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U.S. TREASURY DEPT.

PRESS RELEASES.

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TREASURY DEPARTMENT

TREASURY DEPARTMENT

WASHINGTON. D.C.

January 22, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 30, 1969, in the amount of $2,704,032,000, as follows:

91-day bills (to maturity date) to be issued January 30, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated October 31, 1968, and to mature May 1, 1969, originally issued in the amount of $1,101,238,000, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued January 30, 1969, in the amount of $1,100,000,000, or thereabouts, representing an additional amount of bills dated July 31, 1968, and to mature July 31, 1969, originally issued in the amount of $1,000,963,000 (an additional $501,533,000 was issued October 31, 1968), the additional and original bills to be freely interchangeable.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, January 27, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

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responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 30, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 30, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

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WASHINGTON. D.C.

January 22, 1969

FOR IMMEDIATE RELEASE

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 31, 1969, in the amount of $1,500,465,000, as follows:

273-day bills (to maturity date) to be issued January 31, 1969, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated October 31, 1968, and to mature October 31, 1969, originally issued in the amount of $1,002,199,000, the additional and original bills to be freely interchangeable.

365-day bills, for $ 1,000,000,000, or thereabouts, to be dated January 31, 1969, and to mature January 31, 1970.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, January 28, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to

submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 31, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 31, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, January 27, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated October 31, 1968, and the other series to be an additional issue of the bills dated July 31, 1968, which were offered on January 22, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 1, 1969		:	182-day Treasury bills maturing July 31, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.448	6.140%	:	96.849	6.233%
Low	98.437	6.183%	:	96.835	6.260%
Average	98.441	6.167% 1/	:	96.838	6.255% 1/

17% of the amount of 91-day bills bid for at the low price was accepted
65% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 32,105,000	$ 17,706,000	:	$ 7,330,000	$ 6,300,000
New York	1,934,851,000	1,087,876,000	:	1,912,539,000	895,519,000
Philadelphia	34,569,000	18,773,000	:	18,595,000	8,273,000
Cleveland	32,134,000	29,983,000	:	47,358,000	22,828,000
Richmond	45,876,000	38,176,000	:	21,055,000	7,055,000
Atlanta	49,999,000	32,465,000	:	30,251,000	13,416,000
Chicago	235,024,000	175,280,000	:	145,029,000	37,835,000
St. Louis	59,585,000	50,025,000	:	38,802,000	30,666,000
Minneapolis	25,242,000	13,492,000	:	18,314,000	5,374,000
Kansas City	28,909,000	26,590,000	:	27,199,000	17,716,000
Dallas	27,956,000	16,956,000	:	22,542,000	11,542,000
San Francisco	141,777,000	93,247,000	:	160,060,000	45,780,000
TOTALS	$2,648,027,000	$1,600,569,000 a/		$2,449,074,000	$1,102,304,000 b/

a/ Includes $331,005,[illegible]0 noncompetitive tenders accepted at the average price of 98.441
b/ Includes $180,994,[illegible]00 noncompetitive tenders accepted at the average price of 96.838
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.35% for the 91-day bills, and 6.55% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

January 28, 1969

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES REMOVAL OF COUNTERVAILING DUTY ON IMPORTS OF FRENCH MERCHANDISE

The Treasury Department announced today that merchandise imported from France and exported from that country on and after February 1, 1969, will no longer be subject to countervailing duty.

This action was taken after the receipt of official advice from the French Government that it is discontinuing, as of January 31, 1969, its subsidy programs on French exports under the provisions of French Decree 68-581, as amended.

Since September 14, 1968, all dutiable French products benefiting from the original French subsidy program were subjected to a countervailing duty of 2-1/2 percent under the provisions of Treasury Decision 68-192. This decision was published in the Federal Register of August 14, 1968.

Subsequently, following a reduction in the French subsidy by fifty percent, the Treasury Department published in the Federal Register of November 1 a notice that the countervailing duty on dutiable French imports was reduced from 2-1/2 percent to 1-1/4 percent of the f.o.b. price of the merchandise This action was taken under the provisions of Treasury Decision 68-270.

Notice of the elimination of the countervailing duty will be published in the Federal Register of Wednesday, January 29, 1969.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Tuesday, January 28, 1969.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated October 31, 1968, and the other series to be dated January 31, 1969, which were offered on January 22, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 273-day bills and for $1,000,000,000, or thereabouts, of 365-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	273-day Treasury bills maturing October 31, 1969		365-day Treasury bills maturing January 31, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	95.319	6.173%	93.815 a/	6.100%
Low	95.286	6.216%	93.744	6.170%
Average	95.302	6.195% 1/	93.771	6.144% 1/

a/ Excepting one tender of $35,000
49% of the amount of 273-day bills bid for at the low price was accepted
89% of the amount of 365-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 878,000	$ 878,000	$ 21,842,000	$ 1,842,000
New York	1,044,063,000	409,963,000	1,450,307,000	810,917,000
Philadelphia	6,594,000	1,594,000	13,304,000	3,304,000
Cleveland	4,309,000	3,509,000	22,274,000	7,274,000
Richmond	787,000	787,000	2,522,000	2,522,000
Atlanta	11,954,000	3,354,000	15,720,000	7,454,000
Chicago	114,036,000	40,526,000	134,992,000	63,442,000
St. Louis	14,009,000	4,989,000	23,993,000	20,393,000
Minneapolis	10,675,000	675,000	11,038,000	4,818,000
Kansas City	1,476,000	1,476,000	13,955,000	12,900,000
Dallas	12,349,000	1,849,000	12,423,000	2,423,000
San Francisco	88,855,000	30,455,000	117,208,000	62,928,000
TOTALS	$1,309,985,000	$ 500,055,000 b/	$1,839,578,000	$1,000,217,000 c/

b/ Includes $23,771,000 noncompetitive tenders accepted at the average price of 95.302
c/ Includes $65,343,000 noncompetitive tenders accepted at the average price of 93.771
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.52 % for the 273-day bills, and 6.54% for the 365-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 29, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 6, 1969, in the amount of $2,703,621,000, as follows:

91-day bills (to maturity date) to be issued February 6, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated November 7, 1968, and to mature May 8, 1969, originally issued in the amount of $1,101,010,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated February 6, 1969, and to mature August 7, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 3, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

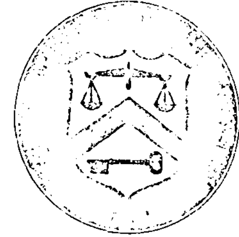
responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 6, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 6, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 29, 1969

TREASURY ANNOUNCES $14.5 BILLION FEBRUARY REFUNDING

The Treasury today announced that it is offering holders of the notes and bonds maturing February 15, 1969, the right to exchange their holdings for a 15-month note or a 7-year note.

The securities eligible for exchange are:

$10,738 million of 5-5/8% Treasury Notes of Series A-1969, and
$3,728 million of 4% Treasury Bonds of 1969, (dated August 15, 1962).

The notes being offered are:

6-3/8% Treasury Notes of Series C-1970, dated February 15, 1969, due May 15, 1970, at 99.95 to yield about 6.42%, and
6-1/4% Treasury Notes of Series A-1976, dated February 15, 1969, due February 15, 1976, at 99.75 to yield about 6.29%.

Subscribers will receive a cash payment for the difference between the par value of the maturing securities and the offering price of the new securities.

The public holds about $5.4 billion of the securities eligible for exchange, and about $9.1 billion is held by Federal Reserve and Government accounts.

Cash subscriptions for the new notes will not be received.

The books will be open for three days only, on February 3 through February 5, for the receipt of subscriptions. Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Office of the Treasurer of the United States, and placed in the mail before midnight February 5, will be considered as timely. The payment and delivery date for the notes will be February 17, 1969. The notes will be made available in registered as well as bearer form. All subscribers requesting registered notes will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service.

Coupons dated February 15, 1969, on the maturing securities should be detached and cashed when due. The February 15, 1969, interest due on registered securities will be paid by issue of interest checks in regular course to holders of record on January 15, 1969, the date the transfer books closed.

Interest on the 6-3/8% notes will be payable on May 15 and November 15, 1969, and May 15, 1970. Interest on the 6-1/4% notes will be payable on August 15, 1969, and thereafter on February 15 and August 15 until maturity.

Estimated Ownership of the February 15, 1968 Maturities

as of December 31, 1968

(In millions of dollars)

	5-5/8% Note	4% Bond	Total
Commercial banks......................	1,534	1,130	2,664
Mutual savings banks..................	56	24	80
Insurance companies:			
Life................................	2	4	6
Fire, casualty and marine...........	63	44	107
Total, insurance companies........	65	48	113
Savings and loan associations.........	200	78	278
Corporations..........................	107	91	198
State and local governments...........	336	199	535
All other private investors...........	847	773	1,620
Total, privately held.............	3,145	2,343	5,488
Federal Reserve Banks and Government Accounts.................	7,593	1,385	8,978
Total outstanding.....................	10,738	3,728	14,466

Office of the Secretary of the Treasury
Office of Debt Analysis

January 29, 1969

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 3, 1969

FOR IMMEDIATE RELEASE

DR. HENRY WALLICH IS NAMED SENIOR CONSULTANT
TO SECRETARY OF THE TREASURY DAVID M. KENNEDY

Secretary of the Treasury David M. Kennedy today announced appointment of Dr. Henry C. Wallich of New Haven, Connecticut, as his Senior Consultant, a part-time advisory post chiefly involving international monetary matters.

A professor of economics at Yale University since 1951, Dr. Wallich took leave from that post in 1958-59 to serve as Assistant to Secretary of the Treasury Robert B. Anderson and as a member of the Council of Economic Advisers under President Eisenhower in 1959-60. In recent years, he acted as a consultant to Secretary of the Treasury Henry H. Fowler.

From 1941 to 1951, Dr. Wallich was an economist for the Federal Reserve Bank of New York, the last five years as Chief of the Foreign Research Division. On leave from that position in 1948 he was Chief of the Intra-European Payments Branch of the Economic Cooperation Administration. His early career, prior to taking a Ph.D. degree from Harvard University, was as a securities analyst for the Chemical Bank and Trust Company and the brokerage firm of Hackney, Hopkinson and Sutphen, both of New York City. Previously, he had been in the commodities business in South America.

At Yale, Dr. Wallich teaches Money and Banking as well as Corporate Finance. His principal current research interest is a comparative study of national monetary systems. His most recent book is "The Cost of Freedom," an examination of modern capitalism.

Dr. Wallich is the author of numerous contributions to technical journals as well as to popular magazines and newspapers. He has testified frequently on international monetary matters before Congressional committees.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 3, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 7, 1968, and the other series to be dated February 6, 1969, which were offered on January 29, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 8, 1969		182-day Treasury bills maturing August 7, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.429	6.215%	96.800	6.330%
Low	98.417	6.262%	96.781	6.367%
Average	98.420	6.251% 1/	96.785	6.359% 1/

23% of the amount of 91-day bills bid for at the low price was accepted
50% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 27,870,000	$ 17,770,000	$ 5,684,000	$ 5,609,000
New York	2,097,084,000	1,145,344,000	1,661,449,000	799,771,000
Philadelphia	36,595,000	21,113,000	16,894,000	6,894,000
Cleveland	41,519,000	41,238,000	41,487,000	29,937,000
Richmond	28,066,000	18,066,000	18,354,000	6,254,000
Atlanta	35,780,000	26,114,000	33,991,000	20,466,000
Chicago	188,091,000	128,676,000	174,025,000	114,425,000
St. Louis	53,835,000	42,004,000	39,314,000	35,914,000
Minneapolis	31,863,000	17,489,000	25,688,000	9,188,000
Kansas City	33,736,000	31,236,000	17,778,000	14,759,000
Dallas	31,579,000	21,194,000	23,346,000	13,346,000
San Francisco	191,453,000	90,241,000	131,161,000	43,461,000
TOTALS	$2,797,471,000	$1,600,485,000 a/	$2,189,171,000	$1,100,024,000 b/

a/ Includes $324,728,000 noncompetitive tenders accepted at the average price of 98.420
b/ Includes $178,222,000 noncompetitive tenders accepted at the average price of 96.785
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.44% for the 91-day bills, and 6.66% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON. D.C.

February 5, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 13,1969, in the amount of $ 2,704,449,000, as follows:

91-day bills (to maturity date) to be issued February 13,1969 in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated November 14,1968, and to mature May 15, 1969, originally issued in the amount of $1,102,720,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated February 13, 1969, and to mature August 14, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 10, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 13, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 13, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 5, 1969

FOR RELEASE AT 4:30 P.M.
WEDNESDAY, FEBRUARY 5,1969

EDWIN S. COHEN TO BE NOMINATED AS ASSISTANT SECRETARY FOR TAX POLICY

Secretary of the Treasury David M. Kennedy announced today the selection of Edwin S. Cohen to be nominated as Assistant Secretary for Tax Policy.

Mr. Cohen, 54, has been a professor of law at the University of Virginia, Charlottesville, since 1965. He is a nationally known authority on tax law, and served as a member of President Nixon's task force on tax reform.

Mr. Cohen has been active in the work of the taxation section of the American Bar Association, and has been a special consultant on tax matters to the American Law Institute. In 1956-58, he was a member and counsel of the advisory group on corporate taxes of the Ways and Means Committee, House of Representatives. In 1966-67, he was consultant to the Virginia Income Tax Study Commission, and drafted its report conforming the state's income tax law to the Federal law. Mr. Cohen was a member in 1967-68 of the advisory group to the Commissioner of Internal Revenue.

A native of Richmond, Virginia, Mr. Cohen received a B.A. degree from the University of Richmond in 1933 and a LL.B. degree from the University of Virginia in 1936. He was first in class at both universities.

The new Assistant Secretary began his law career with the firm of Sullivan & Cromwell in New York City, and later became a partner in the firm of Root, Barrett, Cohen, Knapp & Smith, also of New York City. He has been a counsel to Barrett, Knapp, Smith & Schapiro while teaching at the University of Virginia.

Mr. Cohen was a visiting lecturer in law at the university in 1963-64, became a professor of law in 1965, and last year was named Joseph M. Hartfield Professor of Law.

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He is married to the former Helen Herz of New York City. They have three children -- Edwin Carlin, 26, an attorney in New York City; Roger 21, a student at Salem College, Salem, West Virginia, and Susan Wendy, 17, a student at Albemarle High School, Charlottesville.

Mr. Cohen is a member of Phi Beta Kappa, Order of the Coif, and the Raven Society of the University of Virginia.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 6, 1969

FOR IMMEDIATE RELEASE

DONALD A. WEBSTER NAMED ASSISTANT TO SECRETARY KENNEDY

Secretary of the Treasury David M. Kennedy today announced appointment of Donald A. Webster of Rochester, New York, as Assistant to the Secretary.

In this capacity he will be Secretary Kennedy's immediate and principal staff assistant in carrying out all phases of the Secretary's responsibilities.

Before joining the Treasury, Mr. Webster was responsible for domestic policy on the Nixon-Agnew Key Issues Committee, having previously been Minority Staff Economist for the Joint Economic Committee of the Congress from 1962 to 1968. From 1961 to 1962 he was a research writer for Congressional Quarterly.

Mr. Webster's prior government service also included a period as research assistant to Senator Frederick G. Payne (1955-56) and as Assistant to the Assistant Administrator for Congressional and Public Affairs, General Services Administration (1961-62). From 1956 to 1959 he was on active duty in the Navy as a reserve officer in photo intelligence.

Born in Rochester, December 9, 1930, the son of Albert and Madeline Vandenbush Webster, he received a bachelor of arts degree in 1953 from Hamilton College, Clinton, New York, where he was elected to Phi Beta Kappa. In 1955 he received a master of arts degree from the Johns Hopkins School of Advanced International Studies, Washington, D.C. He is a member of the American Economic Association, National Economists Club, American Political Science Association and the Capitol Hill Club.

He and Mrs. Webster, the former Helen Long of Falmouth, Massachusetts, live at 4615 Sedgwick Street, N. W., Washington, D.C.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 7, 1969

FOR RELEASE AT NOON
FEBRUARY 7, 1969

STATEMENT BY SECRETARY OF THE TREASURY
DAVID M. KENNEDY
ON TAX REFORM

As President Nixon has emphasized, tax reform and equitable tax administration will have a high priority in his Administration.

The President and I have met with Representatives Wilbur D. Mills and John W. Byrnes, Chairman and ranking minority member respectively, of the House Committee on Ways and Means. We expressed to them our intention to work closely with the Ways and Means Committee in connection with its planned hearings on tax reform. We at Treasury are reviewing carefully the tax reform proposals developed at the Treasury Department under the previous Administration which have just been published. We are working on the development of proposals and plan to present them at the proper time to the Committee.

There are three areas that I would emphasize in this preliminary statement, but this emphasis does not mean that any other area is necessarily excluded.

First, we have the question of equity -- are all Americans in similar circumstances paying approximately the same amount of income taxes? Recent testimony by the outgoing Secretary of the Treasury suggests that they are not. This area will receive our early attention.

Second, this Administration's interest in the use of tax credits to help solve the problems of the cities and of our disadvantaged is well known. Already the Treasury is examining closely some of the more promising approaches recommended by the President's Task Force on Taxation. We shall proceed with these studies as rapidly as possible.

Third, our whole tax system -- State and local as well as Federal -- would benefit from a careful and searching reexamination. The issues involved are long run in nature and involve the strength of our domestic economy, our international financial position, the capacity to generate revenues to meet national needs, and many other factors. We shall be discussing approaches to this long run problem within the Administration and with Congressional leaders in the period ahead.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH January 31, 1969

(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,996	7	.14
Series F and G-1941 thru 1952	29,521	29,479	42	.14
Series J and K-1952 thru 1956	3,660	3,613	47	1.28
UNMATURED				
Series E 3/:				
1941	1,879	1,656	223	11.87
1942	8,293	7,323	970	11.70
1943	13,342	11,816	1,526	11.44
1944	15,567	13,690	1,877	12.06
1945	12,232	10,580	1,653	13.51
1946	5,544	4,613	931	16.79
1947	5,258	4,218	1,040	19.78
1948	5,437	4,265	1,172	21.56
1949	5,364	4,124	1,240	23.12
1950	4,689	3,555	1,134	24.18
1951	4,057	3,077	980	24.16
1952	4,249	3,197	1,052	24.76
1953	4,852	3,561	1,292	26.63
1954	4,945	3,554	1,391	28.13
1955	5,151	3,638	1,513	29.37
1956	4,973	3,464	1,510	30.36
1957	4,680	3,189	1,491	31.86
1958	4,561	2,960	1,601	35.10
1959	4,271	2,698	1,573	36.83
1960	4,278	2,588	1,690	39.50
1961	4,325	2,444	1,881	43.49
1962	4,164	2,303	1,861	44.69
1963	4,640	2,376	2,264	48.79
1964	4,524	2,329	2,195	48.52
1965	4,424	2,217	2,207	49.89
1966	4,758	2,181	2,577	54.16
1967	4,710	1,952	2,758	58.56
1968	3,763	972	2,791	74.17
Unclassified	578	774	-197	
Total Series E	159,509	115,313	44,196	27.71
Series H (1952 thru May, 1959) 3/	5,485	3,249	2,236	40.77
H (June, 1959 thru 1968)	6,914	1,500	5,414	78.30
Total Series H	12,399	4,748	7,650	61.70
Total Series E and H	171,908	120,061	51,846	30.16
Series J and K 1957	93	65	29 4/	31.18
All Series: Total matured	38,184	38,088	96	.25
All Series: Total unmatured	172,001	120,126	51,875	30.16
All Series: Grand Total	210,185	158,214	51,971	24.73

1/ [Inc]ludes accrued discount.
2/ [Cur]rent redemption value.
3/ [At] option of owner bonds may be held and will earn interest for additional periods after original maturity dates.
4/ [Inc]ludes matured bonds which have not been presented for redemption.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

February 7, 1969

PRELIMINARY RESULTS OF CURRENT EXCHANGE OFFERING

Preliminary figures show that about $12,435 million, or 86.0% of the $14,466 million notes and bonds maturing February 15 have been exchanged for the two notes included in the current offering.

Subscriptions total $8,717 million for the 6-3/8% notes of Series C-1970 and $3,718 million for the 6-1/4% notes of Series A-1976, of which $2,613 million for the 6-3/8% notes and $885 million for the 6-1/4% notes were received from the public.

Of the eligible securities held outside the Federal Reserve Banks and Government accounts $3,498 million, or 63.7% of an aggregate of $5,488 million were exchanged.

Following is a breakdown of securities to be exchanged (amounts in millions):

ELIGIBLE FOR EXCHANGE		SECURITIES TO BE ISSUED			UNEXCHANGED	
Securities	Amount	6-3/8% Notes C-1970	6-1/4% Notes A-1976	Total	Amount	%
5-5/8% notes, A-1969	$10,738	$6,713	$3,025	$ 9,738	$1,000	9.3
4% bonds, 1969	3,728	2,004	693	2,697	1,031	27.7
Total	$14,466	$8,717	$3,718	$12,435	$2,031	14.0

Details by Federal Reserve Districts as to subscriptions will be announced later.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 10, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 14, 1968, and the other series to be dated February 13, 1969, which were offered on February 5, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 15, 1969		182-day Treasury bills maturing August 14, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.437 a/	6.183%	96.793 b/	6.344%
Low	98.426	6.227%	96.778	6.373%
Average	98.433	6.199% 1/	96.790	6.349% 1/

a/ Excepting one tender of $100,000; b/ excepting one tender of $2,000,000
86% of the amount of 91-day bills bid for at the low price was accepted
4% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 25,191,000	$ 13,676,000	$ 13,836,000	$ 3,836,000
New York	2,855,739,000	1,196,704,000	2,347,763,000	896,701,000
Philadelphia	46,084,000	21,024,000	18,023,000	7,780,000
Cleveland	46,321,000	34,721,000	58,482,000	22,072,000
Richmond	27,954,000	16,554,000	20,276,000	11,156,000
Atlanta	56,643,000	28,293,000	36,657,000	18,499,000
Chicago	327,990,000	99,463,000	208,841,000	47,363,000
St. Louis	56,097,000	37,782,000	36,073,000	19,873,000
Minneapolis	33,795,000	12,655,000	24,049,000	4,549,000
Kansas City	45,058,000	29,913,000	28,468,000	16,168,000
Dallas	28,125,000	16,625,000	23,384,000	12,584,000
San Francisco	253,683,000	93,345,000	242,838,000	39,858,000
TOTALS	$3,802,680,000	$1,600,755,000 c/	$3,058,690,000	$1,100,439,000 d/

c/ Includes $337,235,000 noncompetitive tenders accepted at the average price of 98.433
d/ Includes $174,046,000 noncompetitive tenders accepted at the average price of 96.790
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.39% for the 91-day bills, and 6.65% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 11, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 20, 1969, in the amount of $2,703,177,000, as follows:

91-day bills (to maturity date) to be issued February 20, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated November 21, 1968, and to mature May 22, 1969, originally issued in the amount of $1,102,308,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated February 20, 1969, and to mature August 21, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 17, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 20, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 20, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 13, 1969

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 13,1969

SECRETARY KENNEDY NAMES JAMES E. SMITH
AS ASSISTANT FOR CONGRESSIONAL RELATIONS

Secretary of the Treasury David M. Kennedy today announced appointment of James E. Smith of Aberdeen, South Dakota, as Special Assistant to the Secretary. His responsibilities will include Congressional Relations and associated duties.

Before joining the Treasury, Mr. Smith was on the Washington staff of the American Bankers Association from 1963 to 1969. His positions included Deputy Manager and Associate Federal Legislative Counsel.

From 1962 to 1963, Mr. Smith was minority counsel to the Senate Subcommittee on Intergovernmental Relations. He served as Legislative aide to Senator Karl E. Mundt from 1957 to 1962, and from 1955 to 1957 was an investigator in the Office of Security, Department of State.

Born in Aberdeen, September 28, 1930, he received a bachelor of science degree in 1952 from the South Dakota School of Mines and Technology, Rapid City. In 1959 he received a bachelor of laws degree from The George Washington University, Washington, C.

Mr. Smith is married to the former Sarah Spear of Ashley, llinois, at one time an assistant to Senator Paul H. Douglas. he Smiths and their daughter, Susan Elizabeth, 8, live at 604 Barcroft View Terrace, Bailey's Cross Roads, Virginia. Ir. Smith has a son James E. Smith II, 14, by a former arriage.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 12, 1969

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JANUARY

During January 1969, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $50,418,000.00.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 13, 1969

FOR IMMEDIATE RELEASE

TREASURY SECRETARY KENNEDY NAMES THOMAS R. MAY
AS NEW SAVINGS BONDS CHAIRMAN FOR STATE OF GEORGIA

Thomas R. May, President, Lockheed-Georgia Company, and Vice President, Lockheed Aircraft Corporation, has been appointed by Secretary of the Treasury David M. Kennedy as volunteer State Chairman for the Savings Bonds Program in Georgia.

Mr. May will head a committee of state business, financial, labor and governmental leaders who -- working with the Savings Bonds Division -- assist in promoting the sales of Savings Bonds and Freedom Shares throughout the state.

Mr. May is also a member of the 1969 National Industrial Payroll Savings Committee, serving with 52 of the nation's top executives.

Mr. May, who was born in Knoxville, Tennessee, majored in business administration at the University of Tennessee. He attended the advanced management course at Harvard University. During World War II, he served as an Air Force fighter pilot in Europe.

He began his aerospace career with the Fairchild Engine and Airplane Corporation in Knoxville. Mr. May joined Lockheed-Georgia, in Marietta, in May, 1951, as an accountant. He served in various capacities, in Georgia and California, and was promoted to Vice President in charge of the company's C-130 Hercules program in January, 1962. Prior to his selection as President, Lockheed-Georgia Company, in May, 1967, he had responsibility -- as Vice President -- for the company's C-5 Galaxy program, to design and produce for the Air Force the world's largest airplane.

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Mr. May is active in a number of business and civic organizations, including the Kiwanis Club, the executive board of the Atlanta Area Council, the Boy Scouts of America, and the Cobb County Chamber of Commerce. He is a director of the Atlanta and Georgia State Chambers of Commerce, Harvard Business Club of Atlanta, and the First National Bank of Atlanta.

Mr. May is also a member of the American Institute of Aeronautics and Astronautics and an honorary vice president of the Society of American Value Engineers.

He and his wife, Mary, have four sons -- Thomas, Terence, Timothy and Jeffrey. They make their home in Atlanta.

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TREASURY DEPARTMENT

WASHINGTON. D.C.

FOR IMMEDIATE RELEASE

February 14, 1969

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 28,1969, in the amount of $1,502,230,000, as follows:

275-day bills (to maturity date) to be issued February 28, 1969, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated November 30,1968, and to mature November 30,1969, originally issued in the amount of $1,000,940,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,000,000,000, or thereabouts, to be dated February 28, 1969, and to mature February 28, 1970.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Thursday, February 20, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to

submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 28, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 28,1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE February 14, 1969

SUBSCRIPTION FIGURES FOR CURRENT EXCHANGE OFFERING

The results of the Treasury's current exchange offering of

6-3/8% notes dated February 15, 1969, maturing May 15, 1970, and
6-1/4% notes dated February 15, 1969, maturing February 15, 1976,

are summarized in the following tables.

Issues Eligible for Exchange	Amount Eligible for Exchange	Exchanged For: 6-3/8% Notes	Exchanged For: 6-1/4% Notes	Exchanged For: Total	For Cash Redemption: Amount	For Cash Redemption: % of Total Out-standing	For Cash Redemption: % of Public Hold-ings
	(Amounts in millions)						
5-5/8% Notes, A-1969	$10,738	$6,741	$3,029	$ 9,770	$ 968	9.0	30.5
4% Bonds, 1969	3,728	2,020	698	2,718	1,010	27.1	42.9
Total	$14,466	$8,761	$3,727	$12,488	$1,978	13.7	35.8

Exchanges for 6-3/8% Notes of Series C-1970

Federal Reserve District	5-5/8% Notes Series A-1969	4% Bonds of 1969	Total
Boston	$ 70,289,000	$ 39,694,000	$ 109,983,000
New York	5,641,714,000	1,384,983,000	7,026,697,000
Philadelphia	62,925,000	50,536,000	113,461,000
Cleveland	107,726,000	62,350,000	170,076,000
Richmond	41,661,000	39,370,000	81,031,000
Atlanta	114,138,000	37,514,000	151,652,000
Chicago	256,173,000	173,466,000	429,639,000
St. Louis	121,252,000	46,477,000	167,729,000
Minneapolis	49,714,000	33,923,000	83,637,000
Kansas City	93,283,000	43,307,000	136,590,000
Dallas	86,141,000	57,181,000	143,322,000
San Francisco	80,304,000	47,866,000	128,170,000
Treasury	15,276,000	3,827,000	19,103,000
TOTAL	$6,740,596,000	$2,020,494,000	$8,761,090,000

Exchanges for 6-1/4% Notes of Series A-1976

Federal Reserve District	5-5/8% Notes Series A-1969	4% Bonds of 1969	Total
Boston	$ 7,813,000	$ 6,930,000	$ 14,743,000
New York	2,774,010,000	406,351,000	3,180,361,000
Philadelphia	6,472,000	15,487,000	21,959,000
Cleveland	32,499,000	29,802,000	62,301,000
Richmond	9,970,000	11,761,000	21,731,000
Atlanta	23,834,000	21,777,000	45,611,000
Chicago	80,879,000	82,779,000	163,658,000
St. Louis	26,147,000	22,974,000	49,121,000
Minneapolis	11,234,000	19,659,000	30,893,000
Kansas City	24,362,000	35,007,000	59,369,000
Dallas	9,505,000	17,091,000	26,596,000
San Francisco	22,093,000	27,670,000	49,763,000
Treasury	202,000	932,000	1,134,000
TOTAL	$3,029,020,000	$698,220,000	$3,727,240,000

TREASURY DEPARTMENT
Washington

FOR RELEASE AT 12:30 P.M., EST
SUNDAY, FEBRUARY 16, 1969

TRANSCRIPT OF INTERVIEW OF HON. DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BY EDDIE BARKER AND WALTER EVANS
KRLD-TV, DALLAS, TEXAS, ON SHOW "POINT OF VIEW,"
TELECAST SUNDAY, FEBRUARY 16, 1969

Mr. Secretary, we welcome you and, as you were telling us before you came on this morning, actually coming to Dallas is not something new to you but rather an extension of many visits down through the years.

SECRETARY KENNEDY: I have been coming to Dallas for many years.We had a great deal of business in Texas,and I have many friends here,so it is like coming home -- only in a new role, a new capacity.

Q. What is this role you have now assumed as Secretary of the Treasury with all the problems facing us? Does it seem that the office has taken on more here than perhaps it has previously?

A. The office of the Secretary of the Treasury has been important in our entire history. I think now that with the problems we have,with the inflation in our economy, with the budget problems we have,and with the other general matters affecting taxation,it has taken on increased importance at this time. I am looking forward to the challenge.

Q. Isn't President Nixon going about getting his economic advice in a slightly different way than his predecessors?

A. I think he is, sir. Because he is taking what I would think a good attitude in trying to get the various

options -- he has taken a fresh look at each thing. And in the financial field he wants us to come up with the kind of proposals that will bring sustainable growth in our economy. And I think the meetings he is having at the White House, in limited numbers, and in the discussions, he is getting the background and I think we will be able to make the right kind of decisions.

Q. I have heard some criticisms or read some criticisms of the Nixon way of doing things -- to the extent that he may perhaps be getting a bit "over-committeeized," if I might coin a phrase. What is your thought on this?

A. I doubt that. I think he has, in effect, reduced the number of meetings that will be held by keeping the numbers smaller and with fewer people to report to him. Now, he does have an important White House staff. He does have a series of White House committees. But those are background committees and briefing committees to bring information to his attention, and he wants to get both sides of each question rather than have government by consensus. You see, you have a mediocrity there when you have just a consensus position. He wants to be able to take the decision on the basis of the facts on each side of the equation.

Q. Mr. Secretary, I think that most Americans are interested today in what is the status of the pocketbook. Where are we going on this tax thing? Have we reached a point beyond which we cannot go in individual taxes in this country? What's ahead for us?

A. Well, I think that is one of the first orders of business, and I have a directive from the President to come up with some tax proposals to the House Ways and Means Committee. Congressmen Mills and Johnnie Byrnes of the House Ways and Means Committee are coming up with hearings, starting this month, on tax reform. And we at the Treasury will look at the proposals made and we will have before us the study made by the staff of the Treasury and submitted by the previous administration without recommendation. They will form a basis. But we will -- from them -- distill our own recommendations and present them. I don't think that there is any question but what this country, with our productive capacity -- our income-producing capabilities -- can work out a tax change or changes that will make our system more equitable. And that is what we are looking at -- equity.

Q. It is the feeling of the administration,then,that there are some very root changes that should be made in this tax equalization, would you say?

A. Well there are two or three phases of this. One is the equity if there are, and I am sure that the facts indicate that there are, people who are not paying any taxes in a very high income tax bracket. They are not doing it dishonestly; it is not illegal. They may have all their money invested in tax-free municipal bonds. But there is the equity question which will be looked at very carefully. There is the question of simplification, because there is a lot of red tape, a lot of papers, and if you can make changes in the tax base so that the reporting and the handling of the administrative end of the tax structure can be expedited,it will reduce not only cost, but it will be less burdensome to the taxpayer.

Q. There are a lot of people outside of government who say that the real answer to taxation is to take an arbitrary figure and say, "All right -- everybody pays X percent in taxes, regardless." I am sure this cannot come about. What are some of the reasons?

A. Mainly because we have adjusted in our country to a tax system that is like Topsy: it has just growed over a period of years. And our businesses and our people have learned to live with this kind of a tax structure. When you make a basic and substantial change, it can distort business patterns and ways of life. The time to make a wholesale or very broad change in taxes would perhaps be when you wanted to reduce taxes substantially. We are not in that position at this time. So we will come up this year with the kind of changes that can be done in a period when we can't reduce taxes but we must have the same amount of income or more, and then look to the longer run and see if there are other basic changes, as you have suggested, that can be done at a later time. So, we have two things -- a short run and a long run problem.

Q. But we are really at a point in this country -- can you honestly ever see us with lower taxes in the United States?

A. Oh, yes. There is no question that if the Vietnam war could, hopefully, end -- or if we could get some control over expenditures and more value for the dollars spent by the Federal government--I can see where our growing income would produce enough revenue that we could reduce. And we have had two fairly substantial reductions in the last several years. In 1954 there was a reduction and we had one in the Kennedy administration carried through. It was actually effective under President Johnson, but a major tax reduction.

Q. Do you think that the American people might as well forget about seeing the surcharge removed any time soon?

A. At the moment I could not see the surtax removed, because of the need for income to keep a balance in the budget. But I would be in hopes that it could be removed at an early date. By "early," I would be in hopes that we could get that at least as soon as the Vietnam war ends, and maybe before.

Q. Governor Rockefeller has suggested that it be made a permanent part of the tax structure, and the money derived therefrom going to the states for welfare purposes.

A. We have had all kinds of proposals as you know, to share the Federal tax -- collect the taxes and return them to the states and municipalities and, of course, there is a definite need in the cities for the problems that Governor Rockefeller indicated. At this stage, as Secretary of the Treasury, I would have to look pretty carefully at whether we could afford to turn any of this tax, at the moment, to anywhere but the Federal Treasury, because we must have a balance in the Federal budget right now.

Q. Mr. Secretary, you mentioned the end of the war -- and certainly, in time, this will come. But what is this going to do to the economy of this country? Are we escalated because of the war to where a sudden de-escalation of the war would cause a problem, a depression, here?

A. The answer to that is no. I think that the escalation of the costs of the Vietnam war are largely responsible for the heavy inflationary pressures that we have in the economy today. The increase in the price level is in part due to the Vietnam war. That could end, and we hope that it will. We believe it will. And efforts are being made right now to try to bring it to an end. It would not mean a complete reduction in the total cost, as you might well know. We will still have to have armies; we will still have to have heavy defense expenditures because of the world situation. There will be a reduction, and that reduction would be very helpful to us in many of the things that are needed in our own country that should not be deferred because of a budget situation. With the end of the war -- with that additional money -- it could be used for cities and for our various problems that we are now having difficulty with.

Q. So you see no recession.

A. I see no recession. I see a reduction in inflationary pressures -- which we are trying to bring about. That would be the most helpful thing we could have right now.

Q. It used to be that the Republican Party had the impression of the party of depression. I haven't heard too much about that lately, still, I am sure a lot of people have this idea. What is your thought on that?

A. Well, I disagree, of course, with that one hundred percent. I think that this administration can and will follow programs that will dampen inflationary pressures and will bring more balance and equilibrium into our economy and that will, at the same time, provide the base for sustainable growth. I am sure that while the Eisenhower administration might be criticized for actions in the latter part of the administration, I think a very strong case can be made that what was done there laid the base for the kind of expansion we had in the early sixties.

Q. Are you one of those who believes that the Federal Government can manipulate the economy, or should manipulate the economy, in order to stimulate growth or retard recession?

