of each category according to the department, agency, or instrumentality involved.

PURPOSE

The purpose of S. 1013, as reported by your committee, is to require the Secretary of the Treasury to submit annually to the Congress a brief report setting forth the amounts of the contingent and un-

funded liabilities of the Federal Government, including those of agencies and instrumentalities of the Government.

GENERAL STATEMENT

There are numerous categories of Federal financial commitments which are subject to contingencies. The moneys needed to meet such contingencies have not, in many cases, been specifically appropriated. Moreover, by present methods, the potential U.S. liability under many of its insurance and guarantee programs is difficult to measure and analyze. Sufficient information regarding these financial commitments either is not available at all, or if it is available, it is inadequately presented.

In many cases information with respect to financial contingencies of specific governmental programs now is available only in reports of specific agencies. However, these data frequently lose much of their usefulness because they are not combined with similar data with respect to other programs. Thus, although part of this information may now be available it is not published in one place or on a uniform basis.

Your committee believes that it is desirable to make available in a single, concise report, pertinent information with respect to the current status of the contingent and unfunded liabilities of the Federal Government. Such a report, consolidating information now available only in part in many diverse reports with information which is not now generally available, will enable the Congress to have a better understanding of the current fiscal needs of the Federal Government.

For this reason, your committee has approved, and recommends enactment of this legislation, as amended, to require the Secretary of the Treasury to submit to the Congress, on the first day of each regular session, a report showing the amounts of the contingent liabilities and the unfunded liabilities of the Federal Government, determined as of June 30 of each year, commencing with a report as of June 30, 1967.

The report would include insofar as practicable (1) liabilities of the Government for its various trust funds; (2) liabilities of Government corporations; (3) indirect liabilities of the Federal Government not included as part of the public debt; and (4) liabilities of Federal insurance and annuity programs.

Under the bill, data with respect to insurance and annuity programs (which include for example the civil service and military retirement systems, and veterans' programs) are to include information regarding their actuarial status.

Where appropriate, the report is also to indicate the collateral pledged, or the assets available, as security for the specified liabilities. Thus, for example, in the case of federally insured home mortgages, the assets available on foreclosure may, in favorable circumstances, offset the potential Federal liability.

In order to provide flexibility and to prevent data included in the report from being misconstrued or misleading, the bill provides that the Secretary of the Treasury may set forth such explanatory material as he determines to be necessary or desirable. Under this provision, if he believes particular data are likely to lead to improper conclusions, he may qualify that data sufficiently to negate such conclusions. Where possible, it is intended that the Secretary shall

include in the explanatory material an analysis of the significance of liabilities in terms of past experience and probable risk.

Although the Bureau of the Budget and the Treasury Department were opposed to the provisions of S. 1013, as passed by the Senate, they have subsequently advised your committee that they would interpose no objection to the bill's enactment provided certain technical amendments were adopted to remove some of the operational difficulties which they felt would have been imposed under the Senate version of the measure.

Your committee has incorporated in the bill, as reported, modifications which it believes will reduce the cost of compiling the financial information required without impairing the usefulness of the report.

Your committee is unanimous in recommending enactment of this legislation.

APPENDIX

The following data prepared by the Treasury Department indicates for the items included therein the type of information which would be presented on a governmentwide basis in the reports called for by S. 1013, as reported by your committee. This data was compiled as of June 30, 1965.

FINANCIAL CONTINGENCIES OF THE U.S. GOVERNMENT AS OF JUNE 30, 1965

This statement deals with financial contingencies which are not recognized as legal obligations in terms of real liabilities on the central books of the Treasury or real liabilities and undelivered orders and contracts on the books of operating agencies. The statement is designed to supplement the Government's regular financial reports (e.g., the combined statement of receipts, expenditures, and balances of the U.S. Government) in order to disclose potential claims which are not otherwise reported in a single compilation. Readers are cautioned, however, against misuse of the data since contingencies differ sharply from legal obligations.

