[JOINT COMMITTEE PRINT]

DESCRIPTION OF MISCELLANEOUS TAX BILLS

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS

ON JULY 27, 1979

PREPARED FOR THE USE OF THE

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BY THE STAFF OF THE

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INTRODUCTION

The bills described in this pamphlet are five of those on which the Subcommittee on Select Revenue Measures of the Committee on Ways and Means has announced a public hearing for July 27, 1979. (A description of two other bills, H.R. 3899 and H.R. 3900, also scheduled for the July 27 hearing, are described in a separate pamphlet.)

In connection with this hearing, the staff of the Joint Committee on Taxation has prepared a description of the bills, similar to the descriptions the staff prepared in connection with other hearings on miscellaneous tax bills.

The first part of the pamphlet summarizes the bills in consecutive bill number order. This is followed in the second part by a more detailed description of each bill, indicating in each case the present law treatment, the issue involved, an explanation of what the bill would do, the effective date of the provision, the revenue effect of the provision, the position of the Treasury Department with respect to the bill, and any prior Congressional consideration of the provisions of the bill.

I. SUMMARY

1. H.R. 2536—Mr. Archer

Increase in Amount of Tax Due Exemption for Paying Estimated Income Taxes by Individuals

Under present law, declaration and payment of estimated tax is required by single persons or married couples with one earner whose gross income is expected to exceed $20,000 for the year and by a married individual whose gross income is expected to exceed $10,000 for the year if both spouses receive wages. In addition, estimated tax is required if the taxpayer expects to receive more than $500 in nonwage income for the year. No declaration is required, however, if the final tax payment is reasonably expected to be less than $100.

The bill would increase the $100 exemption from paying estimated tax to $500, effective for taxable years beginning after December 31, 1979.

2. H.R. 2770—Messrs. Udall, Luken, Forsythe, Kogovsek, Davis of Michigan, Chappell, Ambro, Baldus, Bedell, Boland, Bonior of Michigan, Corcoran, D'Amours, Derwinski, Devine, Drinan, Duncan of Tennessee, Eckhardt, Evans of Georgia, Flood, Fowler, Gore, Guyer, Heftel, Howard, Hubbard, Ireland, Jenrette, Corrada, Andrews of North Dakota, Price, Kildee, Fuqua, Kemp, Kostmayer, LaFalce, Lehman, Lent, Lundine, McKay, Moffett, Murphy of Illinois, Nedzi, Nowak, Oberstar, Panetta, Pease, Perkins, Preyer, Burgener, Edwards of Oklahoma, Coughlin, Dan Daniel, Pritchard, Richmond, St. Germain, Sebelius, Seiberling, and Simon, Mrs. Spellman, Messrs. Stanton, Thompson, Van Deerlin, Vento, Watkins, Weaver, Whitehurst, Charles Wilson of Texas, McHugh, Moakley, and Mineta, Ms. Holtzman, Messrs. Patten, Downey, and Boner of Tennessee

"The Independent Local Newspaper Act of 1979"

The bill would allow independent local newspapers to establish tax-exempt trust funds in order to pay the estate taxes of the owners of the paper. Contributions to the trust by the paper would generally be deductible in computing income tax, and interests in the trust would be exempt from the estate tax. In addition, the bill would provide an extended payment period for estate taxes attributable to interests in independent local newspapers.

3. H.R. 3660—Messrs. Stark, Corman, and Rousselot

Excise Tax Treatment of Domestic Wines for Use of Foreign Embassies, Legations, Etc.

The bill would eliminate a distinction between the excise tax treatment of domestic and imported wines so that domestic wines may, like imported wines, be transferred to customs bonded warehouses without payment of tax. In addition, the bill would allow tax-free sales of wines from customs bonded warehouses to foreign embassies, international organizations and related individuals for authorized purposes, as is allowed distilled spirits under present law. These provisions would become effective for the first calendar month which begins more than 90 days after enactment.

