

DESCRIPTION OF TAX BILLS

(S. 2647, S. 2987, and S. 3064)

Scheduled for a Hearing
on December 10, 1982
Before the
Subcommittee on Taxation and Debt Management
of the
Senate Committee on Finance

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INTRODUCTION

The bills described in this document are scheduled for a hearing on December 10, 1982, before the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance. There are three bills scheduled for the hearing: (1) S. 2647 (relating to business expense deductions for conventions on cruise ships); (2) S. 2987 (relating to an excise tax exemption for bloodmobiles); and (3) S. 3064 (relating to the exclusion from gross income of the cancellation of certain student loans).

The first part of the document is a summary of the bills. This is followed in the second part 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. 2647--Senators Matsunaga and Inouye Business Expense Deductions for Cruise Ship Conventions

Under present law, no deduction is allowed for expenses of attending a convention, seminar, or similar meeting on a cruise ship (Code section 274(h)(2)). The bill would provide that business expenses for attending a convention, seminar, or similar meeting on a cruise of a cruise ship registered in the United States would be deductible to the same extent as other business expenses, if specific reporting requirements were satisfied and if all ports of call of the cruise ship were located within the United States and the U.S. possessions. The bill would apply to taxable years beginning after December 31, 1982.

2. S. 2987--Senator Roth The Bloodmobile Act of 1982

The bill would amend present law to exempt bloodmobiles from the 10-percent manufacturers excise tax on trucks and trailers.

3. S. 3064--Senator Roth Exclusion from Gross Income with Respect to Cancellation Of Certain Student Loans

Present law excludes from gross income amounts received from the cancellation or forgiveness of certain student loans. This provision applies if the loan cancellation or forgiveness was

pursuant to a provision of the loan agreement under which all or a part of the indebtedness would be discharged if the individual works for a certain period of time in certain professions in certain geographical areas or for certain classes of employers. Furthermore, this provision applies only to student loans made by the United States, or an agency or instrumentality thereof, or by a State or local government that are forgiven prior to January 1, 1983.

The bill would extend the student loan cancellation provision for four additional years (i.e., to loans forgiven prior to January 1, 1987).

II. DESCRIPTION OF BILLS

1. S. 2647 -- Senators Matsunaga and Inouye

Business Expense Deductions for Cruise Ship Conventions

Present Law

In general

A deduction is allowed for the ordinary and necessary expenses of carrying on a trade or business or income-producing activity, including transportation expenses and amounts expended for meals and lodging while away from home in pursuit of a trade or business or income-producing activity (Code sec. 162). Only such traveling expenses as are reasonable and necessary in the conduct of the taxpayer's business and directly attributable to it may be deducted. Fees charged for admission to a convention or other meeting generally are deductible if there is a sufficient relationship between the taxpayer's trade or business or income-producing activity and attendance at the convention or other meeting. Therefore, generally, a deduction is allowed for the costs of attending a convention or seminar in pursuit of a trade or business or income-producing activity.

Special rules (Code sec. 274(h)) apply to expenses for attendance at conventions, seminars, or similar meetings if held outside the United States, its possessions, Canada, Mexico, or the

Trust Territory of the Pacific Islands (the "North American area")¹ or if held on a cruise ship. (Conventions, etc., held outside the North American area commonly are referred to as "foreign conventions.") These rules apply both to the expenses paid by individuals attending such conventions and to expenses paid by employers of such individuals.

No deduction is allowed for the expenses of attending a foreign convention unless the taxpayer establishes that the cost is directly related to the active conduct of a trade or business or income-producing activity and that it is as reasonable to hold the meeting outside the North American area as within it (sec. 274(h)(1)). No deduction is allowed for the expenses of attending any convention, etc., held on a cruise ship, even if the ship is sailing entirely within U.S. territorial waters (sec. 274(h)(2)).

Background of present law

Special rules for foreign conventions first were enacted in 1976 because of the proliferation of foreign conventions, seminars, and cruises that were held ostensibly for business or educational purposes, but which appeared to Congress to be vacations in disguise. Under pre-1976 law, the allowance of deductions for such trips (as for domestic conventions) depended on a subjective determination of the taxpayer's principal purpose

¹Under the United States-Jamaican income tax treaty, deductions are permitted for certain expenses of attending a convention in Jamaica (Art. 25(7)).

in making the trip. This had proved to be a difficult standard for the Internal Revenue Service to apply, particularly in the case of overseas trips.

