[JOINT COMMITTEE PRINT]

DESCRIPTION OF TAX BILLS

(S. 473, S. 474, S. 710, S. 1854, and S. 1923)

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE

ON APRIL 23, 1982

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

APRIL 22, 1982

U.S. GOVERNMENT PRINTING OFFICE

93-032 O WASHINGTON : 1982 JCS-10-82

CONTENTS

INTRODUCTION

The bills described in this pamphlet have been scheduled for a public hearing on April 23, 1982, by the Senate Finance Subcommittee on Taxation and Debt Management.

There are five bills scheduled for the hearing: (1) S. 473 (charitable expense deduction for use of personal vehicle); (2) S. 474 (medical expense deduction for use of personal vehicle); (3) S. 710 (postponement of time for paying excise tax on fishing equipment); (4) S. 1854 (exclusion from income of National Research Service Awards); and (5) S. 1923 (relating to annual accrual method of accounting).

The first part of the pamphlet is a summary of the bills. This is followed by a more detailed description of the bills, including present law, issues, explanation of provisions, effective dates, and estimated revenue effects.

I. SUMMARY

1. S. 473—Senator Durenberger, et al.

Charitable Expense Deduction for Use of Personal Vehicle

Under present law, individual taxpayers who itemize their deductions may deduct charitable contributions up to certain limits (sec. 170). In determining the amount of their charitable contribution deduction, taxpayers may deduct their actual expenses for gas and oil for an automobile used to provide services to a charitable organization, or may use a standard rate of 9 cents a mile.

Under the bill, taxpayers would be allowed to use the standard mileage rates that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for use of an automobile). The bill would apply after the date of enactment.

2. S. 474—Senator Durenberger

Medical Expense Deduction for Use of Personal Vehicle

Under present law, individual taxpayers who itemize their deductions may deduct the amount of their medical expenses which exceeds three percent of their adjusted gross income (sec. 213). Taxpayers may deduct as medical expenses their actual expenses for gas and oil for an automobile used for medical reasons, or may use a standard rate of 9 cents a mile.

Under the bill, taxpayers would be allowed to use the standard mileage rates that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for use of an automobile). The bill would apply after the date of enactment.

3. S. 710—Senators Durenberger, Boren, Chafee, Danforth, and Percy

Postponement of Time for Paying Excise Tax on Fishing Equipment

Present law imposes a 10-percent excise tax on the sale of fishing rods, creels, reels, and artificial lures, baits, and flies by the manufacturer, producer, or importer thereof (sec. 4161(a)). This tax generally is payable relatively soon after the fishing equipment is sold.

The bill would postpone the time for payment of the excise tax on fishing equipment until March 31, June 30, and September 24 for calendar quarters ending on December 31, March 31, and June 30, respectively. Tax for the quarter ending September 30 would be payable on a date prescribed by Treasury Department regulations.

The provisions of the bill would apply to articles sold in the first quarter beginning after the date of enactment of the bill and in all subsequent periods.

4. S. 1854—Senators Durenberger, Baucus, Hatch, Bradley, Heinz, and Danforth

Exclusion From Income of National Research Service Awards

Under present law, amounts received as scholarships and fellowship grants generally are excluded from gross income (sec. 117). However, if such grants constitute compensation for past, present, or future services for the grantor, they are not excludable, except in the case of certain Federal grants where the recipient agrees to perform future services as a Federal employee. In 1977, the Internal Revenue Service ruled that National Research Service Awards were compensation for services and not excludable as scholarships or fellowship grants.

The Revenue Act of 1978 provided that income from National Research Service Awards made through 1979 would be treated in the same manner as excludable scholarships or fellowship grants. This treatment was extended (in P.L. 96–167 and P.L. 96–541) to awards made through 1981.

This bill would make permanent the exclusion from gross income under the scholarship provisions for National Research Service Awards.

5. S. 1923—Senator Matsunaga

Allow Corporate Joint Ventures to Use Annual Accrual Method of Accounting for Corporations Engaged in Farming

Under present law, corporations (and partnerships with a corporate partner) engaged in the business of farming generally are required to use the accrual accounting method with capitalization of preproductive period expenses (sec. 447). However, certain corporations engaged in the growing of crops that are harvested at least 12 months after planting (such as sugarcane) are permitted to use the "annual" accrual method of accounting if they, or a predecessor corporation, have continuously used the annual accrual method generally since 1967. Under the annual accrual method, preproductive period expenses are not capitalized, but are deducted currently. The annual accrual method cannot be used by a partnership in which a corporation is a partner.

