

SUMMARY OF REVENUE ACT OF 1971 AS
ENACTED INTO LAW

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Significant Dates in the Development of the Revenue Act of 1971

Report of Ways and Means Committee ^{1/}	September 29, 1971
Passage of Bill by House of Representatives	October 6, 1971
Report of Senate Finance Committee ^{2/}	November 9, 1971
Commencement of Senate Floor Debate	November 11, 1971
Completion of Senate Floor Debate	November 22, 1971
Conference Report ^{3/}	December 4, 1971
Passage of Conference Report in House and Senate	December 9, 1971
Presidential Approval	December 10, 1971

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- ^{1/} The Revenue Act of 1971. Report of the House Committee on Ways and Means, September 29, 1971. House Report No. 92-533, 92nd Congress, 1st Session.
- ^{2/} The Revenue Act of 1971. Report of the Senate Committee on Finance, November 9, 1971. Senate Report No. 92-437, 92nd Congress, 1st Session.
- ^{3/} Conference Report (S. Rept. No. 92-553); (H. Rept. No. 92-708).

SUMMARY OF REVENUE ACT OF 1971 AS ENACTED INTO LAW

I. Job Development Investment Credit: Depreciation Revision

The act provides a 7-percent job development investment credit. The credit is generally effective on August 15, 1971 (although also effective with respect to earlier deliveries where orders were placed after the end of March, 1971). At the same time, the act modifies the liberal depreciation system (Asset Depreciation Range) provided by administrative action in January, 1971, to remove an element allowing full depreciation for assets in the first partial year of their use (referred to as the first-year convention). The modification in the depreciation system (ADR) offsets the initial revenue impact of the investment credit by forestalling tax reductions which would otherwise occur as a result of administrative action.

The major detailed provisions are:

(1) The President may continue to deny the investment credit with respect to foreign produced property after the 10 percent additional import duty, originally imposed August 15, 1971, has been removed; and may restore the credit, retroactively to any date after August 15, 1971, on foreign produced goods on a country-by-country and commodity-by-commodity basis.

(2) Up to \$50,000 of used property is eligible for investment credit in a year and this amount need not be reduced by investments in new property.

(3) Taxpayers other than public utilities, for purposes of reporting to Federal agencies and making financial reports, may account for the tax benefit of the investment credit either currently in the year in which the

investment credit is taken, or ratably over the life of the asset. Special, less flexible, rules are provided for public utilities.

(4) A 7-percent investment credit rate will apply to international telegraph companies (as in prior law) while public utilities including regulated telephone companies and domestic telegraph companies will be allowed a 4 percent credit (compared with 3 percent under prior law). In addition, the 4 percent rate of investment credit will apply to telephone and microwave property of unregulated companies, where the property is used predominantly for communication and in competition with property of regulated (4 percent) companies.

(5) A Senate provision allowing a 10 percent investment credit (instead of 7 percent), for certain property placed in service in rural areas and central cities, was deleted from the final version of the act.

(6) The provisions which now limit carryovers of unused investment credits from 1970 and earlier years, will not apply after August 15, 1971.

II. Changes in Personal Exemptions, Minimum Standard Deductions, Withholding, Et Cetera

Individual income tax reductions are provided for taxpayers who have been hardest hit by inflation and where the greatest impact on increased consumer spending can be anticipated. For 1971, the act increases personal exemptions from \$650 to \$700 effective for one-half the year (\$675 for the entire year). In addition, the act removes the "phase-out" of the minimum standard deduction for 1971, in order to allow the full deduction where income somewhat exceeds poverty levels and thus to provide additional relief in the lower income tax brackets.

For 1972 and subsequent years, the act further increases all personal exemptions to \$750. Also, the minimum standard deduction (or low-income allowance) is increased from \$1,000 to \$1,300, and the percentage standard deduction is further increased to 15 percent (already scheduled to go to 14 percent with a \$2,000 ceiling in 1972). The 1972 provisions are designed to assure that the individual income tax will not be imposed below the poverty level (taking into account anticipated poverty levels for 1972).