Legal obligations fall into two categories: (1) "Liabilities," and (2) "undelivered orders." Liabilities are amounts owed, representing such things as borrowings, uninvested trust fund balances, and accounts payable for goods and services received. Undelivered orders, which include unfilled contracts, are commitments which will mature into liabilities as orders are filled by delivery of goods and services or performance is otherwise rendered under contracts. Contingencies, on the other hand, represent such things as loan guarantees and credit insurance which involve a risk of incurring liabilities, and a concomitant risk of loss, with a high degree of uncertainty as to time or amount. Whereas figures on liabilities and undelivered orders generally represent valuations of firm commitments against Government funds, accurate within a narrow range of variation, figures on contingencies represent merely the upper limit of a wide range of possible future liabilities.

The element of uncertainty is the primary basis for differentiating contingencies from legal obligations. In the case of legal obligations, ultimate payment by the Government is virtually certain or is contingent upon conditions which are likely to occur in the normal course of events. In the case of contingencies, the extent of ultimate payments, if any, and more importantly, the extent of ultimate losses, is contingent upon highly uncertain events such as widespread bank failures, defaults of borrowers, accelerated death rates, or war. Potential losses are further dependent upon the value of assets presently held as reserves against the contingency, the value of contingent assets which might be acquired, and future revenues generated by the existence of the contingency. Substantial losses can be predicted only on the basis of an abnormal course of events.

This statement is divided into three sections: "A. Loans guaranteed and insured"; "B. Other insurance and guarantees in force"; and "C. Other financial contingencies." The columns are arranged to show the monetary limit of the contingency or potential contingency and the amounts of public debt and U.S. agency securities held in connection with the programs giving rise to the contingencies. Certain insurance and guarantee items which are recognized as legal obligations in other reports, and therefore are not classifiable as contingencies, have been omitted from the body of this statement, but are disclosed in accompanying notes in order to have complete coverage of these programs.

The different sections of this statement, and within the sections the different columns, represent essentially different things; consequently the section totals cannot be added together, nor can line items be added across, to arrive at valid and meaningful totals. Likewise, any attempt to add data on contingencies to figures on liabilities and undelivered orders to arrive at a figure purporting to represent the Government's debt would be completely unwarranted. Not only would such a computation involve addition of unlike items; it would involve double counting through adding public debt liabilities to contingencies against which these same public debt items are held as reserves available to cover losses.

A. Contingencies for loans guaranteed and insured

[In millions of dollars]

Agency and program	Amount of contingency for guarantees or insurance in force	Possible future contingency for commitments to guarantee or insure loans	Memorandum: Public debt and agency securities held
Agency for International Development: Foreign investment guarantee fund.....	136		
Agriculture Department: Farmers' Home Administration: Agricultural credit insurance fund.....	727	15	
Commerce Department:			
Office of the Secretary: Aircraft loan guarantees.....	8		
Maritime Administration: Federal ship mortgage insurance fund.....	415	7	1
Export-Import Bank of Washington.....	(1)		
Housing and Home Finance Agency:			
Federal Housing Administration:			
Property improvement loans.....	2 413		34
Mortgage loans.....	47,685	7,474	553
Office of the Administrator: Urban renewal fund.....	1,382		
Public Housing Administration: Local housing authority bonds and notes (commitments covered by annual contributions).....	14,182		8
Interior Department: Bureau of Commercial Fisheries:			
Federal ship mortgage insurance fund, fishing vessels.....	2		
Interstate Commerce Commission.....	199		
Small Business Administration: Revolving fund.....	1 67		
Veterans' Administration: Loan guarantee revolving fund.....	4 16,594		
Defense Production Act of 1950, as amended.....	29	11	
Total loans guaranteed or insured.....	71,839	7,507	596

CONTINGENT LIABILITIES OF THE GOVERNMENT

B. Contingencies for other insurance and guarantees in force

[In millions of dollars]