Under the bill, if a corporation that is allowed to use the annual accrual method for a farming business contributes the business to a "qualified partnership" in exchange for an interest in the partnership, the qualified partnership would be allowed to use the annual accrual method for that business. A qualified partnership would be a partnership of which each partner is a corporation other than a subchapter S corporation or a personal holding company. The provisions of the bill would apply to taxable years beginning after December 31, 1981.

II. DESCRIPTION OF THE BILLS

1. S. 473—Senator Durenberger, et al.*

Charitable Expense Deduction for Use of Personal Vehicle

Present law

Under present law (sec. 170(a)), individual taxpayers who itemize their deductions may deduct charitable contributions made to qualified organizations, subject to certain limitations.

Individuals who do not itemize deductions may also deduct charitable contributions, subject to limitations. For 1982 and 1983, the deduction is limited to 25 percent of the first $100 of contributions, or a maximum deduction of $25. For 1984, the contribution limit is raised to $300, or a maximum deduction of $75. For 1985, the deduction is allowed for 50 percent of contributions, with no dollar limit, and for 1986 the deduction is allowed for 100 percent of contributions (subject to the general limitations). This provision expires after 1986.

Under present law, taxpayers may deduct unreimbursed out-of-pocket expenses made incident to the rendition of services provided to a charitable organization, such as expenses for gas or oil for an automobile (Treas. Reg. § 1.170 A–1(g)). In determining the amount of the contribution deduction attributable to the operation of an automobile, taxpayers may deduct their actual expenses, or, for 1981, may use a standard rate of 9 cents a mile.[1] In either case, taxpayers may also deduct parking fees and tolls, but may not deduct general repair or maintenance expenses, depreciation, or insurance.

Issue

The issue is whether the standard mileage rate used to determine the amount of a taxpayer's charitable contribution deduction for the use of a motor vehicle should be the rate government employees are reimbursed for use of their vehicles on government business.

Explanation of the bill

Under the bill, taxpayers would determine the amount of their charitable contribution deduction for the use of a motor vehicle under the same mileage rate that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for the use of an automobile).[2]

---

*Cosponsors are Senators Kassebaum, Cranston, Boschwitz, Kasten, and DeConcini.

[1] This rate was determined by the Internal Revenue Service. Rev. Proc. 80–7, 1980–1 C.B. 590, as modified by Rev. Proc. 80–32, 1980–2 C.B. 767. The IRS, for 1981, allows a deduction of 20 cents a mile for the first 15,000 miles of a business use and 11 cents a mile for each additional mile.

[2] This rate was determined by the Government Services Administration pursuant to section 5704 of title 5, U.S. Code. 46 Fed. Reg. 58315 (Dec. 1, 1981).

Effective date

The provisions of the bill would apply with respect to the operation of a motor vehicle occurring after the date of the enactment of the bill, in taxable years ending after such date.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $7 million in 1982, $55 million in 1983, $102 million in 1984, $115 million in 1985, and $135 million in 1986.

2. S. 474—Senator Durenberger

Medical Expense Deduction for Use of Personal Vehicle

Present law

Under present law (sec. 213(a)), individual taxpayers who itemize their deductions may deduct the amount of their medical expenses which exceeds three percent of their adjusted gross income. Payments for transportation primarily for and essential to medical care qualify as medical expenses. Such transportation expenses include amounts paid for bus, taxi, train or plane, or for ambulance hire.

In determining the amount of transportation expenses which qualify as medical expenses, taxpayers may include amounts paid for out-of-pocket expenses for use of an automobile, such as gas and oil, or may use, for 1981, a standard rate of 9 cents a mile [1] for each mile an automobile is used for medical reasons. Parking fees and tolls may be included, but general repair and maintenance expenses, depreciation, and insurance may not be included.

Issue

The issue is whether the standard mileage rate used to determine the amount of the medical expense deduction for the use of a motor vehicle should be the rate government employees are reimbursed for use of their vehicles on government business.

Explanation of the bill

Under the bill, the amount of the medical expense deduction allowable for expenses for the use of a motor vehicle would be the same mileage rate that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for the use of an automobile).[2]

Effective date

The provisions of the bill would apply with respect to the operation of a motor vehicle occurring after the date of the enactment of the bill in taxable years ending after such date.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $3 million in 1982, $22 million in 1983, $38 million in 1984, $41 million in 1985, and $46 million in 1986.