A. Well, I don't use the word "manipulate" -- ever. But I believe that, with the size of the Federal budget and with the central bank and its actions in monetary policy, that movements in the economy can be influenced, for good or bad, by actions taken. For example, if the tax bill that was put in last year had been put in in '67 or late '66, when it should have been, I think that is the kind of action that would have kept the economy from going through the roof, so to speak. By the same token, at the present time, with retaining the surtax -- temporarily, I hope -- and with monetary policy as it is now designed and operating, I think what we are trying to do is take a little pressure out of the boiler to keep the price level from zooming up too high.

Q. Say that if the war goes on through this year, what happens? Does this inflationary trend continue or is there a leveling off regardless?

A. Our actions are designed, and our budget figures show, a continuation of the Vietnam war. We are not putting into

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the equation the end of the Vietnam war. We look at that and have it in the back of our minds and hopefully it will take place. But the budget figures and our actions that are being taken now assume the Vietnam war. I think that with the budget in surplus -- not large surplus -- very small surplus in this year and next, plus the restrictive policy that the Federal Reserve is following, that we can dampen down these pressures and bring them under control. And I don't see it dipping down seriously. I think there is basically too much strength in our economy for that.

We are moving into a era of technological development that's beyond the imagination of people. New products, new ideas are coming, so that basically there is real strength in our economy. Our problem is to keep it from escalating in cost, which not only makes our people here concerned and affects their pocketbooks. But it also has to do with our balance in the world -- with the value of the dollar -- because they look at us not only from the standpoint of being the guide in this, but because our payments are in precarious balance, and they want this kind of action.

Q. Along that line, we haven't heard a lot of late from Mr. deGaulle or from the British. Apparently, on these situations with the pound and the franc, over the past few weeks, at least -- there has not been a great deal of discussion. Where do we stand, or what does the President's trip to Europe later this month have to do as far as the conversations he will have in this regard?

A. With respect to the earlier part of your question, Mr. Volcker, who is our Under Secretary for Monetary Affairs, is in Europe today. He has been over to the meetings of the Group of Ten and the OECD and having discussions in this field. And there is, at least we hope, some temporary stronger stability in the pound and in the franc. How long that can last and what are the factors? We must wait and see. And it is a concern, so we are watching and working

on that very carefully. With respect to the second part of your question, on President Nixon's trip abroad. I think his purpose there is to reestablish relationships, to have discussions, not to make commitments and change things, but to sit down with the heads of state in the various important countries in Europe and talk about their problems and ours -- our mutal problems -- our NATO alliance -- trying, hopefully, to bring peace, not only in Vietnam, but in the Middle East and other areas of the world. I was one that advocated very strongly that he go now -- early. Because this is a very serious and important matter to all of us -- to the country -- and he is in a very good position to do it now, rather than to wait.

Q. Would you expect a summit meeting to come any time this year between the United States and the Soviet Union?

A. I would not know about that at this stage. That will depend on lots of developments. There would be no point in a summit meeting unless you have really something to discuss and to be able to try to bring some solutions to problems. I think that this trip that he is having is much more advantageous because he goes there and brings understanding and goodwill and shows his determination personally as President of this great country that he is willing to consider these problems and take their views into account in making up his policy at the time when he is trying to establish this policy.

Q. To change the subject just a minute, Mr. Secretary. You have been in and out of government for many years. You were in the Eisenhower administration, I think as Assistant to the Secretary of the Treasury. I think your own government service dates back prior to that, does it not?

A. Yes, I had many years with the Federal Reserve System -- for sixteen years. Then I came to Chicago -- then back, in the Eisenhower Administration.

Q. The point of my question being: You have been in and out of government. You have seen government change, and you have seen it grow and in between your own tours of duty, so to speak, you have been very prominent in the business world. Isn't government too big today?

A. I would say that it is big, sure it's too big, but I don't see any way to cut it back substantially. There are problems, and its proportion, the Federal government's proportion, of the total GNP is not burdensome -- I think that the relationship is less than it is in other major countries. But we should keep the Federal government as small as we can in handling the programs and problems in as businesslike away as possible. Just adding people makes work. And it doesn't accomplish much in the Federal government and one of our problems will be to redirect programs.

Q. Is there a concerted effort in Treasury, for example, for any sort of a cutback in personnel?

A. We are all under the control act of last year when the tax bill went through and that is putting a burden on various people. Internal Revenue people say they don't have enough examiners, and I am hearing that we are understaffed in varicus areas, and I am sure that is the case. What we are doing -- the President has directed the Director of the Bureau of the Budget to have each Cabinet officer and his workers go over every item in their department, and wee whether the programs can be justified, whether changed, reduced, or in some way come up with some savings so the programs of the new administration will not just balloon the total. Otherwise we will just end up with more than we started with.

Q. Mr. Secretary, I would like to get some of your thoughts on this question of conflict of interest. If I remember right --

A. I am not in conflict, I assure you.

Q. -- some of the Senators during your confirmation --

A. One.

Q. All right, one, was concerned about your conflict of interest and your financial holdings, and eventually they were all satisfied. They weren't as concerned just over you as they were concerned over Mr. Packard. What about this business of all but demanding that a man divest himself of holdings once he assumes a Federal position?

A. Well, I think that is a very serious problem and I told Senator Gore we were not at odds when I talked with him. I had an hour talking with him. Told him my problems. Showed him what I had. Came out with a clean bill of health, I thought, and said I was giving up complete control. I was putting it in a trust and they could invest in anything they want and I won't know what they have because they will submit to me only the income, and they will submit my tax return. I won't even see it. I said there is a basic problem here: if a man who goes into a high position in the government can't own anything, then we have to have that understood, and I think it is your job, Senator, to find a way, and if I am disqualified, I'm disqualified. And I think they'll look into this. I think the trust agreement does it. A trust is out of my hands. You either believe in a trust or you don't. A trust means that you trust them. If a person wants to be crooked, they can be crooked without owning a little stock or something like that. I don't think that there is any chance of manipulating there, using your words.

Q. You don't think a man automatically becomes crooked once he assumes an executive office in Washington?

A. I think on the contrary. They lean over backwards completely, and I think that the business interests of the person who goes in would suffer in a way. I realize that because your associates would hesitate if they had any direction of business -- and they haven't in the Treasury -- to give it to your firm.

Q. There is a theory among some that actually in high government service you grow into the job rather than the importance of the job.

A. I hope I do, but it is a sacrifice for those men who are going in. I am not crying about my own but I think there there should be a way found.

Q. What is the answer? $100,000 a year Cabinet salary?

A. No -- I think the answer is to trust people and have them put their property as far away in trust as I have done. I think this answers it. And I think that the Senate believes that. There was only one man in the Committee that had any question in my case. And there will always be questions by some man. I think that's good -- to have a question now and then.

Q. To talk about the Treasury as a whole -- actually, the Treasury encompasses many things. Is the Secret Service still one of them?

A. Oh, yes. And it is a major one really. The protection of the President --

Q. Is the Coast Guard?

A. Not the Coast Guard now. That has been transferred to the Department of Transportation.

Q. Is this an archaic thing -- that the Secret Service is still part of the Treasury?

A. It's part of history. And counterfeiting --

Q. Is it still practical today?

A. Oh, I think it is. They have built up a competence and I think they do a terrific job.

Q. I'm not questioning the job. I'm questioning where it should be. The chain of command so to speak.

A. Well, _you_ can say that it should be over at the FBI or some other place and _I_ can say that it shouldn't. I think that the FBI is pretty big and large and that this is a specialized service that they are performing and doing very well. Whether it should be some place else -- well, every once in awhile you look at that and think it should be transferred from one department to another department and then you think it should be transferred back.

Q. Mr. Nixon has been criticized by minority groups, particularly the blacks, for his lack of inclusion of a Negro in the Cabinet, the lack of inclusion of a Jew in the Cabinet. What do you think of this ethnic criticism of Mr. Nixon? What real importance does this have?

A. I really don't know. I know that he has made a sincere effort to get black people of quality and bring them into the high positions in the government and some have been brought in various positions; not in the Cabinet. There is no exclusion. And I think the effort should be made to get qualified people. And I am sure there are many qualified black people that are qualified and should be brought in. There are a number of Jewish people in high positions in the government and there is no discrimination as far as I know. And I think that, by the President's actions as time goes on, that they'll find that they are getting a fair deal.

Q. Mr. Secretary, President Nixon, prior to the election -- well prior to his nomination -- during the campaign, and now, has constant reference, of course, to his days with the Eisenhower administration. He constantly consults

with General Eisenhower. You served in the Eisenhower administration and now in the Nixon administration. Do you see the philosophies of these administrations as a parallel, or --?

Q. Is it just courtesy?

A. No, it is not just courtesy. He believes that General Eisenhower is a great man and has great wisdom, and he sees him from time to time and he has asked each of the Cabinet to. I've talked to the General. So he's brought in. President Johnson will be brought in for discussion and for his views. But Mr. Nixon is following in part the Eisenhower and in part the Johnson --

Q. What is the great difference between the Eisenhower and the Nixon administration?

A. I don't think I could delineate that clearly at this point. He strengthened the National Security Council. President Eisenhower had the National Security Council fairly strong. It's a different kind of operation now than it was under President Eisenhower. It's a small group and with more discussion. And I think that's important, because of the troubles of today. On the question of the Cabinet Mr. Nixon is giving, I think, more authority to the Cabinet and relying on them more than either Eisenhower or President Johnson did. And I think that's to the good. Now, President Eisenhower had a strong White House staff with Sherman Adams sort of running it. President Nixon has a strong White House staff, but he doesn't have a director of staff in that sense, and each one is a specialist in his field. So there are many differences.

Q. We are just about out of time, but there is one thing I wanted to ask. I am just curious. Have you signed your name on the dollar bill yet?

A. Oh,no. That will be coming right away. They came over the other day with one and I must say -- it looks pretty good.

Q. How many dollar bills are issued now in the course of a year?

A. I couldn't answer that, but it is not just the number that is in use. But there is a deterioration by the use of the bills and so they are taking them out of circulation. Many, many, many, millions.

Q. So your signature will become quite prominent?

A. But it will be quite small.

BARKER: Mr. Secretary, we are delighted that you could spend this time with us today.

SECRETARY KENNEDY: It is an honor and a privilege.

BARKER: We will look forward in the weeks, and months and years ahead to your role in the Nixon administration and we hope you will come back and visit us again.

SECRETARY KENNEDY: I'll come back again.

ANNOUNCER: And that's "Point of View" for today.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 17, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 21, 1968, and the other series to be dated February 20, 1969, which were offered on February 11, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 22, 1969		:	182-day Treasury bills maturing August 21, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.475	6.033%	:	96.850 a/	6.231%
Low	98.446	6.148%	:	96.814	6.302%
Average	98.460	6.092% 1/	:	96.831	6.268% 1/

a/ Excepting one tender of $130,000
16% of the amount of 91-day bills bid for at the low price was accepted
3% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 18,303,000	$ 18,303,000	:	$ 5,065,000	$ 5,065,000
New York	1,795,018,000	1,086,818,000	:	1,506,557,000	805,507,000
Philadelphia	34,761,000	19,761,000	:	17,882,000	7,882,000
Cleveland	27,933,000	27,933,000	:	20,122,000	20,122,000
Richmond	13,530,000	13,530,000	:	6,789,000	6,789,000
Atlanta	49,394,000	49,394,000	:	33,510,000	26,510,000
Chicago	179,357,000	148,517,000	:	144,975,000	81,475,000
St. Louis	45,361,000	43,361,000	:	23,744,000	19,759,000
Minneapolis	30,654,000	30,654,000	:	25,976,000	25,976,000
Kansas City	32,400,000	29,900,000	:	19,156,000	18,086,000
Dallas	27,725,000	19,725,000	:	24,891,000	15,891,000
San Francisco	145,751,000	112,351,000	:	139,991,000	67,021,000
TOTALS	$2,400,187,000	$1,600,247,000	b/	$1,968,658,000	$1,100,083,000 c/

b/ Includes $320,787,000 noncompetitive tenders accepted at the average price of 98.460
c/ Includes $167,279,000 noncompetitive tenders accepted at the average price of 96.831
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.27% for the 91-day bills, and 6.56% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 18, 1969

MEMORANDUM TO TREASURY PRESS "REGULARS":

To allow the Secretary of the Treasury to exercise the traditional prerogative of Cabinet Officers to fill policy-making positions on their staffs through appointments of people they have personally selected, I will leave the position of Special Assistant to the Secretary (Public Affairs) in approximately 30 days.

I have assured Secretary Kennedy of my best wishes for the success of his programs, and of my pleasure in working with him during the transition period of the new Administration. I am sure that the Public Affairs staff will serve him loyally in the future.

I want to say thanks to all members of the press covering the Treasury for the experience of working with you over the past two years. You have never been less than fair in seeking and handling Treasury news, and I appreciate the guidance which many of you have given me.

John F. Kane
Special Assistant to the Secretary
(Public Affairs)

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
10:00 A.M.
2-19-69

Mr. Chairman and Members of the Committee:

It gives me great pleasure to appear before your distinguished Committee. I am accompanied on this occasion by Under Secretary Charls Walker and Under Secretary for Monetary Affairs Paul Volcker. I understand that we are to concentrate mainly on domestic economic matters this morning. Your Committee has already received testimony earlier this week from the Council of Economic Advisers and the Bureau of the Budget. Therefore, we will not attempt to review the economic and fiscal situations in great detail. Our prepared statements are fairly short. I will begin by giving you my own general appraisal of the current situation. The Under Secretaries will then comment briefly on specific issues in tax policy and debt management.

It is no secret that there are serious flaws in the economic picture. Strong inflationary pressures and an unsolved balance of payments problem require corrective action. But, there are also elements of great strength. American productive achievements in recent years have kept real income rising while also meeting the requirements of a

rapidly expanding defense effort. Unemployment has been reduced to the lowest levels in nearly two decades. The dollar is strong and respected in the world in spite of recent inflationary trends and a deteriorating trade balance.

As a nation, we are rich in material resources and responsive to the needs we see around us. Our conscience has been awakened to the existence of poverty amidst plenty and the need to make equality of opportunity a reality for all of our citizens. These heavy responsibilities must be met. To do so, the first priority must be to place the current expansion on a sounder and more sustainable basis. Otherwise, we run the risk of trying to do too much and end up by doing too little.

Any incoming Administration encounters unsolved problems and we have our share. We have inherited a serious inflation. It is distorting the economy and weakening our international competitive position. If unchecked, this inflation will undercut the dollar at home and abroad. Already, rapidly rising prices have eroded the purchasing power of millions of Americans who counted on their government to provide sound money.

We recognize that there are risks in attempting to stop inflation too abruptly. If the economy were to be halted in its tracks, unemployment would rise prohibitively. Even though the inflationary psychology might be broken, the cost would be too high.

There are also risks in doing too little. Insufficient restraint would mean only a brief slowing down of the economy and no lasting reduction of inflationary pressures. Something very much like this occurred during the course of 1967, when expansionary policies were pressed so vigorously as the economy slowed that the inflationary trend was never broken as a result. Inflation has built up a considerable momentum in recent years. The lesson is that the economy must be placed under firm restraint until there are unmistakable signs that we are headed back on a non-inflationary path. There will, of course, have to be a continuing review of policies as the adjustment proceeds.

For the present, given the economic outlook as outlined to you by the Council of Economic Advisers, a combination of fiscal and monetary restraint is clearly required. The budget should be kept in surplus while the Federal Reserve pursues appropriate complementary policies. While the Administration has reached no final decision

with regard to extension of the 10 percent surcharge beyond this June 30th, a budget surplus will continue to be needed if inflation is to be combatted without extreme credit stringency. Unless fiscal 1970 Federal expenditures can be cut back appreciably from the levels now apparently in prospect, there will be no choice, in my opinion, but to continue the surcharge for another year.

Other matters for legislative consideration will be described by the Under Secretaries. As you know, President Nixon has emphasized that tax reform and equitable tax administration are to have a high priority. Hearings begin this month in the House Ways and Means Committee and in due course we will be submitting the Administration's proposals.

The balance of payments continues to be a cause for concern. A small surplus was recorded last year on the liquidity basis of calculation. But this statistical improvement reflected a massive inflow of foreign capital -- both private and official. Inflows are unlikely to

continue on that scale. Meanwhile, our merchandise trade surplus dwindled to the vanishing point last year. A major reason for the steadily worsening trade position since 1965 is the sharp increases in imports caused by over-expansion of the domestic economy. A return to non-inflationary growth is essential to the restoration of our trade surplus and the maintenance of confidence in the dollar.

In conclusion, I will only note that much the same economic policies are needed to promote internal and external equilibrium of the economy. Both the domestic economy and the balance of payments are badly in need of relief from inflationary strains and distortions.

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STATEMENT OF THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
FEBRUARY 19, 1969
10:00 A.M.

I am grateful for the opportunity of expressing to the Committee the great interest of the Treasury Department in pressing forward with a program of tax reform and equitable tax administration. The President and the Secretary have emphasized both publicly and to me that these matters are to have a high priority in this Administration, and the Treasury will bend every effort to attain these goals.

We have assured Representatives Wilbur D. Mills and John W. Byrnes, Chairman and ranking minority member of the Committee on Ways and Means, of our desire and intention to work closely with their Committee in connection with the hearings on tax revision proposals that commenced yesterday. We are reviewing carefully the proposals developed at the Treasury Department under the previous administration which have recently been published. We are working on the development of proposals and plan to present them at the proper time to the Ways and Means Committee.

We hope to accomplish this as soon as possible consistent with the need for filling key vacancies in the Treasury Department staff and the desirability of developing and recommending a coordinated and orderly program of legislation.

Our first concern is with the equitable distribution of the income tax burden. The outgoing Secretary of the Treasury recently called attention to some of the problems involved on this score, and the agenda for the current Ways and Means Committee lists these and others. We regard the matter of tax revision to achieve equity as of fundamental importance, deserving of the most urgent attention in the Administration and in the Congress. We shall strive to achieve also a good measure of simplification in this complex field. It may well be necessary to approach this task in stages, accomplishing first those changes that permit of ready solution and examining at greater length more fundamental revisions of the tax structure.

We are also devoting every attention to the use of tax incentives to help solve the problems of the cities

and of our disadvantaged citizens. We are examining closely some of the more promising approaches recommended by the President's Task Force on Taxation. We hope that means will be developed to use the potency of tax incentives, along with other programs, to enlist private capital and business ingenuity in this urgent effort.

We intend also to bring the whole tax system -- state and local as well as Federal -- under a careful and searching examination. The issues involved are long run in nature and involve the strength of our domestic economy, our international financial position, the capacity to generate revenues to meet national needs, the appropriate distribution of revenues among different levels of government in relation to their fiscal responsibilities, and many other factors.

Among these issues are those of the coordination of Federal, state and local taxes, an exploration of the role of value-added taxes used by a number of Western European countries, and similar issues of fundamental significance. We believe these matters should be carefully examined and we plan to discuss approaches to these studies within the Administration and with Congressional leaders in the period ahead.

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
JOINT ECONOMIC COMMITTEE
FEBRUARY 19, 1969
10:00 A.M.

Mr. Chairman:

I appreciate this opportunity to accompany Secretary Kennedy and Under Secretary Walker on our first appearance before your Committee. As Under Secretary for Monetary Affairs, a good part of my own time will be devoted to the balance of payments and international finance. I understand that you plan to devote a later meeting exclusively to those matters. Consequently, my brief remarks this morning will be directed toward some problems of domestic financial policy related to my responsibilities for Treasury financing.

Virtually my first official act upon my return to the Treasury three weeks ago was to announce the terms by which the Treasury would refund some $14-1/2 billion of maturing debt. By necessity, those terms included the highest rates of interest available on a Treasury note or bond since the Civil War. As it turned out, even those record rates -- 6.42 percent for an 18-month issue and 6.29 percent for a seven-year issue -- failed to attract much enthusiasm among potential investors. More than a third of the maturing securities held by the general public had to be paid off in cash.

That experience reflects in a concrete way the strains pervading the domestic credit markets as we took office. You are, I am sure, familiar with other signs of pressure and imbalances: for example, the relative shortage and high cost of residential mortgage money, the sharp increases in interest expense for our state and local governments, and the growing tendency of some lenders to require an element of equity participation before committing loan funds.

My purpose today is not to elaborate these facts. Rather, I would like to suggest how, in managing the Treasury's finances and debt, we might contribute toward restoring better balance in financial markets.

The main responsibility, I should make plain, must lie elsewhere -- in responsible budget and fiscal policy and in appropriate monetary policy. These are the principal policy tools for restoring sustainable, non-inflationary balance to the economy as a whole. This kind of balance in the economy generally is a prerequisite for any lasting reduction of tensions and interest rates in financial markets.

There are two ways in which debt management can and should play a supporting role in this effort to achieve better balance. In the first place, Treasury financing can

at times provide some positive support to restrictive fiscal and credit policies by absorbing funds that might otherwise simply fuel excessive private demand. The precise means of achieving this result will always be dependent upon the particular set of economic and market circumstances prevailing at the time of a financing. It would be an oversimplification to measure the economic impact of Treasury financing entirely by the maturity of the securities sold. Nevertheless, there can be no doubt that inability to offer longer-term securities eliminates one highly important option in debt management, and thereby sharply limits its potential effectiveness as a tool of general economic policy.

The second way in which debt management can support the aims of stabilization policy is at least as significant. In the best of circumstances, the necessitous nature of Treasury financing and the potential impact of these large borrowings on credit markets create difficult problems for the conduct of monetary policy. These problems can -- and should -- be minimized by orderly spacing of financings, by reducing the size of maturing issues, and by use of financing techniques that avoid undue reliance on sales to the commercial banking system or exposure to market fluctuations. Again, the maturity of the securities offered is not the only consideration. But it is a relevant and important variable.

These circumstances explain why we shall ask the Congress at an early date to review the 4-1/4 percent interest rate ceiling on Government bonds. This has been a contentious issue in the past, and I have no desire to open that debate prematurely this morning.

I will only observe that the average maturity of the privately-held debt has shortened steadily since mid-1965, when it stood at 5 years, 9 months. By the end of last month, it had declined to a post-war low of 4 years. This continuous shortening of the debt increased liquidity in the economy, and thus tended to add to the inflationary potential. And the net result has been to force the Treasury into the market for refunding in such large amounts as to immobilize monetary policy for extended periods. In 1965, for example, the average amount of privately-held, marketable Treasury debt maturing each quarter was $3 billion; the average amount maturing in each quarter of this year, $5-1/2 billion, is very substantially larger.

I would also note, in this connection, that our savings bonds -- sold to millions of individuals in relatively small amounts -- are subject to a 4-1/4 percent ceiling. The savings bonds program has been a part of the Treasury's debt management effort since before World War II. In some ways, the value of this program is greatest precisely in an

inflationary period like the present. Yet, we are all conscious that these same inflationary pressures that have so profoundly permeated other sectors of the credit market have, for the time being, reduced the relative attractiveness of savings bonds. This is also a matter that we will be reviewing urgently in coming weeks.

In conclusion, I can make no promise of immediate relief from the heavy pressures on domestic financial markets, or from high Treasury interest costs. That is certainly a part of our ultimate objective. Moreover, with fiscal and monetary policy both geared to a non-inflationary path, it seems to me a reasonable hope for the not-too-distant future. But to put low interest rates and better availability of money first on our list of priorities would be self-defeating. For the attempt could only add more fuel to the fire of inflation and, thus, to the distortions and strains in financial markets.

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TREASURY DEPARTMENT

WASHINGTON. D.C.

February 19, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 27, 1969, in the amount of $ 2,704,300,000, as follows:

91-day bills (to maturity date) to be issued February 27, 1969, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated November 29, 1968, and to mature May 29, 1969, originally issued in the amount of $ 1,100,150,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated February 27, 1969, and to mature August 28, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 24, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 27, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 27, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
rsday, February 20, 1969.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated November 30, 1968, the other series to be dated February 28, 1969, which were offered on February 1969, were opened at the Federal Reserve Banks today. Tenders were invited for 0,000,000, or thereabouts, of 275-day bills and for $1,000,000,000, or thereabouts, 365-day bills. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	275-day Treasury bills maturing November 30, 1969		:	365-day Treasury bills maturing February 28, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.233	6.240%	:	93.744	6.170%
Low	95.157	6.340%	:	93.623	6.290%
Average	95.182	6.307% 1/	:	93.679	6.234% 1/

22% of the amount of 275-day bills bid for at the low price was accepted
91% of the amount of 365-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 343,000	$ 343,000	:	$ 565,000	$ 565,000
w York	1,122,292,000	411,352,000	:	1,219,795,000	803,495,000
iladelphia	5,477,000	477,000	:	11,508,000	1,508,000
eveland	1,332,000	1,332,000	:	14,644,000	4,644,000
chmond	491,000	291,000	:	2,728,000	2,528,000
lanta	5,207,000	2,707,000	:	9,413,000	8,413,000
icago	90,443,000	28,443,000	:	87,364,000	81,364,000
. Louis	5,722,000	4,722,000	:	4,494,000	4,494,000
nneapolis	7,040,000	5,540,000	:	7,170,000	7,170,000
nsas City	1,122,000	1,122,000	:	4,087,000	4,087,000
llas	12,027,000	4,027,000	:	11,717,000	6,717,000
n Francisco	72,457,000	39,677,000	:	90,054,000	75,054,000
TOTALS	$1,323,953,000	$ 500,033,000a/		$1,463,539,000	$1,000,039,000 b/

ncludes $17,410,000 noncompetitive tenders accepted at the average price of 95.182
ncludes $36,082,000 noncompetitive tenders accepted at the average price of 93.679
hese rates are on a bank discount basis. The equivalent coupon issue yields are 64% for the 275-day bills, and 6.64% for the 365-day bills.

K-18

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE February 19, 1969

TREASURY BILL OFFERING OF $1 BILLION

The Treasury announced today that a total of $1 billion will be added to five outstanding monthly series of Treasury bills. These are the series which mature on the last day of the months of April to August, 1969, inclusive. They were originally sold as 12-month bills and will be reopened in the amount of $200 million each -- a total of $1 billion.

The auction will be on Tuesday, February 25 with payment on March 3. In this "strip" offering, subscribers will put in for equal amounts of each of the five series of bills being reopened. Commercial banks may pay for their own purchases and for their customers' purchases by crediting Treasury tax and loan accounts.

K-19

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE February 19, 1969

TREASURY OFFERS $1 BILLION STRIP OF MONTHLY BILLS

The Treasury Department, by this public notice, invites tenders for additional mounts of five series of Treasury bills to an aggregate amount of $1,000,000,000, thereabouts, for cash. The additional bills will be issued March 3, 1969, will in the amounts, and will be in addition to the bills originally issued and aturing, as follows:

Amount of ıdditional Issue	Original Issue Dates 1968	Maturity Dates 1969		Days from March 3, 1969 to Maturity	Amount Currently Outstanding (in millions)
200,000,000	April 30	April 30		58	$1,501
200,000,000	May 31	May 31		89	1,503
200,000,000	June 30	June 30		119	1,502
200,000,000	July 31	July 31		150	2,606
200,000,000	August 31	August 31		181	1,506
,000,000,000			Average	-119.4	

e additional and original bills will be freely interchangeable.

Each tender submitted must be in the amount of $5,000, or an even multiple ereof, and one-fifth of the amount tendered will be applied to each of the above ries of bills.

The bills offered hereunder will be issued on a discount basis under competitive l noncompetitive bidding as hereinafter provided, and at maturity their face amount ll be payable without interest. They will be issued in bearer form only, and in ıominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 ıturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing ır, one-thirty p.m., Eastern Standard time, Tuesday, February 25, 1969. Tenders l not be received at the Treasury Department, Washington. In the case of com- itive tenders the price offered must be expressed on the basis of 100, with not e than three decimals, e.g., 99.925. Fractions may not be used. A single price t be submitted for each unit of $5,000, or even multiple thereof. A unit represents 000 face amount of each issue of bills offered hereunder, as previously described. is urged that tenders be made on the printed forms and forwarded in the special elopes which will be supplied by Federal Reserve Banks and Branches on application refor.

Banking institutions generally may submit tenders for account of customers vided the names of the customers are set forth in such tenders. Others than king institutions will not be permitted to submit tenders except for their account. Tenders will be received without deposit from incorporated banks trust companies and from responsible and recognized dealers in investment

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securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of these additional issues at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Tuesday, February 25, 1969.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Noncompetitive tenders for $100,000 or less (in even multiples of $5,000) without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch in cash or other immediately available funds on March 3, 1969; provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need inlcude in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss. Purchasers of a strip of the bills offered hereunder should, for tax purposes, take such bills on to their books on the basis of their purchase price prorated to each of the five outstanding issues using as a basis for proration the closing market prices for each of the issues on March 3, 1969. (Federal Reserve Banks will have available a list of these market prices, based on the mean between the bid and asked quotations furnished by the Federal Reserve Bank of New York.)

Treasury Department Circular No. 418, Revised, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 20, 1969

FOR IMMEDIATE RELEASE

EUGENE T. ROSSIDES TO BE NOMINATED AS
ASSISTANT SECRETARY OF THE TREASURY

Secretary of the Treasury David M. Kennedy announced today on behalf of President Nixon that Eugene T. Rossides will be nominated as Assistant Secretary of the Treasury.

Mr. Rossides, 41, has been a partner in the law firm of Royall, Koegel & Wells of New York City and Washington, D.C. As Assistant Secretary of the Treasury, he will supervise Treasury's Bureau of Customs, Bureau of Engraving and Printing, Bureau of the Mint and the office of the Special Assistant to the Secretary for Enforcement.

Mr. Rossides, from 1958 to 1961, served as Assistant to reasury Under Secretary Fred C. Scribner, Jr., before returning ofthe practice of law in New York City. Early in his law areer he served as a Criminal Law Investigator in the Rackets ureau on the staff of New York County District Attorney rank S. Hogan.

For two years Mr. Rossides was an Assistant Attorney General or the State of New York, having been appointed by the then ttorney General Jacob Javits, who assigned him to the Bureau of ecurities to investigate and prosecute stock frauds. A former legal officer for the Air Materiel Command, U.S. Air Force, r. Rossides holds the reserve rank of Air Force Captain.

A native of New York, Mr. Rossides graduated from rasmus Hall High School, Brooklyn; received his A.B. degree from Columbia College in 1949; his LL.B. degree from Columbia Law School in 1952. He is a member of the Columbia College Council, vice president and director of the Columbia College Alumni Association, and a member of the Columbia College Varsity "C" Club.

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A member of the Greek Orthodox Church, he serves on the church's highest ruling body, the Archdiocesan Council of the Greek Orthodox Church of North and South America, both as treasurer and member of the Council's policy committee. He is a vice president of the Metropolitan Chapter of the National Football Foundation and Hall of Fame, and a director of the Touchdown Club of New York. He is a member of the American, Federal and New York State bar associations, the New York State District Attorneys Association, the American Political Science Association, and the Academy of Political Science.

He is married to the former Aphrodite Macotsin of Washington, D. C. They have three children, Michael Telemachus 6; Alexander Demetrius, 4, and Eleni Ariadne, 1. Mr. Rossides has another daughter, Gale Daphne, 14, by a previous marriage.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FEBRUARY 24, 1969

MEMORANDUM ACCOMPANYING DEBT LIMIT MESSAGE

The President has asked the Congress for a revision of the debt limit. This revision will take care of the Treasury's immediate needs and, looking ahead, provide an adequate margin for financing the Federal Government for the foreseeable future. The President's recommendation will also bring the debt limit into conformity with the unified budget concept now utilized in all budget presentations.

The present debt limit corresponds closely to the administrative budget concept formerly used in budget analyses. The proposed revision will bring the debt limit into accord with the financing analyses presently shown in the monthly Treasury statements and the budget under the headings of "borrowing from the public" or "debt held by the public." The debt transactions reflected in these categories can be directly reconciled to the over-all surplus or deficit in the unified budget accounts.

The major differences between the proposed concept of the debt limit and the concept now used are:

(1) All debt issues of Federal agencies in which the U. S. has an ownership interest are included in the proposed concept.

(2) Investments of Government accounts (including trust funds) in Federal securities are not included in the proposed concept.

(more)

The attached table reconciles the two concepts as of the 21st of January. As may be seen, on that date borrowings from the public amounted to $293.7 billion. The President has requested a limit on that basis of $300 billion.

The debt subject to the present limit totaled $364.2 billion on January 21. If the debt limit were to be continued on the old basis, the Congress would need to provide an increase in that limit to approximately $382 billion to provide equivalent leeway through fiscal 1970. Moreover, further sizable increases would be required in subsequent years, even if balance is maintained in the unified budget, so long as the Federal trust funds realize substantial surpluses and invest those surpluses in Federal securities.

As the President's message points out, the proposed change in the debt limit has no effect on the operations or integrity of Federal trust funds. These funds will continue to operate precisely as in the past.

The inclusion of the public borrowing of Federal agencies in the total debt subject to limit will be a major step forward in promoting better public understanding of public financing. In particular, the new concept reflects the growing role of agency financing in the total public borrowing of the United States Government.

Attachment

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DEBT SUBJECT TO LIMIT -- COMPARISON OF PRESENT CONCEPT TO THE PRESIDENT'S PROPOSAL

January 21, 1969
(In billions)

Current debt limit	$365.0
Public debt	361.0
Guaranteed securities	.6
Total public debt and guaranteed securities	361.6
Deduct: Public debt not subject to present limit	.6
Add: Participation securities subject to present limit, (issued by FNMA in fiscal year 1968)	3.2
Debt subject to limit, present concept	$364.2
Add: Public debt not subject to present limit	.6
Federal agency issues (including participation certificates) not subject to present limit	11.2
Deduct: Federal securities held as investments by Government accounts	81.5
Special issues to IMF reflecting balance of U.S. subscription	.8
Debt subject to limit, proposed concept (borrowings from the public)	$293.7

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 24, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 29, 1968, and the other series to be dated February 27, 1969, which were offered on February 19, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 29, 1969		182-day Treasury bills maturing August 28, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.473	6.041%	96.848 a/	6.235%
Low	98.455	6.112%	96.822	6.286%
Average	98.463	6.080% 1/	96.836	6.258% 1/

a/ Excepting 2 tenders totaling $900,000
71% of the amount of 91-day bills bid for at the low price was accepted
91% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 29,881,000	$ 19,857,000	$ 4,911,000	$ 4,911,000
New York	1,867,869,000	1,095,369,000	1,446,869,000	788,989,000
Philadelphia	36,315,000	21,315,000	31,147,000	21,147,000
Cleveland	34,678,000	34,678,000	20,532,000	20,532,000
Richmond	11,562,000	11,562,000	6,404,000	6,404,000
Atlanta	45,947,000	35,347,000	32,539,000	22,139,000
Chicago	194,517,000	159,817,000	143,051,000	100,051,000
St. Louis	45,057,000	39,767,000	22,063,000	18,318,000
Minneapolis	28,083,000	22,083,000	23,261,000	13,761,000
Kansas City	29,442,000	28,942,000	15,811,000	15,311,000
Dallas	26,745,000	17,455,000	22,082,000	12,082,000
San Francisco	144,069,000	114,169,000	132,607,000	76,607,000
TOTALS	$2,494,165,000	$1,600,361,000 b/	$1,901,277,000	$1,100,252,000 c/

b/ Includes $315,476,000 noncompetitive tenders accepted at the average price of 98.463
c/ Includes $162,387,000 noncompetitive tenders accepted at the average price of 96.836
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.26% for the 91-day bills, and 6.55% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Tuesday, February 25, 1969.

RESULTS OF OFFERING OF $1 BILLION STRIP OF TREASURY BILLS

The Treasury Department announced that tenders for additional amounts of five series of Treasury bills to an aggregate amount of $1,000,000,000, or thereabouts, to be issued March 3, 1969, which were offered on February 19, 1969, were opened at the Federal Reserve Banks today. The amount of accepted tenders will be equally divided among the five issues of outstanding Treasury bills maturing April 30, May 31, June 30, July 31, and August 31, 1969. The details of the offering are as follows:

Total applied for - $2,960,415,000
Total accepted - 1,000,400,000 (includes $63,735,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

RANGE OF ACCEPTED COMPETITIVE BIDS:	Price	Approximate equivalent annual rate of discount based on 119.4 days (average number of days to maturity)
	98.058 a/	5.855%
	98.035	5.925%
	98.041	5.907% 1/

a/ Excepting two tenders totaling $1,100,000
75% of the amount bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 129,315,000	$ 30,290,000
New York	1,427,015,000	487,765,000
Philadelphia	165,450,000	73,350,000
Cleveland	155,925,000	63,325,000
Richmond	13,075,000	5,075,000
Atlanta	74,970,000	29,570,000
Chicago	353,155,000	31,115,000
St. Louis	75,200,000	13,500,000
Minneapolis	201,630,000	105,630,000
Kansas City	74,460,000	58,010,000
Dallas	128,380,000	27,130,000
San Francisco	161,840,000	75,640,000
TOTALS	$2,960,415,000	$1,000,400,000

1/ This rate is on a bank discount basis. The equivalent coupon issue yield is 6.11%.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 25, 1969

FOR IMMEDIATE RELEASE

PAUL W. EGGERS TO BE NOMINATED
AS GENERAL COUNSEL OF THE TREASURY

Secretary of the Treasury David M. Kennedy announced today that President Nixon intends to nominate Paul W. Eggers of Wichita Falls, Texas, an attorney and Republican candidate for Governor of Texas in 1968, as General Counsel of the Treasury Department.