4. H.R. 4201—Mr. Cotter

Exempt Status of Auxiliaries of Certain Fraternal Beneficiary Societies

In order to qualify for tax-exempt status under Code section 501 (c) (7) after October 20, 1976, a social club cannot have any provision in its charter, bylaws, etc., providing for discrimination against any person on the basis of race, color, or religion in the club's charter, bylaws, other governing instrument, or any written policy statement. This bill would allow social clubs which are affiliated with fraternal beneficiary societies exempt under Code section 501(c) (8), such as those operated by the Knights of Columbus, to retain their exemption even though membership in the clubs is limited to members of a particular religion.

5. H.R. 4726—Messrs. Rostenkowski and Conable

Refunds of Tread Rubber Excise Tax

Under present law, a 5 cents-per-pound manufacturers excise tax is imposed on treatd rubber used for recapping or retreading tires of of the type used on highway vehicles. No credit or refund of the tread rubber tax is available if the tax-paid tread rubber is wasted in the recapping process, contained in a recapped tire which is adjusted under a warranty, or sold in conjunction with certain otherwise tax exempt sales. In some situations, the tread rubber tax can be avoided by exporting a tire to be recapped outside the United States and then importing the retreaded tire.

The bill would provide for a refund or credit of the manufacturers excise tax on tread rubber where the rubber is (1) wasted in the recapping process, (2) contained in a recapped tire which is adjusted under a warranty, or (3) sold in conjunction with certain otherwise tax exempt sales.

The bill also would impose the tread rubber excise tax on the tread rubber in tires which are exported for recapping and subsequently imported into the United States.

II. DESCRIPTION OF BILLS

1. H.R. 2536—Mr. Archer

Increase in Amount of Tax Due Exemption for Paying Estimated Income Taxes by Individuals

Present law

Under present law (Code sec. 6015), declaration and payment of estimated tax is required by single persons, or married couples with one earner entitled to file a joint return, whose gross income is expected to exceed $20,000 for the year; by a married individual entitled to file a joint return, whose gross income is expected to exceed $10,000 for the year if both spouses receive wages; and by a married individual, not entitled to file a joint return, whose gross income is expected to exceed $5,000. In addition, estimated tax is required if the taxpayer expects to receive more than $500 in nonwage income for the year. No declaration is required, however, if the final tax payment is reasonably expected to be less than $100.

Issue

The issue is whether the amount of tax due before estimated tax is required should be increased from the present $100 and, if so, whether it should be increased to as much as $500.

Explanation of the bill

The bill would increase the present law $100 minimum tax due amount for payment of estimated tax to $500 (and would make other conforming changes).

Effective date

The provisions of the bill would apply to taxable years beginning after December 31, 1979.

Revenue effect

It is estimated that this bill would reduce budget receipts by $291 million in fiscal year 1980, and by $78 million each fiscal year thereafter. (This does not include interest expense on additional debt incurred by the Federal Government.)

Departmental position

The Treasury Department agrees that the amount of tax due before estimated tax is required should be raised. However, Treasury believes that the new figure should be $300, so that taxpayers on fixed incomes are not subjected to large tax liabilities on April 15. In addition, Treasury recommends that the minimum percentage of tax liability to be met by withheld and estimated taxes should be increased from 80 percent to 85 percent.[1]

Prior congressional action

In the 95th Congress, an identical bill (H.R. 14035) was introduced by Mr. Archer.

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[1] The President's 1980 budget proposal included a recommendation for increasing the $100 amount to $300. In addition, the minimum percentage of tax liability which must be paid currently to avoid the imposition of a late payment penalty would have been increased under the recommendation (from 80 percent to 82.5 percent for 1981 and to 85 percent thereafter).