Agency and program	Amount of contingency	Memorandum: Public debt and agency securities held
Agency for International Development: Foreign investment guarantee fund.....	1,922	-----
Agriculture Department: Federal Crop Insurance Corporation.....	593	-----
Commerce Department:		
Maritime Administration: War risk insurance revolving fund.....	4	3
Export-Import Bank of Washington:		
Medium term guarantees and insurance.....	1,441	-----
Consignment and Foreign Credit Insurance Association short-term insurance.....	1,551	-----
Federal Deposit Insurance Corporation.....	195,596	3,117
Held by insured commercial and mutual savings banks.....		60,471
Federal Home Loan Bank Board:		
Federal Savings and Loan Insurance Corporation.....	102,483	1,313
Held by insured institutions.....		6,940
Federal National Mortgage Association: Government mortgage liquidation fund.....	300	25
U.S. Information Agency: Informational media guarantees.....	(1)	-----
Veterans' Administration:		
National service life insurance.....	38,099	6,060
U.S. Government life insurance.....	1,105	958
Total other insurance or guarantees in force.....	341,094	78,887

C. Other financial commitments

[In millions of dollars]

Agency and program	Amount of contingency	Memorandum: Public debt and agency securities held
Unpaid subscriptions, etc.:		
International Bank for Reconstruction and Development.....	5,715	-----
Inter-American Development Bank.....	1,112	-----
International Development Association.....	312	-----
Total unpaid subscriptions.....	7,139	-----

¹ Excludes insurance and guarantees in force which are reported as legal obligations under sec. 1311 of the Supplemental Appropriations Act of 1955, as follows:

	In millions
Export-Import Bank of Washington:	
Loans sold with recourse.....	38
Medium term guarantees and insurance.....	147
Consignment and Foreign Credit Insurance Association short-term insurance.....	184
Housing and Home Finance Agency: Public Housing Administration.....	855
Small Business Administration.....	22
U.S. Information Agency: Informational media guarantees.....	5

² Represents the estimated insurance coverage on loans aggregating \$1,358,000,000.

³ This amount, plus the related amount shown in footnote 1 represents the guaranteed portion of loans aggregating \$102,000,000.

⁴ Consists of mortgage loans amounting to \$690,000,000 sold under a repurchase guaranty provision and \$15,904,000,000 representing the guaranteed portion of loans aggregating \$30,361,000,000.

⁵ Represents estimated insurance coverage for the 1965 crop year.

⁶ Includes holdings of veterans' special term and veterans' reopened insurance funds.

NOTE.—Certificates of interest sold by Commodity Credit Corporation and participation certificates sold by the Export-Import Bank of Washington with outstanding amounts on June 30, 1965, of \$419,000,000 and \$1,022,000,000, respectively, are reported by the corporations in the category of legal obligations and therefore are not shown in this report of contingencies.

APPENDIX IV

H.R. 18230

**TO AMEND THE INTERNAL REVENUE CODE OF 1954
TO PROVIDE THAT THE TERM "PURCHASE" FOR
PURPOSES OF SECTION 334(b)(2) IS TO INCLUDE
CERTAIN INDIRECT PURCHASES OF STOCK THROUGH
THE PURCHASE OF THE STOCK OF ANOTHER
CORPORATION**

(Sec. 202 of Public Law 89-809)

89TH CONGRESS
2D SESSION

H. R. 18230

[Report No. 2273]

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 6, 1966

Mr. WATTS introduced the following bill: which was referred to the Committee on Ways and Means

OCTOBER 13, 1966

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Insert the part printed in *italic*]

A BILL

To amend the Internal Revenue Code of 1954 to provide that the term "purchase" for purposes of section 334 (b) (2) is to include certain indirect purchases of stock through the purchase of the stock of another corporation.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That (a) section 334 (b) (3) *of the Internal Revenue Code*
4 *of 1954* (relating to definition of purchase) is amended by
5 adding at the end thereof the following new sentence:

6 "Notwithstanding subparagraph (C) of this paragraph,
7 for purposes of paragraph (2) (B), the term 'purchase'
8 also means an acquisition of stock from a corporation the
9 ownership of stock by which would, under section 318

1 (a), be attributed to the person acquiring such stock, if
 2 the stock of such corporation by reason of which such
 3 ownership would be attributed was acquired by purchase
 4 (within the meaning of the preceding sentence)."