Under the foreign convention rules as enacted initially in 1976, deductions could be taken for no more than two foreign conventions per year, and were limited to certain transportation and subsistence expenses. Under the 1976 rules, the taxpayer deducting the expenses of attending a foreign convention also had to comply with certain special reporting requirements. For example, the taxpayer had to attach to the income tax return for the year in question information to indicate the total days of the trip (exclusive of the transportation days to and from the convention), the number of hours of each day devoted to business activities, and any other information required by regulations. In addition, the taxpayer had to attach to the income tax return a statement, signed by an appropriate officer of the sponsoring organization, which included a schedule of the business activities of each convention day, the number of hours that the individual attended these activities each day, and any other information required by regulations.

The 1976 rules seemed to be unsatisfactory because in some cases they operated to disallow legitimate business travel expenses, but in other cases failed to disallow deductions for trips which actually were foreign vacations (S.Rpt. No. 96-1031, 96th Cong. 2d Sess. 12 (1980)). Accordingly, Congress revised the rules in 1980 (P.L. 96-608).

The present rule was intended to focus upon the reason why

a foreign site was selected for the convention or meeting. The disallowance of deductions for expenses of attending conventions on cruise ships was justified on the ground that the personal benefits of going on a cruise often predominated over other purposes. Therefore, it was argued, disallowing deductions for such expenses avoids disputes on audit and prevents taxpayers from claiming deductions that would not be upheld by a court.

In P.L. 96-608, Congress also repealed the special reporting requirements.

Issues

The principal issue is whether business expenses of attending a convention, seminar, or similar meeting held during a cruise on a U.S. cruise ship should be deductible if all ports of call of the cruise are located in the United States and its possessions. A related issue is the nature of substantiation that should be required of taxpayers seeking deductions for cruise ship conventions.

Explanation of the Bill

General rule

Under the bill, the expenses of attending a convention, seminar, or similar meeting held on a cruise ship would continue to be disallowed as deductions unless three conditions were met: (1) the taxpayer would have to establish, by satisfying specific reporting requirements, that the cruise ship meeting was directly related to the active conduct of the taxpayer's trade or business or to an income-producing activity, (2) the taxpayer would have to establish that the cruise occurred on a vessel registered in the

United States, and (3) the taxpayer would have to establish that all the ports of call of the cruise were located in the United States and its possessions. If all these requirements were met, the expenses for attending such a meeting would be deductible to the same extent as expenses of attending a domestic convention held on land.

Under the bill, as under present law, no deduction would be allowed for expenses of attending a convention, seminar, or other meeting held on a cruise ship which is not a U.S. registered cruise ship. Moreover, no deduction would be allowed for expenses of attending a convention or similar meeting held on a cruise ship during a cruise that calls on a foreign port (even a port in Canada, Mexico, or Jamaica).

Reporting requirements

The bill would establish rules for cruise meetings substantially identical to the reporting requirements repealed by P.L. 96-608. The taxpayer claiming the deduction would have to attach to the income tax return for the year in question a statement indicating the total days of the trip (excluding the days of transportation to and from the cruise ship port), the number of hours of each day of the trip devoted to scheduled business activities, a program of the scheduled business activities of the meeting, and any other information required by regulations. The taxpayer also would have to attach to that return a statement signed by an officer of the organization or group sponsoring the meeting that includes a schedule of business activities of each day of the meeting, the number of hours during

which the individual attending the meeting attended business activities, and any other information required by regulations.

Effective Date

The provisions of the bill would apply to taxable years beginning after December 31, 1982.

Revenue Effect

It is estimated that the bill would have a negligible effect on budget receipts.

Other Congressional Action

On September 16, 1982, the House Committee on Ways and Means reported favorably H.R. 3191, as amended (H. Rep. No. 97-828), a bill that would allow deductions for business expenses incurred after December 31, 1982, on cruises of U.S.-documented vessels when all ports of call of the cruise are inside the North American area (the United States, its possessions, Canada, Mexico, and the Trust Territory of the Pacific Islands). H.R. 3191, as amended also requires the taxpayer to establish the direct relation of the cruise meeting to his trade, business, or income-producing activity. The taxpayer is to establish this direct relation by written statements signed by the taxpayer and by an officer of the sponsoring organization, and by such other methods as regulations may prescribe.

The House has not acted on H.R. 3191, as amended.

2. S. 2987--Senator Roth

**Exemption of Bloodmobiles from Manufacturers Excise Tax
on Trucks and Trailers**

Present law

A manufacturers excise tax is imposed on the sale of truck chassis and bodies, truck trailer and semitrailer chassis and bodies, and tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer (including related parts or accessories) (Code sec. 4061(a)). The tax imposed is 10 percent of the selling price of the manufacturer, producer, or importer.

