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TRAVEL UNDER PRESENT LAW, H. R. 5265,
AS PASSED BY THE HOUSE OF REPRE-
SENTATIVES, AND H. R. 5265, AS PASSED
BY THE SENATE

PREPARED BY THE STAFF OF THE

JOINT COMMITTEE
ON INTERNAL REVENUE TAXATION



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APPLICATION OF THE TAX ON TRANSPORTATION OF PERSONS TO FOREIGN TRAVEL UNDER PRESENT LAW, H. R. 5265, AS PASSED BY THE HOUSE OF REPRESENTATIVES, AND H. R. 5265, AS PASSED BY THE SENATE

I. LEGISLATIVE HISTORY OF THE TRANSPORTATION TAX ON PERSONS

By the Revenue Act of 1941, a tax of 5 percent of the amount paid was imposed on payments for the transportation of persons. The tax applied to all payments made in the United States regardless of the point of origin or destination of the trip. Under the Revenue Act of 1942, the rate was increased to 10 percent and under the 1943 act, to 15 percent. Under the Excise Tax Act of 1947, transportation to points in Europe, Asia, and South America was granted exemption except on the part of the trip between ports or stations in the United States, Canada, or Mexico. In applying this rule, Canada is defined as not including Newfoundland under an amendment made in 1949. Under the 1950 act, a tax was imposed on amounts paid outside the United States for transportation beginning and ending in the United States. Under the Revenue Act of 1951, a special relief provision was added for ships that stopped at more than one American port on the way from the United States to Europe or South America but which could not carry passengers between the American ports. The rate was reduced from 15 percent to 10 percent in 1954.

H. R. 5265, a bill to exempt certain additional foreign travel from the tax on transportation of persons, was reported by the Committee on Ways and Means with an amendment and passed by the House. The bill was favorably reported by the Committee on Finance with an amendment striking all after the enacting clause. An additional exemption provision was added by a floor amendment, and the bill was passed by the Senate.

II. APPLICATION OF PRESENT LAW, HOUSE BILL, AND SENATE BILL TO TRIPS OUTSIDE THE NORTHERN PORTION OF THE WESTERN HEMISPHERE

A. GENERAL RULES

1. *Present law.*—Under present law, transportation purchased in the United States (which includes the States, District of Columbia, Alaska, and Hawaii) is fully taxed unless part of the transportation is outside the northern portion of the Western Hemisphere (that is, the North American and Central American area). In case the transportation is partly outside this area, such as trips to Europe, South America, and Asia, then the trip is exempt from tax except on the portion of the transportation which is from one stop in the United States, Canada, or Mexico to another stop in the United States, Canada, or Mexico.

2. *House bill.*—Under the House bill, the rule in present law would be continued except that the trip would be exempt from the last stop in the United States rather than from the last stop in the United States, Canada, or Mexico.

3. *Senate bill.*—Under the Senate bill, a trip will be completely exempt if it ends outside the United States or outside the area of Canada or Mexico within 225 miles of the United States. Regardless of the destination, the trip will be exempt if part of the transportation is outside the northern portion of the Western Hemisphere.

B. EXAMPLES

1. *Trip from New York to Rio de Janeiro, Brazil.*—Under present law and the House bill, a person would be exempt if he went without stopping, but if he went via Miami, the portion of this trip between New York and Miami would be taxed. Under the Senate bill, the entire trip would be completely exempt regardless of the route taken.

2. *Airplane trip from Chicago to London stopping only at Montreal, Canada.*—Under present law, the Chicago-Montreal portion of the trip would be taxed. Under the House bill and the Senate bill, the trip would be exempt.

3. *Voyage from New York to London via Boston on a foreign steamship.*—The trip would be fully exempt under present law, the House bill, and the Senate bill. Under present law and the House bill, the portion of the trip between New York and Boston would have been taxed if the ship had been a United States ship rather than a foreign ship which was not allowed to discharge passengers in Boston.

4. *Airplane from New York to Manila via San Francisco and Honolulu.*—Under present law, the trip would be taxed on the New York-Honolulu portion. Under the House bill, the New York-San Francisco portion would be taxed, and a very small part of the San Francisco-Honolulu portion would be taxed under the rule explained in part IV. Under the Senate bill, the entire trip would be exempt.