5 (b) Section 334(b) (2) (B) of such Code (relating
 6 to exception) is amended by striking out "during a period of
 7 not more than 12 months," and inserting in lieu thereof
 8 "during a 12-month period beginning with the earlier of—

9 " (i) the date of the first acquisition by
 10 purchase of such stock, or

11 " (ii) if any of such stock was acquired in
 12 an acquisition which is a purchase within the
 13 meaning of the second sentence of paragraph
 14 (3), the date on which the distributee is first
 15 considered under section 318(a) as owning
 16 stock owned by the corporation from which such
 17 acquisition was made,".

18 (c) Section 453(d) (4) (A) of such Code (relating
 19 to distribution of installment obligations in certain liquida-
 20 tions) is amended to read as follows:

21 "(A) LIQUIDATIONS TO WHICH SECTION 332
 22 APPLIES.—If—

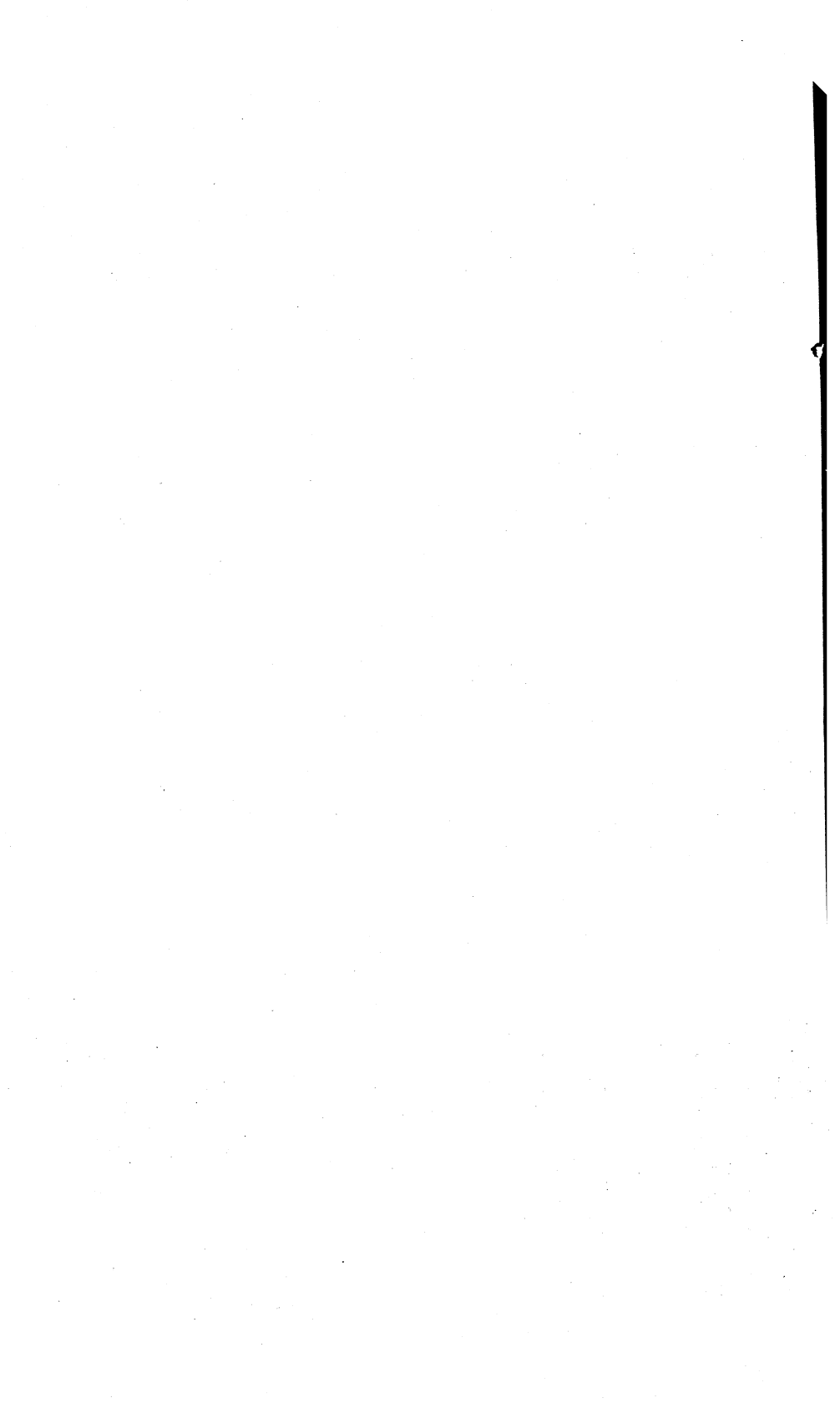
23 "(i) an installment obligation is distributed
 24 in a liquidation to which section 332 (relating