The act also corrects the withholding system to avoid a degree of underwithholding which existed during 1971. The changes are effective with respect to wages paid after January 15, 1972.

The act adds a provision for itemized deductions of certain expenses of child care and domestic help incurred by families with only one adult, or where the spouse is disabled, or where both husband and wife work full-time. The itemized deductions may amount to as much as \$400 a month for child care and domestic help in the home and in the case of care outside the home may amount to \$200 a month for one child, \$300 a month for two children and \$400 a month for three or more children. The itemized deduction limit is subject to reduction, on a 2 for 1 basis, where adjusted gross income of the family exceeds \$18,000 a year.

The act also provides that the Internal Revenue Service is required to give prior notice to taxpayers before making a levy on salary or wages.

III. Structural Improvements

The act makes a series of structural improvements as follows:

(1) In the case of a taxpayer who is claimed as the dependent of another, the percentage standard deduction is computed only with reference to earned income and the low-income allowance is not to exceed his earned income.

(2) Carryovers of unused investment credits, of unused work incentive program credits, of excess foreign tax credits and of capital losses are to be limited in the case of corporate reorganizations similarly to the limitation applicable to net operating loss carryovers.

(3) 5-year amortization is allowed for certain expenditures by businesses for on-the-job training or child-care facilities.

(4) "Net lease", a concept which determines that rental payments be treated as "excess investment interest" with limited deductibility after 1971, and which depends on a less than 15 percent ratio of business deductions to rental income, is clarified for cases in which the property may be subject to two or more leases.

(5) A clarification is provided with respect to farm losses incurred by Subchapter S Corporations (small business corporations electing to be taxed as if their shareholders were partners).

(6) A clarification is provided as to capital gain distributions from accumulation trusts.

(7) A clarification is provided so that a corporation doing virtually all of its business in the Virgin Islands would not receive the 14 percent rate reduction, under the Virgin Islands tax law which is a "mirror" of U.S. law, as a Western Hemisphere Trade Corporation.

(8) A clarification is provided that capital gains derived from sources outside the U.S. will be considered as preference income for purposes of minimum tax not only where the foreign country taxes them at preferential rates but also where the foreign country does not tax them at all. This applies to taxable years after 1969.

(9) A clarification is provided that tax refund suits may be brought in the U.S. Court of Claims or U.S. District Court even though the refund arises out of a tax treaty with a foreign country and such courts may not have jurisdiction in treaty cases generally.

(10) Illegal bribes and kickbacks, are made non-deductible, not only where there has been a criminal conviction or plea of nolo contendere but also where such are illegal under a law subjecting the payor to loss of license or criminal penalty. This is effective after 1969. Similarly, certain medical referral payments with regard to services paid for under the Social Security Act will be illegal and nondeductible, effective with the date of enactment of this act.

(11) A clarification is provided of the rebuttable presumption as to when an activity is engaged in for profit (two profit years out of the 5 or 7 ending with the current one), to accommodate a new activity.

(12) A clarification is provided as to certain distributions of property to a foreign corporation, under which the amount of the distribution will be considered as the fair market value of the property.

(13) A clarification is provided of the taxing and withholding of original issue discount in the case of non-resident aliens and foreign corporations.

(14) An election is provided under which taxpayers, whether financial institutions or not, may elect to consider income from certain vessels and aircraft as derived from sources within the U.S. Such an election is to apply equally to losses as well as income from such vessels and aircraft.

(15) Two clarifying changes are made with respect to industrial development bond interest which may continue to be excluded from income subject to tax. One concerns bonds for water facilities and the other concerns expenditures which may be disregarded in calculating the \$5 million limit defining a small issue on which interest is non-taxable.

(16) A criminal penalty is provided for disclosure of information (with specific exceptions) by preparers of income tax returns.

IV. Excise Tax

The 7-percent manufacturers excise tax on new passenger automobiles (both domestic and foreign) is repealed effective with the date of enactment. For those taxes paid for the period back to August 15, 1971, consumer refunds or floor stocks refunds for new vehicles are provided. In addition, the act repeals the 10-percent excise tax on new light-duty trucks (those weighing 10,000 pounds or less gross vehicle weight) both foreign and domestic, with consumer refunds or floor stock refunds for the period after September 22, 1971.