2. H.R. 2770 (Messrs. Udall, Luken, Forsythe, Kogovsek, Davis of Michigan, Chappell, Ambro, Baldus, Bedell, Boland, Bonior of Michigan, Corcoran, D'Amours, Derwinski, Devine, Drinan, Duncan of Tennessee, Eckhardt, Evans of Georgia, Flood, Fowler, Gore, Guyer, Heftel, Howard, Hubbard, Ireland, Jenrette, Corrada, Andrews of North Dakota, Price, Kildee, Fuqua, Kemp, Kostmayer, LaFalce, Lehman, Lent, Lundine, McKay, Moffett, Murphy of Illinois, Nedzi, Nowak, Oberstar, Panetta, Pease, Perkins, Preyer, Burgener, Edwards of Oklahoma, Coughlin, Dan Daniel, Pritchard, Richmond, St Germain, Sebelius, Seiberling, and Simon, Mrs. Spellman, Messrs. Stanton, Thompson, Van Deerlin, Vento, Watkins, Weaver, Whitehurst, Charles Wilson of Texas, McHugh, Moakley, and Mineta, Ms. Holtzman, Messrs. Patten, Downey, and Boner of Tennessee):

"The Independent Local Newspaper Act of 1979"

Present law

With respect to a trust established for the purpose of paying estate taxes attributable to an interest in a business (including an independent local newspaper), no provision is presently made under the Code for (1) according tax-exempt status to such a trust, (2) allowing income tax deductions for payments to the trust, or (3) excluding the corpus of the trust from estate taxes.

The Code provides extended payment provisions with respect to the estate tax attributable to interests in closely held businesses (Code secs. 6166 and 6166A).[1]

In addition, provision is made for capital gain treatment of certain redemptions of closely held business stock where the redemption is for the purpose of paying estate taxes (Code sec. 303).[2]

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[1] Section 6166 provides a 15-year period for the payment of the estate tax attributable to the decedent's interests in a closely held business (including a farm). Under this provision, the executor can elect to defer principal payments for up to 5 years from the due date of the estate tax return. Thereafter, pursuant to the executor's initial election, the principal amount of the estate tax liability may be paid in from 2 to 10 annual installments. In order to qualify for this deferral and installment payment treatment, the value of the closely held business (or businesses) in the decedent's estate must exceed 65 percent of the value of the gross estate reduced by allowable expenses, indebtedness, and losses.

Section 6166A provides a 10-year extended payment of estate tax attributable to a closely held business where a lesser proportion of the estate is represented by its value. Under this 10-year extension, the value of the business must be in excess of either 35 percent of the value of the gross estate or 50 percent of the taxable estate.

[2] To qualify for this treatment, the value of the stock redeemed, plus the value of the other stock of the redeeming corporation includible in the estate, must be more than 50 percent of the "adjusted gross estate." The value of the stock redeemed can be no greater than the sum of all death taxes (and interest) plus funeral and administration expenses allowable as an estate tax deduction.

Issues

The main issues are (1) whether the owner of an independent local newspaper should be permitted to establish a tax-exempt trust to pay estate taxes attributable to the value of his interest in the newspaper, (2) whether the funds contributed to the trust (within prescribed limits) should be deductible by the newspaper and excludable from income by the owner for income tax purposes, (3) whether the value of the trust assets should be excludable from the owner's taxable estate in computing estate taxes, and (4) whether a 15-year period should be provided for the payment of any estate tax attributable to the value of an interest in the newspaper to the extent the tax was not paid by the trust.

Explanation of the bill

Under the bill, an independent local newspaper could establish a tax-exempt trust to receive payments to pay the estate tax liability of the owner of the newspaper. The newspaper would be allowed an income tax deduction in an amount not to exceed 50 percent of its taxable income for amounts paid to the trust. The trust assets would be required to be invested solely in obligations of the United States. The assets of the trust could be used only to pay the Federal estate taxes of the owner of the newspaper.

The trust would be limited to holding amounts necessary to pay the potential Federal estate tax liability of the newspaper owner. In determining this limitation, the potential estate tax liability of a living individual would be considered to be 70 percent (i.e., the maximum estate tax rate) of the value of his interest in the business. Under the bill, any interest of a decedent in the trust would generally not be included in the decedent's gross estate.