1 to complete liquidations of subsidiaries) applies,
2 and

3 “(ii) the basis of such obligation in the
4 hands of the distributee is determined under
5 section 334 (b) (1),

6 then no gain or loss with respect to the distribution
7 of such obligation shall be recognized by the dis-
8 tributing corporation.”

9 (d) EFFECTIVE DATES.—The amendment made by sub-
10 section (a) shall apply only with respect to acquisition of
11 stock after December 31, 1965. The amendments made by
12 subsections (b) and (c) shall apply only with respect to dis-
13 tributions made after the date of the enactment of this Act.



TAX TREATMENT OF CERTAIN INDIRECT PURCHASES OF STOCK

OCTOBER 13, 1966.—Committed to the Committee of the Whole House on the
State of the Union and ordered to be printed

Mr. MILLS, from the Committee on Ways and Means, submitted the
following

R E P O R T

[To accompany H.R. 18230]

The Committee on Ways and Means, to whom was referred the bill (H.R. 18230) to amend the Internal Revenue Code of 1954 to provide that the term "purchase" for purposes of section 334(b)(2) is to include certain indirect purchases of stock through the purchase of the stock of another corporation, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Page 1, line 3, after "334(b)(3)", insert "of the Internal Revenue Code of 1954".

Page 2, line 5, after "334(b)(2)(B)", insert "of such Code".

Page 2, line 18, after "453(d)(4)(A)", insert "of such Code".

I. SUMMARY

This bill provides that in determining the basis of property received in the liquidation of a subsidiary corporation, stock purchased by a corporation from a subsidiary is to be treated as purchased (irrespective of the attribution rules under sec. 318), if the stock was in fact purchased. The bill also eliminates an existing tax avoidance possibility by providing that installment notes are, under certain circumstances, to be treated as "disposed of" for purposes of section 453(d) (the installment sale provision).

This bill is reported unanimously by your committee and the Treasury Department has indicated that it has no objection to its enactment.

II. GENERAL STATEMENT

(a) *Purchase of stock.*—Under present law if one corporation purchases 80 percent or more of the stock of another within a 12-month period and then causes the corporation acquired to be liquidated within 2 years of the last purchase, the basis of the assets it receives is the amount it paid for the stock. However, in order to prevent manipulation, stock purchased from a person related to the buyer by the attribution rules (under sec. 318) is not treated as stock “purchased.”

Cases have been called to your committee's attention where it is necessary to acquire control of one corporation in order to obtain an 80 percent or greater stock interest in another corporation. For example, assume that one corporation desires to purchase the stock of a second corporation and does in fact purchase 45 percent of its stock directly. However, 40 percent of the stock of the second corporation is owned by a third corporation, and the third corporation does not wish to sell the stock of the second corporation. In order to acquire the stock of the second corporation, therefore, the first corporation purchases over 50 percent of the third corporation's stock and then causes this corporation to sell to it the 40 percent of the stock of second corporation owned by the third. However, since at the time of the sale, the first corporation owns more than 50 percent of the stock of the third corporation, the two corporations are classified as related under the attribution rules (sec. 318). Accordingly, under present law, the first corporation is not treated as the purchaser of more than 80 percent of the stock of the second although it acquired directly or indirectly all of this stock for cash within a 12-month period.