Mr. Eggers, 49, who has been engaged in full-time private practice of law in Wichita Falls since receiving his law degree in 1948 from the University of Texas, has been active in the field of tax law. He has served as chairman of the State Bar Association's Tax Section, and was chairman of his state's Republican Party Task Force on Revenue and Fiscal Policy.

Mr. Eggers, who served as Republican County Chairman for Wichita County, was a delegate to the Republican National Convention in 1968.

Born in Seymour, Indiana, the son of the late Ernest H. and Ottillie Carre Eggers, he attended public schools there, receiving his bachelor of arts degree from Valparaiso University in 1941. During World War II he served in the U.S. Army Air Corps, attaining the rank of major.

He is a member of the State Bar of Texas and the American Bar Association. He is married to the former Frances May Kramer of Wichita Falls. They have one son, Steven Paul, 11.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 25, 1969

FOR IMMEDIATE RELEASE

MRS. BETTY HIGBY NAMED
SUPERINTENDENT OF DENVER MINT

Treasury Secretary David M. Kennedy announced today that President Nixon will nominate Mrs. Betty Higby of Colorado Springs as Superintendent of the Denver Mint. For the past five years she has been Public Trustee of El Paso County, Colorado.

Among other duties, Mrs. Higby will be responsible for planning, direction and coordination of all activities of the Denver Mint, which manufactures coin for domestic use and for foreign governments.

Mrs. Higby has for many years been active in civic and community organizations. A past president of the Public Trustees' Association, State of Colorado, she has also served as chairman of its legislative committee. She has been chairman of the Women's Division, Community Chest, and of the Residential Division, Red Cross, as well as president of the Women's Board of St. Francis Hospital and president of the El Paso County Coordinating Council of Women's Organizations. Mrs. Higby is vice president of the Altrusa International Club in her city and a member of the Legislative Committee of the State Coordinating Council of Women's Organizations.

Over more than a decade, Mrs. Higby has filled a number of posts in the Republican Party, having been State Public Relations Chairman for Nixon-Agnew and a candidate for National Committeewoman in 1968. From 1957 to 1959 she was a director of the National Federation of Republican Women. She served two terms as vice chairman of the Colorado Republican Central Committee.

Widow of the late Don W. Higby, a former district attorney, Mrs. Higby was born in Kansas City, Kansas, where she was educated in the public schools. She has one son, Wayne Higby, who teaches at the University of Nebraska, and two grandchildren. She is a member of the Church of the Holy Spriit (Episcopalian).

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TREASURY DEPARTMENT

WASHINGTON. D.C.

February 26, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 6, 1969, in the amount of $2,702,733,000, as follows:

91-day bills (to maturity date) to be issued March 6, 1969, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated December 5, 1968, and to mature June 5, 1969, originally issued in the amount of $1,100,082,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated March 6, 1969, and to mature September 4, 1969.

The bills of both series will be issued on a discount basis unde competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 3, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be receive without deposit from incorporated banks and trust companies and from

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responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 6, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 6, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE JOINT ECONOMIC COMMITTEE
THURSDAY, FEBRUARY 27, 1969
10:00 A.M.

This Committee has come to play a special role in stimulating Congressional thinking and public discussion in the complex area of international finance, and I particularly look forward to the opportunity of working with you in the future. As you will understand, I will not at this stage attempt to lay out the specific ingredients of our approach towards the balance of payments or a precise agenda for improvements in our international monetary arrangements. Rather, I would like to appraise where we now stand and to suggest a general framework for approaching the future.

Certainly, there can be no shrinking from the fact that serious problems exist in the areas you are reviewing today. Secretary Stans has already covered our balance of payments results for last year. I will not go over that ground again in detail. However, I would reiterate the plain fact of the matter. The over-all balance in our external payments last year on the liquidity basis, welcome as it is, was achieved only as a result of an unprecedented swing in the capital accounts. The United States, for the first time in the postwar period, became a

large net importer of capital. That is an extraordinary position for the world's richest economy. It is a position that we should neither expect nor want to sustain for long.

Meanwhile, the international competitive position of our industry is feeling the effects of several years of accelerating price inflation and overheating at home. The impact on our trade balance has been aggravated by slower growth and excess capacity in some other leading industrialized countries.

The behavior of our price indices helps tell the story. Consumer prices in this country rose by only a little over one percent a year from 1958 to 1964, and export prices were nearly flat. From 1964 through 1968, in contrast, consumer prices rose by over 14 percent, and the latest available data show export prices up by about 9 percent from 1964. A composite index of export prices for the industrial countries of Europe rose by only 2 percent over the latter period; and, in Japan, the rise was only one percent.

While movements in relative prices are certainly not the only factor responsible, we are faced today with a situation in which our once healthy trade surplus has entirely disappeared. The most recent data, while difficult to interpret because of the dock strike, show no clear evidence that the turning point has yet been reached. In these circumstances, there is no room for complacency with respect to our competitive position.

I have no wish to minimize the constructive and longer-term elements in the large capital inflow last year. Given the fact of the deterioration in the trade balance, these flows did serve an equilibrating function and, in part, reflect some desirable longer-run structural changes in financial markets. For instance, the foreign net purchases of U. S. stocks, which jumped to $1.9 billion last year from an average of only $200 million over the previous five years, may stem, in part, from a basic shift in the investment patterns of many European investors, attracted by the liquidity and growth potential of the American market. The expanded promotional activities of the American financial community -- back-stopped by action the Government itself has taken to rationalize the tax treatment of foreign portfolio investment -- has certainly played a part.

Similarly, the rapid development of the Euro-bond market -- and the Euro-dollar market more generally -- has provided both U. S. and foreign businesses with an alternative source of funds in financing overseas expansion, reducing the drains on the American market. The result was that U. S. firms could raise some $2 billion in the European bond markets at interest costs only marginally higher than they might otherwise have paid in the United States.

Nevertheless, more transient factors also played a major role in the swing in the capital accounts. The main impetus to

foreign borrowing by the U. S. companies came from the mandatory controls on direct investment outflows from the United States. Commercial banks, faced with tighter guidelines on their foreign lending, cut their overseas credits in 1968, in contrast to a sizeable increase the year before. These particular sources of improvement will not be operative in the future. Indeed, instead of relying on controls to achieve short-run improvement, we want to move in the direction of relaxation just as quickly as circumstances permit.

The increasingly tight money conditions in the U. S. market also pulled large amounts of capital to this country. This was most visible in the form of an increase of about $2 billion in borrowing of American banks from their own overseas branches. Those branches, in turn, were bidding for funds in the Euro-dollar market.

The pull of tight money, which has continued into the early weeks of the new year, helped to account for the sizeable surplus of $1.7 billion achieved on the official settlements basis in 1968. Essentially, dollars that might have become foreign official claims on the U. S. were, instead, diverted into the Euro-dollar market and returned for use in this country through the private market. In the short run, this inflow was helpful. But short-term borrowing in this amount can hardly be considered a part of a long-term solution to our balance of payments problem.

A variety of so-called special transactions arranged with foreign official institutions also were an important element in last year's results, and an element that should not be relied upon year after year. Here, I would draw a distinction between those special transactions that represent an "offsetting" or "neutralization" of our military expenditures abroad and those designed simply to change the maturity of some of the dollars held by foreign central banks. The former reflect an effort to come to grips with the continuing problem of evening out balance of payments burdens arising out of the mutual defense effort. We cannot be entirely satisfied with the form of many of these offset transactions, but the basic principle that no country should suffer balance of payments disadvantage through its contribution to the NATO defense structure is sound.

Turning from our own balance of payments to the international financial scene generally, signs of tension and strain have been evident over the past year or more. I need not review the series of so-called crises, beginning with the devaluation of sterling in late 1967, that have attracted so much attention. Nor will I maintain that the period of relative calm that has been restored to the markets since the Bonn Conference last November is an indication that the problems are now behind us. But I would urge that, in approaching these problems and finding durable solutions, we not be

beguiled by the thought that a full answer can be found merely by a change in some of the technical international monetary arrangements.

The problems are deeper. In part, they are a symptom of inflation, not only in some countries abroad, but in recent years in the United States as well. The result has been a sense of lack of control -- of drift -- which, if long continued, could undermine the sense of confidence in the monetary system. Without confidence, any monetary mechanism will work poorly -- and orderly change becomes more difficult.

That is one reason why a first priority for the United States must be to regain control over its own inflation. We do not have the option of achieving that result in an abrupt way that would lead to a contraction in trade abroad as well as excessive unemployment at home. Even looking at the balance of payments in isolation, there would be little or nothing to be gained from a sharp recession that drives too much money abroad in search of more profitable employment. But steady restraint, applied as long as necessary, is the basic ingredient upon which American leadership in the international monetary area must rest.

Apart from the current inflationary problem in the United States, developments in recent years have brought into fresh focus some old -- but still unsolved -- problems of

international adjustment. Nations give heavy weight to domestic objectives, and it is natural for differing emphases to emerge with respect to employment, growth, productivity, and price stability. The result is a tendency to push balance of payments out of equilibrium, with resultant strains on the monetary mechanism.

Even considering balance of payments objectives themselves, the evidence seems to be accumulating that nearly all countries feel more comfortable with -- and aim for -- surpluses (or at least increases in international reserves) over a period of time. Yet, unless new reserves are being created in sufficient volume to support these aims, they turn out to be mutually (and arithmetically) incompatible and thus impede adjustment.

As a practical matter, the United States, because of its size and the widespread use of its currency, is in an essentially different position from most other countries in this respect. A small country is able to make adjustments in its economic policies within some range upon the assumption that the rest of the world will "stand still;" the adjustments will, therefore, be effective in terms of its balance of payments. The United States often cannot make the same assumption. The policies we adopt have a pervasive influence on the rest of the world, and other countries may thus react to our moves by changes on their part to maintain their external balance. In

this situation, so long as other countries collectively want, over time, to run a surplus -- and essentially achieve this surplus by adjusting to the position of the United States -- the ability of this country to restore a durable equilibrium is closely circumscribed.

I would go further and put the point more positively. Surplus countries must themselves recognize they share the responsibility for undertaking the adjustments, in current as well as capital accounts, necessary to achieve a healthier international monetary system.

Another problem area is the strains on the monetary mechanism that have developed from structural changes in international payments. One aspect of this change, referred to earlier, is the large and sustained burden of defense expenditures abroad. These expenditures obey no economic law; yet they do permeate the economic and payments structure of the United States and other countries in a way that cannot easily, if at all, be absorbed by the traditional adjustment policies.

At least as important over time is the increasing volume of capital flows that have accompanied the growing integration of the international economy, particularly in the highly developed part of the world. This movement of capital brings great gains in the rapid dispersion of technology and managerial techniques, in the potential for efficient large-

scale production, and in the better allocation of scarce capital worldwide. But it also brings the potential for a great volatility of funds and essentially speculative flows that do not reflect lasting economic advantage and can be an added source of strain to the financial mechanism.

These comments can, of course, do nothing more than touch lightly upon some of the underlying problems that lie behind the international financial difficulties of the past year or more. Moreover, in citing these problems, I do not want to lose sight of the very real economic achievements of the postwar period for which the international monetary system can certainly take a large share of the credit. For instance, in terms of the acid test of expanding trade, increases have averaged 7 percent a year since 1950, and that upward trend continued through the crises of last year. Capital flows have expanded enormously among the industrial world, and gains in productivity and income have been both relatively steady and large by historic standards. International cooperation has, in the pressure of events, proved up to the task of containing and defusing the crises that have developed, without lasting damage to trade.

These are substantial achievements, not to be jeopardized lightly in a search for the will-of-the-wisp of some simple, sweeping reform that will easily solve all our problems. In this complex world, such a simple one-dimension solution does

not exist. We cannot escape from the problems of achieving a better adjustment process, or orderly growth in liquidity, or sustaining confidence in the dollar by increasing the monetary price of gold. Secretary Kennedy has pointed out we will not seek an answer to our problems by such a change. Nor should we be under any illusion that the opposite extreme of freely fluctuating exchange rates, in theory bringing a quick and automatic adjustment process would necessarily be less painful or less disturbing.

But, as this Committee has itself emphasized, neither can we stand aside, unwilling to examine responsible proposals for change that deal with important parts of the evident problem. We will not drift into a morass of controls, whether on capital or trade, in a misguided effort to avoid changes in financial arrangements, where change is needed.

We do not seek change for the sake of change. We want to test our ideas and plans with our friends abroad to make sure that they are responsive to the common interest in a strong and durable international monetary system. But where change is demonstrably needed and responsive to the nature of problems before us, we will be prepared to move ahead.

Some items are already on the agenda. Prompt ratification of the Special Drawing Rights, and then their early activation, are high on the list. This is the method of supplementing world

liquidity agreed in the framework of the International Monetary Fund after years of patient negotiation. It is aimed at only a part -- but an important part -- of the problem before us. Special Drawing Rights will not cure our own balance of payments problem. But they can make a vital contribution in further undergirding the stability of the system, even in the shorter run, by providing concrete evidence of the capacity of the world community to manage consciously the supply of international liquidity in the common interest.

Progress in achieving a more equitable distribution of the balance of payments consequences of the military effort is another area in which we need now to build more permanent arrangements, learning from the experience of the past. Non-tariff barriers to trade in general, and border taxes in particular, deserve -- and are receiving -- our close attention to see whether changes in these areas might contribute to facilitating the adjustment process.

Our already strong defenses against speculation -- the network of swaps and other facilities for marshalling funds quickly at the point of need -- will be maintained and adapted to changing circumstances, as necessary.

Our horizons must extend further. Discussions in this Committee and elsewhere have proposed means for introducing an element of greater flexibility into exchange rates. Careful

evaluation is needed of the possible contribution such changes might make to dampening speculation by increasing its costs, and to easing the longer range problems of adjustment. Your Committee and others have also proposed new means of better assuring stability in the composition of reserves, and these proposals, too, need to be explored.

But I would conclude by repeating again what must be the *sine qua non* of lasting progress -- a strong and respected dollar rooted in healthy, non-inflationary growth at home. Without this, no monetary device can assure stability and an international financial framework conducive to economic progress. But, with inflation under control, I am confident that we can attack, forcefully and intelligently, the remaining causes of strain and tension with every prospect of success.

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TREASURY DEPARTMENT
Washington

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REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE NATIONAL GOVERNORS CONFERENCE
MID-YEAR MEETING, EXECUTIVE SESSION
WASHINGTON HILTON HOTEL
FEBRUARY 27, 1969, 2:00 P.M., EST

The growth of our Federal system of government has brought with it a widespread interweaving of its operations with those of our State and local governments. In the present fiscal year, the Federal government is contributing nearly $21 billion in grants-in-aid to State and local governments through more than 400 separate authorizations, which go through almost every one of the government's departments and agencies. In fact, the Federal government is providing funds equivalent to about 18 percent of State and local expenditures, as reported in the national income accounts.

Scarcely a day goes by that some governor or mayor isn't publicly airing the financial plight of State and local governments. And their lamentations are largely justified, because many of these State and local governments are in deep financial trouble. The problem, I believe, is simple: public need and demand for State and local services are rising much more than revenues. Thus, despite efforts to hold the line on spending, legislators, governors, mayors and other municipal officials are constantly seeking new revenues from a tax base which is not rising fast enough.

In a Federal system such as ours the question of Federal-State-local fiscal relationships is a perpetual one because the distribution of functions and tax resources between the various levels of government cannot be perfectly matched. The growth in needs and demands for public services in a prosperous growing economy, increasingly urban, brings to the forefront the problem which the State and local governments face in financing services which have been traditionally their responsibility. This has recently

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brought about considerable discussion of the size and form of Federal financial assistance to State and local governments.

With this brief background, let me talk for a few moments about some of the measures being debated, both publicly and within the councils of government. Let me also say here that this discussion is not meant to give anyone the impression we are placing more emphasis on one or two proposals while relegating to second place other proposals. There are a number of very worthy proposals which will -- and let me assure you of this -- receive the most penetrating analysis this Administration can provide.

In anticipation of the post-Vietnam period there is much public discussion of "peace dividends" and "growth dividends" which are expected to be available to the Federal government. I personally believe these so-called dividends are greatly overstated. And many programs seem to be waiting in the wings to get part of these funds. We are learning of many proposals for new forms of Federal aid including block grants for broad categories of expenditure, sharing of a percentage of Federal income tax revenues, Federal income tax credit for State income taxes, and Federal assumption of greatly increased responsibility for certain major functions such as welfare and education.

With respect to proposals for revenue sharing or a general support grant, your Committee on State and Local Revenues has done considerable work and has developed general criteria for such a plan and alternative types of plans to meet these criteria. You are fully aware of the problems of allocating funds among the States and to cities and other local governments within the States. The organizations representating the cities have also developed specific proposals which they have asked us to consider in our studies of this problem. The recent studies of the Advisory Commission on Intergovernmental Relations in connection with its Fiscal Balance study and the Report of the National Commission on Urban Problems will also be useful to us.

One alternative suggested for helping State and local governments to raise additional revenue is a Federal income tax credit for State and local income taxes. Under such a

plan persons filing a Federal income tax return would deduct from their Federal tax part of their State and local income taxes. The effect of such a credit on State and local government finances is to reduce the burden on State and local taxpayers of these taxes. The Federal government and indirectly the taxpayers of the entire Nation would share in the tax burden of each individual State or locality.

Tax credits have been used to encourage use of certain taxes by the States. The credit for State death taxes against Federal estate taxes is an example.

Plans for such credits have been worked out by the Advisory Commission on Intergovernmental Relations, by the Committee for Economic Development and others. In consideration of such a credit it must be remembered that State and local income taxes as well as sales taxes and property taxes are already deductible from the Federal income tax and to the extent of the value of the deduction the Federal government is now sharing a portion of the State and local tax burden.

For example, a taxpayer in the 50 percent bracket now has half of his State income tax paid by the Federal government. It is estimated that the deduction of income taxes alone results in the Federal government paying approximately 29 percent of each dollar collected by State and local income tax officials. The effect of a credit would be to provide Federal income taxpayers a more generous write-off of their income tax payments than they now obtain by itemizing them as a deduction. In this context let me just point out that in 1968 the loss of Federal revenues arising from the deduction for State and local individual income taxes amounted to approximately $1.4 billion.

Some of the problems with respect to an income tax credit are that the credit may be viewed by some as coercing the States to adopt similar tax structures, especially by those 15 States which do not even have a personal income tax now, and some would argue that other State and local taxes should be made eligible for the credit.

A tax credit would have very different initial impacts in States with and without present income taxes. Residents of States which now have an income tax would in the first place get relief if there were no change in State tax rates. The State itself would have no additional revenues until it increased its income tax rates. A governor of a State which already has an income tax would have the choice of permitting residents of a State to enjoy the benefits of the reduction or proposing additional income taxes of which part would be offset by the credit. The State's need for revenue and political considerations would be expected to influence his choice. Fifteen States would have to enact new income taxes to benefit.

At this point let me repeat that this recital of these particular examples of alternative methods of helping State and local governments is not to be taken as an outline of things to come in the immediate future. I cite them only as evidence that finding new directions in these important areas of assistance beyond the Federal level, is a highly complex matter, with many facets needing thorough exploration.

As you know, the Treasury is now exploring tax reform measures, and expects in due course to present its recommendations to the Congress. Hopefully, some tax reform will be passed by the Congress this year, but I would not expect this legislation to break any new and dramatic ground in the area of Federal-State-local fiscal relations. However, this area is obviously a crucial part of the overall tax problem, and it will receive high priority in our long-range studies.

However, we must keep three things in mind. First, while we investigate these very important problems, we must remember there will continue to be demands on Federal budgetary resources, especially while hostilities in Vietnam continue at their present levels.

Second, in the present inflationary climate it is important that our budget have a surplus. The fight against inflation is critical for everyone, including State and local governments which are obliged to pay high interest rates, meet heavy wage demands and over-mounting capital

expenditures. Controlling inflation will require controlling the growth of expenditures in the Federal budget. Controlling inflation is probably one of the most single important contributions the Federal government can make at this time to a healthier State and local fiscal situation.

Third -- and I believe this is a key element to achieving success in this particular area -- while our own exploration and discussion goes on, we in the Treasury welcome any assistance you can give us, individually and collectively. By working together we will achieve the wisest solutions that our collective knowledge can provide.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

ɩ RELEASE 6:30 P.M.,
ıday, March 3, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury .ls, one series to be an additional issue of the bills dated December 5, 1968, the other series to be dated March 6, 1969, which were offered on February 26, 9, were opened at the Federal Reserve Banks today. Tenders were invited for 600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereuts, of 182-day bills. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing June 5, 1969		:	182-day Treasury bills maturing September 4, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.436 a/	6.187%	:	96.797 b/	6.336%
Low	98.424	6.235%	:	96.788	6.353%
Average	98.429	6.215% 1/	:	96.794	6.342% 1/

a/ Excepting 1 tender of $18,000; b/ Excepting 1 tender of $1,158,000
12% of the amount of 91-day bills bid for at the low price was accepted
63% of the amount of 182-day bills bid for at the low price was accepted

ıL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ıstrict	Applied For	Accepted	:	Applied For	Accepted
›ston	$ 26,370,000	$ 16,370,000	:	$ 7,331,000	$ 5,313,000
:w York	1,874,835,000	1,086,995,000	:	1,649,107,000	857,996,000
ıiladelphia	32,230,000	17,230,000	:	17,207,000	5,387,000
.eveland	33,431,000	33,386,000	:	28,726,000	28,726,000
.chmond	13,269,000	13,269,000	:	5,932,000	5,841,000
:lanta	47,420,000	31,717,000	:	40,212,000	24,112,000
ıicago	199,686,000	170,686,000	:	137,417,000	55,809,000
:. Louis	48,292,000	36,728,000	:	27,894,000	15,614,000
.nneapolis	29,329,000	16,579,000	:	23,657,000	5,107,000
.nsas City	31,090,000	28,210,000	:	19,589,000	14,157,000
llas	33,222,000	23,342,000	:	21,406,000	11,006,000
n Francisco	153,411,000	125,551,000	:	186,305,000	71,469,000
TOTALS	$2,522,585,000	$1,600,063,000 c/		$2,164,783,000	$1,100,537,000 d/

ncludes $334,548,000 noncompetitive tenders accepted at the average price of 98.429
ncludes $161,451,000 noncompetitive tenders accepted at the average price of 96.794
hese rates are on a bank discount basis. The equivalent coupon issue yields are
.40% for the 91-day bills, and 6.64% for the 182-day bills.

STATEMENT BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY, BEFORE THE
HOUSE COMMITTEE ON BANKING AND CURRENCY
on
REPLENISHMENT OF THE RESOURCES OF
THE INTERNATIONAL DEVELOPMENT ASSOCIATION
10:00 A. M., Tuesday, March 4, 1969

Mr. Chairman and Members of the Committee:

I am especially pleased that the purpose of my first appearance before your Committee is to give my full support to H.R. 33.

This bill, introduced by the Chairman of the Committee and the Chairman of the International Finance Subcommitte, would authorize the United States participation in replenishing the resources of the International Development Association (IDA), an affiliate of the World Bank.

After carefully reviewing the proposal for replenishing IDA's resources, I am strongly convinced of its merits. I am equally strongly convinced of the need to act promptly. The United States should join in the action already taken by others so that this second replenishment can be put promptly into effect.

The Committee is well acquainted with the bill before you to increase IDA's resources. Last year it examined and took action on an identical bill. Accordingly, I propose in my opening statement to comment on only five points.

First, there is a clear and urgent need for an increase in IDA's resources to finance development.

President Eisenhower stated, when IDA was first proposed in 1958, that "the well-being of the free world is vitally affected by the progress of the nations in the less developed area."

Despite the development that has been achieved in the decade since then, too many nations--many recently established--still fall far short of a satisfactory rate of progress, and too much of mankind still lives in poverty and despair.

I would not suggest that IDA alone, even with greatly increased resources, can resolve all of these problems. But IDA has a unique role to play in a concerted development effort. IDA concentrates its efforts on the poorer of the developing nations and provides funds on repayment terms suited to the financial condition of these nations. It is making, and can continue to make, a critical contribution toward economic advancement. It represents a unique multilateral effort to bring the experience, expertise and practice of the World Bank into areas of lending that would not be financially appropriate for the Bank itself.

President Nixon has said that "America's basic self-interest in world development stems from the brutal fact that there can be no sanctuary for the rich in a world of the starving." Presidents, members of Congress and leaders of both parties have long recognized that our national interest is served by joining together with others in sensible efforts to help the developing nations along the road to progress. IDA embodies this kind of sensible effort.

Second, IDA is an effective instrument for sharing the costs of worldwide development assistance among donor countries.

We seek to encourage other developed nations to increase their assistance to the "have not" nations. As the other industrial countries gain in financial strength, it is appropriate that they assume a greater share of the burden for providing development finance. IDA has been, and can continue to be, a most important channel for bringing about this result.

The initiation of IDA in 1960 was a major step in the concept of sharing the burden of providing concessional development financing--a burden which previously had rested overwhelmingly on the shoulders of the U.S. alone. This commitment to more equitable sharing of the burden was extended

by the decision in 1964 to increase sharply the level of IDA funding under the so-called first replenishment of IDA's resources. The present proposal for a second replenishment would again increase the level of IDA funding and again represents a substantial step towards increased burden-sharing.

IDA expanded from a level of contributions from the economically advanced countries of about $150 million per year in the first five years of its life, to a level of about $250 million per year in the subsequent three years. We now look forward to a level of $400 million per year under the present proposal. As the level of IDA's operations has increased, the U.S. percentage share has gradually been reduced. Our share of the total supplied by the developed countries declined from over 43 percent when IDA was established to 40 percent under the present arrangement.

There is a compelling case to support U.S. participation on grounds of our financial interest alone. IDA provides the machinery for ensuring that other developed countries bear a larger proportion of the financial responsibility for development assistance than has been possible outside multilateral channels. In IDA they put up $3 for every $2 the United States puts up, and this does not count any additional money other

countries add to IDA over and above the replenishment agreements or the amounts which the World Bank is able to transfer to IDA each year out of its current net earnings.

Moreover, the uniform repayment terms provided by IDA assure all donor countries are providing assistance on the same concessionary terms. Within the IDA framework there is no problem of funding from some countries being lent out on harder repayment terms than others.

Third, IDA brings the economic and political advantages of the multilateral approach and the proven value of IBRD administration.

This Committee appreciates the merits of the multilateral approach to development financing. To sum up these advantages, they include the opportunities for burden-sharing both with respect to amounts and concessional repayment terms; the objectivity which the international institutions enjoy; the experience these institutions have; and the leadership role they can play in the development effort.

We can be confident that IDA, as an affiliate of the World Bank, under the same President, using the same expert management and staff, and guided by the same Board of Directors and Governors, will use its funds wisely. IDA credits are extended

under the same rigorous criteria and with the same careful scrutiny which the World Bank applies to its own loans. IDA credits and World Bank loans do not differ with respect to careful loan appraisal. Moreover, both require amortization in hard currencies. But IDA does enable funds to flow where substantially longer periods of time are needed for repayment and where only a low service charge, rather than market interest rates can be paid. These IDA terms are essential to prevent a rapidly mounting debt-burden from obstructing the development progress of IDA's borrowers. IDA credits are extended only to those countries at the low end of the range in terms of per capita income. Many IDA borrowers already face severe debt servicing problems in the years ahead. It just would not make financial sense to require harder terms for these countries. Nor would it meet the objectives for which IDA was established.

Fourth, the proposal contains safeguards for the U.S. balance of payments.

I could not under present conditions ignore the question of possible impact on the U.S. balance of payments. I am fully satisfied that the proposed arrangements are adequate. They emerged from what I understand to have been very careful negotiations.

The proposal for IDA's second replenishment is structured so that if our balance of payments problems should persist, we need suffer no serious balance of payments consequences from our contribution. There is an absolute assurance in the agreement up to 1972 that if required by our balance of payments situation, we would pay over in actual cash only that portion of our share to pay for IDA procurement in the U.S. Moreover, the agreement provides that this arrangement will continue after that date until other contributors' funds that make this arrangement possible are exhausted.

Looking at it another way, the balance of payments safeguard provides that the United States' contribution to IDA, to the extent required for other than United States procurement, will be postponed. Other contributing countries accelerate their contributions during such periods. There will be no move away from the World Bank or IDA's traditional system of international competitive bidding, a point made amply clear by the President of the World Bank and by the Board of Directors.

The same mechanism that safeguards our balance of payments also has the effect of reducing the budgetary cost of our contribution while our balance of payments problem continues. Briefly, while our pledge is $160 million a year for three

years, actual cash is called only when IDA needs funds to meet actual disbursements of the credits it extends. Calls are on all contributors pro rata. Because of the lag between credit commitments and disbursements, calls for cash will be only a fraction of the pledge for some time. This is even further reduced for the U.S. because we would be called on for even less than our pro rata share should we continue in balance of payments difficulty. A detailed explanation of these balance of payments arrangements is contained in the report submitted by the National Advisory Council last year.

International Action Depends on U.S. Action

This brings me to my final point: The responsibility to act so that the 18-nation agreement to contribute to the second replenishment can come into effect now rests squarely with the United States.

Two steps are required for this IDA replenishment. IDA member governments must approve of the Board of Governors second replenishment resolution. This was done in 1968 by the required two-thirds vote of the 102 countries that are members of IDA. Only the United States and 10 non-contributing countries have failed so far to vote for the resolution approving the replenishment agreement. The U.S. Governor could not vote because Congress did not complete action on it last year.

The second step to put the replenishment agreement into effect occurs only when twelve contributing countries having contributions aggregating $950 million (of the $1.2 billion total) have signified their agreement. To date, eleven countries with contributions totaling $472 million have taken all necessary steps to fulfill their part of the agreement.

As soon as the United States agrees, therefore, the second replenishment will become effective. Without the United States contribution the replenishment cannot become effective. It is expected that soon after we act the other six countries which have not acted on their pledges will follow suit.

In view of the difficult situation faced by IDA because of the delay in the second replenishment, a number of contributing countries are arranging to make advance contributions against their second replenishment pledges. This is a sign of international confidence in IDA and is permitting some continuity in IDA lending. If the United States fails to take affirmative action, it would be a most unfortunate setback, not only to IDA, but also to the cooperative concept of multilateral development assistance.

Appropriations Required

The legislation would authorize the appropriation, without fiscal year limitation, of $480 million for our contribution, that amount to remain available until expended. The first of three equal annual installments would be sought as an FY 1969 supplemental item. Two further installments would be paid to IDA in FY 1970 and 1971. Each installment would be in the form of non-interest bearing letters of credit, to be drawn on by IDA at a later date as cash needs for disbursement arises. These letters of credit entail no budgetary expenditure until actual drawings on them are made.

Conclusion

I testify here today as a representative of President Nixon, to assure you that IDA has his full approval and support. As you know, IDA took shape during the Administration of President Eisenhower, under the guidance of one of my predecessors, Secretary Robert Anderson. Subsequently, it developed further and expanded its operations with the support of President Kennedy and President Johnson. I am sure that it is because of the advantages I have mentioned that IDA has enjoyed a wide measure of support. The creation of IDA was chiefly one result of inititatives and actions of the U. S. Congress. It would be tragic if it should also end in these chambers for want of the support it deserves.

I urge this Committee again to give its endorsement to legislation providing for our fair share of the second IDA replenishment and to carry this legislation promptly through to final passage.

STATEMENT OF
THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
March 5, 1969
10:00 A.M.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

The President in his message to the Congress on February 24, 1969 requested the prompt enactment of legislation to revise the debt ceiling. Specifically, he proposed a new permanent statutory ceiling for the Federal debt of $300 billion under a definition according with the unified budget concept. This new statutory debt ceiling is designed to take care of our needs indefinitely into the future for as long as we are successful in maintaining a balance in the budget.

The new ceiling is required to meet three specific objectives:

First, the proposed ceiling will enable the Treasury to meet anticipated cash requirements in an orderly way through the middle of April of this year.

Second, the proposed limit will meet requirements anticipated for fiscal year 1970.

Third, by bringing the debt ceiling into accord with the budget presentations now used by the Federal Government and by focusing attention on total borrowings from the public, the proposal will promote a better understanding of public finance and contribute to more effective control of the debt.

Under existing law the Treasury has been operating very close to the temporary ceiling of $365 billion. At the end of January and February, debt subject to the limit was within $3 to $3-1/2 billion of the statutory ceiling and on individual days the leeway has been less than $1 billion. Assuming normal cash balances of $4 billion, our latest projections -- while reflecting better-than-anticipated tax collections over the past month -- still indicate financing needs that would bring us above the legal ceiling by minor amounts for six days in March and by substantial amounts for seven days in April.

By permitting our cash balance to decline below the levels required by prudent financial management, by exercising close control on those balances by borrowing from the Federal Reserve on a day-to-day basis, and by making maximum use of agency borrowing that does not come under the debt limit, we might be able to squeeze through this period without disturbing the orderly flow of expenditures or tax refunds. However, the margin in March and April is extremely tight. Unforeseen expenditure increases above projections or declines in revenues below projections, even of relatively minor proportion, would impair our ability to get through the April period without extraordinary measures to conserve cash. Essentially, we have no leeway for emergencies.

With expenditures and tax receipts running about $750 million per day, even the most careful projections need to be revised frequently, and some deviation in the actual results are normal and expected. Fortunately, recent results have indicated receipts are flowing somewhat more strongly than the projections available when

I took office. But prudent management of the Government's financial affairs simply does not warrant undertaking the risk of confining our margins of flexibility under the debt ceiling to a few hundred million dollars.

After mid-April, we should readily get through the remainder of this fiscal year. The outstanding debt will be declining sharply, and our financing pattern will permit us to be comfortably below the ceiling for the rest of the year.

However, an increase in the ceiling will certainly be required in the early part of fiscal 1970. The situation can be illustrated by using the numbers in the Budget Message submitted by the prior Administration. As you remember, that Budget forecast a surplus on the unified budget basis of $2.4 billion in fiscal year 1969 and $3.4 billion in fiscal year 1970. Assuming these projected surpluses can be realized, our estimates indicate that at the seasonal peak in fiscal 1970 the debt subject to the limit under its current definition will be $374 billion, far in excess of the present seasonal limit of $365 billion.

As the Budget Director will explain in more detail, we have some reservations concerning the expenditure figures in the budget and anticipate spending in some categories will be greater than estimated by the outgoing Administration. Because our review is not yet completed, we cannot now tell the extent to which urgent efforts to achieve further economies will offset these higher costs. But it is evident that no practical savings can avoid the need for an increase in the debt ceiling next year.

Our debt projections have been constructed on the basis of an assumed $4 billion operating cash balance as is the usual practice in these hearings. That more or less arbitrary amount, I might point out, was first established for debt limit projections years ago when Federal expenditures were less than half the current annual totals. In the latest fiscal year, 1968, even with tight cash management our operating balances averaged $5.1 billion. Our average balance has not averaged $4.0 billion or less since fiscal year 1958. Nevertheless, even with no further allowance

for contingencies, the current debt ceiling will be inadequate to take care of our needs.

It has long been recognized in past hearings and legislation that prudent management of the Government's finances requires adequate allowance for contingencies beyond the assumption of a $4.0 billion cash balance. In reviewing the problem this time, we are particularly conscious of several special factors in the situation.

Perhaps most important quantitatively, the surtax on individuals and corporations is scheduled to expire on June 30, 1969. As best we can now look ahead, we anticipate that this surtax will need to be retained to maintain an appropriate budgetary posture. However, we must consider the consequences of expiration. The revenues that the surtax would supply in fiscal year 1970 are estimated at $9.0 billion, and there would be an earlier shortfall of $.5 billion in fiscal year 1969. This contingency alone, were it to materialize, would be several times the projected surplus for 1970 shown in the budget.

There are also the uncertainties of revenue shortfall that could occur from a more moderate rate of economic growth. The budget for 1970 included $10.7 billion of higher revenues attributable primarily to higher individual and corporate income from economic growth and inflation. A full measure of success in our efforts to moderate rising prices could result in a reduction of this estimated gain in revenues.

These possibilities, on top of all the more or less normal uncertainties in anticipating cash needs more than a year ahead, in our judgment justify a larger than normal contingency allowance. We are, therefore, requesting a margin of $8 billion over the projected peak debt totals. We feel that this is the smallest allowance that we can, with prudence and reason, request in setting a debt limit that we hope to be able to maintain for the indefinite future. It is smaller than the contingency allowance provided in 1967. I believe a still larger allowance could certainly be justified.

With this allowance, the need for the statutory debt limit on the present basis amounts to $382 billion. The President has, however, proposed that we now change the

statutory definition of the debt limit to conform to the unified budget concept. We strongly support this redefinition and urge its acceptance. On this basis we will need a ceiling of $300 billion to provide the same margin for contingencies as would be provided by the $382 billion figure on the present definition.