Excise taxes are repealed also on trailers and semi-trailers of 10,000 pounds or less which are suitable for use with light duty trucks, on domestic buses to be used predominantly in urban mass transportation service, and on trash containers for use in conjunction with trucks for solid waste disposal.

The excise tax is expanded (with proceeds going into the Highway Trust Fund) to apply to original tires and tubes on imported vehicles. A Senate provision allocating 7 percent of alcoholic taxes to the Highway Trust Fund was deleted from the final version of the act.

There is no provision specifically requiring the Treasury Department to issue regulations to assure that the benefits of the repeal of the automobile excise tax are actually passed on to the ultimate consumers. The conference report stresses, however, that the Treasury Department and Council of Economic Advisers will oversee and report on the matter so that the taxwriting committees of Congress may determine whether the tax should be reimposed.

The act allows a credit, against up to 80 percent of the Federal occupational tax on coin-operated gaming devices, for State taxes imposed on legal gaming devices (but only where the State is imposing such a tax on the date of enactment).

V. Domestic International Sales Corporations

Tax deferral is provided for 50 percent of the export-related profits of domestic international sales corporations (DISC's) effective with the calendar year 1972. A DISC is essentially a domestic corporation substantially all of whose assets and gross receipts are export-related.

The tax deferral will be granted on profits so long as they are retained in the DISC, or are the subject of a "producer's loan". A number of detailed provisions assure that the income which is given tax deferral treatment is not used by the parent corporation or others to make investments

abroad. A parent corporation is allowed to sell its export products to the DISC at prices which permit the latter a relatively high level of earnings. (e.g. 4 percent on sales; or 50 percent of combined income from manufacturing and sale of exports, plus 10 percent of export promotion expenses (defined to include 50 percent of shipping expenses from use of U.S. ships or aircraft)). A special provision allows a foreign corporation (which qualified as an "export trade corporation" in at least one of the 3 years before November 1, 1971) to transfer its assets to a DISC without tax consequences.

VI. Job Development Related to Work Incentive Program

The act provides an income tax credit for certain expenses incurred in the work incentive program (WIN) for recipients of aid to families with dependent children under the Social Security Act. The credit will be 20 percent of the cash wages paid to the employee, (who must work in the U.S. and not be related to the employer) during the first 12 months of his employment subject to limits similar to those applicable to the investment credit. Similar provisions are also made as to carryback and carryover of unused credits. The credit may be subject to recapture if the employee does not remain with the employer for 12 additional months. The Secretary of Labor must certify that the WIN employee did not displace another employee, and wages paid must be equal to that of non-WIN employees performing similar services.

VII. Tax Incentives for Contributions to Candidates for Public Office

The act allows an individual a credit against income tax for 1/2 of political contributions made during a taxable year up to a maximum credit of \$25, for a joint return, and \$12.50 for other taxpayers. Such contributions can be to a candidate in any Federal, State or local election or to a political committee. As an alternative the taxpayer could deduct contributions up to \$100, for a joint return, and \$50 for other taxpayers. These provisions apply after 1971.

VIII. Financing of Presidential Election Campaigns

Presidential candidates of each major party (25 percent or more of the vote in the preceding election) would be entitled to public financing of 15¢ multiplied by the number of U.S. residents over age 18 in the preceding year. A minor party (5 to 25 percent of the total vote) would be entitled to a fraction in accordance with its vote as compared with the average vote of the major parties. Provision is made for measuring the strength of minor parties both in terms of the preceding and the current election.

The public financing, is based on a "check-off" system under which an individual can designate that \$1 of his tax liability be set aside in a special account in the Presidential Election Campaign Fund for the candidates of a political party specified by him. The individual may if he wishes direct that the \$1 be placed in a non-partisan general account. If no designation is made, nothing will be set aside. This system is to begin with income tax returns for calendar 1972.