---

[1] This rate was determined by the Internal Revenue Service. Rev. Proc. 80–7, 1980–1 C.B. 590, as modified by Rev. Proc. 80–32, 1980–2 C.B. 767. The IRS, for 1981, allows a deduction of 20 cents a mile for the first 15,000 miles of business use and 11 cents a mile for each additional mile.

[2] This rate was determined by the Government Services Administration pursuant to section 5704 of title 5, U.S. Code. 46 Fed. Reg. 58315 (Dec. 1, 1981).

3. S. 710—Senators Durenberger, Boren, Chafee, Danforth, and Percy

Postponement of Time for Paying Excise Tax on Fishing Equipment

Present law

Under present law, a 10-percent excise tax is imposed upon the sales price of fishing rods, creels, reels, and artificial lures, baits, and flies (including parts or accessories of such articles sold on or in connection therewith, or with the sale thereof) by the manufacturer, producer, or importer (sec. 4161(a)).

Treasury Department regulations require returns of manufacturers excise taxes, including the tax on the sale of fishing equipment, to be filed quarterly, unless the Internal Revenue Service requires more frequent filing by an individual taxpayer (Treas. Reg. § 48.6011(a)–1). Quarterly returns are due on the last day of the first month after the quarter ends (Treas. Reg. § 48.6071(a)–1).

Although returns generally are filed on a quarterly basis, the regulations require monthly, or semimonthly, payment of the tax in certain cases (Treas. Reg. § 48.6302(c)–1). If an individual is liable in any month for more than $100 of manufacturers excise tax and is not required to make semimonthly deposits, the individual must deposit the amount on or before the last day of the next month at an authorized depository or at the Federal Reserve Bank serving the area in which the individual is located.

If an individual had more than $2,000 in manufacturers excise tax liability for any month of a preceding calendar quarter, such taxes must be deposited for the following quarter (regardless of amount) on a semimonthly basis. The taxes must be deposited by the ninth day following the semimonthly period for which they are deposited. In addition, if the semimonthly period is in either of the first two months of the quarter, any underpayment of excise taxes for a month must be deposited by the ninth day of the second month following such month. Underpayments in the third month of the quarter must be deposited by the end of the following month.

No special rules are provided to defer payment of the excise tax with respect to sales of taxable articles on credit.

Issue

The issue is whether the time for payment of excise taxes imposed the sale of fishing equipment should be postponed.

Explanation of the bill

The bill would amend present law to require payment of the excise tax on fishing equipment on a quarterly basis, as follows:

(1) March 31, in the case of articles sold during the quarter ending the previous December 31;

(2) June 30, in the case of articles sold during the quarter ending the previous March 31;

(3) September 24, in the case of articles sold during the quarter ending the previous June 30; and

(4) On a date prescribed in Treasury Department regulations in the case of articles sold during the quarter ending September 30.

The bill would not change the present time for filing returns of manufacturers excise taxes or the time for payment of such taxes on articles other than fishing equipment.

Effective date

The provisions of the bill would apply to fishing equipment sold by manufacturers, producers, or importers on or after the first day of the first calendar quarter beginning after the date of enactment of the bill.

Revenue effect

The bill would not affect the aggregate fiscal year receipts of the manufacturers excise tax on fishing equipment.

4. S. 1854—Senators Durenberger Baucus, Hatch, Bradley, Heinz, and Danforth

Exclusion From Income of National Research Service Awards

Present law

Present law, subject to several limitations, provides that gross income does not include amounts received as a scholarship at an educational institution or as a fellowship grant (sec. 117). In general, amounts received from scholarships or fellowship grants are not excludable from gross income if they constitute compensation for past, present, or future services for the grantor. However, amounts received under Federal programs are not disqualified for exclusion merely because the individual recipients agree to perform future services as Federal employees.

The amount excludable as a scholarship or fellowship varies depending on whether the individual recipient is or is not a candidate for a degree. In general, a degree candidate may exclude the entire amount of the scholarship or fellowship grant, unless any portion of the award is regarded to be payment for services in the nature of part-time employment. An individual who is not a candidate for a degree is limited to an exclusion of $300 per month for a period of 36 months.