The statutory debt limit can, of course, be defined in any way that the Congress sees fit. As I understand it, the main purpose of the statutory debt limit and these hearings is to provide the Congress an opportunity to review in a comprehensive way the outlook for the Government's finances and to authorize the Treasury to issue indebtedness in the light of this review. It seems to me that, to facilitate this review and to best achieve the Congressional purpose, the changes in debt subject to limit should be related as nearly as possible to the net budget results. This would greatly clarify Congressional appraisal of the impact of Government finances on the debt limit and contribute greatly to better understanding by the public. Thus we do see a clear public interest in placing the debt limit within the frame of the present unified budget presentations.

The unified budget has been used in both the last two budget messages. It was designed to avoid the confusion over various budget concepts formerly given wide publicity: (1) the administrative budget, (2) the cash budget, and (3) the national income accounts budget. Each of these served a different analytical need, but the net result was confusing. The unified budget concept was designed to eliminate this confusion and to enforce a consistent discipline on budgetary presentations, thus maintaining year-to-year comparability and facilitating analysis of the economic implications of Federal finances.

I had the honor of serving as Chairman on the President's Commission on Budget Concepts. As you know, that Commission was comprised of men of different political affiliations and experience from both the public and private world. They engaged in an intensive review of all the problems and unanimously recommended the adoption of the new budget concept.

Although the President's Commission on Budget Concepts did not specifically recommend a change in the statutory debt limit itself, the Commission did suggest that the limit be re-examined with the new debt concepts in mind.

That is what the President has done. He concluded that the appropriate policy would be to make the debt limit consistent with the unified budget presentation.

This consistency is achieved partly by eliminating from the ceiling Federal securities owned by trust funds and other agencies. The laws establishing various trust funds require that we invest their surplus funds in Government securities. The interest on these investments provides additional earnings for the trust funds. But this investment accounting is internal; it does not affect the net surplus or deficit on the unified budget and no funds flow from or to the public on these transactions. Nevertheless, the securities provided the trust funds are included in the present statutory definition and this results in the anomaly of the ceiling needing to be raised at a time when the overall budget is operating at a surplus.

The fact is that, so long as the trust funds are operating at a surplus and thus acquiring additional Treasury issues, the debt subject to the ceiling will increase even if the overall budget is in balance. The trust funds are projected to provide surpluses of $9.4 billion and $10.3 billion in the fiscal years 1969 and 1970 respectively.

That alone is the reason why the debt on the present statutory basis will continue rising, even though the unified budget is in surplus and the debt held by the public is projected to decline.

Conversely, if at some time in the future the trust funds happened to operate at a deficit, the debt on the present definition might decline, even though the unified budget had no surplus.

Clearly, this situation could give rise to results out of keeping with the intent of the Congress in setting a debt limit. For instance, a larger-than-anticipated surplus in the trust funds, which as trustee I must invest in public debt, could result in a tighter ceiling on public borrowing than the Congress intended. A smaller surplus or deficit in the trust funds, on the other hand, would provide more leeway.

The second general way in which the new debt limit will importantly improve understanding and control of public finances is to include the debt issues of agencies in which the U. S. Government has an ownership interest. This will add the debt issues of TVA, the Export-Import Bank,

Defense family housing, and the participation certificates issued by FNMA before and after the fiscal year 1968. In contrast, the present limit includes only the FNMA p/c's issued in 1968 and lesser amounts of debentures or bonds issued by the Federal Housing Administration and the District of Columbia.

This change to a uniform treatment of all agency issues side-by-side with direct Treasury debt will for the first time relate the debt ceiling to the total of Federal borrowing demands in the financial markets. This is the total appropriate for governing and controlling these aggregate demands.

Your Committee in prior hearings has focused intensively on the problems generated by use of agency and p/c financings as a substitute for direct financing by the Treasury. Under the proposed concept, the choice between agency issues and direct Treasury issues has no effect on the debt limit. Thus, the appropriate financing mechanism, whether by direct Treasury issues or agency borrowing, can be considered entirely on its own merits without any suspicions that the choice has been affected by a desire to finance in ways that will not show in the debt limit. There have been

allegations in recent years that the Government was using agency financing to get around the statutory debt limit and for budget "gimmickry". Whether true or false, the important thing is to eliminate the possibility and provide for the treatment of the debt that best assures public confidence in the integrity of the Government's financial arrangements.

I would emphasize that the exclusion of the holdings of Government accounts, including trust funds, from the debt ceiling in no way effects the operations or investments of the Federal trust funds. These funds operate under statutory provisions covering their revenues, benefit payments and investments. The statutes thus assure that these funds will continue to operate as they have in the past and, as the managing trustee of many of these funds, I pledge that their investment management will be carried out in full accordance with the law and the intent of the law. Indeed, removal of these securities from the debt limit should provide an additional element of protection for the trust funds, for it assures that a Secretary of the Treasury will never be faced with a conflict between his statutory duty to remain within the debt ceiling and his responsibility to maintain full investment of the monies in the trust funds.

In conclusion, we have examined the need for prompt debt limit action and the need for a redefinition of the debt subject to the limit. We urge the prompt enactment of legislation providing a new permanent ceiling of $300 billion as recommended by the President.

Attached is a table showing our estimates of the semi-monthly debt totals through June 1970 on the new basis consistent with the January budget presentation.

Attachment

PUBLIC DEBT SUBJECT TO PROPOSED NEW LIMITATION

FISCAL YEAR 1969
(In billions)

	Operating Cash Balance (excluding free gold)	Public Debt Subject to Limitation
	A C T U A L	
1968		
June 30	$5.2	$290.6
July 15	5.6	294.8
July 31	5.9	294.6
August 15	5.4	296.6
August 31	4.5	297.5
September 15	1.3	297.7
September 30	8.5	292.9
October 15	4.4	293.0
October 31	6.4	296.1
September 15	2.0	295.1
September 30	2.7	295.4
September 15	1.0	296.6
September 31	4.6	291.9
1969		
February 15	1.8	291.9
February 31	7.1	293.5
February 15	4.0	291.6
February 28	4.8	291.7
	E S T I M A T E D (Based on constant minimum operating cash balance of $4.0 billion)	
March 15	4.0	293.6
March 31	4.0	291.2
April 15	4.0	294.8
April 30	4.0	285.1
May 15	4.0	287.5
May 31	4.0	287.1
June 15	4.0	286.8
June 30	4.0	278.4

March 5, 1969

ESTIMATED PUBLIC DEBT SUBJECT TO PROPOSED NEW LIMITATION

(Based on constant minimum operating cash balance of $4.0 billion)

FISCAL YEAR 1970

(In billions)

	Operating Cash Balance (excluding free gold)	Public Debt Subject to Limitation	Allowance to Provide Flexibility in Financing and for Contingencies	
1969			$ 3.0	$ 8.0
June 30	$4.0	$278.4	281.4	286.4
July 15	4.0	282.3	285.3	290.3
July 31	4.0	282.0	285.0	290.0
August 15	4.0	285.3	288.3	293.3
August 31	4.0	285.0	288.0	293.0
September 15	4.0	288.3	291.3	296.3
September 30	4.0	281.9	284.9	289.9
October 15	4.0	286.3	289.3	294.3
October 31	4.0	287.8	290.8	295.8
November 15	4.0	291.3	294.3	299.3
November 30	4.0	288.9	291.9	296.9
December 15	4.0	291.4	294.4	299.4
December 31	4.0	286.8	289.8	294.8
1970				
January 15	4.0	290.3	293.3	298.3
January 31	4.0	287.8	290.8	295.8
February 15	4.0	290.0	293.0	298.0
February 28	4.0	287.6	290.6	295.6
March 15	4.0	291.1	294.1	299.1
March 31	4.0	288.4	291.4	296.4
April 15	4.0	291.7	294.7	299.7
April 30	4.0	283.5	286.5	291.5
May 15	4.0	286.3	289.3	294.3
May 31	4.0	284.5	287.5	292.5
June 15	4.0	282.5	285.5	290.5
June 30	4.0	274.4	277.4	282.4

March 5, 1969

TREASURY DEPARTMENT

WASHINGTON. D.C.

March 5,1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 13, 1969, in the amount of $ 2,700,536,000, as follows:

91-day bills (to maturity date) to be issued March 13, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated December 12, 1968, and to mature June 12, 1969, originally issued in the amount of $1,100,831,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated March 13, 1969, and to mature September 11, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 10, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 13, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 13, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 10, 1969

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN FEBRUARY

During February 1969, market transactions in Federal Securities of the Governement investment accounts resulted in net purchases by the Treasury Department of $181,547,000.00.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH February 28, 1969

(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
URED				
ries A-1935 thru D-1941	5,003	4,996	7	.14
ries F and G-1941 thru 1952	29,521	29,479	41	.14
ries J and K-1952 thru 1956	3,660	3,618	42	1.15
ATURED				
ries E 3/:				
1941	1,879	1,657	222	11.81
1942	8,295	7,327	968	11.67
1943	13,345	11,823	1,523	11.41
1944	15,574	13,699	1,875	12.04
1945	12,236	10,587	1,648	13.47
1946	5,547	4,617	930	16.77
1947	5,262	4,222	1,039	19.75
1948	5,441	4,271	1,170	21.50
1949	5,369	4,129	1,240	23.10
1950	4,693	3,559	1,134	24.16
1951	4,060	3,081	979	24.11
1952	4,255	3,201	1,053	24.75
1953	4,857	3,566	1,291	26.58
1954	4,950	3,559	1,390	28.08
1955	5,156	3,644	1,512	29.33
1956	4,979	3,470	1,508	30.29
1957	4,685	3,196	1,489	31.78
1958	4,566	2,969	1,597	34.98
1959	4,276	2,705	1,571	36.74
1960	4,283	2,596	1,687	39.39
1961	4,330	2,452	1,878	43.37
1962	4,170	2,309	1,861	44.63
1963	4,648	2,383	2,265	48.73
1964	4,532	2,338	2,194	48.41
1965	4,431	2,226	2,205	49.76
1966	4,766	2,195	2,571	53.94
1967	4,718	1,977	2,741	58.10
1968	4,040	1,086	2,954	73.12
1969		-	-	-
Unclassified	700	977	-277	-
Total Series E	160,043	115,823	44,220	27.63
ries H (1952 thru May, 1959) 3/	5,485	3,270	2,215	40.38
H (June, 1959 thru 1969)	6,951	1,533	5,418	77.95
Total Series H	12,435	4,803	7,632	61.38
Total Series E and H	172,479	120,626	51,853	30.06
ies J and K 1957	94	71	23 4/	24.47
l Series: Total matured	38,184	38,094	90	.24
l Series: Total unmatured	172,572	120,697	51,876	30.06
l Series: Grand Total	210,756	158,790	51,966	24.66

es accrued discount.
nt redemption value.
ion of owner bonds may be held and will earn interest for additional periods after original maturity dates.
es matured bonds which have not been presented for redemption.

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
lay, March 10, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated December 12, 1968, and other series to be dated March 13, 1969, which were offered on March 5, 1969, were ıed at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day ls. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing June 12, 1969		182-day Treasury bills maturing September 11, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.480	6.013%	96.858	6.215%
Low	98.464	6.076%	96.840	6.251%
Average	98.471	6.049% 1/	96.849	6.233% 1/

45% of the amount of 91-day bills bid for at the low price was accepted
94% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	Applied For	Accepted
ston	$ 33,016,000	$ 21,966,000	$ 6,838,000	$ 6,838,000
w York	1,820,957,000	1,083,257,000	1,536,105,000	823,405,000
iladelphia	32,876,000	17,876,000	17,605,000	7,605,000
eveland	45,028,000	44,973,000	34,354,000	31,276,000
chmond	22,203,000	22,203,000	13,254,000	7,254,000
lanta	58,754,000	51,519,000	33,147,000	19,081,000
icago	198,214,000	140,564,000	141,487,000	53,406,000
. Louis	48,923,000	38,923,000	24,616,000	17,916,000
nneapolis	36,885,000	32,835,000	24,115,000	14,429,000
nsas City	41,118,000	38,368,000	24,441,000	18,311,000
llas	30,458,000	23,458,000	22,749,000	14,689,000
n Francisco	149,257,000	84,247,000	164,780,000	85,800,000
TOTALS	$2,517,689,000	$1,600,189,000 a/	$2,043,491,000	$1,100,010,000 b/

ncludes $365,485,000 noncompetitive tenders accepted at the average price of 98.471
ncludes $170,290,000 noncompetitive tenders accepted at the average price of 96.849
hese rates are on a bank discount basis. The equivalent coupon issue yields are .23% for the 91-day bills, and 6.52% for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON. D.C.

March 12, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 20, 1969, in the amount of $2,701,387,000, as follows:

91-day bills (to maturity date) to be issued March 20, 1969, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated December 19,1968, and to mature June 19, 1969, originally issued in the amount of $1,101,293,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated March 20, 1969, and to mature September 18, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 17, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

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responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 20, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 20, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 14, 1969

FOR RELEASE A.M. NEWSPAPERS
MONDAY, MARCH 17, 1969

SECRET SERVICE PROMOTES NEW YORKER
TO WHITE HOUSE POST

Secret Service Director, James J. Rowley, announced today the promotion of Robert J. Newbrand, former Assistant to the Special Agent in Charge of the New York Field Office to a Secret Service position at the White House in Washington, D.C.

Mr. Newbrand's new position is Assistant to the Special Agent in Charge of the Presidential Protective Division. In this assignment, he will serve as the White House Receptionist for the Office of the President. This position is located in the west office wing of the White House.

Mr. Newbrand, 44, is a native New Yorker and is a graduate of Manhattan College in New York City. He served with the U.S. Marine Corps and as an officer in the U.S. Navy during World War II. Since his appointment to the Secret Service in 1951, he has served on the Presidential Protective Division and in the Washington, San Francisco, and New York field offices.

Mr. Newbrand replaces Emory P. Roberts who is being promoted to the position of Inspector at Secret Service Headquarters, Washington, D. C.

Mr. Roberts was born on November 28, 1914, in Cockeyesville, Maryland. He attended Baltimore Business College and the University of Baltimore.

Prior to his appointment to the Secret Service in 1944, he served with the Maryland State Police and the Baltimore County Police. Mr. Roberts has served with the Secret Service in the Washington and Baltimore field offices, the Vice Presidential Protective Division, and the Presidential Protective Division.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 14, 1969

FOR IMMEDIATE RELEASE

RUSTAD NAMED NEW NATIONAL
SAVINGS BONDS DIRECTOR

Secretary of the Treasury David M. Kennedy today named Elmer L. Rustad of McLean, Virginia, as National Director of the Department's U. S. Savings Bonds Division. Mr. Rustad, 60, had been Assistant National Director in Washington, since 1966, of the national sales management and marketing program. He replaces Glen R. Johnson.

Secretary Kennedy cited Mr. Rustad's "outstanding" public service career record of 28 years,most of which have been with Treasury's Savings Bonds Program.

Mr. Rustad's first appointment came in November, 1941, when he was assigned to the Defense Savings Staff for South Dakota, his native state. From 1943 to 1946, he was on active duty as a Naval Officer, serving in the South Pacific. Returning to his former post with the South Dakota Defense Savings Staff, he retained that capacity until 1952.

In March of that year, he was named Assistant Sales Manager of the Savings Bonds Division in Washington and, in 1955, was promoted to Director of Sales.

On July 25, 1966, he was again promoted to his previous position of Assistant National Director of the Division. In September of that same year, he was presented Treasury's "Distinguished Service Award".

He is a graduate of Wakonda High School and Sioux Falls College and he received his Master of Arts Degree from the University of Minnesota.

Prior to his Navy and Treasury experience, he had been teacher, athletic coach, principal and superintendent of high schools in South Dakota, during the period, 1929-1941. He was Superintendent and Athletic Coach at Egan and Supervisor of Junior High Schools in Aberdeen.

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He is married to the former Berniece Hillery of Volin, South Dakota. They have a married son and daughter, Robert L. of Virginia Beach, and Patricia Herrmann of Fayetteville, North Carolina, and five grandsons.

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TREASURY DEPARTMENT
Washington

FOR RELEASE TO PM'S, FRIDAY, MARCH 14,1969
(DELIVERY EXPECTED AT 2:00 P.M., EST)

REMARKS BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE 1969 "SHARE-IN-AMERICA" SAVINGS BONDS
VOLUNTEER CONFERENCE
SHOREHAM HOTEL, WASHINGTON, D.C.
FRIDAY, MARCH 14, 1969

It is an honor and a pleasure to meet with this outstanding group of volunteers so soon after taking office as Secretary of the Treasury. I bring you greetings from President Nixon. And I want to assure you that you are held in very high regard indeed by all of the new top team at Treasury.

I have been involved in the Savings Bonds program -- either as a banker or a public official since 1941. I recall my participation in past campaigns with pride, and I look forward to joining you in helping to make the coming year's campaign one of the most successful in your

 program's history.

You dedicated men and women represent voluntary public service at its best. Your leadership is appreciated more than I can say. On that note -- leadership -- I have two announcements to make that I know will be of great interest.

First, Glen R. Johnson, a man who has brought real leadership to the post of National Director of the U. S. Savings Bond Division since 1967, will shortly be leaving.

I offer my sincerest thanks to Mr. Johnson. He has served his country well.

Now, while Mr. Johnson is leaving a large pair of shoes to be filled, I am happy to report that we have found a man who can do so.

It pleases me immensely, therefore, to announce that I am appointing as National Director the man who has served for nearly three years as Assistant National Director. He is a career officer in the Savings Bonds Division and his name, as you already have inferred, is Elmer L. Rustad.

Mr. Rustad, who is from South Dakota and the University of Minnesota, has been in the Savings Bond business since 1941, when he organized the Defense Savings Staff in his home state. He came to Washington in 1955 as Assistant National Sales Manager and assumed his present duties in 1966.

I don't have to remind this audience of the key role played by Savings Bonds in our economy. You are all familiar with the many sound reasons for the average citizen to invest -- as one of your slogans puts it --

"in a share in America." What is not so well known, however, is that this investment is a hedge against inflationary pressures on our economy. It is this subject I would now like to explore briefly.

I would be less than honest if I did not acknowledge that the statutory limit of four and one-quarter percent on the return that E Bonds pay makes them less attractive than certain other investments. This is a good occasion, then, for assuring you that the new administration is acutely aware of this problem, and is studying it, as well as other troubling factors in our public debt picture, on an urgent basis.

This administration is determined to curb inflation -- and I cannot say too often that we are firmly committed to that goal. We are aware of the risk of slamming on the brakes too hard and this we will not do. But at the same time, we are going to apply them firmly until we have positive evidence that the machine -- basically in good shape but moving much too fast and showing the strain -- is, in fact, slowing down. The administration will apply suitable fiscal policies in the area of taxes and budgeting while the Federal Reserve pursues complementary measures in the monetary field.

But today there are not many indications that the slow-down has begun, although we are confident that the restraints now in effect will not fail to do their work. Yet, if one reads the news of the day, he is aware that

the forces of expansion are potent indeed, and very hard to harness. One of them surfaced clearly just yesterday when the Department of Commerce and the Securities and Exchange Commission released data indicating that investment by commerce and industry in plant and equipment this year is expected to run 14 percent more than 1968.

Now, this is a lot higher than anyone thought it would be and if the forecast proves accurate, 1969 is going to parallel the unfortunate experience of 1965 and '66. In those years, comparable outlays placed great strains on the suppliers of capital goods and on the financing apparatus that makes such purchases possible.

I am frankly disturbed by this evidence of how the collective decisions of the nation's investors may help to keep inflation growing.

Now, in honesty, we must recognize it's not all bad. There is a good side, too. Expansion improves technology, boosts productivity, and, in the long run, cuts production costs. But there is danger in cranking up the industrial machine faster than it is ready to go, and thus adding to inflation.

This Administration is absolutely resolved to keep the Federal Budget in surplus. And I can also report to you that the Federal Reserve authorities are determined to continue necessary monetary restraint. There is a lesson, here too, for private voluntary savers.

The national interest clearly calls for a larger total of private savings -- I earnestly hope that this needed increase will be realized.

And that gets us back to Savings Bonds which are an ideal instrument for this purpose. And it gets us back also to the challenge that faces the people in this room in helping your government with the Bond Program. We need your help and I am certain that we will get it -- as we always have.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, March 17, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated December 19, 1968, and other series to be dated March 20, 1969, which were offered on March 12, 1969, were ed at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, hereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing June 19, 1969		:	182-day Treasury bills maturing September 18, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.463 a/	6.080%	:	96.868 b/	6.195%
Low	98.454	6.116%	:	96.850	6.231%
Average	98.456	6.108% 1/	:	96.855	6.221% 1/

a/Excepting 1 tender of $100,000; b/ Excepting 1 tender of $750,000
40% of the amount of 91-day bills bid for at the low price was accepted
4% of the amount of 182-day bills bid for at the low price was accepted

, TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 26,464,000	$ 15,357,000	:	$ 4,813,000	$ 4,813,000
York	1,957,659,000	1,142,653,000	:	1,696,292,000	863,952,000
ladelphia	38,812,000	23,782,000	:	20,912,000	10,912,000
veland	82,401,000	50,481,000	:	21,035,000	20,155,000
hmond	20,254,000	16,344,000	:	11,958,000	9,958,000
lanta	61,988,000	37,864,000	:	49,957,000	19,693,000
icago	315,524,000	164,524,000	:	142,506,000	75,576,000
. Louis	56,906,000	45,146,000	:	26,999,000	16,319,000
neapolis	33,316,000	20,916,000	:	22,023,000	8,543,000
nsas City	37,612,000	26,394,000	:	26,364,000	19,364,000
llas	27,029,000	15,429,000	:	24,334,000	14,174,000
n Francisco	170,917,000	41,677,000	:	135,923,000	36,875,000
TOTALS	$2,828,882,000	$1,600,567,000 c/		$2,183,116,000	$1,100,334,000 d/

ncludes $347,130,000 noncompetitive tenders accepted at the average price of 98.456
ncludes $166,298,000 noncompetitive tenders accepted at the average price of 96.855
hese rates are on a bank discount basis. The equivalent coupon issue yields are .29% for the 91-day bills, and 6.51% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 18, 1969

FOR IMMEDIATE RELEASE

MEMORANDUM FOR THE PRESS:

Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs, leaves late Tuesday, March 18, on a ten-day trip to Europe.

Chief purpose of the trip is to continue introductory meetings with officials of those countries regularly participating in international groups in which Mr. Volcker represents the United States. His itinerary includes Brussels, Bonn, Frankfurt, Stockholm, The Hague, Amsterdam, Rome and Zurich. In February, Mr. Volcker attended Organization for Economic Cooperation and Development meetings in Paris and called, at that time, on officials of the French and British governments.

Mr. Volcker also plans to visit Lugano, Switzerland, toward the end of the month to attend a discussion group meeting of economists from several countries held under the chairmanship of Dr. Fritz Machlup of Princeton University. He expects to return to the United States on Saturday, March 29.

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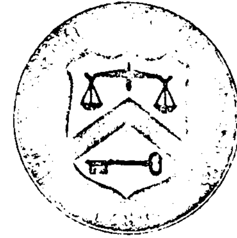
TREASURY DEPARTMENT



WASHINGTON, D.C.

OR IMMEDIATE RELEASE MARCH 18, 1969

TREASURY BILL OFFERING OF $1.8 BILLION

The Treasury announced today that a total of $1.8 billion will be added to ix outstanding weekly series of Treasury bills. These are the series which ature May 8 to June 12, 1969, inclusive. They will be reopened in the amount of 300 million each -- a total of $1.8 billion.

The auction will be on Tuesday, March 25 with payment on March 31. In his "strip" offering, subscribers will put in for equal amounts of each of the ix series of bills being reopened. Commercial banks may pay for their own purchases and for their customers' purchases by crediting Treasury tax and loan ccounts.

TREASURY DEPARTMENT

WASHINGTON, D.C.

IMMEDIATE RELEASE March 18, 1969

TREASURY OFFERS $1.8 BILLION STRIP OF WEEKLY BILLS

The Treasury Department, by this public notice, invites tenders for additional unts of six series of Treasury bills to an aggregate amount of $1,800,000,000, thereabouts, for cash. The additional bills will be issued March 31, 1969, will in the amounts, and will be in addition to the bills originally issued and uring, as follows:

mount of ditional Issues	Original Issue Dates 1968	Maturity Dates 1969		Days from March 31, 1969 to Maturity	Amount Currently Outstanding (in millions)
300,000,000	November 7	May 8		38	$2,702
300,000,000	November 14	May 15		45	2,699
300,000,000	November 21	May 22		52	2,705
300,000,000	November 29	May 29		59	2,702
300,000,000	December 5	June 5		66	2,701
300,000,000	December 12	June 12		73	2,701
800,000,000			Average	-55.5	

additional and original bills will be freely interchangeable.

Each tender submitted must be in the amount of $6,000, or an even multiple reof, and one-sixth of the amount tendered will be applied to each of the above ies of bills.

The bills offered hereunder will be issued on a discount basis under competitive noncompetitive bidding as hereinafter provided, and at maturity their face amount l be payable without interest. They will be issued in bearer form only, and in ominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 turity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing r, one-thirty p.m., Eastern Standard time, Tuesday, March 25, 1969. Tenders will be received at the Treasury Department, Washington. In the case of competitive ders the price offered must be expressed on the basis of 100, with not more than ee decimals, e.g., 99.925. Fractions may not be used. A single price must be sub-ted for each unit of $6,000, or even multiple thereof. A unit represents $1,000 e amount of each issue of bills offered hereunder, as previously described. It is ed that tenders be made on the printed forms and forwarded in the special envelopes ch will be supplied by Federal Reserve Banks and Branches on application therefor.

Banking institutions generally may submit tenders for account of customers pro-ed the names of the customers are set forth in such tenders. Others than banking titutions will not be permitted to submit tenders except for their own account. ders will be received without deposit from incorporated banks and trust companies from responsible and recognized dealers in investment securities. Tenders from

ers must be accompanied by payment of 2 percent of the face amount of Treasury ls applied for, unless the tenders are accompanied by an express guaranty of pay-nt by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any reements with respect to the purchase or sale or other disposition of any bills of ese additional issues at a specific rate or price, until after one-thirty p.m., stern Standard time, Tuesday, March 25, 1969.

Immediately after the closing hour, tenders will be opened at the Federal Reserve nks and Branches, following which public announcement will be made by the Treasury partment of the amount and price range of accepted bids. Those submitting tenders ll be advised of the acceptance or rejection thereof. The Secretary of the Treasury pressly reserves the right to accept or reject any or all tenders, in whole or in rt, and his action in any such respect shall be final. Noncompetitive tenders for 30,000 or less (in even multiples of $6,000) without stated price from any one bidder ll be accepted in full at the average price (in three decimals) of accepted com-titive bids. Settlement for accepted tenders in accordance with the bids must be de or completed at the Federal Reserve Bank or Branch in cash or other immediately ailable funds on March 31, 1969; provided, however, any qualified depositary will permitted to make payment by credit in its Treasury tax and loan account for easury bills allotted to it for itself and its customers up to any amount for which shall be qualified in excess of existing deposits when so notified by the Federal serve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale other disposition of the bills, does not have any exemption, as such, and loss from e sale or other disposition of Treasury bills does not have any special treatment, such, under the Internal Revenue Code of 1954. The bills are subject to estate, heritance, gift or other excise taxes, whether Federal or State, but are exempt from l taxation now or hereafter imposed on the principal or interest thereof by any State, any of the possessions of the United States, or by any local taxing authority. For rposes of taxation the amount of discount at which Treasury bills are originally ld by the United States is considered to be interest.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the ount of discount at which bills issued hereunder are sold is not considered to crue until such bills are sold, redeemed or otherwise disposed of, and such bills e excluded from consideration as capital assets. Accordingly, the owner of easury bills (other than life insurance companies) issued hereunder need include his income tax return only the difference between the price paid for such bills, ether on original issue or on subsequent purchase, and the amount actually ceived either upon sale or redemption at maturity during the taxable year for ich the return is made, as ordinary gain or loss. Purchasers of a strip of the lls offered hereunder should, for tax purposes, take such bills on to their books the basis of their purchase price prorated to each of the six outstanding issues ing as a basis for proration the closing market prices for each of the issues on rch 31, 1969. (Federal Reserve Banks will have available a list of these market ices, based on the mean between the bid and asked quotations furnished by the deral Reserve Bank of New York.)

Treasury Department Circular No. 418, Revised, and this notice, prescribe the rms of the Treasury bills and govern the conditions of their issue. Copies of the rcular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

March 18, 1969

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,500,000,000 or thereabouts, for cash and in exchange for Treasury bills maturing March 31, 1969 in the amount of $ 1,500,447,000 as follows:

275-day bills (to maturity date) to be issued March 31, 1969, in the amount of $ 500,000,000 or thereabouts, representing an additional amount of bills dated December 31, 1968 and to mature December 31, 1969 originally issued in the amount of $ 999,152,000 the additional and original bills to be freely interchangeable.

365-day bills, for $ 1,000,000,000, or thereabouts, to be dated March 31, 1969 and to mature March 31, 1970.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Wednesday, March 26, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to

ponsible and recognized dealers in investment securities. Tenders
m others must be accompanied by payment of 2 percent of the face
ount of Treasury bills applied for, unless the tenders are
ompanied by an express guaranty of payment by an incorporated bank
trust company.

Immediately after the closing hour, tenders will be opened at
Federal Reserve Banks and Branches, following which public announce-
t will be made by the Treasury Department of the amount and price
ge of accepted bids. Those submitting tenders will be advised
the acceptance or rejection thereof. The Secretary of the
asury expressly reserves the right to accept or reject any or all
ders, in whole or in part, and his action in any such respect
ll be final. Subject to these reservations, noncompetitive tenders
each issue for $200,000 or less without stated price from any one
lder will be accepted in full at the average price (in three
imals) of accepted competitive bids for the respective issues.
tlement for accepted tenders in accordance with the bids must be
le or completed at the Federal Reserve Bank on March 31, 1969,
h or other immediately available funds or in a like face amount
Treasury bills maturing March 31, 1969. Cash and exchange
ders will receive equal treatment. Cash adjustments will be made
differences between the par value of maturing bills accepted in
hange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or
n from the sale or other disposition of the bills, does not have
exemption, as such, and loss from the sale or other disposition
Treasury bills does not have any special treatment, as such,
ler the Internal Revenue Code of 1954. The bills are subject to
ate, inheritance, gift or other excise taxes, whether Federal or
te, but are exempt from all taxation now or hereafter imposed on
principal or interest thereof by any State, or any of the
sessions of the United States, or by any local taxing authority.
purposes of taxation the amount of discount at which Treasury
ls are originally sold by the United States is considered to be
erest. Under Sections 454 (b) and 1221 (5) of the Internal
enue Code of 1954 the amount of discount at which bills issued
eunder are sold is not considered to accrue until such bills are
d, redeemed or otherwise disposed of, and such bills are excluded
m consideration as capital assets. Accordingly, the owner of
asury bills (other than life insurance companies) issued hereunder
d include in his income tax return only the difference between
price paid for such bills, whether on original issue or on
sequent purchase, and the amount actually received either upon
e or redemption at maturity during the taxable year for which the
urn is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this
ice prescribe the terms of the Treasury bills and govern the
litions of their issue. Copies of the circular may be obtained

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 19, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 27, 1969, in the amount of $2,709,020,000, as follows:

91-day bills (to maturity date) to be issued March 27, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated December 26, 1968, and to mature June 26, 1969, originally issued in the amount of $1,104,988,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated March 27, 1969, and to mature September 25, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 24, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 27, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 27, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 21, 1969

FOR IMMEDIATE RELEASE

BROWN APPOINTED
DEPUTY SPECIAL ASSISTANT TO THE SECRETARY

Appointment of Benjamin L. Brown as Deputy Special Assistant to the Secretary of the Treasury (Congressional Relations) was announced today by Secretary of the Treasury David M. Kennedy.

Mr. Brown, 27, as deputy to Special Assistant James E. Smith, comes to the Treasury Department from two years service on Capitol Hill as Administrative Assistant to Rep.James F. Battin (R-Mont.). He was previously chief political writer for Montana's largest daily newspaper, *The Billings Gazette*.

A native of Billings, Montana, Mr. Brown attended Eastern Montana College from 1962 to 1966. From 1958 to 1962, he served as an enlisted man aboard a destroyer in the Navy.

Mr. Brown and his wife, the former Karen Ebeling of Billings, live at 2017 Maynard Drive, Falls Church, Virginia. They have one son, Benjamin Jr.

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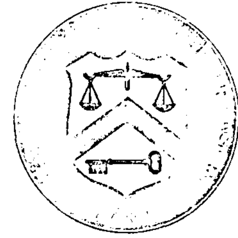
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 21, 1969

FOR RELEASE A.M. NEWSPAPERS
MONDAY, MARCH 24, 1969

BRUCE K. MACLAURY NAMED DEPUTY UNDER SECRETARY
OF TREASURY FOR MONETARY AFFAIRS

Secretary of the Treasury David M. Kennedy today announced the appointment, effective April 1, of Bruce K. MacLaury, Vice President of the Foreign Department of the New York Federal Reserve Bank, as Deputy Under Secretary of the Treasury for Monetary Affairs.

Mr. McLaury, as deputy to Under Secretary Paul A. Volcker, will succeed Frank W. Schiff who will join the Committee for Economic Development in Washington, D. C., as Vice President and Chief Economist.

Mr. MacLaury, 37, a native of Chappaqua, New York, did his undergraduate work at Princeton, receiving an A.B. degree in 1953. He received his Master of Arts degree in economics from Harvard University in 1958, and his Ph.D. from the same institution in 1961. From 1954 to 1956, he served in the U.S. Army as a Lieutenant of Artillery.

He joined the Federal Reserve Bank of New York in 1958 as an economist in the Foreign Research Division.

In 1962-63, he served as a consultant in international finance to the Organization for Economic Cooperation and Development in Paris. In 1963, he rejoined the New York "Fed," as Manager, Foreign Department. In 1965 he was named an Assistant Vice President, Foreign Department, and in 1968 was appointed Vice President of that Department.

Mr. MacLaury is married to the former Virginia Doris Naef of Summit, New Jersey. They have two children, John Kenneth MacLaury, 5, and David Bruce MacLaury, 3.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

EXCERPTS FROM REMARKS BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE BUSINESS COUNCIL
AMERICAN SECURITY AND TRUST BUILDING
WASHINGTON, D. C.
FRIDAY, MARCH 21, 1969, 9:45 A. M.

I am honored to meet with the members of the Business Council, and delighted to have this opportunity to review with you the Nation's economic problems and goals.

The most critical economic problem facing our country today is, of course, inflation. It is a continuing threat to the strength of our economy -- the purchasing power of the dollar at home -- confidence in it abroad -- and the future of every American.

Because inflation is such a destructive force, the task of curbing it is a matter of the highest national priority, It calls for the strongest effort at every level of Government, by every sector of the economy, and by every one of our citizens.

Let me take a moment to pay tribute to James M. Roche and the other members of the Business Council who are making a major contribution to the fight against inflation through their service on the U.S. Industrial Payroll Savings Committee.

The Payroll Savings Plan that Mr. Roche is guiding this year is one of our most effective weapons. Every dollar that is invested in a Savings Bond is a dollar that does not add to the strain on our productive resources. It is also an important help to the Treasury in maintaining sound debt management and reducing the demands we must make on the private financial markets.

I would be less than honest if I did not acknowledge that the statutory limit of four and one-quarter percent on the return that E Bonds pay makes them less attractive than certain other investments. This is a good occasion, then, for assuring you that the Administration is acutely aware of this problem, and is studying it, as well as other troubling factors in our public debt picture, on an urgent basis.

The members of the Business Council have always given their strong support to the Payroll Savings Campaign in the past, and I am confident that we -- Mr. Roche, his committee, the Treasury, and the country -- can count on you again this year.

As you know only too well, we have other pressing national problems in addition to inflation: We must alleviate poverty -- and we must see that every citizen has equality of opportunity. However, as a prerequisite to solving those, we must curb inflation. Unless that is our first objective, we risk stretching ourselves too thin -- and thereby might end up doing too little. The kind of price increases we have experienced in recent months can carry the economy to the point where recession and accompanying higher unemployment naturally follow.

We are confident that the current fiscal and monetary restraints will check inflation. Yet progress is being achieved very slowly. This points up the fact that inflation, once it has gained momentum, is extremely difficult to bring under control.

Last week brought new evidence of the strength of the expansionary forces in the economy. The Department of Commerce and the Securities and Exchange Commission reported that their most recent survey indicates that business plans to increase its capital expenditures by about 14 percent more than in 1968.

That projected rise in planned spending is a much higher figure than anyone had anticipated, and is a clear signal that we must not relax our anti-inflationary posture....

Let me say -- as strongly as I can -- that this Administration does <u>not</u> intend to let inflation continue escalating prices.... We will not apply the economic brakes suddenly and hard, because that might bring about unacceptably high unemployment. But we <u>do</u> mean to apply the brakes <u>steadily</u> and <u>firmly</u> until the economy is slowed to a sustainable rate of speed. The Administration is resolved to apply appropriate fiscal policies. And the Federal Reserve is determined to continue all the monetary restraint that the current situation makes imperative. Those are the correct policies to follow, and their effects will be felt gradually but surely throughout the economy.