The tax does not apply to the sale of truck chassis and bodies suitable for use with a vehicle which has a gross vehicle weight of 10,000 pounds or less (as determined under regulations prescribed by the Secretary). Also, the tax does not apply to truck trailer and semitrailer chassis and bodies suitable for use with a trailer or semitrailer which has a gross vehicle weight of 10,000 pounds or less (as so determined). Additional exemptions apply to specified articles including camper coaches; bodies for self-propelled mobile homes; house trailers; feed, seed and fertilizer equipment; concrete mixers; buses; trash containers; and ambulances and hearses (sec. 4063(a)). Bloodmobiles are not specifically exempted under present law. However, pursuant to an authorization of the Secretary of the Treasury, vehicles (including bloodmobiles) sold to the American National Red Cross for its exclusive use are exempt (Secretary's Authorization 1979-1 C.B. 478).

The manufacturers excise tax is scheduled to fall to 5 percent on October 1, 1984.

Issue

The issue is whether bloodmobiles specifically should be exempted from the manufacturers excise tax on trucks and trailers.

Explanation of the bill

The bill would specifically exempt bloodmobiles from the manufacturers excise tax on trucks and trailers. A bloodmobile is defined in the bill as any vehicle which is used exclusively in the collection and transportation of blood.

Effective date

The provisions of the bill would be effective upon enactment.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by less than \$500,000.

Other Congressional Action

Title V of H.R. 6211 as passed by the House on December 6, 1982, and Title V of H.R. 6211 as amended and ordered reported by the Senate Committee on Finance, would provide an exemption from the tax on trucks weighing less than 33,000 gross vehicle weight and the tax on truck trailers weighing less than 26,000. Staff understands that these provisions would exempt many bloodmobiles from the tax.

3. S. 3064--Senator Roth
Exclusion from Gross Income with Respect to
Cancellation of Certain Student Loans

Present law

Under present law, gross income means all income, from whatever source derived, including income from discharge of indebtedness, unless otherwise provided by law (Code sec. 61(11)). However, subject to certain limitations, gross income does not include any amount received as a scholarship or a fellowship grant (sec. 117(a)). With the exception of certain Federal grants for tuition, an amount paid to an individual to enable him or her to pursue studies or research does not qualify as a scholarship or fellowship grant if such amount represents compensation for past, present, or future employment services or if such studies or research are primarily for the benefit of the grantor (Treas. Reg. sec. 1.117-4(c)).

Under certain student loan programs established by the United States and by State and local governments, all or a portion of the loan indebtedness may be discharged if the student performs certain services for a period of time in certain geographical areas pursuant to conditions in the loan agreements. In 1973, the Internal Revenue Service ruled on a situation in which a State medical education loan scholarship program provided that portions of the loan indebtedness were discharged on the condition that the

recipient practice medicine in a rural area of the State. The Service determined that amounts received from such a loan program were included in the gross income of the recipient to the extent that repayment of a portion of the loan was no longer required (Rev. Rul. 73-256, 1973-1 C.B. 56).

Section 2117 of the Tax Reform Act of 1976 (P.L. 94-455) provided that in the case of loans forgiven prior to January 1, 1979, no amount was to be included in gross income by reason of the discharge of all or part of the indebtedness of the individual under certain student loan programs. The exclusion applies to a discharge of indebtedness if the discharge was pursuant to a provision of the loan agreement under which all or part of the indebtedness would be discharged if the individual works for a certain period of time in certain professions in certain geographical areas or for certain classes of employers. The amendment made by the 1976 Act applies to student loans made to an individual to assist in attending an educational institution only if the loan was made by the United States or an instrumentality or agency thereof or by a State or local government either directly or pursuant to an agreement with an educational institution.

The primary purpose of this provision was to assist those States and cities that have experienced difficulties in attracting doctors, nurses, and teachers to serve certain areas, including both rural communities and low-income urban areas.

The Revenue Act of 1978 extended the student loan cancellation provision to loans forgiven prior to January 1, 1983.

The issue is whether the exclusion from income of amounts related to the cancellation of certain student loans should be extended for an additional four years.

Explanation of the Bill

The bill would extend, for an additional four years, the exclusion from income provided by the Tax Reform Act of 1976 with respect to the cancellation of certain student loans. Accordingly, no amount would be included in gross income by reason of the discharge of all or part of a student loan of the type described in section 2117 of the 1976 Act if the loan is forgiven prior to January 1, 1987.

Effective date

The provisions of the bill would be effective upon enactment.

Revenue effect

The bill would reduce budget receipts by less than \$5 million per year for fiscal years 1983-1987.