5. *Transportation from Jacksonville, Fla., to Los Angeles via Miami and Caracas, Venezuela, and Panama.*—Under present law, the trip would be exempt except on the Jacksonville-Miami portion, since Caracas is outside the northern portion of the Western Hemisphere. Under the House bill, it would have been exempt on the portion outside the United States. Under the Senate bill, it would have been completely exempt.

III. APPLICATION OF PRESENT LAW, HOUSE BILL, AND SENATE BILL TO TRIPS TO CENTRAL AMERICA, CARIBBEAN AREA, AND CANADA

A. GENERAL RULES

1. *Present law.*—Payments made in the United States for transportation to points in Canada, the Caribbean area, and Central America are fully taxed.

2. *House bill.*—Transportation to Canada, the Caribbean area, and Central America would only be taxed on the portion of the trip between stops in the United States.

3. *Senate bill.*—Transportation would be completely exempt if the destination is outside the United States or the part of Canada and

Mexico within 225 miles of the United States. Transportation to points in Canada and Mexico within 225 miles of the United States would be fully taxed.

B. EXAMPLES

1. *Transportation from New York to Mexico City via nonstop flight.*—Under present law, the trip would be fully taxed. Under the House bill and the Senate bill, the trip would be exempt.

2. *Transportation from New York to Mexico City via flight stopping at Dallas.*—Under present law, the trip would be fully taxed. Under the House bill, it would be taxed on the New York-Dallas portion. Under the Senate bill, it would be exempt.

3. *Transportation from New York to Mexico City by train or bus.*—Under present law, the trip would be fully taxed. Under the House bill, it would be taxed to the Mexican border. Under the Senate bill, the trip would be exempt.

4. *Transportation from New York to Vancouver, British Columbia, Canada.*—Under present law, the trip would be fully taxed. Under the House bill, if the person flew from New York to Montreal and from there to Vancouver, he would be exempt, but if he flew from New York to Seattle and from there to Vancouver, he would be subject to tax on the New York-Seattle portion. Under the Senate bill, the trip would be fully taxed, since Vancouver is within 225 miles of the United States.

5. *Round-trip transportation from New York to Habana.*—A round trip is taxed as one trip from the point of origin to the destination and another from the destination to the original point of origin. Under present law, the trip is fully taxed. Under the House bill, the trip would be exempt if the person flew nonstop, but if he went via Miami, he would be subject to tax on the New York-Miami portion of the trip. Under the Senate bill, the entire trip would be exempt.

IV. APPLICATION OF PRESENT LAW, HOUSE BILL, AND SENATE BILL TO TRIPS BETWEEN POINTS WITHIN THE UNITED STATES

A. GENERAL RULES

1. *Present law.*—Payments in the United States for transportation between points within the United States are ordinarily taxed although a portion of the trip may be outside the United States. However, if part of the trip is outside the northern portion of the Western Hemisphere, the rule for trips outside the northern portion of the Western Hemisphere is applicable.

2. *House bill.*—Under the House bill, transportation between points in the United States is fully taxed unless the person passes through a point more than 200 miles outside the United States. If he passes through a point more than 200 miles outside the United States, the entire portion of the trip outside the United States is exempt. This exception was intended to apply primarily to trips to Alaska and Hawaii but would include some other trips between points in the United States.

3. *Senate bill.*—With two exceptions, trips beginning and ending in the United States are fully taxed. As in the case of present law, a

trip beginning and ending in the United States that goes outside the northern portion of the Western Hemisphere would be treated as a trip to and from a point outside the northern portion of the Western Hemisphere. The bill, as reported out by the Finance Committee, would not have given special treatment to trips to Alaska and Hawaii. However, under a floor amendment, in the case of trips to or from Alaska or Hawaii, the portion of the trip outside the United States will be exempt except that no exemption will be given for a part of the trip that is between stops in the Territory or between stops in the continental United States and the adjacent 225-mile zones in Canada or Mexico.

B. EXAMPLES

1. *Transportation from New York to Honolulu via San Francisco.*—Under present law, the trip is fully taxed. Under the House bill and the Senate bill, the portion of the trip between the California boundary and the Hawaiian boundary would be exempt.