If the owners of a newspaper which has established a trust for their benefit dispose of their interests in the newspaper, the amounts in the trust must be distributed and included in the owners' income and the deductions previously allowed the newspaper would be recaptured. In addition, if the newspaper is disposed of by an heir within 15 years after the death of the owner, an additional estate tax would be imposed. This tax is phased out after the tenth year following the owner's death.

An "independent local newspaper" is defined as a newspaper publication which is not a member of a chain of newspapers if it has all of its publishing offices in a single city, community, or metropolitan area, or, as of January 1, 1979, within one State. A "chain of newspaper publications" is defined as two or more newspaper publications under common control on January 1, 1979, and which are not published in a single city, community, or metropolitan area.

Under the bill, payment of any estate tax attributable to the value of an independent local newspaper not paid by a trust established under the provisions of this bill could be extended for a period of up to 15 years. This provision would apply where the estate does not qualify under existing extended payment provisions of present law.

Under this extended payment provision, the executor could elect to defer principal payments for up to 5 years from the due date of the estate tax return. However, interest for the first five years, payable at the rate of 4 percent, would be payable annually. Thereafter, the principal amount of the estate tax liability could be paid in from 2 to 10 annual installments. If the business ceases to qualify as an independent local newspaper, the extension would terminate.

Effective date

The provisions of the bill would apply to estates of decedents dying after January 1, 1979.

Revenue effect

It is estimated that this bill would reduce budget receipts by $10 million annually.

Departmental position

The Treasury Department opposes the bill.

Prior Congressional action

In the 95th Congress, a bill (H.R. 12395) containing substantially identical provisions was referred to the Subcommittee on Miscellaneous Revenue Measures of the Committee on Ways and Means. That bill was the subject of hearings before the subcommittee on August 11, 1978. No further action was taken with respect to the bill.

3. H.R. 3660—Messrs. Stark, Corman, and Rousselot

Excise Tax Treatment of Domestic Wines for Use of Foreign Embassies, Legations, Etc.

Present law

Under present law, both imported wines and those produced in the United States are generally subject to the same excise taxes (Code sec. 5041). Domestically produced wines may be withdrawn from bonded wine cellars without payment of tax for certain purposes, including exportation, use on certain vessels and aircraft, and further processing pending exportation in a customs manufacturing warehouse (Code sec. 5362(c)). In addition, domestic wines on which the tax has been paid or determined may be transferred for these purposes and the authorized person may receive repayment of the tax by way of drawback.

Present law allows foreign wines to be imported into the United States and sold tax-free from customs bonded warehouses for the official or family use, in the United States, of foreign governments, public international organizations, and certain individuals associated with these governments and organizations. In contrast, domestic wines may not be transferred without payment of tax to customs bonded warehouses, other than manufacturing warehouses, and there are no provisions which allow domestic wines to be sold tax-free for these purposes. As a result, it is presently necessary for domestic wines to be exported and then returned to a customs bonded warehouse in the United States in order for these wines to be sold tax-free to foreign embassies, legations, international organizations, and related individuals.

The same difference in treatment had previously existed for distilled spirits, which are generally subject to separate taxing provisions. This difference was resolved for distilled spirits under legislation enacted in 1971 [1] and 1977,[2] so that distilled spirits may be transferred, without payment of tax, to customs bonded warehouses located in the United States and held free of tax for exempted sales, such as those to foreign governments and international organizations (and related individuals) and for certain ship and aircraft supplies. The 1971 amendments also included provisions to prevent the resale or unauthorized use of distilled spirits which are sold tax-free to foreign governments, international organizations, and related individuals (Code sec. 5066).

Issue

The issue is whether domestic wines should be accorded the same treatment as imported wines by allowing domestic wines to be transferred without payment of excise tax to customs bonded warehouses for purposes of tax-exempt sales.

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[1] P.L. 91–659, enacted January 8, 1971.

[2] P.L. 95–176, enacted November 14, 1977.