This bill eliminates the problem described above by amending present law so that it provides that stock purchased from a subsidiary is to be treated as purchased, if a controlling interest in a subsidiary was purchased within a 12-month period. The bill also provides that the 12-month period within which the desired stock must be acquired begins with the date of the first direct acquisition by purchase of such stock, or the date on which 50 percent of the stock of the corporation holding such stock was acquired, whichever is earlier. The new definition of “purchase” applies with respect to acquisitions of stock after December 31, 1965. The provision for measuring the time period of stock acquisition applies with respect to distributions made after the date of enactment of the bill.

(b) *Installment notes.*—When one corporation buys more than 80 percent of the stock of another within 12 months and causes the corporation acquired to be liquidated within 2 years of the last acquisition of stock, the basis of the assets acquired is the amount paid for the stock (properly allocated). In such a case, generally no gain is recognized to the distributing corporation (unless it is a corporation which elected 341(f) treatment to avoid danger of being treated as a collapsible corporation, or unless the sections dealing with the recapture of depreciation apply).

If the property received on a liquidation of the type described above (to which sec. 334(b)(2) applies) consists of installment notes, then the gain which would normally be taxed on the sale or collection of such notes may, in whole or in part, permanently escape income taxation. This would result if the basis of such notes were raised to the amount paid for them by the acquiring corporation even though no gain were recognized to the distributing corporation.

This bill eliminates the tax avoidance possibility under present law by providing that installment notes transferred in a liquidation of the type described above are to be treated as "disposed of" for purposes of the installment sale provision (sec. 453(d)). Accordingly, gain is to be recognized to the distributing corporation, in the same manner as if it had sold the notes.

This provision is effective with respect to distributions made after the date of enactment.

III. CHANGES IN EXISTING LAW MADE BY THE BILL: AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTIONS 334 AND 453 OF THE INTERNAL REVENUE CODE OF 1954

SEC. 334. BASIS OF PROPERTY RECEIVED IN LIQUIDATIONS.

* * * * *

(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,] *during a 12-month period beginning with the earlier of—*

(i) *the date of the first acquisition by purchase of such stock, or*

(ii) if any of such stock was acquired in an acquisition which is a purchase within the meaning of the second sentence of paragraph (3), the date on which the distributee is first considered under section 318(a) as owning stock owned by the corporation from which such acquisition was made,

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.

Notwithstanding subparagraph (C) of this paragraph, for purposes of paragraph (2)(B), the term “purchase” also means an acquisition of stock from a corporation the ownership of stock by which would, under section 318 (a), be attributed to the person acquiring such stock, if the stock of such corporation by reason of which such ownership would be attributed was acquired by purchase (within the meaning of the preceding sentence).

(4) DISTRIBUTEES 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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SEC. 453. INSTALLMENT METHOD.

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(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. If the basis of the property of the liquidating corporation in the hands of the distributee is determined under section 334(b)(2) then the preceding sentence shall not apply to the extent that under paragraph (1) gain to the distributing corporation would be considered as gain to which section 341(f) or section 617(d)(1), 1245(a), or 1250(a) applies.]

(A) LIQUIDATIONS TO WHICH SECTION 332 APPLIES.—If—

(i) an installment obligation is distributed in a liquidation to which section 332 (relating to complete liquidations of subsidiaries) applies, and

(ii) the basis of such obligation in the hands of the distributee is determined under section 334(b)(1),

then no gain or loss with respect to the distribution of such obligation shall be recognized by 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. The preceding sentence shall not apply to the extent that under paragraph (1) gain to the distributing corporation would be considered as gain to which section 341(f) or section 617(d)(1), 1245(a), or 1250(a) applies.

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