We have no plans for tinkering with the investment tax credit. Congress intended the credit to be a part of the regular tax system, and not a device for stimulating or slowing the economy. Moreover, the credit has been highly effective in encouraging the long-run investment that creates additional jobs and income.

In our fight against inflation, we must also achieve and maintain a surplus in the Federal budget -- and I can assure you that the Administration is also firmly committed to <u>that</u> goal!

The budgets prepared by the previous Administration forecast surpluses of $2.4 billion this year and $3.4 billion in Fiscal 1970. However, the surpluses will be difficult to attain because of such factors as higher interest costs on the public debt, a tendency for some estimates of expenditures to be on the low side, and increased labor and materials costs for the highway construction and other programs. This Administration is determined to make additional cuts in Government expenditures to reduce the budget below the Johnson budget.

I should also point out that the surplus for Fiscal 1970 is predicated on a continuation of the surtax. About $9 billion of the estimated fiscal year receipts would come from the surtax.

Given the present economic outlook and the importance of a budget surplus during a time of serious inflation, I must say, in all candor, that I believe that the surtax must be retained....

Turning to another area of concern to you, our balance of payments, like our domestic economy, badly needs relief from inflationary strains and distortions.

Last year, our international accounts showed a small surplus on the liquidity basis of calculation. This was a welcome development, but it came about only because of an unprecedented swing in the capital accounts which made the United States, for the first time since the end of World War II, a large net importer of capital.

We cannot count upon continued capital inflows of such magnitude, however. In fact, as the world's wealthiest nation the United States can be expected to be -- and should be -- a net exporter of capital.

Moreover, the artificial restraints on capital outflow from the United States resulting from direct controls are fundamentally undesirable. We will ease these restrictions as quickly as circumstances will permit.

In contrast to our capital accounts, our trade surplus -- always the mainstay of our balance of payments in the past -- nearly disappeared last year. Because of over-expansion of the economy, imports were at a record rate and the trade surplus was reduced to the smallest amount since 1959.

We must restore our trade surplus to its once healthy position in order to maintain confidence in the dollar. And the surest way to rebuild that surplus is by returning the economy to the path of non-inflationary growth.

Another goal of this Administration is to work closely with our country's friends abroad in strengthening the international monetary system.

There is no simple, easy answer to the problems underlying the monetary difficulties of the past year or more. We cannot end the complex problems of improving the balance of payments adjustment process, or meeting the need for a growth in world reserves, or sustaining confidence in the dollar by increasing the price of gold or by going to the opposite extreme of freely fluctuating exchange rates. The idea that either action would automatically solve or even help the world's financial problems is an illusion.

While rejecting the idea of a simple, sweeping reform that will supposedly solve all difficulties, we are prepared to join with officials of other nations in studying responsible proposals for changes in financial arrangements -- changes that will serve the common interest by improving and strengthening the monetary system.

The Special Drawing Rights agreement illustrates clearly the value of careful study and patient negotiations. When the SDR facility has been established in the International Monetary Fund, the world community will be able to manage the supply of international liquidity according to plan and in an orderly manner. This will, of course, be in the interest of all nations.

In the legislative area, the President has made tax reform and equitable tax administration two of his principal objectives, and I have assured Chairman Mills of the Ways and Means Committee that Treasury will work closely with his Committee.

We have reviewed the reform proposals done at Treasury under the Johnson Administration, and feel that they would fall short of the desired goals. For one thing, they aim too much at dealing with symptoms of a bad tax structure, rather than with the many preferences that distort our system and prevent tax equity....

We are also studying the use of tax incentives to help solve the problems of the cities and of our disadvantaged citizens. Private business can be of tremendous help in improving economic and social conditions in poverty areas, and I hope that we can encourage business to participate to a greater extent by a responsible use of tax incentives.

I wish I could hold out the promise of dramatic progress soon toward ending inflation, solving our balance of payments difficulties, and eliminating all inequities from our present tax system. Unfortunately, the problems are well dug in, and progress will probably be achieved gradually.

However, I can assure you that the President and the entire Administration are determined to press for solutions with resolve and with persistence. We need the help and understanding of the entire Nation, and especially of the business community. I am confident you will give it to us.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

)R RELEASE 6:30 P.M.,
›nday, March 24, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated December 26, 1968, and e other series to be dated March 27, 1969, which were offered on March 19, 1969, were ened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing June 26, 1969		:	182-day Treasury bills maturing September 25, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.503	5.922%	:	96.932	6.069%
Low	98.493	5.962%	:	96.912	6.108
Average	98.497	5.946% 1/	:	96.918	6.096% 1/

32% of the amount of 91-day bills bid for at the low price was accepted
70% of the amount of 182-day bills bid for at the low price was accepted

DAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 27,444,000	$ 17,349,000	:	$ 5,763,000	$ 5,763,000
New York	1,876,117,000	960,003,000	:	1,781,864,000	833,516,000
Philadelphia	32,722,000	17,722,000	:	14,988,000	4,888,000
Cleveland	38,857,000	31,827,000	:	39,888,000	27,176,000
Richmond	17,075,000	17,075,000	:	6,865,000	6,775,000
Atlanta	53,944,000	31,096,000	:	41,905,000	17,555,000
Chicago	456,446,000	337,359,000	:	126,348,000	77,748,000
St. Louis	60,854,000	49,414,000	:	34,254,000	28,904,000
Minneapolis	30,478,000	21,418,000	:	21,902,000	11,502,000
Kansas City	44,267,000	37,911,000	:	23,194,000	18,162,000
Dallas	27,805,000	19,125,000	:	22,751,000	12,471,000
San Francisco	146,704,000	59,824,000	:	124,678,000	56,156,000
TOTALS	$2,812,713,000	$1,600,123,000 a/		$2,244,400,000	$1,100,616,000 b/

a/ Includes $339,144,000 noncompetitive tenders accepted at the average price of 98.497
b/ Includes $157,686,000 noncompetitive tenders accepted at the average price of 96.918
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.12% for the 91-day bills, and 6.38% for the 182-day bills.

STATEMENT OF THE HONORABLE
DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
MARCH 24, 1969
10 A.M. EST

Mr. Chairman and Members of the Committee;

I appreciate the opportunity to appear before your Committee in regard to our request for action to raise the limit on the public debt. It is especially urgent that we secure prompt action on this request as we otherwise could be above the legal ceiling during the mid-April period.

The situation is illustrated by our experience in March. On the 14th of March we had securities outstanding in the amount of $364,717 million. We were within $283 million of the statutory ceiling, not much more than a third of one day's expenditures. We were able to do this only by reducing our cash balance to a level of $2.4 billion, far below the daily average of $5.1 billion in the fiscal year 1968. The position has improved somewhat, but we will be going into a far tighter situation in early April. On April 15, with the conventional $4.0 billion cash balance assumption used in these hearings in the past, our projections

indicate that we will be over the ceiling by $2.2 billion. We can stay under the existing $365 billion ceiling only by drawing down our cash balances to a level of $1.8 billion. I might add that the ceiling is even tighter on the day before the mid-month point.

It is possible, by finer adjustment of our borrowing through daily drawings on the Federal Reserve System, that we could get through the April problem, but we will have no margin for any contingencies. With receipts and expenditures averaging nearly $750 million a day, you can see how any change in timing of either receipts or expenditures carries the risk of putting us over the statutory limit with the only alternative being a failure to pay our bills.

I hesitate to contemplate as I am sure you do, the potential harm to the Nation's economy and to our position in the world economy from a failure to pay our legal and contractual obligations. Unless the debt limit is increased promptly, we face this prospect as a real possibility.

We are asking at this time for a revision in the debt limit to a permanent ceiling of $365 billion and a temporary

allowance above that permanent ceiling of $12 billion through June 30, 1970. This was the bill that passed the House of Representatives. Because the April problem is almost upon us there is little time for action.

According to our projections for FY 1970, the debt outstanding on March 15 will total $374.0 billion with an assumed cash balance of $4.0 billion. The bill before you provides a minimal leeway of $3 billion above that amount. I believe that a larger allowance for contingencies than $3 billion can be justified. However, we are willing to try on this basis to meet the problems in FY 1970 -- fully aware that we may be back before this Committee a year from now with another request for an increase in the debt limit.

The debt projections used in the attached tables are based on the January Budget as presented by the previous Administration. As you know, that Budget provided for a continuation of the surtax on individuals and corporations, which is scheduled to expire on June 30, 1969. It also included $10.7 billion of higher revenues attributable primarily to higher individual and corporate income from economic growth and inflation.

PUBLIC DEBT SUBJECT TO PRESENT LIMITATION

FISCAL YEAR 1969
(In billions)

	Operating Cash Balance (excluding free gold)	Public Debt Subject to Limitation
	A C T U A L	
1968		
june 30	$5.2	$350.7
july 15	5.6	354.8
july 31	5.9	354.3
August 15	5.4	357.2
August 31	4.5	357.5
September 15	1.3	358.7
September 30	8.5	357.9
October 15	4.4	358.9
October 31	6.4	360.4
November 15	2.0	360.5
November 30	2.7	360.1
December 15	1.0	363.4
December 31	4.6	361.2
1969		
january 15	1.8	362.9
january 31	7.1	362.6
january 15	4.0	362.9
january 28	4.8	362.0
March 14	2.4	364.7
March 17	2.1	364.1
	E S T I M A T E D	
	(Based on constant minimum operating cash balance of $4.0 billion)	
ch 31	4.0	362.1
il 15	4.0	367.2
il 30	4.0	356.9
15	4.0	361.1
31	4.0	361.9
e 15	4.0	362.7
e 30	4.0	354.6

March 21, 1969

ESTIMATED PUBLIC DEBT SUBJECT TO PRESENT LIMITATION
(Based on constant minimum operating cash balance of $4.0 billion)

FISCAL YEAR 1970
(In billions)

	Operating Cash Balance (excluding free gold)	Public Debt Subject to Limitation	Allowance to Provide Flexibility in Financing and for Contingencies	
1969			$ 3.0	$ 8.0
june 30	$4.0	$354.6	357.6	362.6
july 15	4.0	359.4	362.4	367.4
july 31	4.0	358.3	361.3	366.3
August 15	4.0	362.8	365.8	370.8
August 31	4.0	363.3	366.3	371.3
September 15	4.0	367.6	370.6	375.6
September 30	4.0	360.6	363.6	368.6
October 15	4.0	365.9	368.9	373.9
October 31	4.0	366.0	369.0	374.0
November 15	4.0	370.7	373.7	378.7
November 30	4.0	368.4	371.4	376.4
December 15	4.0	373.3	376.3	381.3
December 31	4.0	366.6	369.6	374.6
1970				
january 15	4.0	371.7	374.7	379.7
january 31	4.0	367.3	370.3	375.3
February 15	4.0	370.2	373.2	378.2
February 28	4.0	368.7	371.7	376.7
March 15	4.0	374.0	377.0	382.0
March 31	4.0	369.5	372.5	377.5
April 15	4.0	373.7	376.7	381.7
April 30	4.0	365.4	368.4	373.4
May 15	4.0	370.6	373.6	378.6
May 31	4.0	369.2	372.2	377.2
june 15	4.0	368.3	371.3	376.3
june 30	4.0	361.4	364.4	369.4

March 21, 1969

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 24, 1969

MEMORANDUM FOR THE PRESS:

The attached material -- embargoed for 3:30 p.m. March 24 -- releases information on the Administration's proposed legislation on one-bank holding companies. It consists of six parts:

1. Copy of a letter from Secretary of the Treasury David M. Kennedy to the President of the Senate transmitting the legislation. (Identical letter sent to Speaker of the House)

2. A copy of the proposed basic bill.

3. A copy of the proposed bill on OBHC tax aspects.

4. An analysis of the bill.

5. A comparison of the language of the proposed measures and existing statute.

6. A simplyfied explanation of the problem to which the proposal is addressed and the proposal itself.

oOo

CAUTION: THIS MATERIAL IS NOT TO BE RELEASED, QUOTED OR REFERRED TO IN ANY WAY BEFORE 3:30 P.M., MARCH 24.

THE SECRETARY OF THE TREASURY
WASHINGTON

March 24, 1969

Dear Mr. President:

There is transmitted herewith a draft of a proposed bill, "To broaden the definition of bank holding companies, and for other purposes."

The proposed legislation would reasonably but effectively stop a trend toward the merging of banking and commerce. This trend, just now developing, threatens to change the nature of American private enterprise.

President Eisenhower, in signing the Bank Holding Company Act of 1956, noted that the legislation did not go far enough, and that further attention of the Congress would be necessary to control activities which could result from the exemptions in the Act.

The time has come for the Congress to remove those exemptions.

The 1956 Act provided for the regulation of all holding companies owning 25 percent or more of the stock of two or more banks. This means that a holding company controlling only one bank is immune to the Act, particularly that central provision which, in keeping with American business tradition, prohibits the mixing of banking and commerce within one corporate structure.

For a decade, the 1956 Act worked satisfactorily. The 117 one-bank holding companies in existence when the Act was passed were increased by an average of 40 per year, and in most cases these were small banks.

By 1968, however, President Eisenhower's foresight of twelve years before was coming true -- and with it a direct threat to the American economic structure. By the end of the year, the rate of formations had tripled -- bringing the number of one-bank holding companies existing and proposed to about 800. Even more significant is the size of the banks involved: these 800 controlled nearly a

fourth of all commercial bank deposits in the nation -- whereas the small one-bank holding companies existing in mid-1965 accounted for only one-twentieth of the total.

In 1965, more than 80 percent of the banks owned by existing one-bank holding companies had total deposits of less than $30,000,000. In 1968, however, nine of the nation's twelve largest banks -- with deposits ranging from $6 billion to over $20 billion -- announced their intention to create one-bank holding companies.

Clearly the situation has changed markedly in just the past year.

Corporate conglomerates are increasing their interest in acquiring banks, and some of the bank-dominated one-bank holding companies now plan to diversify into nonfinancial fields. If such acquisitions are permitted to continue, there will be a growing number of mergers between large banks and large nonfinancial companies, thereby putting our system of free and competitive enterprise in jeopardy.

Our free enterprise economy, in which commercial and financial power is separated and dispersed, would undergo a drastic change within a few years. We would find ourselves in a structure dominated by some 50 to 75 huge centers of economic and financial power -- each of which would consist of a corporate conglomerate controlling a large bank or a multi-billion dollar bank controlling a large nonfinancial conglomerate.

This emerging trend -- this tip of the iceberg -- adds a new and highly disturbing dimension to the conglomerate movement which is now under study, both in the Congress and the Executive Branch.

Historically, the principles that maintain the wall of separation between financial power and industrial-commercial power go back to the early years of the Republic. They were most recently reaffirmed by the Bank Holding Company Act of 1956. To rebuild that wall, the proposed Bank Holding

Company Act of 1969 would:

-- amend the Bank Holding Company Act of 1956 to extend Federal regulation of bank holding companies to those companies which control only one bank.

-- require all corporations which have affiliated with banks since June 30, 1968 to confine their activities to the financial, fiduciary or insurance functions specified in the 1956 Act.

This proposed legislation is in the best interests of an independent banking system and a free, competitive economy. I strongly recommend prompt and effective action.

It would be appreciated if you would lay the proposed bill before the Senate. An identical bill has been transmitted to the Speaker of the House of Representatives.

The Department has been advised by the Bureau of the Budget that enactment of the proposed legislation would be in accord with the program of the President.

Sincerely yours,

/s/ David M. Kennedy

The Honorable
Spiro T. Agnew
President of the Senate
Washington, D. C. 20510

A BILL

To broaden the definition of bank holding companies, and for other purposes.

<u>Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled</u>, That this Act may be cited as the "Bank Holding Company Act of 1969."

Sec. 2. The Bank Holding Company Act of 1956, as amended, is hereby further amended as follows:

(1) Section 2 is amended --

(a) by amending subsection (a) to read as follows:

"(a) 'Bank holding company' means any company (1) that directly or indirectly owns, controls, or holds with power to vote 25 per centum or more of the voting shares of any bank or of a company that is or becomes a bank holding company by virtue of this Act, (2) that controls in any manner the election of a majority of the directors of any bank, or (3) that has the power directly or indirectly to direct or cause the direction of the management or policies of any bank; and, for the purposes of this Act, any successor to any such company shall be deemed to be a bank holding company from the date as of which such predecessor company became a bank holding company. Notwithstanding the foregoing, (A) no bank and no company owning or controlling voting shares of a bank shall be a bank holding company by virtue of such bank's ownership or control of shares in a fiduciary capacity except where such shares are held under a trust that constitutes a

company as defined in subsection (b) of this section, or as provided in paragraphs (2) and (3) of subsection (g) of this section, (B) no company shall be a bank holding company by virtue of its ownership or control of shares acquired by it in connection with its underwriting of securities if such shares are held only for such period of time as will permit the sale thereof on a reasonable basis, and (C) no company formed for the sole purpose of participating in a proxy solicitation shall be a bank holding company by virtue of its control of voting rights of shares acquired in the course of such solicitation."

(b) by amending subsection (b) by inserting "partnership," immediately after "corporation," by striking "(1)"and by striking", or (2) any partnership".

(c) by amending subsection (d) by striking "or" immediately preceding "(2)", and by substituting a semicolon for the period at the end thereof and adding the following:

"or (3) any company, whose management or policies such bank holding company has the power directly or indirectly to cause the direction of or direct.

" 'Total banking assets held by its subsidiary banks' as used in subsection (h) of this section shall include assets held by the bank holding company if it is a bank."

(d) by redesignating subsection (h) as subsection (i), and by inserting immediately before it a new subsection to read as follows:

"(h) 'Appropriate banking agency' means

(1) The Comptroller of the Currency with respect to any bank holding company of which the total banking

assets held by its subsidiary banks which are national banks or district banks exceed the total banking assets held by its subsidiary banks which are State-chartered members of the Federal Reserve System and exceed the total banking assets held by its subsidiary banks which are not members of the Federal Reserve System;

(2) The Federal Deposit Insurance Corporation with respect to any bank holding company of which the total banking assets held by its subsidiary banks which are State-chartered non-members of the Federal Reserve System but whose deposits are insured by the Federal Deposit Insurance Corporation, exceed the total banking assets held by its subsidiary banks which are State-chartered members of the Federal Reserve System;

(3) The Board with respect to any bank holding company not included under paragraphs (1) or (2) hereof."

(e) by amending subsection (i) as designated by sub-paragraph (d) hereof by striking the words "the banking."

(2) Section 3 is amended --

(a) by striking the first word of subsection (a) and inserting in lieu thereof the following:

"A company which is not a bank holding company may, with the approval of the Comptroller of the Currency, become a bank holding company with respect to a national bank, or, with the approval of the Federal Deposit Insurance Corporation, become a bank holding company with respect to a state bank

whose deposits are insured by the Federal Deposit Insurance Corporation but which is not a member of the Federal Reserve System. Except as provided in the preceding sentence it".

(b) by adding in subsection (a) immediately preceding the sentence beginning with the word "Notwithstanding" the following new sentence:

"It shall be unlawful after June 30, 1971, for any company which becomes a bank holding company as a result of the enactment of the Bank Holding Company Act of 1969, to retain direct or indirect ownership or control of any bank or bank holding company acquired after March 1, 1969, and prior to the date of enactment of such Act, or of 25 per centum or more of the voting shares of any bank or bank holding company any part of which was acquired after March 1, 1969, and prior to the date of enactment of the Bank Holding Company Act of 1969, unless such retention is approved in the manner prescribed in the two preceding sentences."

(c) by striking from subsection (c) the words "The Board shall not approve" and inserting in lieu thereof "Neither the Comptroller of the Currency, the Federal Deposit Insurance Corporation, nor the Board shall approve".

(d) by striking from subsection (c) the words "the Board shall take" and inserting in lieu thereof "there shall be taken".

(3) Section 4(a) is amended --

(a) by striking "Board" and inserting in lieu thereof the words "appropriate banking agency".

(b) by amending subparagraph (2) to read as follows:

"(2) after two years from the date as of which it becomes a bank holding company, or, in the case of any company that has been continuously affiliated since May 15, 1955, with a company which was registered under the Investment Company Act of 1940, prior to May 15, 1955, in such a manner as to constitute an affiliated company within the meaning of that Act, after December 31, 1978, retain direct or indirect ownership or control of any voting shares of any company which is not a bank or bank holding company or engage in any businesses or activities other than (i) those of banking or of managing or controlling banks or of furnishing services to or performing services for any bank with respect to which it is a bank holding company, (ii) those specified under clause (8) of subsection (c) of this section subject to all the conditions specified therein, or (iii) those in which it was lawfully engaged on June 30, 1968, and in which it has been continuously engaged since that date."

(4) Section 4(c) is amended -

(a) by amending clause (5) to read as follows:

"(5) shares acquired and held in the manner, kinds and amounts specifically permissible for national banks under provisions of Federal statute law and regulations issued pursuant thereto;"

(b) by amending clause (8) to read as follows:

"(8) shares retained or acquired with the approval of the appropriate banking agency in any company (other than a company engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes or other securities) engaged exclusively in activities that have been determined by unanimous agreement of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board (1) to be financial or related to finance in nature or of a fiduciary or insurance nature, and (2) to be in the public interest when offered by a bank holding company or its subsidiaries.

"No retention nor acquisition may be approved under this clause except pursuant to and in accordance with guidelines established by unanimous agreement of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board. In establishing such guidelines consideration shall be given to any potential anti-competitive effects of a bank holding company engaging in any proposed type of activity, and limitations on permissible activities may be established on the basis of any relevant factors, including size of bank holding company or its subsidiary banks, the size of any company to be acquired or retained, and the size of communities in which such activities should be permitted.

The appropriate banking agency shall not approve -

(a) any retention or acquisition under this clause which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize any part of trade or commerce in any part of the United States, or

(b) any retention or acquisition under this clause whose effect in any line of commerce in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade.

In every case, the appropriate banking agency shall take into consideration the financial and managerial resources and future prospects of the company or companies and the banks concerned, and the convenience and needs of the community to be served."

(c) by amending clause (9) to read as follows:

"(9) shares lawfully acquired and owned on December 31, 1968, in any company organized under the laws of a foreign country and which is engaged principally in banking or other financial operations outside the United States;"

(d) by changing the period at the end thereof to a semicolon and by adding the following:

"(11) shares lawfully acquired and owned on June 30, 1968, by any company (or subsidiary thereof) which becomes a bank holding company as a result of the enactment of the Bank Holding Company Act of 1969, so long as the company issuing such shares is not engaging and does not engage in any business or activities other than those in which it or the bank holding company (or its subsidiaries) was lawfully engaged on June 30, 1968;

"(12) shares lawfully acquired and owned by a subsidiary of a bank holding company if both the subsidiary and the company issuing the shares are organized under the laws of a foreign country and do not operate in the United States; or

"(13) shares retained or acquired by any company which becomes a bank holding company as a result of the enactment of the Bank Holding Company Act of 1969, but which ceases to be a bank holding company no later than June 30, 1971, or such other date not later than June 30, 1974, as may be fixed by the appropriate banking agency in the manner prescribed in subsection (a) of this section."

(5) Section 5 is amended as follows:

(a) Subsection (a) is amended by adding at the end thereof the following new sentence:

"Information received by the Board pursuant to this subsection shall be made available to the Comptroller of the Currency and the Federal Deposit Insurance Corporation to the extent necessary to enable them to properly perform the functions assigned to them under this Act."

(b) Subsection (b) is amended by adding at the end thereof the following new sentence:

"The Comptroller of the Currency and the Federal Deposit Insurance Corporation are each authorized to issue such regulations and orders as may be necessary to enable them to properly perform the functions assigned to them under this Act."

(c) Subsection (c) is amended by adding at the end thereof the following new sentence:

"The authority granted herein to the Board is hereby granted also to the Comptroller of the Currency and the Federal Deposit Insurance Corporation to the extent necessary to enable them to properly perform the functions assigned to them under this Act."

(6) Section 8 is amended by striking the words "by the Board".

(7) Section 9 is amended to read as follows:

"Sec. 9. Any party aggrieved by an order issued under this Act may obtain a review of such order in the United States Court of Appeals within any circuit wherein such party has its principal place of business, or in the Court of Appeals in the District of Columbia, by filing in the court, within thirty days after the entry of the order, a petition praying that the order be set aside. A copy of such petition shall be forthwith transmitted to the agency issuing the order by the clerk of the court, and thereupon the agency shall file in the court the record made before it, as provided in section 2112 of title 28, United States Code. Upon the filing of such petition the court shall have the jurisdiction to affirm, set aside, or modify the order and to require the agency issuing such order to take such action with regard to the matter under review as the court deems proper. The findings of the agency as to the facts, if supported by substantial evidence, shall be conclusive."

(8) Section 11 is amended --

(a) by amending the first sentence of subsection (b) to read as follows:

"The Board shall immediately notify the Attorney General of any approval by it pursuant to this Act of a proposed acquisition, merger, consolidation or other transaction by which a bank holding company acquires a bank (hereinafter referred to as a 'bank acquisition'), and such a bank acquisition may not be consummated before the thirtieth calendar day after the date of approval by the Board."

(b) by further amending subsection (b) by striking the words "acquisition, merger, or consolidation transaction" at each place they appear in the second and succeeding sentences, and inserting in lieu thereof the words "bank acquisition."

(c) by adding at the end thereof the following:

"(g) The appropriate banking agency shall notify the Attorney General of any application received by it under section 4(c)(8) of this Act.

"(h) Each appropriate banking agency shall include in its annual report to the Congress a description and a statement of the reasons for approval of each transaction approved by it under section 4(c)(8) of this Act during the period covered by the report."

Sec. 3. (a) No bank holding company or subsidiary of a bank holding company may in any manner extend credit, lease or sell property of any kind, or furnish any service, or fix or vary the consideration for any of the foregoing, on the condition, agreement, or understanding

(A) that the customer shall obtain some other credit, property, or service from the bank holding company or subsidiary of the bank holding company; or

(B) that the customer shall not obtain credit, property, or services from a competitor of the bank holding company or subsidiary of the bank holding company.

(b) The district courts of the United States have jurisdiction to prevent and restrain violations of subsection (a) of this section, and it is the duty of the United States attorneys, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. The proceedings may be by way of a petition setting forth the case and praying that the violation be enjoined or otherwise prohibited. When the parties complained of have been duly notified of the petition, the court shall proceed, as soon as may be, to the hearing and determination of the case. While the petition is pending, and before final decree, the court may at any time make such temporary restraining order or prohibition as it deems just in the premises. Whenever it appears to the court that the ends of justice require that other parties be brought before it, the court may cause them to be summoned whether they reside

in the district in which the court is held or not, and subpoenas to that end may be served in any district by the marshal thereof.

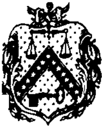
(c) In any action brought by or on behalf of the United States under subsection (a) of this section, subpoenas for witnesses may run into any district, but no writ of subpoena may issue for witnesses living out of the district in which the court is held at a greater distance than one hundred miles from the place of holding the same without the permission of the trial court being first had upon proper application and cause shown.

(d) Any person who is injured in his business or property by reason of anything forbidden in subsection (a) of this section may sue therefor in any district court of the United States in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

(e) Any person, firm, corporation, or association may sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by violation of subsection (a) of this section, under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted

by courts of equity, under the rules governing such proceedings. Upon the execution of proper bond against damages for an injunction improvidently granted and a showing that the danger of irreparable loss or damage is immediate, a preliminary injunction may issue.

(f) Any action to enforce any cause of action under this section shall be forever barred unless commenced within four years after the cause of action accrued.



THE SECRETARY OF THE TREASURY
WASHINGTON

March 24, 1969

Dear Mr. President:

There is transmitted herewith a Bill "Relating to income tax treatment of certain distributions pursuant to the Bank Holding Company Act of 1969."

This proposed legislation is submitted in conjunction with the proposed legislation submitted today to amend the Bank Holding Company Act of 1956. This draft relates to the tax treatment which would be accorded distributions made pursuant to the Bank Holding Company Act amendments. This proposed legislation would provide generally that corporations which become bank holding companies as a result of the Bank Holding Company Act of 1969 may distribute on a pro rata basis to their shareholders, without immediate tax consequences to such shareholders, either their nonbanking assets or all their banking assets acquired prior to March 1, 1969. Those companies which are not required by the Bank Holding Company Act of 1969 to divest but which, nevertheless, choose to do so, would be permitted to distribute their banking property tax-free if they comply with specified requirements.

It would be appreciated if you would lay the proposed legislation before the Senate. A similar communication has today been addressed to the Speaker of the House.

The Department has been advised by the Bureau of the Budget that enactment of the proposed legislation would be in accord with the program of the President.

Sincerely yours,

/s/ David M. Kennedy

The Honorable
Spiro T. Agnew
President of the Senate
Washington, D. C. 20510

Enclosure

A BILL

Relating to the income tax treatment of certain distributions pursuant to the Bank Holding Company Act of 1969

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1102 of the Internal Revenue Code of 1954 (relating to special rules for the income tax treatment of distributions pursuant to the Bank Holding Company Act of 1956) is amended by adding at the end thereof the following new subsection:

"(f) CERTAIN OTHER BANK HOLDING COMPANIES.--This part shall apply in respect of any company which becomes a bank holding company as a result of the enactment of the Bank Holding Company Act of 1969, with the following modifications:

(1) Subsections (a)(3) and (b)(3) of section 1101 shall not apply.

(2) Subsections (a)(1) and (2) and (b)(1) and (2) of section 1101 shall apply in respect of distributions to shareholders of the distributing bank holding corporation only if all distributions to each class of shareholders which are made--

(A) after March 1, 1969, and

(B) on or before the date on which the appropriate banking agency (as defined in section 1103(f)) makes its final certification under section 1101 (e),

are pro rata. For purposes of the preceding sentence, any

redemption of stock made in whole or in part with property other than money shall be treated as a distribution.

(3) In applying subsections (c) and (d) of section 1101 and subsection (b) of 1103, the date "March 1, 1969" shall be substituted for the date "May 15, 1955."

(4) In applying subsection (d)(3) of section 1101, the date of enactment of this subsection shall be treated as the date of enactment of this part.

(5) In applying this part, the references to the Bank Holding Company Act of 1956 shall be treated as referring to such Act as amended by the Bank Holding Company Act of 1969.

(6) In applying this part, the term "Board" shall be treated as referring to the appropriate banking agency (as defined in section 1103(f)).

(7) In applying subsections (b) and (c)(3) of section 1101, the term 'prohibited property' shall include property which would otherwise be prohibited property (within the meaning of section 1103(c)) except for the application of section 4(c)(11) of the Bank Holding Company Act of 1956."

Sec. 2. Section 1103 of the Internal Revenue Code of 1954 (relating to certain definitions) is amended by adding at the end thereof the following new subsection:

"(f) APPROPRIATE BANKING AGENCY.--For purposes of this part, the term 'appropriate banking agency' shall have the same definition as in section 2(h) of the Bank Holding Company Act of 1956."

ANALYSIS

BANK HOLDING COMPANY ACT OF 1969

The first section would designate the Act as the Bank Holding Company Act of 1969.

Section 2 is divided into eight subparagraphs, all of which would amend the Bank Holding Company Act of 1956. The amendments are as follows:

Paragraph (1) would amend section 2 containing definitions. It would redefine "bank holding company" to include any company which owns or controls one bank, and to include any company which in fact has power to control the management of any bank; it would provide a definition of "appropriate banking agency"; finally, it would make clear that the Act is not intended to have extraterritorial application.

Paragraph (2) would provide that any company which wishes to become a bank holding company may do so with the approval of the Comptroller of the Currency if it seeks to acquire a national bank, with the approval of the Federal Deposit Insurance Corporation if it seeks to acquire a nonmember insured bank, and with the approval of the Federal Reserve Board for any other bank acquisition. It would also require retroactive approval for any acquisition of one bank by any company (other than a bank holding company) made after March 1, 1969, and before the date of enactment.

Paragraph (3) would amend the Act to permit any company which under the Act would become a one-bank holding company to continue to engage in any businesses or activities in which it was engaged on June 30, 1968.

Paragraph (4) would amend section 4(c) in several respects. It would make a technical amendment to insure that bank holding companies would have to get the same type of approval as national banks for the acquisition of corporate shares that national banks are permitted to acquire. It would require federal approval for the acquisition after December 31, 1968, of the shares of any bank organized in a foreign country and engaged in the banking business outside the United States. It would permit one-bank holding companies to keep other companies which they owned on June 30, 1968, so long as those companies did not engage in new businesses. It would provide that foreign subsidiaries of bank holding companies could retain and acquire shares in other foreign corporations which do not operate in the United States. It would permit a one-bank holding company to retain or acquire shares in any company until June 30, 1971, provided that it disposes of its banks no later than that date. This period of time could be extended by the appropriate banking agency for an additional three years, but no extension could be for more than one year at a time.

Paragraph (4) would also permit bank holding companies to retain or acquire shares in other companies engaged exclusively in activities that have been determined by unanimous agreement of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board to be financial or related to finance in nature or of a fiduciary or insurance nature, and to be in the public interest when offered by a bank holding company. (This would not include engaging in the securities business.)

The retention or acquisition of shares under this authority would have to be approved by the appropriate banking agency, which would be the Comptroller of the Currency in the case of a bank holding company having primarily national banks, the Federal Deposit Insurance Corporation in the case of a bank holding company having primarily nonmember insured banks, and by the Federal Reserve in all other cases. The approval authority would have to be exercised under guidelines established by unanimous agreement of the three bank supervisory agencies. In the establishment of the guidelines consideration would have to be given to potential anticompetitive effects, and the guidelines could include limits based on size either of companies or banks involved or of communities involved. Also, in considering applications the banking agencies would have to apply anticompetitive and banking standards similar to those contained in the Bank Merger Act of 1960 as amended in 1966.

Paragraph (5) would make technical changes in the sections of the Bank Holding Company Act dealing with administration. All bank holding companies, including one-bank holding companies, would have to register with the Federal Reserve Board, but the Comptroller of the Currency and the Federal Deposit Insurance Corporation would each have access to necessary information, and each would be authorized to issue regulations and orders, to require reports under oath and to make examinations.

Paragraph (6) would extend criminal penalties contained in the Bank Holding Company Act of 1956, to violations of any regulation or order issued by any of the three bank supervisory agencies.

Paragraph (7) would provide for judicial review of any order issued by any of the three agencies.

Paragraph (8) would require that the Attorney General be notified of any application for the acquisition by a bank holding company of shares in any company other than a bank; and would require that each application approved be described in the agency's annual report.

Section 3 of the bill would prohibit tie-in arrangements which would condition the furnishing of any service on the obtaining of any other service. The district courts would have jurisdiction to restrain violations of this provision and suit for that purpose could be brought by the Attorney General.

Section 4 of the bill would amend sections 1102 and 1103 of the Internal Revenue Code of 1954 to provide generally

that corporations which become bank holding companies as a result of this bill may distribute on a pro rata basis to their shareholders, without tax consequences to such shareholders, either their nonbanking assets or all their banking assets acquired prior to March 1, 1969. This is very similar to the treatment afforded corporations which became bank holding companies as a result of the Bank Holding Company Act of 1956 or the amendments thereto enacted in 1966. Those companies which are not required by this bill to divest but which, nevertheless, choose to do so, are permitted to distribute their banking property tax-free if they comply with all the applicable requirements of sections 1101-1103, including obtaining a determination of the appropriate banking agency that such distribution is appropriate to effectuate the policies of the Bank Holding Company Act of 1956, as amended.

COMPARATIVE TYPE SHOWING CHANGES IN EXISTING LAW
MADE BY PROPOSED BILL

Changes in existing law proposed to be made by the bill are shown as follows, existing law proposed to be omitted is enclosed in brackets and new matter is underscored:

THE BANK HOLDING COMPANY ACT OF 1956, AS AMENDED

(70 Stat. 133; 12 U.S.C. 1841 et. seq.)

DEFINITIONS

Sec. 2. (a) "Bank holding company" means any company (1) that directly or indirectly owns, controls, or holds with power to vote 25 per centum or more of the voting shares of [each of two or more banks] any bank or of a company that is or becomes a bank holding company by virtue of this Act, or (2) that controls in any manner the election of a majority of the directors of [each of two or more banks] any bank, or (3) that has the power directly or indirectly to direct or cause the direction of the management or policies of any bank; and,

for the purposes of this Act, any successor to any such company shall be deemed to be a bank holding company from the date as of which such predecessor company became a bank holding company. Notwithstanding the foregoing, (A) no bank and no company owning or controlling voting shares of a bank shall be a bank holding company by virtue of such bank's ownership or control of shares in a fiduciary capacity[,] except where such shares are held under a trust that constitutes a company as defined in subsection (b) of this section, or as provided in paragraphs (2) and (3) of subsection (g) of this section, (B) no company shall be a bank holding company by virtue of its ownership or control of shares acquired by it in connection with its underwriting of securities if such shares are held only for such period of time as will permit the sale thereof on a reasonable basis, and (C) no company formed for the sole purpose of participating in a proxy solicitation shall be a bank holding company by virtue of its control of voting rights of shares acquired in the course of such solicitation.