Explanation of the bill

The bill would allow the transfer of wine without payment of excise tax to any customs bonded warehouse rather than allowing transfers only to customs manufacturing warehouses, as under present law. In addition, the bill specifies that wine entered into customs bonded warehouses may be withdrawn tax-free for consumption in the United States by and for the use of foreign governments, organizations, and related individuals, and the existing prohibitions relating to the resale or unauthorized use of distilled spirits are made applicable to these transfers of wine. As a result, the same treatment would be accorded wine as is provided for distilled spirits under present law.

Effective date

The provisions of the bill would become effective on the first day of the first calendar month which begins more than 90 days after enactment.

Revenue effect

It is estimated that this bill will have a negligible effect upon budget receipts.

Departmental position

The Treasury Department does not oppose the bill.

4. H.R. 4201—Mr. Cotter

Exempt Status of Auxiliaries of Certain Fraternal Beneficiary Societies

Present law

Under present law, social clubs and similar nonprofit organizations, such as national organizations of college fraternities and sororities, are exempt organizations. Code section 501(c)(7) provides that these organizations must be organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes with no part of the net earnings inuring to the benefit of any private shareholder.

However, section 501(i) provides that an organization otherwise exempt from income tax as an organization described in section 501(c)(7) is to lose its exempt status for any taxable year, if at any time during that year the organization's charter, by-laws, or other governing instrument, or any written policy statement, contains a provision which provides for discrimination against any person on the basis of race, color, or religion.

Exempt status is granted under section 501(c)(8) to fraternal beneficiary societies, orders, or associations which operate under the lodge system or for the exclusive benefit of the members of a fraternity operating under the lodge system, and which provide for the payment of life, sick, accident, or other benefits to the members of the society, order, or association or their dependents.

Issue

The issue is whether exempt status under section 501(c)(7) should be provided for auxiliaries of a fraternal beneficiary society which is exempt under section 501(c)(8) and which limits its membership to members of a particular religion.

Explanation of the bill

The bill would allow certain auxiliaries of fraternal beneficiary societies to qualify for tax-exempt status even though membership in the auxiliaries is limited to members of a particular religion. The bill provides that the restriction on religious discrimination in section 501(i) would not apply to an auxiliary of a fraternal beneficiary society if the society is described in section 501(c)(8), is exempt from income tax under section 501(a), and limits its membership to the members of a particular religion.

The intended beneficiaries of the bill are the affiliated corporations of the unincorporated, subordinate lodges of the Knights of Columbus, a fraternal society exempt under section 501(c)(8). These affiliated corporations were formed to hold title to real property. Prior to the enactment of section 501(i) in 1976, the Knights' affiliated corporations qualified as exempt social clubs under section 501(c)(7).

Effective date

The bill would apply to taxable years beginning after October 20, 1976, the date on which section 501(i) became effective.

Revenue effect

It is estimated that the bill will result in a negligible reduction in budget receipts.

Department position

The Treasury Department does not oppose the bill.

5. H.R. 4726—Messrs. Rostenkowski and Conable Refunds of Tread Rubber Excise Tax

Present law

Present law imposes a tax of 5 cents per pound on tread rubber used for recapping or retreading tires of the type used on highway vehicles (secs. 4071(a)(4), 4072(b), and sec. 4073(c)).[1]

Tread rubber may be sold tax-free for use otherwise than in the recapping or retreading of tires of the type used on highway vehicles, or a credit or refund (without interest) of the tread rubber tax may be obtained if the tax-paid tread rubber is used or sold for use otherwise than in the recapping or retreading of tires of the type used on highway vehicles (sec. 6416(b)(2)(G)).

There are several instances under present law where a manufacturers excise tax is imposed on tread rubber when in a similar situation the manufacturers excise tax is not imposed (or a credit or refund of the tax is allowed) for the tax on new tires.