If the candidates of a political party elect public financing, payments can be made to them only out of the special account designated for that party. If the account is insufficient, the money in the non-partisan general account may be used to bring the special accounts closer to their entitlements. Up to 80 percent of the general account would be distributed 60 days before the election and the balance, if needed, after the current election and based on votes received in that election.

If a major party elects public financing it cannot spend on the general campaign more than its entitlement (15¢ times U.S. residents over 18 in the preceding year). It then cannot accept private contributions unless its special account is inadequate in which case it may accept private contributions to bring it to its entitlement amount. A minor party may accept private contributions limited to actual campaign expenses not covered by public financing; and total campaign expenses may not exceed the entitlement amount of a major party.

The payments into the Fund will be made only as provided by Appropriation Acts, in amounts not in excess of the amounts checked off on the tax returns. The Comptroller General will certify the amounts payable to the candidates, will receive reports from the candidates, will publish the reports, is empowered to bring court actions, et cetera.

This title is effective after 1972.

ESTIMATED EFFECT OF THE REVENUE ACT OF 1971 AS APPROVED BY THE CONFERENCE ON CALENDAR YEAR
TAX LIABILITY 1971-73, FISCAL YEAR TAX RECEIPTS 1972-74. 1/

(In millions of dollars)

Provision	Calendar year tax liability			Fiscal year tax receipts		
	1971	1972	1973	1972	1973	1974
I. Job Development Investment Credit; Depreciation Revision						
Reinstating investment credit:						
As passed by the House	-1,500	-3,600	-3,900	-2,420	-3,590	-3,960
Reducing the limitation on used property to \$50,000	+5	+10	+10	+5	+10	+10
Allowing credit for \$50,000 of used property without reducing it for purchases of new property	-15	-20	-20	-15	-20	-20
Eliminating 3/4 year convention from the asset de- preciation range (ADR) system	+2,100	+1,700	+1,500	+2,470	+1,660	+1,420
II. Changes in Personal Exemptions, Minimum Standard Deductions, Withholding et cetera						
Liberalizing exemption and standard deduction provisions of the individual income tax:						
Eliminating phaseout from 1971 minimum standard deduction and increasing exemp- tion from \$650 to \$675	-1,370			-1,370		
Advancing 1973's 15 percent standard deduc- tion and \$750 exemption to 1972		-2,190		-855	-1,335	
Increasing the minimum standard deduction to \$1,300 for 1972 and thereafter		-1,040	-1,090	-405	-1,105	-1,110
Providing household help, and liberalizing child-care deduction		-145	-150	-15	-145	-150
Correcting individual income tax withholding				+725	+75	
III. Structural Improvements						
Denying the standard deduction (both minimum and percentage) to the unearned income of taxpayers who are dependent children of other taxpayers		+70	+75	+5	+70	+75

Provision	Calendar year tax liability			Fiscal year tax receipts		
	1971	1972	1973	1972	1973	1974
IV. Excise Tax						
Repealing automobile excise tax	-800	-2,200	-1,900	-2,200	-2,000	-1,800
Allowing credit to State tax on coin operated gaming devices		-10	-10		-10	-10
Imposing excise tax (10¢ per lb.) on tires of imported automobiles	Neg.	+25	+25	+10	+25	+25
Repealing truck (10,000 G.V.W. lbs. or less) and local transit bus excise tax	-100	-365	-365	-280	-365	-365
V. Domestic International Sales Corporations						
Providing tax deferral for domestic international sales corporations (DISC)		-100	-170	Neg.	-100	-170
VI. Job Development Related to Work Incentive Program						
Providing tax credit to employees of public assistance recipients under the Work Incentive Program (WIN)		-25	-30	-10	-25	-30
VII. Tax Incentive for Contribution to Candidates for Political Office						
Providing a tax credit for political contributions		-100	-25	-10	-90	-30
TOTAL	-1,680	-7,990	-6,050	-4,365	-6,945	-6,115

1/ Estimates for all provisions in this table reflect growth except for the provisions relating to excise taxes.

Source: Joint Committee on Internal Revenue Taxation