(b) "Company" means any corporation, partnership, business trust, association, or similar organization, or any other trust unless by its terms it must terminate within twenty-five years or not later than twenty-one years and ten months after the death of individuals living on the effective date of the trust, but shall not include [(1)] any corporation the majority of the shares of which are owned by the United States or by any State[, or (2) any partnership].

(c) "Bank" means any institution that accepts deposits that the depositor has a legal right to withdraw on demand, but shall not include any organization operating under section 25 or section 25(a) of the Federal Reserve Act, or any organization that does not do business within the United States. "District bank" means any bank organized or operating under the Code of Law for the District of Columbia.

(d) "Subsidiary", with respect to a specified bank holding company, means (1) any company 25 per centum or more of whose voting shares (excluding shares owned by the United States or by any company wholly owned by the United States) is directly or indirectly owned or controlled by such bank holding company, or is held by it with power to vote; [or] (2) any company the election of a majority of whose directors is controlled in any manner by such bank holding company; or (3) any company, whose management or policies such bank holding company has the power directly or indirectly to cause the direction of or direct.

"Total banking assets held by its subsidiary banks" as used in subsection (h) of this section shall include assets held by the bank holding company if it is a bank.

(e) The term "successor" shall include any company which acquires directly or indirectly from a bank holding company shares of any bank, when and if the relationship between such company and

the bank holding company is such that the transaction effects no substantial change in the control of the bank or beneficial ownership of such shares of such bank. The Board may, by regulation, further define the term "successor" to the extent necessary to prevent evasion of the purposes of this Act.

(f) "Board" means the Board of Governors of the Federal Reserve System.

(g) For the purposes of this Act---

(1) shares owned or controlled by any subsidiary of a bank holding company shall be deemed to be indirectly owned or controlled by such bank holding company;

(2) shares held or controlled directly or indirectly by trustees for the benefit of (A) a company, (B) the shareholders or members of a company, or (C) the employees (whether exclusively or not) of a company, shall be deemed to be controlled by such company; and

(3) shares transferred after January 1, 1966, by any bank holding company (or by any company which, but for such transfer, would be a bank holding company) directly or indirectly to any transferee that is indebted to the transferor, or has one or more officers, directors, trustees, or beneficiaries in common with or subject to control by the transferor, shall be deemed to be indirectly owned or controlled by the transferor unless

the Board, after opportunity for hearing, determines that the transferor is not in fact capable of controlling the transferee.

(h) "Appropriate banking agency" means (1) The Comptroller of the Currency with respect to any bank holding company of which the total banking assets held by its subsidiary banks which are national banks or district banks exceed the total banking assets held by its subsidiary banks which are State-chartered members of the Federal Reserve System and exceed the total banking assets held by its subsidiary banks which are not members of the Federal Reserve System; (2) The Federal Deposit Insurance Corporation with respect to any bank holding company of which the total banking assets held by its subsidiary banks which are State-chartered non-members of the Federal Reserve System but whose deposits are insured by the Federal Deposit Insurance Corporation, exceed the total banking assets held by its subsidiary banks which are State-chartered members of the Federal Reserve System; (3) The Board with respect to any bank holding company not included under paragraphs (1) or (2) hereof.

[(h)] (i) The application of this Act and of section 23A of the Federal Reserve Act (12 U.S.C. 371), as amended, shall not be affected by the fact that a transaction takes place wholly or partly outside the United States or that a company is organized or operates outside the United States: *Provided, however,* That the prohibitions of section 4 of this Act shall not apply to shares of any company organized

under the laws of a foreign country that does not do any business within the United States, if such shares are held or acquired by a bank holding company that is principally engaged in [the banking] business outside the United States.

ACQUISITION OF BANK SHARES OR ASSETS

Sec. 3. (a) [It] A company which is not a bank holding company may, with the approval of the Comptroller of the Currency, become a bank holding company with respect to a national bank, or with the approval of the Federal Deposit Insurance Corporation, become a bank holding company with respect to a state bank whose deposits are insured by the Federal Deposit Insurance Corporation but which is not a member of the Federal Reserve System. Except as provided in the preceding sentence it shall be unlawful, except with the prior approval of the Board, (1) for any action to be taken that causes any company to become a bank holding company; (2) for any action to be taken that causes a bank to become a subsidiary of a bank holding company; (3) for any bank holding company to acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, such company will directly or indirectly own or control more than 5 per centum of the voting shares of such bank; (4) for any bank holding company or subsidiary thereof, other than a bank, to acquire all or substantially all of the assets of a bank; or (5) for any bank holding company to merge or

consolidate with any other bank holding company. It shall be unlawful after June 30, 1971, for any company which becomes a bank holding company as a result of the enactment of the Bank Holding Company Act of 1969, to retain direct or indirect ownership or control of any bank or bank holding company acquired after March 1, 1969, and prior to the date of enactment of such Act, or of 25 per centum or more of the voting shares of any bank or bank holding company any part of which was acquired after March 1, 1969, and prior to the date of enactment of the Bank Holding Company Act of 1969, unless such retention is approved in the manner prescribed in the two preceding sentences. Notwithstanding the foregoing this prohibition shall not apply to (A) shares acquired by a bank, (i) in good faith in a fiduciary capacity, except where such shares are held under a trust that constitutes a company as defined in section 2(b) and except as provided in paragraphs (2) and (3) of section 2(g), or (ii) in the regular course of securing or collecting a debt previously contracted in good faith, but any shares required after the date of enactment of this Act in securing or collecting any such previously contracted debt shall be disposed of within a period of two years from the date on which they were acquired; or (B) additional shares acquired by a bank holding company in a bank in which such bank holding company owned or controlled a majority of the voting shares prior to such acquisition.

(b) Upon receiving from a company any application for approval under this section, the Board shall give notice to the Comptroller of the Currency, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a national banking

association or a District bank, or to the appropriate supervisory authority of the interested State, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a State bank, and shall allow thirty days within which the views and recommendations of the Comptroller of the Currency or the State supervisory authority, as the case may be, may be submitted. If the Comptroller of the Currency or the State supervisory authority so notified by the Board disapproves the application in writing within said thirty days, the Board shall forthwith give written notice of that fact to the applicant. Within three days after giving such notice to the applicant, the Board shall notify in writing the applicant and the disapproving authority of the date for commencement of a hearing by it on such application. Any such hearing shall be commenced not less than ten nor more than thirty days after the Board has given written notice to the applicant of the action of the disapproving authority. The length of any such hearing shall be determined by the Board, but it shall afford all interested parties a reasonable opportunity to testify at such hearing. At the conclusion thereof, the Board shall by order grant or deny the application on the basis of the record made at such hearing.

(c) [The Board shall not approve] Neither the Comptroller of the Currency, the Federal Deposit Insurance Corporation, nor the Board shall approve --

(1) any acquisition or merger or consolidation under this section which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States, or

(2) any other proposed acquisition or merger or consolidation under this section whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any manner would be in restraint of trade, unless it finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

In every case, [the Board shall take] there shall be taken into consideration the financial and managerial resources and future prospects of the company or companies and the banks concerned, and the convenience and needs of the community to be served.

(d) Notwithstanding any other provision of this section, no application shall be approved under this section which will permit any bank holding company or any subsidiary thereof to acquire, directly or indirectly, any voting shares of, interest in, or all or substantially all of the assets of any additional bank located outside of the State in which the operations of such bank holding company's banking subsidiaries were principally conducted on the

effective date of this amendment or the date on which such company became a bank holding company, whichever is later, unless the acquisition of such shares or assets of a State bank by an out-of-State bank holding company is specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication. For the purposes of this section, the State in which the operations of a bank holding company's subsidiaries are principally conducted is that State in which total deposits of all such banking subsidiaries are largest.

INTERESTS IN NONBANKING ORGANIZATIONS

Sec. 4. (a) Except as otherwise provided in this Act, no bank holding company shall---

(1) after the date of enactment of this Act acquire direct or indirect ownership or control of any voting shares of any company which is not a bank, or

(2) after two years from the date as of which it becomes a bank holding company, or, in the case of any company that has been continuously affiliated since May 15, 1955, with a company which was registered under the Investment Company Act of 1940, prior to May 15, 1955, in such a manner as to constitute an affiliated company within the meaning of that Act, after

December 31, 1978, retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company or engage in any [business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares] businesses or activities other than (i) those of banking or of managing or controlling banks or of furnishing services to or performing services for any bank with respect to which it is a bank holding company, (ii) those specified under clause (8) of subsection (c) of this section subject to all the conditions specified therein, or (iii) those in which it was lawfully engaged on June 30, 1968, and in which it has been continuously engaged since that date.

[Board]
The/appropriate banking agency is authorized, upon application by a bank holding company, to extend the period referred to in paragraph (2) above from time to time as to such bank holding company for not more than one year at a time, if, in its judgment, such an extension would not be detrimental to the public interest, but no such extensions shall in the aggregate exceed three years.

(b) After two years from the date of enactment of this Act, no certificate evidencing shares of any bank holding company shall bear any statement purporting to represent shares of any other company except a bank or bank holding company, nor shall the ownership, sale, or transfer of shares of any bank holding company be conditioned in any manner whatsoever upon the ownership, sale, or transfer of shares of any other company except a bank or bank holding company.

(c) The prohibitions in this section shall not apply to any bank holding company which is a labor, agricultural, or horticultural organization and which is exempt from taxation under section 501 of the Internal Revenue Code of 1954, and such prohibitions shall not, with respect to any other bank holding company, apply to---

(1) shares of any company engaged or to be engaged solely in one or more of the following activities: (A) holding or operating properties used wholly or substantially by any banking subsidiary of such bank holding company in the operations of such banking

subsidiary or acquired for such future use; or (B) conducting a safe deposit business; or (C) furnishing services to or performing services for such bank holding company or its banking subsidiaries; or (D) liquidating assets acquired from such bank holding company or its banking subsidiaries or acquired from any other source prior to May 9, 1956, or the date on which such company became a bank holding company, whichever is later;

(2) shares acquired by a bank in satisfaction of a debt previously contracted in good faith, but such bank shall dispose of such shares within a period of two years from the date on which they were acquired, except that the Board is authorized upon application by such bank holding company to extend such period of two years from time to time as to such holding company for not more than one year at a time if, in its judgment, such an extension would not be detrimental to the public interest, but no such extensions shall extend beyond a date five years after the date on which such shares were acquired;

(3) shares acquired by such bank holding company from any of its subsidiaries which subsidiary has been requested to dispose of such shares by any Federal or State authority

having statutory power to examine such subsidiary, but such bank holding company shall dispose of such shares within a period of two years from the date on which they were acquired;

(4) shares held or acquired by a bank in good faith in a fiduciary capacity, except where such shares are held under a trust that constitutes a company as defined in section 2(b) and except as provided in paragraphs (2) and (3) of section 2(g);

[(5) shares which are of the kinds and amounts eligible for investment by national banking associations under the provisions of section 5136 of the Revised Statutes;]

(5) shares acquired and held in the manner, kinds and amounts specifically permissible for national banks under provisions of Federal statute law and regulations issued pursuant thereto;

(6) shares of any company which do not include more than 5 per centum of the outstanding voting shares of such company;

(7) shares of an investment company which is not a bank holding company and which is not engaged in any business other than investing in securities, which securities do not include more than 5 per centum of the outstanding voting shares of any company;

[(8) shares of any company all the activities of which are or are to be of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, and on the basis of the record made at such hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act;]

(8) shares retained or acquired with the approval of the appropriate banking agency in any company (other than a company engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes or other securities) engaged exclusively in activities that have been determined by unanimous agreement of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board (1) to be financial or related to finance in nature or of a fiduciary or insurance nature, and (2) to be in the public interest when offered by a bank holding company or its subsidiaries.

No retention nor acquisition may be approved under this clause except pursuant to and in accordance with guidelines established by unanimous agreement of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board. In establishing such guidelines consideration shall be given to any potential anti-competitive effects of a bank holding company engaging in any

proposed type of activity, and limitations on permissible activities may be established on the basis of any relevant factors, including size of bank holding company or its subsidiary banks, the size of any company to be acquired or retained, and the size of communities in which such activities should be permitted.

The appropriate banking agency shall not approve -

(a) any retention or acquisition under this clause which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize any part of trade or commerce in any part of the United States, or

(b) any retention or acquisition under this clause whose effect in any line of commerce in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade.

In every case, the appropriate banking agency shall take into consideration the financial and managerial resources and future prospects of the company or companies and the banks concerned, and the convenience and needs of the community to be served.

[(9) shares of any company which is or is to be organized under the laws of a foreign country and which is or is to be engaged principally in the banking business outside the United States; or]

(9) shares lawfully acquired and owned on December 31, 1968, in any company organized under the laws of a foreign

country and which is engaged principally in banking or other financial operations outside the United States;

(10) shares lawfully acquired and owned prior to May 9, 1956, by a bank which is a bank holding company, or by any of its wholly owned subsidiaries[.];

(11) shares lawfully acquired and owned on June 30, 1968, by any company (or subsidiary thereof) which becomes a bank holding company as a result of the enactment of the Bank Holding Company Act of 1969, so long as the company issuing such shares is not engaging and does not engage in any business or activities other than those in which it or the bank holding company (or its subsidiaries) was lawfully engaged on June 30, 1968;

(12) shares lawfully acquired and owned by a subsidiary of a bank holding company if both the subsidiary and the company issuing the shares are organized under the laws of a foreign country and do not operate in the United States; or

(13) shares retained or acquired by any company which becomes a bank holding company as a result of the enactment of the Bank Holding Company Act of 1969, but which ceases to be a bank holding company no later than June 30, 1971, or such other date not later than June 30, 1974, as may be fixed by the appropriate banking agency in the manner prescribed in subsection (a) of this section.

(d) With respect to shares which were not subject to the prohibitions of this section as originally enacted by reason of any exemption with respect thereto but which were made subject to such prohibitions by the subsequent repeal of such exemption, no bank holding company shall retain direct or indirect ownership or control of such shares after five years from the date of the repeal of such exemption, except as provided in paragraph (2) of subsection (a). Any bank holding company subject to such five-year limitation on the retention of nonbanking assets shall endeavor to divest itself of such shares promptly and such bank holding company shall report its progress in such divestiture to the Board two years after repeal of the exemption applicable to it and annually thereafter.

ADMINISTRATION

Sec. 5. (a) Within one hundred and eighty days after the date of enactment of this Act, or within one hundred and eighty days after becoming a bank holding company, whichever is later, each bank holding company shall register with the Board on forms prescribed by the Board, which shall include such information with respect to the financial condition and operations, management, and intercompany relationships of the bank holding company and its subsidiaries, and related matters, as the Board may deem necessary or appropriate to carry out the purposes of this Act. The Board may, in its discretion, extend the time within which a bank holding company shall register and file the

requisite information. Information received by the Board pursuant to this subsection shall be made available to the Comptroller of the Currency and the Federal Deposit Insurance Corporation to the extent necessary to enable them to properly perform the functions assigned to them under this Act.

(b) The Board is authorized to issue such regulations and orders as may be necessary to enable it to administer and carry out the purposes of this Act and prevent evasions thereof. The Comptroller of the Currency and the Federal Deposit Insurance Corporation are each authorized to issue such regulations and orders as may be necessary to enable them to properly perform the functions assigned to them under this Act.

(c) The Board from time to time may require reports under oath to keep it informed as to whether the provisions of this Act and such regulations and orders issued thereunder have been complied with; and the Board may make examinations of each bank holding company and each subsidiary thereof, the cost of which shall be assessed against, and paid by, such holding company. The Board shall, as far as possible, use the reports of examinations made by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the appropriate State bank supervisory authority for the purposes of this section. The authority granted herein to the Board is hereby granted also to the Comptroller of the

Currency and the Federal Deposit Insurance Corporation to the extent necessary to enable them to properly perform the functions assigned to them under this Act.

(d) Before the expiration of two years following the date of enactment of this Act, and each year thereafter in the Board's annual report to the Congress, the Board shall report to the Congress the results of the administration of this Act, stating what, if any, substantial difficulties have been encountered in carrying out the purposes of this Act, and any recommendations as to changes in the law which in the opinion of the Board would be desirable.

RESERVATION OF RIGHTS TO STATES

Sec. 7. The enactment by the Congress of the Bank Holding Company Act of 1956 shall not be construed as preventing any State from exercising such powers and jurisdiction which it now has or may hereafter have with respect to banks, bank holding companies, and subsidiaries thereof.

PENALTIES

Sec. 8. Any company which willfully violates any provision of this Act, or any regulation or order issued [by the Board] pursuant thereto, shall upon conviction be fined not more than $1,000 for each day during which the violation continues. Any individual who willfully participates in a violation of any provision of this Act shall upon conviction be fined not more than $10,000 or imprisoned not more than

one year, or both. Every officer, director, agent, and employee of a bank holding company shall be subject to the same penalties for false entries in any book, report, or statement of such bank holding company as are applicable to officers, directors, agents, and employees of member banks for false entries in any books, reports, or statements of member banks under section 1005 of title 18, United States Code.

JUDICIAL REVIEW

Sec. 9. Any party aggrieved by an order [of the Board] issued under this Act may obtain a review of such order in the United States Court of Appeals within any circuit wherein such party has its principal place of business, or in the Court of Appeals in the District of Columbia, by filing in the court, within thirty days after the entry of the [Board's] order, a petition praying that the order [of the Board] be set aside. A copy of such petition shall be forthwith transmitted to the [Board] agency issuing the order by the clerk of the court, and thereupon the [Board] agency shall file in the court the record made before [the Board] it, as provided in section 2112 of title 28, United States Code. Upon the filing of such petition the court shall have the jurisdiction to affirm, set aside, or modify the order [of the Board] and to require the [Board] agency issuing such order to take such action with regard to the matter under review as the court deems proper. The findings of the [Board] agency as to the facts, if supported by substantial evidence, shall be conclusive.

*   *   *   *   *

SAVING PROVISION

Sec. 11. (a) Nothing herein contained shall be interpreted or construed as approving any act, action, or conduct which is or has been or may be in violation of existing law, nor shall anything herein contained constitute a defense to any action, suit, or proceeding pending or hereafter instituted on account of any prohibited antitrust or monopolistic act, action, or conduct, except as specifically provided in this section.

(b) The Board shall immediately notify the Attorney General of any approval by it pursuant to this Act of a proposed acquisition, merger, [or] consolidation <u>or other</u> transaction, <u>by which a bank holding company acquires a bank (hereinafter referred to as a "bank acquisition")</u>, and such [transaction] <u>a bank acquisition</u> may not be consummated before the thirtieth calendar day after the date of approval by the Board. Any action brought under the antitrust laws arising out of an [acquisition, merger, or consolidation transaction] <u>bank acquisition</u> shall be commenced within such thirty-day period. The commencement of such an action shall stay the effectiveness of the Board's approval unless the court shall otherwise specifically order. In any such action, the court shall review de novo the issues presented. In any judicial proceeding attacking any [acquisition, merger, or consolidation transaction] <u>bank acquisition</u> approved pursuant to this Act on the ground that such transaction alone and of itself constituted a violation of any antitrust laws other than section 2 of the Act of July 2, 1890 (section 2 of the Sherman Antitrust Act, 15 U.S.C. 2), the standards applied by the court shall be identical

with those that the Board is directed to apply under section 3 of this Act. Upon the consummation of an [acquisition, merger, or consolidation transaction] bank acquisition in compliance with this Act and after the termination of any antitrust litigation commenced within the period prescribed in this section, or upon the termination of such period if no such litigation is commenced therein, the transaction may not thereafter be attacked in any judicial proceedings on the ground that it alone and of itself constituted a violation of any antitrust laws other than section 2 of the Act of July 2, 1890 (section 2 of the Sherman Antitrust Act, 15 U.S.C. 2), but nothing in this Act shall exempt any bank holding company involved in such a transaction from complying with the antitrust laws after the consummation of such transaction.

(c) In any action brought under the antitrust laws arising out of any acquisition, merger, or consolidation transaction approved by the Board pursuant to this Act, the Board and any State banking supervisory agency having jurisdiction within the State involved, may appear as a party of its own motion and as of right, and be represented by its counsel.

(d) Any acquisition, merger, or consolidation of the kind described in section 3(a) of this Act which was consummated at any time prior or subsequent to May 9, 1956, and as to which no litigation was initiated by the Attorney General prior to the date of enactment of this amendment, shall be conclusively presumed not to have been in violation of any antitrust laws other than section 2 of the Act

of July 2, 1890 (section 2 of the Sherman Antitrust Act, 15 U.S.C. 2).

(e) Any court having pending before it on or after the date of enactment of this amendment any litigation initiated under the antitrust laws by the Attorney General with respect to any acquisition, merger, or consolidation of the kind described in section 3(a) of this Act shall apply the substantive rule of law set forth in section 3 of this Act.

(f) For the purposes of this section, the term "antitrust laws" means the Act of July 2, 1890 (the Sherman Antitrust Act, 15 U.S.C. 1-7), the Act of October 15, 1914 (the Clayton Act, 15 U.S.C. 12-27), and any other Acts in pari materia.

(g) The appropriate banking agency shall notify the Attorney General of any application received by it under section 4(c)(8) of this Act.

(h) Each appropriate banking agency shall include in its annual report to the Congress a description and a statement of the reasons for approval of each transaction approved by it under section 4(c)(8) of this Act during the period covered by the report.

SEPARABILITY OF PROVISIONS

Sec. 12. If any provision of this Act, or the application of such provision to any person or circumstance, shall be held invalid,

the remainder of the Act, and the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

INTERNAL REVENUE CODE OF 1954

SEC. 1102. * * *

* * * *

(f) CERTAIN OTHER BANK HOLDING COMPANIES.--This part shall apply in respect of any company which becomes a bank holding company as a result of the enactment of the Bank Holding Company Act of 1969, with the following modifications:

(1) Subsections (a)(3) and (b)(3) of section 1101 shall not apply.

(2) Subsections (a)(1) and (2) and (b)(1) and (2) of section 1101 shall apply in respect of distributions to shareholders of the distributing bank holding corporations only if all distributions to each class of shareholders which are made--

(A) after March 1, 1969, and

(B) on or before the date on which the appropriate banking agency (as defined in section 1103(f)) makes its final certification under section 1101 (e),

are pro rata. For purposes of the preceding sentence, any

redemption of stock made in whole or in part with property other than money shall be treated as a distribution.

(3) In applying subsections (c) and (d) of section 1101 and subsection (b) of 1103, the date "March 1, 1969" shall be substituted for the date "May 15, 1955."

(4) In applying subsection (d)(3) of section 1101, the date of enactment of this subsection shall be treated as the date of enactment of this part.

(5) In applying this part, the references to the Bank Holding Company Act of 1956 shall be treated as referring to such Act as amended by the Bank Holding Company Act of 1969.

(6) In applying this part, the term "Board" shall be treated as referring to the appropriate banking agency (as defined in section 1103(f)).

(7) In applying subsections (b) and (c)(3) of section 1101, the term "prohibited property" shall include property which would otherwise be prohibited property (within the meaning of section 1103(c)) except for the application of section 4(c)(11) of the Bank Holding Company Act of 1956.

SEC. 1103. * * *

* * * *

(f) APPROPRIATE BANKING AGENCY. -- For purposes of this part,

the term "appropriate banking agency" shall have the same definition as in section 2(h) of the Bank Holding Company Act of 1956.

NEW LAW

BANK HOLDING COMPANY ACT OF 1969

Sec. 3. (a) No bank holding company or subsidiary of a bank holding company may in any manner extend credit, lease or sell property of any kind, or furnish any service, or fix or vary the consideration for any of the foregoing, on the condition, agreement, or understanding

(A) that the customer shall obtain some other credit, property, or service from the bank holding company or subsidiary of the bank holding company; or

(B) that the customer shall not obtain credit, property, or services from a competitor of the bank holding company or subsidiary of the bank holding company.

(b) The district courts of the United States have jurisdiction to prevent and restrain violations of subsection (a) of this section, and it is the duty of the United States attorneys, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. The proceedings may be by way of a petition setting forth the case and praying that the violation be enjoined or otherwise prohibited. When the parties complained of have been duly notified of the petition, the court shall proceed, as soon as may be, to the hearing and determination of the case. While the petition is pending, and before final decree, the court may at any time make such temporary restraining order or prohibition as it deems just in the premises. Whenever it appears to the court that the ends of justice require that other parties be brought before it, the court may cause them to be summoned whether they reside

in the district in which the court is held or not, and subpoenas to that end may be served in any district by the marshal thereof.

(c) In any action brought by or on behalf of the United States under subsection (a) of this section, subpoenas for witnesses may run into any district, but no writ of subpoena may issue for witnesses living out of the district in which the court is held at a greater distance than one hundred miles from the place of holding the same without the permission of the trial court being first had upon proper application and cause shown.

(d) Any person who is injured in his business or property by reason of anything forbidden in subsection (a) of this section may sue therefor in any district court of the United States in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

(e) Any person, firm, corporation, or association may sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by violation of subsection (a) of this section, under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings. Upon the execution of proper bond against damages for an injunction improvidently granted and a showing that the danger of irreparable loss or damage is immediate, a preliminary injunction may issue.

(f) Any action to enforce any cause of action under this section shall be forever barred unless commenced within four years after the cause of action accrued.

TREASURY DEPARTMENT

SUMMARY OF THE BACKGROUND OF DEVELOPMENT OF THE ONE-BANK HOLDING COMPANY PROBLEM AND A GENERAL OUTLINE OF THE PRINCIPLE POINTS TO BE INCLUDED IN A LEGISLATIVE RESOLUTION OF THIS PROBLEM

BACKGROUND

In 1956 the Congress enacted and President Eisenhower approved the Bank Holding Company Act of 1956, providing the first comprehensive Federal regulation of all corporations holding 25 percent or more of the stock of two or more commercial banks. The regulatory authority provided by that Act is vested in the Federal Reserve Board. The Act requires (1) that all holding companies holding 25 percent or more of the stock of two or more commercial banks must register with the Federal Reserve Board; (2) that all such registered companies divest themselves of control of all non-banking and non-bank-related corporations; and (3) that all registered companies file annual reports with and submit to examination by the Federal Reserve Board.

By definition the 1956 Act exempts from its coverage any company holding 25 percent or more of the stock of one commercial bank. In 1956 the Federal Reserve Board objected to this definitional exemption and in the 89th Congress (1965-1966) the Board sought unsuccessfully to have this "loophole" closed.

Thus, at present, there is no Federal statutory proscription on non-banking holdings or acquisitions by one-bank holding company (OBHC's). By the same token there is no ban against the acquisition of one bank by a commercial or industrial company or by a conglomerate.

EMERGENCE OF THE PROBLEM

In 1955 there were 117 OBHC's controlling bank deposits of about $12 billion. Ten years later the number of such companies had grown significantly to 550. But that this growth had occurred primarily in the form of small companies is reflected in the fact that the bank deposit figure had risen to a total of only $15 billion.

The fact that the average bank deposit figure for OBHC's as of 1965 was less than $30 million supports the Congressional viewpoint in 1966 that the one-bank "loophole" in the Bank Holding Company Act had not given birth to any dangerous transformation in our economic structure.

However, the past 12 months have produced dramatic changes. Taking into consideration announcements of intention to create OBHC's, the figures at the end of 1968 showed growth to almost 800 companies controlling bank deposits in excess of $100 billion.

Two principal forces are responsible for the sharp expansion of banking assets controlled by unregulated holding companies. Certainly the most influential force, to date, has been the move by many of the nation's major multi-billion dollar banks to create bank-dominated OBHC's. Among the many motivating factors are (1) a more efficient corporate structure for the application of modern management techniques; (2) a more flexible format for the offering of financially related services; and (3) a means for offering certain financial services through affiliates and thus avoiding legal challenge from competitors should those identical services be established departmentally within the bank. (In this last respect, it should be noted that commercial banks are currently being challenged on the sale of computer services, travel agency operations, action as insurance agents, and the sale of shares in a mutual fund.)

The other major force in the shift of bank assets to the control of unregulated holding companies has been "tender offer" acquisitions of banks by other corporations, including conglomerates. While the number of such acquisitions is not yet large, the trend is accelerating and the potential to effect significant change in our economic structure is great. In fact, this mixing of non-financial activities with financial activities was one of the principal concerns underlying the Bank Holding Company Act of 1956.

THE PROBLEM

While the vast majority of the new large bank-dominated OBHC's have expressed an intention to limit their activities to banking on financially related services (leasing, factoring, mortgage servicing, data processing, etc.), there is a clear and present danger that bank acquisitions by industrial conglomerates could force a change in these intentions. Should this occur, it

seems predictable that our economy could shift within the next 5 to 10 years from one in which economic power is rather widely dispersed into one dominated by 50 or so major power centers, each comprising a major industrial-financial complex.

Also disturbing is the more immediate destructive impact on banking which can result from an increase in "tender offers" for banks. Any significant increase in the number of such acquisitions has an ominous potential for causing bank management to give undue attention to price-earnings ratios with a concomitant shift into speculative, high-yielding loans and investments.

The protection of sound banking practice and the preservation of our basic economic structure would therefore seem to demand the immediate need for reasonable legal restraints on the formation and operation of one-bank holding companies.

FACTORS TO CONSIDER IN FORMULATION OF LEGISLATIVE POLICY

Small Conglomerate Companies

Many of the small OBHC's in existence in 1956, as well as many formed thereafter, are in fact conglomerate in nature. For example, a lumber yard, an insurance agency, and a bank may be operated within a small holding company structure. There is no evidence that these small conglomerates have caused any economic abuses. New legislation should accommodate the existence of these "traditional" OBHC's.

Large Conglomerate Companies

The transformation of conglomerate corporations into OBHC's poses the most serious economic threat and should be prohibited. However, since the banks thus far acquired are not large, there would seem to be no clear need to require divestiture of the banking holdings provided the company does not continue to diversify.

Bank Dominated One-Bank Holding Companies

For many banks seeking to offer broadly-based, low-cost financial services to the public the holding company structure is unquestionably an efficient and flexible format which should continue to remain available. Thus legislation should retain this option to establish a financial congeneric under adequate Federal regulation while at the same time prohibiting the evolution into a bank-dominated conglomerate.

Multiple Bank Holding Companies

These are the companies currently subject to the 1956 Act. Obviously any changes in that Act making it applicable to OBHC's must be carried out in a manner assuring full parity of treatment as between these two general types of bank dominated holding companies. Accordingly, the existing registered companies should be granted the same flexibility as to their right to acquire, establish, and operate affiliates to provide financially related services.

Other Banks

Nothing in the legislation should have the implied effect of restricting the ability of individual banks to offer financially related services similar to those which might be possible for a bank holding company. Our rapidly evolving economy with its application of new technology ideas and techniques, such as the electronic transfer of payments, demand that all banks be accorded such flexibility of action as may be accorded bank holding companies.

Partnerships

In recent years, partnerships have been established to acquire and operate banks; they are exempt from the provisions of the Bank Holding Company Act. The new legislation should cover partnerships, both to regulate their bank acquisitions and to bring their non-bank affiliations under Federal scrutiny, just as in the case of corporations.

Activities Now Prohibited to Banks Under Statute

Nothing in the legislation should be construed as permitting commercial banks, directly or through affiliates, to offer services now prohibited by law. The most important of these activities relate to the securities business. In particular, the new legislation would have no significance for the proscriptions now provided for in the Glass-Steagall Act, the Banking Act of 1933 and 1935, or the various securities acts.

Applicability of Sherman and Clayton Acts to Congeneric Acquisitions

Enactment of the new legislation should in no way be implied as diluting the authority of the Justice Department in its anti-trust enforcement under the Sherman and Clayton Acts. It should be made clear that any action by a Federal banking agency in approving acquisition by a registered bank holding company shall in no sense be viewed as estopping anti-trust action by the Justice Department. The legislation would require the banking agencies immediately to notify the Justice Department as to the receipt of any application for acquisition or creation *de novo* of a service affiliate by a bank holding company.

In addition, the banking agencies should be required to consider competitive factors in approving acquisitions or *de novo* addition of activities.

Tie-In Sales

"Tie-in sales" between any bank or other affiliate of a bank holding company should be prohibited.

Definition of a Registered Bank Holding Company

Inasmuch as control of a bank whose stock is widely held might be effected with considerably less than 25 percent of the stock ownership, the legislation should strengthen the authority of the banking agencies to rule, on the basis of substantial evidence, that control in fact may exist even though less than 25 percent stock ownership exists.

GIVEN THESE FACTORS OF CONSIDERATION, THE FOLLOWING ARE THE KEY PROVISIONS OF THE ADMINISTRATION PROPOSAL ON ONE-BANK HOLDING COMPANIES:

1. Expand the definition of the Bank Holding Company Act of 1956 to include:

   (a) any company owning 25 percent or more of the shares of any one commercial bank;

   (b) any company -- regardless of the percentage of stock owned -- which has the power directly or indirectly to direct or cause the direction of the management on policies of any bank.

   (c) partnerships -- by amending the Act's definition of "company" to include partnerships.

   (d) trusts which meet the ownership tests and which have certain other characteristics.

2. Substitute a new Congressional mandate for the current provision of subparagraph 4(c)(8) of the 1956 Act, which now permits registered bank holding companies to acquire "shares of any company, all the activities of which are of a financial, fiduciary, or insurance nature and which the [Federal Reserve] Board ... has determined to be so closely related to the business of banking ... as to be proper incident thereto ..."

   The amendment of 4(c)(8) would permit registered bank holding companies to acquire shares of any company engaged exclusively in activities that have been determined by the unanimous agreement of the three Federal banking agencies "to be financial or related to finance in nature or of a fiduciary or insurance nature ..."

3. (a) procedurally the mandate of 4(c)(8) would be implemented through guidelines established by the three Federal banking agencies on the basis of unanimous agreement.

   (b) in establishing guidelines for accepted activities, the three banking agencies would have to agree unanimously that any particular activity was "in the public interest when offered by a bank-holding company on its subsidiaries".

(c) specifically excluded from the list of accepted activities would be any company "engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes or other securities...

(d) in establishing the guidelines the three agency group would be obliged to give consideration to any anticompetitive effects which might result from the approval of any particular activity for a bank holding company or its subsidiaries. Additionally, the proposed statute directs the banking agencies in considering a specific application for an acquisition or creation de novo not to approve any application that would substantially lessen competition.

(e) the authority to administer those guidelines on a case by case basis would be dispersed among the three Federal banking agencies along traditional jurisdictional lines. That is, the Comptroller of the Currency would have supervisory responsibility for the 4(c)(8) activities for all registered bank holding companies in which the dominant banking assets were of national banks; the Federal Reserve Board, for those in which the dominant banking assets were of State member banks of the Federal Reserve System; and the FDIC, for those in which the dominant banking assets were of insured state banks not members of the Federal Reserve System.

(Note: This approach provides for uniformity of standards in administration of the new Act without disrupting the jurisdictional areas of Federal bank supervision and without the forced consolidation of the agencies, a step which Congress has refused to take. In fact, with the exception of the Bank Holding Company Act of 1956, all bank regulatory statutes of recent years have in fact dispersed the supervisory authority in this way.

(This provision can be viewed as a statutory extension of the efforts of the past and current administrations to coordinate bank supervision, within the three agency approach. The Coordinating Committee on Bank Supervision which was established by President Johnson has been effectively working for coordinated actions without forced consolidation.)

4. Require the three Federal banking agencies to file annual reports with the Congress concerning their administration of 4(c)(8).

   (Note: It is recognized that the powers granted the agencies to interpret 4(c)(8) would be significant, and that their interpretation should be subject to continuing Congressional scrutiny. The requirement of unanimous agreement among the three agencies and annual reports to the Congress should assure that the mandate is interpreted according to Congressional intent.)

5. Provide a grandfather clause with an effective date of June 30, 1968. This means that the structure of a one-bank holding company as of that date would be left undisturbed with no divestitures required. However, all acquisitions by any registered bank holding company after the effective date of the grandfather clause would require the prior approval of the relevant Federal banking agency, and this approval would have to be consistent with the new mandate in 4(c)(8) as interpreted by the joint interagency banking group.

   (Note: This means that a conglomerate corporation that already owns one bank as of June 30, 1968, would in effect be prevented from any acquisitions in new lines of activity in the future, which could not meet the test of the amended 4(c)(8), and would have to divest any such acquisitions that occurred between June 30, 1968 and the date of enactment of the bill.)

6. Continue the authority presently provided for in the 1956 Act for the Federal Reserve Board to be the sole regulator with respect to bank acquisitions by multi-bank holding companies.

(Note: Although the financial or financially-related non-bank acquisitions under 4(c)(8) would be dispersed among the three agencies along traditional jurisdictional lines, it is believed that, in keeping with the desire not to disturb the basic existing regulatory structure in this bill, it is better to permit the Federal Reserve to continue to administer this part of the Act, which it has done since 1956.)

7. Explicitly prohibit "tie-in sales" between any bank or other affiliate of a bank holding company. Enforcement authority of this provision should be vested in the Justice Department and the relevant banking agency.

8. Require the Federal banking agencies immediately to notify the Justice Department as to the receipt of any application for acquisition or creation _de novo_ of a service affiliate by a registered bank holding company.

   This proposal would facilitate timely Justice Department intervention if the proposed acquisition appeared to violate the anti-trust provisions of either the Sherman or Clayton Acts.