First, rubber wasted in manufacturing new tires is not subject to tax since the tax is imposed when the completed tire is sold and is imposed only upon the material actually in the completed tire. The tax on tread rubber, on the other hand, is imposed before the recapping or retreading of a used tire. Wastage of tread rubber in that process occurs after the tread rubber tax liability has been determined, and under present law no refund or credit is provided for any portion of the tax imposed on tread rubber which is so wasted.[2]

Second, if the sale of a retreaded tire is adjusted by reason of a warranty or guarantee, no credit or refund of the tread rubber tax is provided.[3]

Third, no credit or refund is available for the tread rubber tax when a recapped or retreaded tire is exported, sold to a State or local government, sold to a nonprofit educational organization, or used or sold for use as supplies for vessels or aircraft (secs. 4221 and 6416(b)).

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[1] The tax on tread rubber is scheduled to expire on October 1, 1984 (sec. 4071(d)(3)).

[2] In *Great Olympic Tire Co.* v. *U.S.*, –F.2d–, 79–1 USTC ¶ 16,316 (5th Cir. 1979), the Fifth Circuit Court of Appeals held that tread rubber wasted in the recapping process is not subject to the section 4071(a)(4) manufacturers excise tax, and that highway-type tires returned under warranty after partial use are subject to the tax without allowance for a refund or credit of the tax previously imposed on the tread rubber remaining on the returned tire. In arriving at these conclusions, the court relied upon the fact that wasted rubber never became part of tires of the type used on highway vehicles and that rubber remaining in a returned tire had become part of a tire of the type used on highway vehicles. While the section 4071(a)(4) tread rubber tax does not refer to highway-type vehicle tires, as does the section 4071(a)(1) new tire tax, the court noted that the legislative history of the tread rubber tax clearly evidences an intention to limit the tax to such tires. *See*. H. Rept. No. 10660, 84th Cong., 2d Sess., 1956–2 C.B. 1312; Rev. Rul. 65–223, 1965–2 C.B. 420.

[3] *See* note 2, *supra*.

Neither is the credit or refund available where a retreaded tire is mounted on a new vehicle that then is disposed of in any of the above ways.

While used and recapped or retreaded tires ordinarily are subject to the tire tax when imported, a different situation exists when a used tire which has been taxed in the United States is exported, is retreaded (other than from bead to bead) abroad, and then is shipped back into the United States. Then there is neither a tax on the imported retreaded tire nor on the tread rubber used in the retreading, because the tire already has been taxed and the tread rubber is considered to have lost its identity.

Under present law, the general time by which a claim for credit or refund of a tax must be filed is 3 years from the time the tax return was filed or, if later, 2 years from the time the tax was paid (sec. 6511).

Issues

Several issues are presented by the bill:

(1) whether a credit or refund of the tread rubber tax should be available in those instances where a credit or refund of the similar manufacturers excise tax on new tires would be available;

(2) whether the manufacturers excise tax on tread rubber should be imposed where a tire has been exported for recapping outside the United States and subsequently is imported into the United States; and

(3) whether the statute of limitations for claiming a credit or refund of the manufacturers excise tax on tread rubber should be extended where a claim for credit or refund of the tread rubber tax is filed as a result of a warranty or guarantee adjustment.

Explanation of the bill

The bill would make a credit or refund of the tread rubber tax available in three situations. These changes are intended to permit a credit or refund of the tax on the tread rubber used on a recapped or retreaded tire, under the circumstances where a credit or refund would be available for the tax on a new tire.

First, the credit or refund would be available where rubber is destroyed, scrapped, wasted, or rendered useless in the recapping or retreading process.

Second, the credit or refund would be available where the tread rubber is used in the recapping or retreading of a tire if the sales price of the tire is later adjusted because of a warranty or guaranty. The overpayment (that is, the amount available for credit or refund) would be the same proportion of the tax as the adjustment in the sales price of the retreaded tire to the immediate vendee by the tire retreader.

Third, a credit or refund of the tread rubber tax would be available to the manufacturer for the tread rubber on a recapped or retreaded tire if the tire is by any person (1) exported, (2) sold to a State or local government for the exclusive use of a State or local government, (3) sold to a nonprofit educational organization for its exclusive use, or (4) used or sold for use as supplies for a vessel or aircraft.