In 1977, the Internal Revenue Service ruled that awards made under the provisions of the National Research Service Awards Act of 1974 to individuals who, in return for receiving the awards, must subsequently engage in health research or teaching or some equivalent service and must allow the Government to make royalty-free use of any copyrighted materials produced as a result of the research are not excludable scholarships or fellowship grants.[1]

The Revenue Act of 1978 provided that amounts received as National Research Service Awards would be treated as excludable scholarships or fellowship grants under sec. 117. This provision was effective for awards made during calendar years 1974 through 1979. This treatment was extended to awards made in 1980 by Public Law 96–167 and to awards made in 1981 by Public Law 96–541, pending further study.

Issue

The issue is whether the tax treatment of National Research Service Awards as excludable scholarships or fellowship grants should be made permanent.

Explanation of the bill

The bill would treat amounts received as National Research Service Awards after 1981 as amounts received as excludable scholarships or fellowship grants under sec. 117.

---

[1] Rev. Rul. 77–319, 1977–2 C.B. 48.

Effective date

The provisions of the bill would be effective on enactment.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $4 million in 1982, $8 million in 1983, $8 million in 1984, $8 million in 1985, and $8 million in 1986.

5. S. 1923—Senator Matsunaga

Allow Corporate Joint Ventures to Use Annual Accrual Method of Accounting for Corporations Engaged in Farming

Present law

Under present law, the taxable income from farming of a corporation (or a partnership of which a corporation is a partner) generally must be computed using the accrual method of accounting with the capitalization of preproductive period expenses (sec. 447(a)). Preproductive period expenses are expenses (other than interest, taxes, or losses from casualty, drought, or disease) attributable to property having a crop or a yield that are incurred during the preproductive period of such property. The preproductive period for property is generally the period before the disposition of the property or the first marketable crop or yield from the property.

This requirement, however, does not apply to subchapter S corporations, family corporations, or small corporations that meet a gross receipts test. Such corporations, and partnerships which have no other type of corporation as a partner, may use the cash method of accounting and may deduct preproductive period expenses when they are paid. The requirement to use the accrual method with the capitalization of preproductive period expenses also does not apply to the business of operating a nursery or a sod farm or the business of forestry or the growing of timber.

A special rule provides that certain corporations may use the "annual" accrual method of accounting (sec. 447(g)). Under the annual accrual method of accounting, preproductive period expenses are not capitalized, but are deducted currently. Corporations that qualify for this special rule are corporations that raise crops (such as sugar cane) which are harvested at least 12 months after planting. In addition, the corporation must have used the annual accrual method for the 10-year period ending with its first taxable year beginning after 1975, and must have continued to use such method for each taxable year after its first taxable year beginning after 1975.

In the case of a corporation that acquired substantially all the assets of a farming trade or business from another corporation in a transaction in which neither corporation recognized any gain or loss, the acquiring corporation is treated as having used the annual accrual method for the period such method was used by the predecessor corporation to compute the taxable income from the acquired farming business.

Issue

The issue is whether the annual accrual accounting method should be allowed to a qualified partnership when a corporation that uses the annual accrual method contributes its farming business to the partnership in exchange for an interest in the partnership.

Explanation of the bill

Under the bill, a "qualified partnership" generally would be treated the same as a corporation for purposes of the annual accrual accounting rules of section 447(g). Under the bill, a qualified partnership is defined as a partnership in which each partner is a corporation other than a subchapter S corporation or a personal holding company. The qualified partnership would have to meet the same general requirements that apply to corporations under present law. Thus, for example, the qualified partnership would have to be engaged in a farming business in which crops are raised that are harvested at least 12 months after planting.

The qualified partnership would also have to meet the requirement relating to continuous use of the annual accrual method. For this purpose, the bill provides a special rule analogous to the rule for transfers of a farming business from one corporation to another corporation. Under the special rule, if a partner of a qualified partnership has contributed a farming business to the partnership in exchange for a partnership interest, the qualified partnership would be treated as having used the annual accrual method for any period the contributing partner had used such method to compute its taxable income from the business.

Thus, for example, if a corporation that is permitted to use the annual accrual method with respect to a farming business contributes substantially all of the assets of the business to a qualified partnership in exchange for an interest in the partnership, the qualified partnership would be permitted to use the annual accrual method to compute the taxable income from the business.

Effective date

The provisions of the bill would apply to taxable years beginning after December 31, 1981.

Revenue effect

The bill is estimated to result in an insignificant revenue loss.

○