9. Authority is included permitting a one-bank holding company to retain or acquire shares in _any_ company until June 30, 1971, provided that it disposes of its bank no later than that date. This grace period is designed to permit a diversified company, which wishes to continue to diversify, to have a reasonable period of time in which to dispose of its bank holdings. With the specific approval of the appropriate banking agency this grace period could be extended for up to an additional three years, but no approved extension could be for more than one year at a time.

10. Provision is made for equitable tax treatment of those companies which divest either banking or nonbanking assets in keeping with the requirements and policies of the Act. Companies would be permitted to distribute the assets of such a divestiture without tax consequences provided the assets are fully distributed among shareholders on a pro rata basis. This treatment is similar to that provided in the 1956 Bank Holding Company Act.

COMPARISON OF ADMINISTRATION, PATMAN AND RROXMIRE BILLS ON BANK HOLDING COMPANIES

Definitions

Patman Bill - H.R. 6778 — Would define bank holding company to mean any company that has control over any bank or bank holding company.

Proxmire Bill - S. 1052 — Would define bank holding company to mean any company that owns or controls 25% or more of the stock of any bank, or that controls the election of a majority of the directors of any bank.

Administration Bill - Would define bank holding company to include any company that owns or controls 25% or more of the stock of any bank, or that controls the election of a majority of the directors of any bank, or that has the power to direct the management or policies of any bank.

Partnerships

Patman Bill - Would include partnerships as bank holding companies.

Proxmire Bill - Would include partnerships as bank holding companies.

Administration Bill - Would include partnerships as bank holding companies.

Acquisition of Bank Shares or Assets

Patman Bill - A company which desires to acquire a controlling interest in a bank or a bank holding company would have to secure

the approval of the Board of Governors of the Federal Reserve System.

Proxmire Bill - A company which desires to acquire controlling interest in a bank or bank holding company, would have to secure the approval of the Board of Governors of the Federal Reserve System.

Administration Bill - A company which desires to acquire a controlling interest in a bank or a bank holding company would have to secure the approval of the appropriate banking agency which would be the Comptroller of the Currency in the case of a national bank, the FDIC in the case of an insured non-member bank, and the Board of Governors of the Federal Reserve System in the case of all other banks.

Retroactive Approval

Patman Bill - No provision

Proxmire Bill - No provision

Administration Bill - Retroactive approval would have to be secured for the acquisition by any company of any bank or bank holding company acquired after March 1, 1969 and before the date of enactment.

Divestiture

Patman Bill - No provision. Under the Bank Holding Company Act of 1956 a company which becomes a bank holding company must within two years (with possible extensions to five years) divest itself of its non-banking assets.

Proxmire Bill - A company which becomes a one-bank holding company would be permitted to continue to engage in any business or activities, or to retain shares in any company, in which it was lawfully engaged on or which it lawfully held prior to January 1, 1969, provided that neither the company nor any of its subsidiaries engages in any additional activities.

Administration Bill - A company which becomes a one-bank holding company would be permitted to continue to engage in any business or activities, or to retain shares in any company, in which it was lawfully engaged on or which it lawfully held on June 30, 1968, provided that neither the company nor any of its subsidiaries engages in any additional activities.

Bank Mergers

Patman Bill - Would require Federal Reserve approval in addition to usual supervisory approval for a bank merger resulting in the acquisition of bank assets by a subsidiary bank of a bank holding company.

Proxmire
Bill - No comparable provision.

Administration
Bill - No comparable provision.

Exemptions

Patman Bill - Would eliminate exemptions from the prohibitions against owning non-banking assets for labor, agriculture, or horticultural organizations exempt from taxation.

Proxmire
Bill - No comparable provision.

Administration
Bill - No comparable provision.

Financially Related Activities

Patman Bill - Would make only a procedural change in present law which permits bank holding companies to own shares in companies whose activities are of a financial, fiduciary, or insurance nature, determined to be so closely related to banking as to be a proper incident thereto.

Proxmire
Bill - Does not change present law.

Administration
Bill - Would permit bank holding companies to own shares in any company engaged in activities determined by unanimous agreement of the three bank supervisory agencies to be

FOR IMMEDIATE RELEASE MARCH 24, 1969

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT
ON BANK HOLD COMPANIES

The Secretary of the Treasury, with my approval, has today transmitted to the Congress proposed legislation on the further regulation of bank holding companies.

Legislation in this area is important because there has been a disturbing trend in the past year toward erosion of the traditional separation of powers between the suppliers of money -- the banks -- and the users of money -- commerce and industry.

Left unchecked, the trend toward the combining of banking and business could lead to the formation of a relatively small number of power centers dominating the American economy. This must not be permitted to happen; it would be bad for banking, bad for business, and bad for borrowers and consumers.

The strength of our economic system is rooted in diversity and free competition; the strength of our banking system depends largely on its independence. Banking must not dominate commerce or be dominated by it.

To protect competition and the separation of economic powers, I strongly endorse the extension of Federal regulation to one-bank holding companies and urge the Congress to take prompt and appropriate action.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
sday, March 25, 1969.

RESULTS OF OFFERING OF $1.8 BILLION STRIP OF TREASURY BILLS

The Treasury Department announced that tenders for additional amounts of six
ies of Treasury bills to an aggregate amount of $1,800,000,000, or thereabouts,
be issued March 31, 1969, which were offered on March 18, 1969, were opened at
Federal Reserve Banks today. The amount of accepted tenders will be equally
ided among the six issues of outstanding Treasury bills maturing May 8, May 15,
22, May 29, June 5, and June 12, 1969. The details of the offering are as
lows:

al applied for - $3,183,990,000
al accepted - 1,800,528,000 (includes $97,638,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

GE OF ACCEPTED PETITIVE BIDS:	Price		Approximate equivalent annual rate of discount based on 55.5 days (average number of days to maturity)
High	99.250	a/	4.865%
Low	99.207		5.144%
Average	99.225		5.027% 1/

a/ Excepting one tender of $540,000
21% of the amount bid for at the low price was accepted

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 137,220,000	$ 134,460,000
New York	1,226,340,000	490,344,000
Philadelphia	222,798,000	222,798,000
Cleveland	202,284,000	170,484,000
Richmond	28,098,000	8,298,000
Atlanta	79,260,000	73,038,000
Chicago	416,376,000	132,036,000
St. Louis	77,610,000	52,908,000
Minneapolis	235,104,000	209,784,000
Kansas City	102,288,000	78,126,000
Dallas	226,788,000	139,188,000
San Francisco	229,824,000	89,064,000
TOTALS	$3,183,990,000	$1,800,528,000

This rate is on a bank discount basis. The equivalent coupon issue yield is 5.14%.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 26, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 3, 1969, in the amount of $2,704,130,000, as follows:

91-day bills (to maturity date) to be issued April 3, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated January 2, 1969, and to mature July 3, 1969, originally issued in the amount of $1,102,883,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated April 3, 1969, and to mature October 2, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 31, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 3, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 3, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ıesday, March 26, 1969.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated December 31, 1968, and other series to be dated March 31, 1969, which were offered on March 18, 1969, were ıed at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or ·eabouts, of 275-day bills and for $1,000,000,000, or thereabouts, of 365-day bills. details of the two series are as follows:

:E OF ACCEPTED ·ETITIVE BIDS:	275-day Treasury bills maturing December 31, 1969		:	365-day Treasury bills maturing March 31, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.387	6.039%	:	93.825	6.090%
Low	95.364	6.069%	:	93.752	6.162%
Average	95.372	6.058% 1/	:	93.783	6.132% 1/

38% of the amount of 275-day bills bid for at the low price was accepted
27% of the amount of 365-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 189,000	$ 189,000	:	$ 690,000	$ 690,000
w York	1,270,482,000	438,267,000	:	1,350,418,000	729,218,000
iladelphia	5,416,000	416,000	:	12,635,000	2,405,000
eveland	5,449,000	5,449,000	:	16,827,000	11,727,000
chmond	161,000	161,000	:	1,973,000	1,973,000
lanta	13,169,000	1,253,000	:	13,626,000	8,626,000
icago	102,988,000	21,188,000	:	112,999,000	58,999,000
. Louis	33,848,000	23,928,000	:	43,714,000	41,214,000
nneapolis	13,305,000	305,000	:	10,427,000	10,427,000
nsas City	10,821,000	3,821,000	:	11,090,000	9,090,000
llas	11,424,000	1,424,000	:	12,345,000	6,345,000
n Francisco	102,649,000	3,649,000	:	172,619,000	119,619,000
TOTALS	$1,569,901,000	$ 500,050,000 a/		$1,759,363,000	$1,000,333,000 b/

Includes $17,432,000 noncompetitive tenders accepted at the average price of 95.372
Includes $44,574,000 noncompetitive tenders accepted at the average price of 93.783
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.37% for the 275-day bills, and 6.52% for the 365-day bills.

STATEMENT OF HONORABLE CHARLS E. WALKER
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE SENATE BANKING AND CURRENCY COMMITTEE
MARCH 26, 1969
10:00 a.m.

Interest rates are at the highest levels in modern times, not as a result of current policies to cool an overheated economy, but as a result of the inadequate fiscal and monetary policies which permitted inflation to gain control of economic events.

It follows that interest rates should recede to more normal levels as the economy is cooled and -- more importantly in the short run -- inflationary expectations diminish.

It is tempting to seek out scapegoats for unpopular events. For rising interest rates, such scapegoats include the Federal Reserve, banks and other lenders, or the Administration in office.

The fact is that today's ultra-high rates can be traced directly to two significant errors in Federal economic policy:

(1) An unwillingness to pay, through taxes or lower domestic spending, for the escalation in Vietnam, a reluctance that handed us a huge $25 billion Federal deficit in the last fiscal year;

(2) An excessive rate of monetary growth in 1967 and 1968 when money supply narrowly defined -- that is, demand deposits and currency -- advanced at a rate of 6-1/2 percent, and money supply

broadly defined, including time deposits at commercial banks, grew at an annual rate of 10 percent.

The contribution of Federal deficits to rising interest rates is widely understood. They directly raise the cost of money as the Federal Government borrows more than it pays back. In addition, such deficits fuel inflationary fires and lead to the economic overheating that in turn stimulates heavy borrowing by businesses, consumers, and State and local governments.

Less understood is the contribution of an expansive monetary policy to rising interest rates. In years gone by, an easy money policy was thought to mean lower interest rates. Today most economists think an excessively expansionary monetary policy results in higher rates in the long run. How does this work?

In this way. When employment is high and little slack exists, additional and excessive injections of bank reserves, leading to a high rate of monetary growth, do little to increase production. They result primarily in higher prices.

Rising prices and economic overheating generate still stronger demands for funds. They also tend to reduce the willingness of lenders to lend. Both actions push interest

rates higher. If the Federal Reserve injects still more funds in an attempt to slow the rise in interest rates, the result is just the reverse. Rates rise even faster as inflation gains strength and inflationary expectations mount.

One should not be too critical of the overly expansive monetary policies during periods of high Treasury deficits. It is very difficult for the Federal Reserve to contain monetary growth when Treasury borrowings are large and frequent. But in the latter part of 1968, when the Federal budget was moving toward balance, money supply grew at an annual rate of 6 to 12 percent (depending on the definition). This high rate of monetary growth can be viewed as a significant factor accounting for today's high interest rates.

The past is behind us. What matters now is current and future policy. What should it be?

Fiscal and monetary policies of today are appropriately geared to the economy's needs. The budget is in surplus and we are determined to keep it there. Monetary policy is clearly restrictive, and I understand that the Federal Reserve authorities are determined to maintain that posture.

But is this is correct, why do we not see some easing of inflationary pressures, some cooling of the economy, some fallback in interest rates?

We must be patient. The imbalances, distortions, and disruptive expectations resulting from four years of inflation cannot be corrected overnight. But they can and will be corrected, if only we persist in restraint.

Our goal is to achieve a significant reduction in inflationary pressures this year. But this does not mean that some relief from current high interest rates must await that event.

The fact is that the inflationary expectations of borrowers and lenders are what added the extra push to the interest rate structure. Borrowers are seeking funds now in order to avoid both the higher prices and the higher interest rates they expect later. Lenders are reluctant to commit their funds so long as they fear a combination of higher rates and lower-valued dollars.

This means that pressures on interest rates should begin to subside when borrowers and investors finally conclude that this Administration is indeed determined to bring inflation to a halt. This conclusion on the part of market participants could come relatively soon.

The ending of inflation and inflationary expectations is the key to all the goals described in these hearings. The real enemy of the homebuyer is inflation because it has

raised the cost of the home he purchases by over one-sixth in the last four years alone. And the higher interest rates that have resulted from that inflation have added to his burden.

Primarily, the small businessman can in the long run only gain from a halt to inflation and the lower interest rates that are sure to result. As interest rates fall back, the State and local governments which recently have been cut out of the bond market will be able to obtain the funds they seek. Farmers, heavily dependent on debt, will benefit too.

To recapitulate: The ultra-high interest rates of today are not primarily the reflection of current policy but the result of the inappropriate policies of the past which permitted inflation to infect the economy. Current policies are properly attuned to ending that inflation. When this occurs, interest rates will recede -- to the benefit of all groups that rely heavily on credit.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 26, 1969

FOR IMMEDIATE RELEASE

NORTHCUTT RESIGNS AS FLORIDA SAVINGS BONDS CHAIRMAN;
COMMENDED BY SECRETARY KENNEDY FOR DEVOTED SERVICE

Secretary of the Treasury David M. Kennedy has accepted the resignation of Victor H. Northcutt as Florida's volunteer State Chairman for Savings Bonds. Mr. Northcutt, who is Honorary Chairman of the Board, The Broadway National Bank of Tampa, has served the Savings Bonds Program for more than 22 years.

In accepting Mr. Northcutt's resignation, Secretary Kennedy said, "I am sure that six other Secretaries of the Treasury under whom you have served since October 1946 would wish to join with me in expressing appreciation for your devotion to a program that encourages individual and family thrift, moderates inflationary pressures, and assists the government in effectively managing the national debt."

A. Clewis Howell, President, Marine Bank and Trust Co., Tampa, who has served with Mr. Northcutt as Co-Chairman since October 1968, now assumes the full Chairmanship. He heads a committee of state business, financial, labor and governmental leaders. The committee -- working with the Savings Bonds Division -- will assist in promoting the sale of Savings Bonds and Freedom Shares throughout the state.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 28, 1969

To The Press:

Secretary Kennedy today released the following statement on the death of President Eisenhower:

Dwight D. Eisenhower's courageous fight for life has ended. The valour with which he fought to live mirrored the tremendous strength and deep personal resources he applied to each task in his remarkable career. It was what we would have expected of him. As soldier, President, author, statesman, and world leader, Mr. Eisenhower's career reached heights few men can match. Yet through it all he was an enormously decent person whose love and compassion for his fellow man made the world a better place in which to live. A great President has passed.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 28, 1969

OR RELEASE A.M. NEWSPAPERS
ONDAY, MARCH 31, 1969

TREASURY DEPARTMENT ANNOUNCES CHANGES IN COUNTERVAILING DUTY ORDER ON SKI LIFTS AND PARTS FROM ITALY

The Treasury Department announced today that it has sent o the Federal Register for publication, on April 1, otification of certain reductions in countervailing duties now being nposed on importations of ski lifts and parts from Italy.

These changes, which are based on more detailed information eceived from the Italian Government, are retroactive to anuary 10, 1969, the date new information was furnished to the nited States by the Italian Government.

The original countervailing duty order on ski lifts and arts from Italy was announced by the Treasury Department on ovember 21, 1968, and became effective on January 4, 1969.

Treasury representatives stated that countervailing ities are intended to counteract subsidies paid on exports the United States. The countervailing duties are assessed ly on those shipments which receive benefits from subsidy ograms and are equivalent to the amount of the subsidy.

The original subsidy on Italian ski lifts and parts was timated to range from $21.16 to $51.16 per short ton, pending upon the particular parts being imported. They now nge from approximately $12.47 to $50.58 per short ton.

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TREASURY DEPARTMENT

RELEASE 3:30 P.M.,
day, April 1, 1969.

WASHINGTON, D.C.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated January 2, 1969, and the r series to be dated April 3, 1969, which were offered on March 26, 1969, were ed at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, hereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury Bills maturing July 3, 1969		182-day Treasury Bills maturing October 2, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.475 a/	6.033%	96.906	6.120%
Low	98.459	6.096%	96.892	6.148%
Average	98.467	6.065% 1/	96.898	6.136% 1/

a/ Excepting 2 tenders totaling $49,000
52% of the amount of 91-day bills bid for at the low price was accepted
23% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	Applied For	Accepted
oston	$ 24,460,000	$ 14,460,000	$ 4,928,000	$ 4,763,000
ew York	1,775,046,000	1,117,606,000	1,692,098,000	861,546,000
iladelphia	38,120,000	23,120,000	16,942,000	6,892,000
leveland	39,028,000	39,028,000	25,942,000	23,051,000
ichmond	23,293,000	23,293,000	8,255,000	8,100,000
tlanta	43,515,000	41,515,000	16,861,000	14,310,000
icago	162,470,000	137,065,000	185,770,000	105,345,000
t. Louis	54,712,000	50,232,000	36,263,000	28,063,000
inneapolis	24,710,000	18,710,000	12,726,000	5,926,000
ansas City	28,901,000	26,901,000	19,527,000	14,727,000
allas	27,238,000	19,238,000	21,737,000	11,237,000
an Francisco	140,941,000	90,141,000	123,951,000	16,494,000
TOTALS	$2,382,434,000	$1,601,309,000 b/	$2,165,000,000	$1,100,454,000 c/

Includes $346,706,000 noncompetitive tenders accepted at the average price of 98.467
Includes $166,670,000 noncompetitive tenders accepted at the average price of 96.898
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.24% for the 91-day bills, and 6.42% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 2, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 10, 1969, in the amount of $2,707,655,000, as follows:

91-day bills (to maturity date) to be issued April 10, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated January 9, 1969, and to mature July 10, 1969, originally issued in the amount of $1,101,815,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated April 10, 1969, and to mature October 9, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, April 7,1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 10, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 10, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 3, 1969

FOR IMMEDIATE RELEASE

JOHN S. NOLAN NAMED
DEPUTY ASSISTANT SECRETARY OF TREASURY FOR TAX POLICY

Secretary of the Treasury David M. Kennedy today announced the appointment of John S. Nolan, a Washington, D. C. tax attorney, as Deputy Assistant Secretary of the Treasury for Tax Policy.

Mr. Nolan will serve as deputy to Assistant Secretary Edwin S. Cohen. He replaces William F. Hellmuth, Jr., of Oberlin, Ohio, who has resigned.

Mr. Nolan, 43, a law partner in the firm of Miller & Chevalier, attended Harvard Law School, receiving his degree magna cum laude in 1951. He was graduated from the University of North Carolina in 1947 where he was elected to Phi Beta Kappa. He has specialized in Federal tax practice. In addition, he has served as a member of the Advisory Group to the Commissioner of Internal Revenue; formerly was the vice chairman, Section of Taxation, American Bar Association, and served as an Adjunct Professor of Law, Georgetown Law School. He has authored articles in the Harvard Law Review, American Bar Association Journal, and the George Washington University Law Review.

A U. S. Naval Reserve Officer, he is a member of the American Bar Association, Bar Association of District of Columbia, and the Federal Bar Association. His original home was Miami, Florida. He is married to the former Adeline Jean Mosher of Holyoke, Massachusetts. They have five children and reside in Potomac, Maryland.

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K-49

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 3, 1969

FOR IMMEDIATE RELEASE

MEMORANDUM FOR THE PRESS:

Attached is a copy of the second semi-annual report on U.S. purchases and sales of gold and the state of the U.S. gold stock forwarded by Treasury Secretary David M. Kennedy to the President of the Senate, Speaker of the House and appropriate committee chairmen. The report covers the second half of 1968. The first semi-annual report -- covering the first six months of 1968 -- was released on September 10, 1968.

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K-50

Semiannual Report on Purchases and Sales of Gold
and the State of the United States Gold Stock,
July 1 - December 31, 1968

U. S. transactions in gold in the second half of 1968 were in marked contrast to those in the first half. During the first six months of 1968 there was a loss of $1,384 million in the U. S. gold stock. In the second half of the year there was a gain of $210 million.

This gain in the six-month period brought the total gold stock of the United States to $10,892 million on December 31, 1968.

The gold transactions for both the past six months and the first six months of 1968 are shown by country and quarters on the attached table 1.

In the first quarter of 1968 there were no significant sales of gold to the United States and sales by the United States amounted to $1,362 million, of which $900 million was its share of participation in the gold pool operations. In the second quarter, after cessation of gold pool operations in March, the gross sales of gold by the United States still amounted to $322 million. These sales were largely offset, however, by purchases, primarily from France, which totaled $300 million.

The picture for the second half of 1968 showed a large reversal as the crisis atmosphere of March was dissipated. Gross sales fell to $176 million in the third quarter and to $31 million in the fourth quarter. On a net basis, gains were shown for each quarter as purchases continued to be made, primarily from France, for a total plus of $210 million. (From the low point at the end of May 1968, the U. S. gold stock rose by $424 million by year end.)

The only sizable transactions with individual countries during the six-month period were the purchase of $380 million from France and the sale of $50 million to Algeria.

As noted in the initial report by the Treasury on September 6, 1968, a very large number of gold transactions involved sales of gold to countries that were required to make gold payments to the International Monetary Fund as distinguished from those that wished to add gold to their reserves. All of the sales transactions listed in the attached Table 1 of $2 million or less during the third and fourth quarters fell in this category. Similarly, the sale

to Greece represented the repurchase by Greece of gold in anticipation of required gold repayments on a loan under the European Monetary Arrangement. The gold which Greece had obtained under the loan had been previously sold to the United States.

There was only one transaction during the period involving sales of gold for IMF purposes for which there are corresponding gold deposits by the IMF with the United States. This transaction is shown on Table 2.

Attachments: Tables 1 and 2

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

TABLE 1

January 1-December 31, 1968

(In millions of dollars at $35 per fine troy ounce)

Area and Country	1968 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Western Europe					
Belgium	-25.0	-32.5	-	-	-57.6
France	-	+220.0	+240.0	+140.0	+600.0
Greece	-	-0.6	-	-10.6	-11.2
Iceland	-	-	-	*	*
Ireland	-12.4	-32.0	-11.0	+3.0	-52.4
Italy	-184.0	-25.0	-	-	-209.0
Malta	-	-	-9.7	-5.0	-14.7
Netherlands	-48.5	+30.0	-	-	-18.5
Norway	-	-	-	-0.9	-0.9
Portugal	-	-	-5.0	-	-5.0
Switzerland	-25.0	-25.0	-	-	-50.0
Turkey	-	-7.5	-	+10.0	+2.5
United Kingdom	-899.6	+50.0	-	+15.0	-834.6
Yugoslavia	-0.9	-0.9	-1.0	-1.0	-3.8
Total	-1,195.5	+176.4	+213.4	+150.5	-655.2
Canada	+50.0	-	-	-	+50.0
Latin America					
Argentina	-	-5.0	-15.0	-5.0	-25.0
Bolivia	-0.1	-	*	*	-0.1
Brazil	-	-0.4	-	-	-0.4
Chile	-1.1	-0.8	-0.9	-2.0	-4.9
Costa Rica	-0.1	-0.2	-0.1	-0.1	-0.6
Dominican Republic	-0.1	-0.1	-0.1	-0.1	-0.6
Ecuador	-20.0	-	-	-	-20.0
El Salvador	*	-0.1	-0.1	-0.1	-0.3
Guatemala	-0.1	-0.1	-1.3	-0.1	-1.6
Haiti	-0.1	-0.1	-0.1	-0.1	-0.3
Honduras	*	-	-	-	*
Nicaragua	-	-0.1	*	*	-0.1
Panama	-	*	-	*	*
Trinidad and Tobago	-	-4.8	-	-	-4.8
Total	-21.7	-11.6	-17.8	-7.6	-58.6
Asia					
Afghanistan	-2.3	-0.1	-0.1	-0.1	-2.7
Burma	-	*	-2.5	*	-2.6
Ceylon	-0.1	-0.2	-0.2	-0.3	-0.7
Cyprus	-	-13.4	-	-	-13.4
Indonesia	-0.3	-0.3	-0.3	-0.4	-1.3
Iran	-	-	-	-0.1	-0.1
Iraq	-14.1	-28.1	-	-	-42.2
Jordan	-6.0	-7.5	-0.1	-2.8	-16.4
Korea	-6.5	-	-	-0.1	-6.6
Kuwait	-	-	-24.9	-	-24.9
Lebanon	-73.5	-21.0	-	-	-94.5
Malaysia	-8.7	-23.5	-	-	-32.3
Muscat and Oman	-	-	-	-1.2	-1.2
Nepal	-	-6.0	-	-	-6.0
Pakistan	+0.2	*	*	-0.3	*
Philippines	-0.1	-0.2	+9.8	-0.2	+9.4
Saudi Arabia	-	-25.0	-25.0	-	-50.0
Singapore	-30.0	-23.0	-28.0	-	-81.0
Syria	-0.1	-8.9	-0.1	-0.1	-9.3
Total	-141.6	-157.3	-71.5	-5.5	-375.9
New Zealand	-	-1.8	-	-	-1.8
Africa					
Algeria	-	-	-49.9	-	-49.9
Burundi	*	*	*	*	-0.1
Ghana	-	-0.4	-	-	-0.4
Liberia	-0.1	-0.1	-0.1	-0.1	-0.4
Mauritius	-	-	-0.3	-	-0.3
Morocco	-	-0.2	-	-0.1	-0.3
Nigeria	-	-9.3	-	-	-9.3
Rwanda	*	*	*	*	-0.1
Somalia	-0.1	-0.1	-0.1	-0.1	-0.3
Sudan	-0.2	-0.3	-0.3	-0.3	-1.1
Tunisia	-0.2	-0.2	-0.2	-0.2	-0.7
Total	-0.6	-10.5	-50.8	-0.9	-62.8
IMF	-	-17.0	-	-	-17.0
Total	-1,309.3	-21.7	+73.3	+136.5	-1,121.2
Domestic Transactions	-52.5	-0.2	+0.2	+0.3	-52.3
Total Gold Outflow	-1,361.8	-21.9	+73.5	+136.8	-1,173.5

Figures may not add to totals because of rounding.

*Under $50,000.

UNITED STATES MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES MITIGATED THROUGH SPECIAL DEPOSITS BY THE IMF (Millions of U.S.$)

January 1 - December 31, 1968

Area and Country	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Latin America					
Chile	-6.3	-	-	-	-6.3
Dominican Republic	-0.4	-	-	-	-0.4
Total	-6.6	-	-	-	-6.6
Asia					
Burma	-	-2.0	-	-	-2.0
Jordan	-0.2	-0.4	-	-	-0.6
Malaysia	-1.3	-	-	-	-1.3
Total	-1.4	-2.4	-	-	-3.8
Africa					
Algeria	-	-0.8	-	-	-0.8
Cameroon	-	-0.2	-	-	-0.2
Central African Rep.	-	-0.1	-	-	-0.1
Chad	-	-0.1	-	-	-0.1
Congo(Brazzaville)	-	-0.1	-	-	-0.1
Dahomey	-	-0.1	-	-	-0.1
Gabon	-	-0.1	-	-	-0.1
Ivory Coast	-0.2	-	-	-	-0.2
Mauritania	-	-0.1	-	-	-0.1
Morocco	-	-0.9	-	-	-0.9
Niger	-	-	-0.1	-	-0.1
Rwanda	-	-0.6	-	-	-0.6
Upper Volta	-	-0.1	-	-	-0.1
Total	-0.2	-3.3	-0.1	-	-3.6
Total	-8.2	-5.7	-0.1	-	-14.0
IMF Deposit	+8.2	-11.3*	+0.1	-	-3.0

*Reflects IMF deposit of $5.7 million and withdrawal of $17.0 million.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 3, 1969

FOR RELEASE A.M. NEWSPAPERS
FRIDAY, APRIL 4, 1969

SECRETARY KENNEDY NAMES CALVIN E. BRUMLEY
AS DEPUTY SPECIAL ASSISTANT (PUBLIC AFFAIRS)

Treasury Secretary David M. Kennedy today announced the appointment of Calvin E. Brumley as Deputy Special Assistant to the Secretary (Public Affairs).

Mr. Brumley, who has been news editor of the Associated Press-Dow Jones International Economic Report, will join the Treasury on April 14.

The new appointee has been employed by Dow Jones and Company, Inc., which publishes the Wall Street Journal, for nearly 15 years as reporter, bureau manager and news editor. He was assigned to a New York planning group, which conceived and formulated the International Economic Report in the fall of 1966. It began publication in the spring of 1967 and now has private and newspaper subscribers in most European and many Asian countries.

Prior to his assignment in New York, Mr. Brumley, whose by-line reads Cal Brumley, was Northeastern News Bureau Chief for the Wall Street Journal in Boston. Earlier he was Southeastern News Bureau Chief with headquarters in Jacksonville, Florida. He reported in Cuba for the Wall Street Journal during and after the Castro revolution.

Mr. Brumley's first newspaper job was as a reporter for the Amarillo (Texas) Globe-News. Subsequently he worked for the Associated Press in Dallas, was editor and co-publisher of weekly newspapers in Tulia and Happy, Texas, reported for the Lubbock (Texas) Avalanche-Journal and edited livestock publications in Fort Worth and Denver.

The new Deputy Special Assistant has been active in professional journalism organizations. At the time of his transfer to New York in 1966 he was Vice President of the New England Chapter of Sigma Delta Chi, the professional journalism fraternity.

Mr. Brumley, 45, is a graduate of Texas A & M University with a degree in agricultural economics. While there he was editor of the school newspaper.

He was born in Hereford, Texas, reared on a livestock farm and attended Texas public schools. He is a veteran of World War II.

He and his wife, Jayne, currently live in New York, where she is employed as a reporter by Newsweek magazine. They also maintain residence on Martha's Vineyard, Massachusetts. A son, Bryan, 16, attends Milton Academy, Milton, Massachusetts.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 4, 1969

QUERIES:
WO 4-2041

FOR A.M. RELEASE
SATURDAY, APRIL 5,1969

TREASURY SECRETARY KENNEDY TO HEAD U.S. DELEGATION
TO MEETING OF ASIAN DEVELOPMENT BANK IN
SYDNEY, AUSTRALIA, APRIL 10-12, 1969

Secretary of the Treasury David M. Kennedy will head the U.S. Delegation to the Second Annual Meeting of the Board of Governors of the Asian Development Bank in Sydney, Australia, April 10-12. Secretary Kennedy is U.S. Governor of the Bank.

Three members of the House Banking and Currency Committee will be members of the delegation: Congresswoman Margaret Heckler and Congressmen Seymour Halpern and Albert W. Johnson.

Members of the delegation from the Executive Branch will include, from the Treasury Department: John R. Petty, Assistant Secretary for International Affairs, Dixon Donnelley, Special Assistant to the Secretary (Public Affairs), Ralph Hirschtritt, Deputy to the Assistant Secretary, Sam Y. Cross, Director, Office of Developing Nations; from the Department of State: Thomas O. Enders, Deputy Assistant Secretary for International Monetary Affairs; and from the Agency for International Development (AID): Robert H. Nooter, Deputy Assistant Administrator for Far East Bureau.

The Asian Development Bank -- established in 1966 -- is a regional institution for financing economic development projects and programs in the developing countries of Asia. The Bank has 33 members -- 20 regional countries, three of which are classified as developed (Japan, Australia and New Zealand), and 13 non-regional countries, including the United States. The Annual Meeting of the Bank Governors of the Asian Development Bank brings together top financial and economic officials of the member nations. The Bank's headquarters are located in Manila, Philippines, which was the site of the First Annual meeting last year.

The delegation is departing today and scheduled to return to Washington April 14.

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/NOTE: A COPY OF SECRETARY KENNEDY'S DEPARTURE STATEMENT IS ATTACHED. PLEASE NOTE EMBARGOED RELEASE TIME.

Attachment
K-52

TREASURY DEPARTMENT
Washington

RELEASE FOR A.M.'S
SATURDAY, APRIL 5, 1969

STATEMENT OF SECRETARY OF THE TREASURY DAVID M. KENNEDY
UPON DEPARTURE FROM WASHINGTON, APRIL 5, 1969,
AS HEAD OF THE U.S. DELEGATION TO THE SECOND ANNUAL MEETING
OF THE ASIAN DEVELOPMENT BANK, SYDNEY, AUSTRALIA
(SCHEDULED FROM ANDREWS AFB, 9:00 A.M.)

I look forward to my participation in the deliberations of the governing body of the Asian Development Bank in Sydney, Australia.

My stay there will provide a welcome opportunity for me to meet with my colleagues from other member governments of the Bank, in what I am sure will be fruitful and constructive discussions.

The United States vigorously supported the founding of the Bank in 1966 as a broad-base financial institution designed to serve a vast region's development needs. My associates and I of the United States delegation will continue our efforts to help advance the substantial progress the Bank is already achieving.

Our country gave its ready support to the Bank in the knowledge that self-help is the key to development. The fact that the real impetus for the Bank came from the people of the region is self-help of a very significant kind.

President Nixon enthusiastically subscribes to the Bank's purposes and has instructed me to give meaningful support to the Bank's aims during our meeting in Sydney.

The President and all other members of his Administration believe that encouragement and assistance to developing countries, through the Asian Bank and other bilateral and multilateral organizations, remain high on the list of American priorities in carrying out our responsibilities to the Free World. There is no more promising road to world peace.

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TREASURY DEPARTMENT
Washington

STATEMENT OF SECRETARY OF THE TREASURY DAVID M. KENNEDY
UPON ARRIVAL AT THE HONOLULU INTERNATIONAL AIRPORT
HAWAII, ON APRIL 5, 1969

I am delighted to be in your lovely land and my colleagues and I and my family look forward to seeing some of its beauties even though our stay will be all too brief.

We are en route to the Second Annual meeting of the Board of Governors of the Asian Development Bank in Sydney, Australia, from April 10 to 12th. I will head the U.S. Delegation.

My stay there will provide a welcome opportunity for me to meet with my colleagues from other member governments of the Bank, in what I am sure will be fruitful and constructive discussions.

The United States vigorously supported the founding of the Bank in 1966 as a broad-base financial institution designed to serve a vast region's development needs. My associates and I of the United States delegation will continue our efforts to help advance the substantial progress the Bank is already achieving.

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TREASURY DEPARTMENT
Washington

FOR RELEASE IN A.M.'S
TUESDAY, APRIL 8, 1969

STATEMENT OF SECRETARY OF THE TREASURY DAVID M. KENNEDY
ON ARRIVAL AT SYDNEY, AUSTRALIA, APRIL 8, 1969
(11:40 P.M., EDT, APRIL 7) AS HEAD OF THE
U.S. DELEGATION TO THE SECOND ANNUAL MEETING
OF THE ASIAN DEVELOPMENT BANK, APRIL 10-12, 1969

I am glad to be in this great country and in the particularly breathtaking city of Sydney. I have, for the leaders and the people of Australia, warm greetings from President Richard Nixon and the American people.

I am pleased to be on the mission which brings me and the rest of the United States delegation half-way around the world. For the business of the Asian Development Bank is nothing less than giving impetus to the economic growth of a region so vast as almost to defy comprehension.

I think it is not too much to say that future peace in the area -- and, by extension, in the world -- hinges in no small degree on the operations of the Asian Development Bank and of other institutions, both national and international, whose efforts parallel the Bank's.

The United States strongly supported the establishment of the Asian Development Bank in 1966 to assist in the development needs of your region. The progress that the Bank has already achieved -- progress that must be credited primarily to self-help -- has justified the confidence of all of its member nations.

The United States is proud to participate in the Bank, and I want to say on behalf of my government and the American people that our dedication to the high purposes of the Bank is firm and will continue long into the future.

I welcome the opportunity to meet with my colleagues from other member governments of the Bank, and to take part in their forthcoming deliberations.

My family and I also are eager to see as much as we can of this lovely land during the period of our all-too-short stay here.

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TREASURY DEPARTMENT
Washington

STATEMENT OF SECRETARY OF THE TREASURY DAVID M. KENNEDY
UPON ARRIVAL AT THE LOS ANGELES INTERNATIONAL AIRPORT,
LOS ANGELES, CALIFORNIA, ON APRIL 5, 1969

The members of my delegation and I are enroute to the Second Annual meeting of the Board of Governors of the Asian Development Bank in Sydney, Australia, from April 10 to 12th. I will head the U.S. Delegation.

My stay there will provide a welcome opportunity for me to meet with my colleagues from other member governments of the Bank, in what I am sure will be fruitful and constructive discussions.

The United States vigorously supported the founding of the Bank in 1966 as a broad-base financial institution designed to serve a vast region's development needs. My associates and I of the United States delegation will continue our efforts to help advance the substantial progress the Bank is already achieving.

Our country gave its ready support to the Bank in the knowledge that self-help is the key to development. The fact that the real impetus for the Bank came from the people of the region is self-help of a very significant kind.