Finally, where a retreaded tire is sold by the retreader or by another manufacturer on or in conjunction with another article (for example, a truck) manufactured by it, the bill would provide that a credit or refund of the tread rubber tax is to be allowed to the further manufacturer if the article is exported or sold by any person for any of the above purposes.

The bill also would provide that used tires which are exported from the United States, recapped or retreaded abroad (other than from bead to bead), and then imported into the United States are to be subject to the tax on tread rubber. For this purpose, the amount of tread rubber to be taken into account is to be determined as of the completion of the recapping or retreading of the tire. The amount so determined would be either the amount which is established as actually used in recapping or retreading the tire or an average amount which is generally used on comparable tires in the industry, as determined by the Treasury Department (sec. 4071(c)).

If a retreaded tire is imported on a vehicle which is not itself subject to a manufacturers excise tax (e.g., a passenger car or a light-duty truck), then the importer of the vehicle is under existing law (Code sec. 4071(e)) treated as the importer of the tire. However, as noted, if the tire is not taxable because it was exported and recapped abroad (except from bead to bead), the importer is not liable for tax on the tread rubber on the imported tire. This bill carries the process a step further and would treat the importer of the vehicle as the importer of the tread rubber that is on retreaded tire which is not otherwise subject to tax on the complete tire.

The bill also would modify the statute of limitations in cases where a claim for credit or refund of the tread rubber tax is filed as a result of a warranty or guaranty adjustment. The bill would provide that in such a case a claim for credit or refund may be filed at any time before the date which is one year after the date on which the adjustment is made, if otherwise the period for filing the claim would expire before that later date.

In other words, under the bill, the manufacturer would be assured that it will have one day less than a year after the time the adjustment is made (or deemed made) within which to file a claim for credit or refund of the relevant tax.

Effective date

The amendments made by this bill would be effective on the first day of the first calendar month which begins more than 10 days after the date of the bill's enactment. Thus, they apply where, on or after the effective date—

(a) adjustments are made (or deemed made) on account of warranties or guaranties;

(b) tread rubber is destroyed, scrapped, wasted, or rendered useless in the recapping or retreading process,

(c) recapped or retreaded tires (or the articles on or in connection with which they are sold) are exported, sold to a State or local government for the exclusive use of a State or local government, sold to a nonprofit educational organization for its exclusive use, or used or sold for use as supplies for vessels or aircraft; and

(d) tires after being exported are retreaded abroad and imported into the United States.

The statute of limitations amendment is to apply on and after the effective date. In effect, it applies to adjustments made (or deemed made) on or after the date one year less a day before the effective date. For example, assume that the effective date of the bill is April 1, 1980, that the tire tax was paid with respect to a tire on July 1, 1976, and that an adjustment was made pursuant to a warranty or guaranty to an ultimate consumer with respect to that tire on July 2, 1979. The effect of this provision in those circumstances is to allow the manufacturer to file a claim for credit or refund with respect to that adjustment on any date from April 1, 1980 through July 1, 1980.

Revenue effect

It is estimated that the bill will result in a negligible reduction of budget receipts.

Departmental position

The Treasury Department supports the bill on the understanding that the amount of the credit or refund for warranty adjustments will be computed in a manner consistent with Rev. Rul. 76–423, 1976–2 C.B. 345.

Prior Congressional action

The Committee on Ways and Means reported a bill, H.R. 5103, with similar provisions during the 95th Congress (H. Rept. 95–916). This bill was passed by the House of Representatives by voice vote on March 14, 1978. Provisions similar to those contained in H.R. 5103 were included in H.R. 3050, which was reported to the Senate by the Senate Finance Committee on October 5, 1978 (S. Rept. 95–1278). These provisions of H.R. 3050, however, were not acted upon by the Senate.

The Committee on Ways and Means also reported a bill, H.R. 2474, with similar provisions during the 94th Congress (H. Rept. 94–1334). This bill was passed by the House of Representatives by voice vote on August 24, 1976. The bill was reported by the Senate Finance Committee (S. Rept. 94–1348) on September 29, 1976, but was not acted upon by the Senate.