2. *Transportation from New York to Honolulu via Vancouver, Canada.*—Under present law, the trip is fully taxed. Under the House bill, the part of the trip in Canada and over the international waters in the Pacific would be exempt. Under the Senate bill, the part of the trip from Vancouver to the Hawaiian boundary would be exempt.

3. *Transportation from New York to Seattle via Canadian Pacific Railway.*—The trip would be fully taxed under present law and both bills. The route of the Canadian Pacific does not go more than 200 miles outside the United States.

4. *Transportation from New York to Seattle via Canadian National Railway.*—The trip would be fully taxed under present law and the Senate bill. Under the House bill, the portion of the trip in Canada would be exempt, since the route of the Canadian National goes more than 200 miles outside the United States.

5. *Transportation from Miami to Los Angeles via Panama.*—The trip would be fully taxed under present law and the Senate bill. Under the House bill, the portion of the trip outside the United States would be exempt.

V. PAYMENTS MADE OUTSIDE THE UNITED STATES

Under present law, tickets purchased outside the United States are taxed only if the trip begins and ends in the United States. Thus, a ticket purchased in Habana for transportation from Habana to Chicago via Miami is exempt. Both the House and Senate bills continue the rule in present law for payments made outside the United States with clerical and conforming changes.

VI. REVENUE ESTIMATES

H. R. 5265, as introduced, involved an estimated revenue loss of \$12 million. The Committee on Ways and Means amended the bill to exclude from tax the portion of a trip outside the United States in the case of a trip which begins and ends in the United States but where the route of transportation passes through a point at least 200 miles from the nearest boundary of the United States. The

committee report carried the original estimate of \$12 million and did not reflect this change in the bill.

It was found later that this additional exemption increased the revenue loss by about \$5 million. In September 1955, additional data on foreign travel, published by the Department of Commerce, showed that travel to Mexico and the Caribbean area was growing rapidly. On the basis of this data, the estimate of revenue loss for H. R. 5265 was increased by \$3 million, so when the bill was referred to the Committee on Finance this year, the revenue estimate of \$20 million was used.

The bill, as reported by the Committee on Finance, exempted from tax the domestic portion, as well as the portion from the last United States port, of trips to points outside the United States or the portion of Canada or Mexico within 225 miles of the United States. However, the Finance Committee bill did not grant any exemption for trips beginning and ending in the United States, and the exemption for travel to Mexico or Canada was restricted to transportation to a point more than 225 miles from the United States boundary. These changes had offsetting effects, and the revenue estimate for the Senate bill, as reported, was also \$20 million.

On the floor of the Senate, H. R. 5265 was amended to exclude that portion of a trip between Alaska or Hawaii and the continental United States which is outside the United States. The cost of this amendment is estimated as \$5 million, making the total cost of the bill, as passed by the Senate, \$25 million.

VII. APPENDIX—PROVISIONS OF PRESENT LAW IMPOSING THE TAX AND GRANTING EXEMPTIONS TO CERTAIN FOREIGN TRAVEL AND CORRESPONDING PROVISIONS IN THE HOUSE AND SENATE BILLS

A. PRESENT LAW

SEC. 4261. IMPOSITION OF TAX.

(a) AMOUNTS PAID WITHIN THE UNITED STATES.—There is hereby imposed upon the amount paid within the United States for the transportation of persons by rail, motor vehicle, water, or air within or without the United States a tax equal to 10 percent of the amount so paid.

(b) AMOUNTS PAID WITHOUT THE UNITED STATES.—There is hereby imposed upon the amount paid without the United States for the transportation of persons by rail, motor vehicle, water, or air which begins and ends in the United States a tax equal to 10 percent of the amount so paid.

* * * * *

SEC. 4262. EXEMPTIONS

(a) CERTAIN FOREIGN TRAVEL.—The tax imposed by section 4261 shall not apply with respect to transportation any part of which is outside the northern portion of the Western Hemisphere, except with respect to any part of such transportation which is from any port or station within the United States, Canada, or Mexico to any other port or station within the United States, Canada, or Mexico. In the case of transportation by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere, no part of such transportation shall be considered for the purposes of the preceding sentence to be from any port within the United States, Canada, or Mexico to any other such port if the vessel in stopping at any such intermediate port is not authorized both to discharge and to take on passengers. A port or station within Newfoundland shall not, for the purposes of the preceding two sentences, be considered as a port or station within Canada. For the purposes of this section, the words "northern portion

of the Western Hemisphere" mean the area lying west of the thirtieth meridian west of Greenwich, east of the international date line, and north of the Equator, but not including any country of South America.

* * * * *

B. HOUSE BILL

SEC. 4261. IMPOSITION OF TAX

(a) AMOUNTS PAID WITHIN OR WITHOUT THE UNITED STATES.—There is hereby imposed upon the amount paid within or without the United States for the domestic transportation of persons by rail, motor vehicle, water, or air a tax equal to 10 percent of the amount so paid.

* * * * *

SEC. 4262. DEFINITION OF DOMESTIC TRANSPORTATION

As used in section 4261, the term "domestic transportation" means—

(1) Transportation which begins and ends in the United States, except—

(A) any such transportation, payment for which is made outside the United States, which is covered by a separate ticket or order but which is part of transportation from or to a point outside the United States, if it is established, pursuant to regulations prescribed by the Secretary or his delegate, at the time of payment that the several portions of the transportation are being purchased for use in conjunction with each other;

(B) that portion of such transportation which is outside the United States in any case where the route of the transportation passes through or over a point at least 200 miles from the nearest boundary of the United States, as measured from a direct line between the points of departure from and reentry into the United States (except that where passengers are discharged and taken on at a point or points outside of the United States, such line shall be from the point of departure from the United States to such point or, consecutively, to such points outside the United States and from there to the point of reentry into the United States); and

(C) round-trip transportation between a point within the United States and a point outside the United States (except to the extent specified in paragraph (2) of this section); and

(2) Transportation, payment for which is made within the United States, between any port or station within the United States and any other port or station within the United States (except as described in subparagraph (B) of paragraph (1) of this section), which is part of transportation to or from a point outside the United States, except any such transportation by water on a vessel which makes one or more intermediate stops at ports within the United States on a voyage which begins or ends in the United States and ends or begins outside the United States, if the vessel in stopping at such intermediate port is not authorized both to discharge and to take on passengers.

* * * * *

C. SENATE BILL

SEC. 4261. IMPOSITION OF TAX.

(a) AMOUNTS PAID WITHIN THE UNITED STATES.—There is hereby imposed upon the amount paid within the United States for taxable transportation of persons (as defined in section 4262) by rail, motor vehicle, water, or air a tax equal to 10 percent of the amount so paid.

(b) AMOUNTS PAID OUTSIDE THE UNITED STATES.—There is hereby imposed upon the amount paid without the United States for taxable transportation of persons (as defined in section 4262) by rail, motor vehicle, water, or air, but only if such transportation begins and ends in the United States, a tax equal to 10 percent of the amount so paid.

* * * * *

SEC. 4262. DEFINITION OF TAXABLE TRANSPORTATION OF PERSONS.

For purposes of this part—

(1) **GENERAL RULE.**—The term “taxable transportation of persons” means transportation that begins in the United States or at any point in Canada or Mexico not more than 225 miles from the continental United States and ends in the United States or at any point in Canada or Mexico not more than 225 miles from the continental United States.

(2) **TRANSPORTATION TO OR FROM ALASKA OR HAWAII.**—The term “taxable transportation of persons” does not include that portion of transportation to or from the Territory of Alaska or the Territory of Hawaii which—

(A) is outside the United States,

(B) is not transportation between ports or stations within the continental United States or that portion of Canada or Mexico within 225 miles of the continental United States, and

(C) is not transportation between ports or stations within the Territory of Alaska or the Territory of Hawaii.

(3) **TRANSPORTATION OUTSIDE THE NORTHERN PORTION OF THE WESTERN HEMISPHERE.**—The term “taxable transportation of persons” does not include transportation any part of which is outside the northern portion of the Western Hemisphere (the area lying west of the 30th meridian west of Greenwich, east of the International Date Line, and north of the equator, not including any country of South America).