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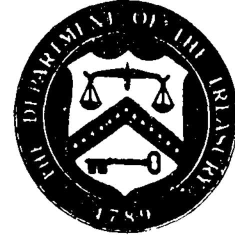
TREASURY DEPARTMENT



WASHINGTON, D.C.

)R RELEASE 6:30 P.M.,
)nday, April 7, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated January 9, 1969, and the ther series to be dated April 10, 1969, which were offered on April 2, 1969, were pened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, : thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing July 10, 1969		:	182-day Treasury bills maturing October 9, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.446 a/	6.148%	:	96.880	6.171%
Low	98.438	6.179%	:	96.866	6.199%
Average	98.441	6.167% 1/	:	96.873	6.185% 1/

a/ Excepting 2 tenders totaling $305,000
50% of the amount of 91-day bills bid for at the low price was accepted
45% of the amount of 182-day bills bid for at the low price was accepted

)TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 28,864,000	$ 17,939,000	:	$ 6,781,000	$ 4,391,000
New York	2,057,475,000	1,146,627,000	:	1,792,264,000	855,216,000
Philadelphia	34,170,000	18,670,000	:	17,956,000	7,956,000
Cleveland	39,822,000	34,443,000	:	36,600,000	30,399,000
Richmond	22,838,000	18,738,000	:	11,465,000	7,965,000
Atlanta	62,801,000	43,478,000	:	40,637,000	14,441,000
Chicago	192,612,000	92,102,000	:	188,910,000	37,999,000
St. Louis	68,078,000	57,478,000	:	44,159,000	24,759,000
Minneapolis	21,576,000	12,076,000	:	16,144,000	3,644,000
Kansas City	38,804,000	32,115,000	:	24,747,000	18,367,000
Dallas	33,098,000	22,348,000	:	24,018,000	13,118,000
San Francisco	172,055,000	104,095,000	:	164,225,000	82,298,000
TOTALS	$2,772,193,000	$1,600,109,000 b/		$2,367,906,000	$1,100,553,000 c/

b/ Includes $381,157,000 noncompetitive tenders accepted at the average price of 98.441
c/ Includes $174,802,000 noncompetitive tenders accepted at the average price of 96.873
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.35% for the 91-day bills, and 6.47% for the 182-day bills.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH March 31, 1969

(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED [1]	AMOUNT REDEEMED [1]	AMOUNT OUTSTANDING [2]	% OUTSTANDING OF AMOUNT ISSUED
ED				
us A-1935 thru D-1941	5,003	4,996	7	.14
us F and G-1941 thru 1952	29,521	29,480	41	.14
us J and K-1952 thru 1956	3,660	3,622	39	1.07
URED				
s E [3]:				
1941	1,880	1,659	220	11.70
1942	8,298	7,337	961	11.58
1943	13,354	11,838	1,516	11.35
1944	15,577	13,718	1,859	11.93
1945	12,239	10,605	1,634	13.35
1946	5,550	4,627	923	16.63
1947	5,265	4,233	1,031	19.58
1948	5,444	4,285	1,160	21.31
1949	5,373	4,143	1,231	22.91
1950	4,697	3,571	1,126	23.97
1951	4,063	3,091	972	23.92
1952	4,258	3,212	1,046	24.57
1953	4,862	3,579	1,283	26.39
1954	4,955	3,574	1,381	27.87
1955	5,162	3,661	1,501	29.08
1956	4,985	3,487	1,498	30.05
1957	4,692	3,213	1,479	31.52
1958	4,571	2,991	1,580	34.57
1959	4,285	2,725	1,559	36.38
1960	4,289	2,617	1,671	38.96
1961	4,335	2,474	1,861	42.93
1962	4,177	2,324	1,853	44.36
1963	4,656	2,405	2,251	48.35
1964	4,539	2,356	2,183	48.09
1965	4,438	2,248	2,190	49.35
1966	4,775	2,221	2,554	53.49
1967	4,727	2,016	2,710	57.33
1968	4,383	1,241	3,142	71.69
1969	87	-	87	100.00
Unclassified	615	873	-258	-
Total Series E	160,530	116,325	44,205	27.54
ies H (1952 thru May, 1959) [3]	5,485	3,294	2,190	39.93
H (June, 1959 thru 1969)	6,983	1,572	5,411	77.49
Total Series H	12,468	4,867	7,601	60.96
Total Series E and H	172,998	121,192	51,806	29.95
ies J and K 1957	94	79	15 [4]	15.96
l Series – Total matured	38,184	38,098	86	.23
l Series – Total unmatured	173,091	121,270	51,821	29.94
l Series – Grand Total	211,275	159,368	51,907	24.57

les accrued discount.
nt redemption value.
tion of owner bonds may be held and will earn interest for additional periods after original maturity dates.
les matured bonds which have not been presented for redemption.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 9, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders or two series of Treasury bills to the aggregate amount of 2,700,000,000, or thereabouts, for cash and in exchange for reasury bills maturing April 17,1969, in the amount of 2,703,296,000, as follows:

91-day bills (to maturity date) to be issued April 17, 1969 n the amount of $1,600,000,000, or thereabouts, representing an dditional amount of bills dated January 16, 1969, and to ature July 17, 1969, originally issued in the amount of 1,100,670,000, the additional and original bills to be reely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be ated April 17, 1969, and to mature October 16, 1969.

The bills of both series will be issued on a discount basis under ompetitive and noncompetive bidding as hereinafter provided, and at aturity their face amount will be payable without interest. They ill be issued in bearer form only, and in denominations of $1,000, 5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 maturity value).

Tenders will be received at Federal Reserve Banks and Branches p to the closing hour, one-thirty p.m., Eastern Standard ime, Monday, April 14, 1969. Tenders will not be eceived at the Treasury Department, Washington. Each tender must e for an even multiple of $1,000, and in the case of competitive enders the price offered must be expressed on the basis of 100, ith not more than three decimals, e. g., 99.925. Fractions may not e used. It is urged that tenders be made on the printed forms and orwarded in the special envelopes which will be supplied by Federal eserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of ustomers provided the names of the customers are set forth in such enders. Others than banking institutions will not be permitted to ubmit tenders except for their own account. Tenders will be received ithout deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 17, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 17, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

// TREASURY DEPARTMENT

WASHINGTON, D.C.

April 10, 1969

FOR IMMEDIATE RELEASE

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY OF THE UNITED STATES AND
UNITED STATES GOVERNOR OF THE ASIAN DEVELOPMENT BANK
AT THE SECOND ANNUAL MEETING OF THE BOARD OF GOVERNORS
OF THE ASIAN DEVELOPMENT BANK
SYDNEY, AUSTRALIA, APRIL 11, 1969

I am honored to meet with you today as a new member of the Board of the Asian Development Bank and as the representative of the recently inaugurated President of my country, Richard M. Nixon.

President Nixon has asked me to extend his warmest greetings to the members of this distinguished group -- to express once again his deep friendship for the nations and the peoples of Asia -- and to affirm his support for the Asian Development Bank as an institution contributing to the economic development of Asia.

I welcome the opportunity to attend this second annual meeting of the Board of Governors for two reasons:

First, the pleasure of visiting Australia, this magnificent city, Sydney, and sharing with all of you the warm and gracious hospitality of the government and the people of Australia.

Second, the opportunity to become acquainted with each of the representatives gathered here, to learn more about the Bank and its plans for the future, and to assist the officers of the Bank and my fellow Governors in guiding its progress.

It remains true, today, as it has throughout history, that all too often nations are bitterly divided by conflict. My own country and others represented here are now engaged in such a conflict in Vietnam. That war exacts heavy claims on our energies and our resources. It emphasizes all that divides men rather than

the common human aspirations that link them together.

As a member of the new U.S. Administration, I want to assure you that President Nixon has no higher goal than to bring an early, lasting and just peace to Vietnam. I know all of you share that hope and will contribute in every way that you can to making it a reality.

Institutions such as the Asian Development Bank point the way to even greater cooperation among nations in the future. The creation of international economic institutions with nations working together to promote a better life for all of their citizens is a unique and inspiring step in the history of man. How different it is from the preceding centuries, when nations conceived of their economic interests only in the most narrow and selfish terms. Because of our experience in this Bank and others like it, I am hopeful that one day we shall be able to work equally well together in settling our political differences.

Meanwhile, the business of economic development must go on. That is the task to which we address ourselves this week.

Growth and progress most certainly will be advanced if our international monetary system is strong and responsive to the growing needs of the future. It was to provide this strength that the Board of Governors of the International Monetary Fund approved the amendment that establishes the Special Drawing Rights facility. My government would like to see it activated this year. I am gratified that so many of the regional members of the Asian Development Bank have taken the necessary steps to ratify the amendment and to indicate their readiness to participate in the Special Drawing Rights facility. More than 40 countries holding more than 60 percent of the votes in the Fund have now ratified the amendment. It will not become effective until 67 member countries with 80 percent of the total voting power have completed the process of ratification. I hope that those members who have not yet acted will soon complete the necessary procedures that will enable them to join in this mutual undertaking.

The new Special Drawing Rights facility -- which should be activitated this year -- will serve the developing, as well as the developed countries. It will directly add to monetary reserves in proportion to IMF quotas. Moreover, it will have an important additional advantage as a major factor in facilitating a high level of world trade and investment.

My government is firmly devoted to the cause of Asian economic development, which will help to fulfill the shared aspirations of this region. It follows, then, that we are also firmly devoted to strong support of the Asian Development Bank. As you know, my country joined wholeheartedly in the planning and effort that made the Bank a reality. I am most encouraged by the accomplishments of the Bank in its first two years.

I need hardly remind this audience of the Bank's impressive beginnings:

-- A well developed organization

-- A staff distinguished both by professional competence and broad regional experience, whose accomplishments attest to the sound and effective leadership of President Watanabe

-- A solid record of 11 loans totalling $66 million

This admittedly condensed list of achievements barely covers the Bank's successful efforts. The Bank should also be justly proud of the priority attention it has devoted to such basic fields as agriculture and its growing concern with increasing productivity and creating new jobs. The Bank has enlisted the talent and initiative of private enterprise through its loans to development banks in Pakistan, the Philippines and Thailand for loans to private borrowers.

As these loans suggest, development in this vast region can never be accomplished through intergovernmental action alone. Truly, we are building an institution capable of assuming greater responsibilities for advancing Asian economic development. This is in no small part due to the fact that the Bank has earned the confidence of lenders and contributors as a sound and thoroughly responsible financial institution. But it does not end there. There is growing appreciation by the peoples of Asia that the Bank offers an imaginative channel to bring human and economic resources to bear on helping them achieve a better life.

The future of the multilateral approach to development financing will be rewarding for Asia and for the entire world. It is increasingly recognized that all countries share the responsibility for overcoming the poverty, hunger and despair that is the daily fare of too many of our fellow men.

Despite the recognized advantages of the multilateral approach, my government believes that, in some cases, there is no substitute for bilateral assistance. At the same time, we place a high value on multilateral assistance and strongly encourage efforts by the richer nations to help the developing areas realize the aspirations of their peoples. I am confident, therefore, that interest in multilateral aid will help to stimulate strong expansion of the Asian Bank.

The creation of the Special Funds envisaged by the Bank's founders and provided for in the charter is of keen interest to all of us. Already, the governments of Canada, Denmark and Japan have agreed on the use of their contributions.

As for my own country, President Nixon decided very early in his Administration to reexamine all United States foreign assistance, to review what has been done, and to determine our future course. At the outset of that review, we had for ratification and funding a complete multilateral agreement for a $2 billion replenishment of the resources of the International Development Association. The new Administration in Washington has reaffirmed its intention to participate in this replenishment and we hope to obtain the necessary legislative authorization for the United States contribution.

The Bank's request that donor countries contribute to the Special Funds is now an active part of our review. I welcome the opportunity provided by this Second Annual Meeting to learn more about these Special Funds so that this experience can be reflected in my recommendations to the President.

Let me say on behalf of the United States that we fully support the need for the Special Funds. We are convinced that multilateral institutions should be able to provide concessional as well as ordinary financing. And that the Special Funds -- given strong and shared support by the member nations -- can be a vitally important supplement to the Bank's other lending

facilities. When we return to Washington, we intend to formulate a proposal for our contribution to the Special Funds to be submitted this legislative year.

The preoccupation of this meeting is with development of this region through multilateral assistance. Asia's economic needs are great. The available financial resources are always less than we would wish. However, through cooperative efforts we can achieve a very great deal.

Moreover, the habits and the policies we are establishing now will assure that we can move ahead with renewed purpose to take constructive action as fresh opportunities to advance the economic and social well-being of Asia. That will surely emerge once the just peace in Vietnam for which we all so earnestly pray is finally achieved.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 10, 1969

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN MARCH

During March 1969, market transactions in Federal Securities of Government accounts resulted in net sales by the Treasury Department of $1,174,500.00.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, April 14, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated January 16, 1969, and the er series to be dated April 17, 1969, which were offered on April 9, 1969, were ned at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing July 17, 1969		:	182-day Treasury bills maturing October 16, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.447 a/	6.144%	:	96.881 b/	6.169%
Low	98.430	6.211%	:	96.862	6.207%
Average	98.434	6.195% 1/	:	96.870	6.191% 1/

a/ Excepting 1 tender of $13,000; b/ Excepting 2 tenders totaling $350,000
64% of the amount of 91-day bills bid for at the low price was accepted
5% of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 29,357,000	$ 29,357,000	:	$ 5,651,000	$ 5,151,000
New York	1,885,514,000	1,076,434,000	:	1,683,005,000	889,005,000
Philadelphia	35,280,000	20,280,000	:	18,624,000	8,464,000
Cleveland	71,515,000	69,515,000	:	24,457,000	19,137,000
Richmond	17,338,000	17,338,000	:	6,287,000	6,286,000
Atlanta	51,681,000	41,321,000	:	36,532,000	20,094,000
Chicago	208,721,000	138,321,000	:	158,114,000	51,754,000
St. Louis	63,109,000	51,401,000	:	34,453,000	20,303,000
Minneapolis	24,862,000	18,642,000	:	17,781,000	9,781,000
Kansas City	44,540,000	41,040,000	:	22,500,000	18,500,000
Dallas	34,990,000	24,810,000	:	24,239,000	13,539,000
San Francisco	138,317,000	72,037,000	:	111,127,000	38,427,000
TOTALS	$2,605,224,000	$1,600,496,000 c/		$2,142,770,000	$1,100,441,000 d/

/ Includes $410,725,000 noncompetitive tenders accepted at the average price of 98.434
/ Includes $176,409,000 noncompetitive tenders accepted at the average price of 96.870
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.38% for the 91-day bills, and 6.48% for the 182-day bills.

TO CORRESPONDENTS:

Thought you would like to have the attached transcript of the Secretary's Sydney Press Conference.

DIXON DONNELLEY

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 14, 1969

'OR THE PRESS:

Following is the transcript, as received by cable, of a ıews conference held by Secretary of the Treasury David M. Kennedy .n Sydney, Australia, at 3:00 p.m., Friday, April 11, 1969 'Sydney time). He was in Sydney to attend the Second Annual ſeeting of the Board of Governors of the Asian Development Bank ›f which he is United States Governor:

MR. DONNELLEY: I am Dixon Donnelley, and I am Special Assistant to the Secretary of the Treasury for Public Affairs. The gentleman on my left of course, is our distinguished Secretary of the Treasury, Mr. David Kennedy.

Before we begin, I would like to say that this conference is on the record. The Secretary has asked me to tell you that he hopes that this will substitute for the many individual interviews so many of you have asked of me. Mr. Secretary.

MR. KENNEDY: Ladies and Gentlemen, it is a pleasure for me to be in Australia and to enjoy some of the sights and some of the pleasantries of Sydney, a great city. I express here formally for myself and family and delegation our appreciation for the courtesy of the Government and the people of Australia.

I came here principally to demonstrate the Nixon Administration's interest in Asia and to show that the new Nixon Administration is firmly dedicated to the development of this area of the world. It is my first trip out of the U.S. since my appointment as Secretary of the Treasury. My second trip will be to another developing area in the world, Latin America, close to home.

You have my statement that I made this morning before the Asian Development Bank, and you can use that. I will now open the meeting to questions.

QUESTION: Mr. Kennedy, in your statement this morning you indicated that you would be asking your government for a contribution to the Special Funds of the Bank.

MR. KENNEDY: Precisely.

QUESTION: What amount will you ask for?

MR. KENNEDY: This has not been determined. We will ask for an amount that will be substantial, an amount that will be reasonable, and an amount that we feel that we can get through the Congress of the United States this legislative year. That is important.

QUESTION: Do you expect it will be more or less than one hundred million dollars?

MR. KENNEDY: I will not put a figure on the amount.

QUESTION: There has been some disappointment among some of the Asian countries that you have not seen fit, as the Dutch and Japanese have, to mention a figure which you will be putting up to Congress. Have you been having any talks with the Asian delegates to the conference, and knowing of the urgency, have you perhaps disillusioned them a little about this?

MR. KENNEDY: My statement was very clear and forthright: When we go back, we will reappraise the situation along with all other aspects of AID, and that we will come up with a program and present it to the Congress of the United States.

QUESTION: Have you seen anything to change your mind about what the figure should be?

MR. KENNEDY: No, I have not. I am firmly convinced that there is a need for the Special Fund. We are in favor of it and we shall come up with a figure and with a program that will be reasonable, I think, and satisfactory for the foreseeable future.

QUESTION: Yesterday when you were going out, I approached you and you said you were optimistic and overjoyed at the qualify of the conference itself and also the statement by Mr. Watanabe. Would you elaborate on that?

MR. KENNEDY: Yes. I think this conference has been a wonderful example of international co-operation at its best. This is a new organization in its second year and it has made progress. The Bank has a good staff, firm,qualified leadership and I think the action they have taken now to support the Special Fund is all to the good. I am very pleased that other nations have stepped up and shown the way in this field. The United States will be firmly behind it.

QUESTION: You also mentioned that the cooperation shown at the conference itself was a good indication for the future. Would you elaborate on that?

MR. KENNEDY: Yes. In our discussions at the meetings and in the corridors and private meetings bilaterally after and between meetings, there is every reason to be encouraged. I think that the attitude of the developing nations is one of hope and one that is showing careful planning, careful thought. It is not a question of just pumping money. It is a question of taking the funds and the resources by qualified people, technical assistants, and having the projects which are approved, succeed.

QUESTION: May I take this opportunity to ask you one question which concerns the Euro-dollar. We understand that the figure of the Euro-dollar which is currently in circulation amounts to thirty million.

MR. KENNEDY: You are taking in billions.

QUESTION: I mean 30 billion, and I think it poses a problem, and there is apprehension that it might turn out to be a disruptive factor to the financial market operations. What is your comment on that?

MR. KENNEDY: I am glad you asked that question, really. The Euro-dollar market is one of the free markets left in the world. It provides liquidity for many uses, for helping various areas of the world. The United States is using it in large volume at the present time. The figure you gave, I think, is too high. But I see no real problem with that market. The rates, of course, are very high because the demand had been high, and we in our country as you well know have had a very strong inflation. Prices have been going up, and we are trying to bring that inflation that has been running for three or four years under control. In that process we are following orthodox and traditional methods of reducing government expenditures, bring them below the present Johnson budget, creating a surplus in our own domestic accounts. At the same time, we are asking for an extension of the surtax so that we will have a surplus assured. Then we are taking action through our central banking system to restrict credit and, as a result of that, with the heavy demands that are seen for credit in the markets, with interest rates at a very high level, that has been reflected over in the Euro-dollar market and other markets.

QUESTION: Back to this conference, what do you see as its biggest achievement so far?

MR. KENNEDY: I think the biggest achievement is that the bank actually made some loans. They do have in the pipeline other applications that have been or are being processed and will be acted upon. They also have working competence in their management and in their technical affairs to carry out the programs that are financed, and I think the next thing that they have done which is very significant is this Special Fund which will be helpfül in taking care of those situations where they cannot have, at least in the softer areas of the loan market, a concession operated. (GARBLED IN TRANSMISSION)

QUESTION: In your speech this morning, you stressed the need for activation of the Special Drawing Rights of the International Monetary Fund. If these cannot be ratified by the 67 necessary countries fairly soon, is this going to have any effect on the recommendations you made of foreign aid?

MR. KENNEDY: No. It is related only in a very, very distant way. Our recommendations on the A.I.D. from time to time, and particularly this Special Fund, will be forthcoming very quickly to Congress.

QUESTION: Can you give us a time?

MR. KENNEDY: I have no time on it. Soon after I get back I will be working on that, along with other matters. The Special Drawing Rights I threw into this deliberately, because I think it is important that we do activate the S.D.R.'s. They have been approved by the I.M.F. Many nations have approved them and I think it would be not only possible but likely and very desirable that they be activated by the meeting of the I.M.F. this fall.

QUESTION: Why the urgency for this year?

MR. KENNEDY: There is no panic, no real urgency, but that would give strength to the international monetary mechanism, and I think that it would be bad to delay. We are nearly there now. We are nearly home.

QUESTION: How much would you like created? Would you like to create it immediately, and how much?

MR. KENNEDY: I would like to see it activated as soon after the I.M.F. (meeting) as it can be implemented, and the amount. We have not spelled out any set amount. It should be in large enough amounts to take care of the needs for a few years time and I would, if I were to err, I would put in on the heavy side. I would go a little more than some people have been thinking, but I have no figure in mind.

QUESTION: Something in the order of five billion?

MR. KENNEDY: I have no figure in mind.

QUESTION: This Special Fund which you said you would make a recommendation on, has President Nixon actually made a decison on this or will your recommendation go to him and he will then make a decision on it?

MR. KENNEDY: President Nixon has not made a decision on it. He is studying the whole thing -- or at least asking the Treasury to study it -- and we will come up with some kind of discussion on it. We will discuss it with both parties of Congress and we hope to come up with a program which will be supported by the Congress of the United States.

QUESTION: Is there any significance in your current feeling on this conference and the factor of the American withdrawl from Vietnam?

MR. KENNEDY: No.

QUESTION: I am talking along the lines of economic support rather than military support for the area of South East Asia.

MR. KENNEDY: We are aware and you are aware of the drain and burden and difficulties of Vietnam, and I expressed in my statement this morning that the President is making it a first priority and a very great effort to find a lasting and effective peace that will be sustainable by all.

QUESTION: Would any of your observations on this conference have any bearing on this, his ultimate feeling about Vietnam?

MR. KENNEDY: No. His feeling is broadly crystalized on Vietnam. I think that the thing that Vietnam ending would do would be to change from the military some aspects of financial cost over to another area of assistance and so on. But I must say here that his "Peace Fund" that is talked about when Vietnam ends would take the figure of what the budget is, and everybody is trying to get their hands on that account. There are all kinds of programs in our cities and the developing areas that are trying to establish for themselves part of that money. It will not be a complete reduction. The military effort just does not stop like that, and we have a very heavy burden of a peace umbrella over the world.

QUESTION: Since you have been here you have had several private talks, some of which we know about and some of which we undoubtedly do not know about. In any of these have you come to any conclusions about which you could tell us, or any recommendations you will be making to the President? I am thinking particularly of the talks you have had with the Australian Treasurer and the Prime Minister, and any effects they may have on U.S. trade and investment policy in Australia?

MR. KENNEDY: I am sorry that I cannot really answer your question. We have had a number of bilateral talks, taking the problems of the nations as they affect your country and the United States. Your Prime Minister was in the United States and had some discussions. He will be back in the United States. Talks and consideration by the staff is going along, and I must say that from the standpoint of relationships with Australia, it is of the closest with the United States.

QUESTION: Has the thinking changed at all on U.S.-Australian financial relations as a result of the talks you have had here?

MR. KENNEDY: There is better understanding.

QUESTION: In those talks did you cover balance of payments?

MR. KENNEDY: Yes. We covered the waterfront, so to speak. We had many discussions.

QUESTION: Could you give a point from where to where. Say from balance of payments to defense?

MR. KENNEDY: I think that it would cover most of the areas of interest to your government and our government, and you hit some of them.

QUESTION: Would you care to comment on the deflationary actions taken by the previous administration, which are now tending to bite in terms of the U.S. economy and slow down the pace of inflationary pressures a bit. How that is going to affect trade in this particular area?

MR. KENNEDY: Any nation going too fast with inflationary pressures has to be adjusted, and the further the adjustment goes or the longer it is delayed, the greater adjustment is needed. Actually what we are trying to do is a very simple thing but a very difficult thing. We are trying to disinflate without causing a recession or too much downturn -- take the steam out of the boiler, so to speak.

QUESTION: But this will have some effect on trade in the area, particularly with Japan.

MR. KENNEDY: It will have some effect on the internal economy and on outside trade, but not serious.

QUESTION: You do not consider it will seriously affect it?

MR. KENNEDY: No. I think the economy of the United States is so basically strong at this time that even with the move towards accommodating the hopes and aspirations of our people and the needs of our cities, there is no serious turndown in prospect, and that makes it very difficult to disinflate, when you have that kind of outlook. That is what we are trying to do.

QUESTION: Speaking about April 4th, President Nixon proclaimed his desire to improve the International payments condition. It comprised a set of measures on the part of the United States, and there is a certain concern that these might have an adverse affect on exports to the United States by all those countries including Japan. You have already mentioned it, but what is your specific comment on that?

MR. KENNEDY: I think you were referring to the message of the President where he talked about bringing our economy under control, and at the same time working on trade liberalization and getting away from controls. Is that the one you are thinking about?

QUESTION: Yes.

MR. KENNEDY: We are trying in our way to have an easing and a dismantling of controls. I have worked most of my life trying to develop free markets, trying to have freedom of trade among peoples. I think that barriers are being built up one after another when we get into problems. We realize in this field that it is not easy to dismantle controls. We have to do it very carefully, and that is the reason why we are making it on the basis of strong pressures on our own economy, to keep it in balance. I believe this will aid in fostering international discussions and in fostering freer international trade. The liberalization is not in the present climate designed to seriously affect our balance of payments. We have reduced the interest equalization rates. We can do that in the present climate because of the high interest charges in the United States. It is not likely that there will be a great call on this market at these rates when you can get the money cheaper in other places. We want to continue the stand-by possibility. We are going to ask for an extension of the talks so that the President can change it if necessary the other way. Hopefully, he can reduce it.

QUESTION: In the context of your philosophy with free markets and free trades are you prepared to comment on what appears to be, at any rate from this side of the world, a sort of creeping protectionism on the part of Congress. If you can talk about specific things of interest to Australia -- wools, metals.

MR. KENNEDY: There is a feeling that over the years the United States has led the world in freedom of aid and freedom of trade, and that is true. We have gone to the conference table and been very easy on negotiations. We have had very great barriers against us. We are working bilaterally to overcome any of these that are hurting our economy. On the other side, there has been a feeling on the part of many of our businesses, many of our people, that we should be more restrictive, that we should put quotas on many things. The President has made his position very clear that he believes in free trade, that he is trying to work in this kind of climate and economy where free trade could be facilitated and not build barriers, and I have already expressed my view very strongly on that. I do feel strongly.

QUESTION: Specifically, do you see any prospect of an easing of restrictions of import in your market of Australian wool and meat?

MR. KENNEDY: Specifically we shall discuss that with your government officials.

QUESTION: Would you like to see greater Australian economic participation within South East Asia?

MR. KENNEDY: I think Australia has shown leadership and I commend the government of Australia for its interest in this area. I think there is a bulwark of strength here and looking to the future I would see that Australia can really be a strong factor in helping build this area of the world. I would compliment them rather than criticize on what has been achieved. I think they have shown leadership.

QUESTION: In previous conferences in Australia the United States seemed to be playing a leading role, but in this conference you seem to have kept yourself in the background much of the time. Do you think this is perhaps indicative of the way the Nixon Administration intends to work?

MR. KENNEDY: I think the Nixon Administration is not trying to set forth expectancy and have expectations' outgrow the realities of life. I think what we want to do is -- when we see the need -- demonstrate by action, and not have high sounding phrases, not have large figures bandied about, but have a program that not only is sustainable but which will produce results. I believe you have asked a good question there.

QUESTION: You mentioned that Australian participation at this time was pretty good, but in relation to the Asian Development Bank would you like to see us, since we live in the area and the area is part of this country, do more than we are doing at this time. In other words, does it apply to us now that we should have been a little more generous than we have?

MR. KENNEDY: I would be the last one to criticize or to say what could have been done. I think each nation has to take a look at its own responsibilities, its own aspirations and desires, and if I were to give an answer I would say that you have done very well.

QUESTION: Specifically in your speech today when speaking about the United States' attitude towards Special Funds, you said you hoped other countries would also come in on the Special Funds. Does this include Australia; would you like to see Australia come in?

MR. KENNEDY: I would like to see all of the leading nations join in the Fund and do as much as they can.

QUESTION: Including Australia?

MR. KENNEDY: All of the nations.

QUESTION: On these so-called soft loans would you be prepared to comment in which areas you would like to see this form of loan channeled? There has been some criticism for instance of the Japanese attitudes, where they want this money directed specifically to agriculture so that they can develop complementary economies in the area rather than competitive manufacturing.

MR. KENNEDY: I think in the case of a bank -- and I know a little bit about a bank -- I would like as much freedom of action as possible in the staff and the management of the bank to follow their own desires. I know the receiving countries would like as much freedom in directing their projects in their own way. But a nation that is putting up money has to have some say -- if they want it -- as to where the money should be spent and how. I know unrestricted gifts are being sought out and are desirable, but I would not want to criticize a nation for directing its funds into an area where they believe the need is greatest or that it will be of most help to a developing area. If they do get too many restrictions, it will make a difficult problem for the Bank itself to operate, and I think that is what is being talked about. We are going to have to look in our own situation as to whether we want to be just relied upon for

funds or whether we want to designate some areas that we think need developing and where we want to direct funds. I would not want to foreclose, through any statement I made here, our own options in this matter. I have raised a lot of money for universities. All the private universities need money. There is a never-ending need for money and they all want unrestricted gifts. But when I go to a man and he says, "I will give the money but it has to have my name on the building and it has to be a library," I would not say "No, we do not want the money. We do want want the library". I would take the money and give him his wish and I think that is true in this field.

QUESTION: You have been very cautious about not criticizing anybody. Is there anything that has happened in Australia since you have been here or anybody you have talked to since you have been here that you are unhappy about?

MR. KENNEDY: I might be unhappy about my wife if I find she has spent a lot of money here. I am a Scotsman and we have got a balance of payments problem, and so I hope she is very, very careful in what she buys, because I have seen some beautiful merchandise in the shops.

QUESTION: There has been growing apprehension in South East Asia that the new President Nixon might be inclined to over emphasize Europe, giving less emphasis to the South East side, and it has been felt that this tendency might grow more pronounced in the economic field. What do you think about it?

MR. KENNEDY: I do not think it is true. I think that coming into office, President Nixon had a very important first order of business: to reappraise Vietnam and to take a look at the Middle East and the various problems of the world. I was a great advocate of his early trip to Europe. I think it was necessary and important, and did not show any lack of interest in Asia for him to go in the other direction on his first trip. I think he went to Europe to show that he was not being overly concerned with other areas of the world. He asked me to come here and I think at some point he will be travelling through. It is a big world despite the jet, and he has many obligations. Right now he is spending most of his time on the domestic scene trying to improve our own economy.

I am glad of that because as the chief financial officer of the United States, I think that was a must. I began to think that some international things were being given too much thrust and there were things that he should have been doing at home.

QUESTION: We have been relieved that you have been able to discuss the close of Vietnam. What would be the most conspicuous approach to be taken by the Nixon Administration in the political and economic field towards South East Asia?

MR. KENNEDY: I do not think at this press conference I could really give you a worthwhile answer. I am sure that it would be helpful to all of the nations in this area to have peace in Vietnam. Surely it would have an immediate economic effect on some countries. But unfortunately the economic impact is a small part of the total Gross National Product of any of the world's nations. It might be a marginal amount and it might present something of a problem but I am sure that there would be need -- large need -- for further development in this area. Hopefully some funds may be channeled from the savings for this purpose. I make no promises.

QUESTION: Has Mr. Nixon in your discussions made any plans for a visit to Australia?

MR. KENNEDY: No.

QUESTION: During your time as Secretary do you intend to press for a review of the world money system over and above the implementation of the S.D.R.?

MR. KENNEDY: When you say reform, that is in a way a bad word. Any movement or any mechanism or any market needs continual attention. We are having and will continue to have discussions on ways and means of keeping the international monetary system viable so that it will meet the needs of the world. When you get into specifics of how and what shall be done, you get into problems of strong feelings one way or the other. Fortunately now the experts in the universities, the leaders of finance and banking, the ministers of finance, the heads of countries, are taking a look at their own positions and the world's position. I think we are in the kind of an atmosphere that the I.M.F. can meet the needs of our economies. Each nation can do what it should

do. What we are trying to do in the United States is a very,very simple thing, that is to make the U.S. dollar strong at home, and a currency that can be used in international trade -- not only as the world reserve currency, but one with a stable value.

QUESTION: Can you give us an indication of some of these specifics as you see them?

MR. KENNEDY: No, I do not think I could enlighten you on this. You have heard all of the famous words, flexible exchange rates, the creeping pegs, and all of these things. I do not think any of these are the real answer. The real answer is to handle the situation as we have it and find a way to adjust in each of the major nations to the movements of their own environment and obtain a parity among the currencies that will sustain trade and improve the growth of the world.

QUESTION: Could you give us some indication of when you think you will have the U.S. economy under control? These inflationary pressures will have abated to a point where you feel the dollar is strong at home, a strong force?

MR. KENNEDY: I think the dollar is strong at home and overseas now. It is standing up well on the exchange markets. I do not want to give the impression that it was not. What I was saying was that with the inflation we have we could be in serious trouble if we did not bring it under control. As to the time when it will be -- I think the action we have already taken will have a very important effect and I think it is having an effect now. We are becoming a little impatient in these matters and want it to happen overnight. It just does not happen this way. But before the year is up I am sure the necessary action will have been taken and the economy will be in a better shape.

QUESTION: Do you think your ability to keep the economy under control will have any direct relationship to the implementation of the S.D.R.'s?

MR. KENNEDY: No. I think what we are doing now is helping to get activation of the S.D.R., because the banking and finance people say that we should put our house in good order.

QUESTION: There is a suggestion of early activation of S.D.R. Is it possible that we will have to keep a watchful eye on S.D.R., otherwise the world global trend will be towards inflation and there may be some need of preventive measures towards an inflationary trend. What is your comment on that?

MR. KENNEDY: I think there is no substitute for discipline on each individual country's part. I do not think we can discipline this area of the world or this area of the world can discipline us. I think it is the responsibility of each of us in our own way to bring your own house into order. I do not see that the activation of the S.D.R. will present an inflation problem. I think it will merely be a liquidity and adjustment process with the ability to take care of the needs for the present time.

QUESTION: You have said you are quite satisfied with the measures you are taking to put your own house in order, but at the same time there is also the problem on the other side, if you like, of granting services in Europe. Do you think countries such as Germany are taking this situation seriously and are doing as much as you would like?

MR. KENNEDY: I think they are taking it very seriously and responsibly. They have their own problems in their own country. They have had a very strong surplus for a long period of time. They are in a position to show leadership and I am sure they are aware of this. There have been discussions with the German Government, the German people, about their problem but again it would be foolhardy for me to lecture Germany.

QUESTION: In this country the political opposition particularly has been critical of the government's policies on overseas investments in the past and the government's refusal to insist on a high share of equity in any new overseas project. Would you object in any way to an insistence on Australia's part of a large Australian share in equity in any new American investment projects?

MR. KENNEDY: No, that is your business, not ours. You do what you like there. It is up to each individual corporation that might want to come in as to whether they will come in as a small minority or with small participation or whether they will stay out. I think your problem is one of balanced growth, getting the capital investment that you need for the building of your country and an economy that can be sustained. I think nationalism to a point is all right, but I would go very carefully on too many restrictions because it could foreclose on your development. This is an individual matter with the corporations. There are those who might want to come into your market. When a country needs capital and growth, one way of not getting it is to make it so restrictive that outside corporations will not come in.

QUESTION: Putting it another way, do you think in the present financial climate in the United States if we did insist on, say, 50 percent Australian with new projects, this would lead to a great falling off in the amount of U.S. investment we could expect?

MR. KENNEDY: That would be an individual situation with the corporations and I would not know what companies or corporations were considering coming in. It is not a matter for the United States or the United States Government. I know that many of our corporations ten years ago or so would not go into any area unless they had full and complete control, because they had no experience in joint ventures and in participations which they did not control. In recent years many of them have had experience. Most of that experience has been very good. Some of it, perhaps, had discouraged them from expanding and going abroad, but I think again it is an individual corporation's decision as to whether they want to come in and on what basis. Usually they want to come in when they can see chances to make a profit -- we are still in the profit system -- and also a contribution to their over-all development, which would mean the development of the area.

QUESTION: When the Asian Development Bank was in process of being organized the President of the United States at that time suggested that the communist countries of Asia, specifically North Vietnam, should be participants as well as recipients. Has the Nixon Administration or have you yourself formulated any policy in this regard?

MR. KENNEDY: No.

QUESTION: The United States and South Africa are at odds over the use of newly mined gold. Do you think there is any chance of the two countries reaching agreement over this issue?

MR. KENNEDY: Yes.

QUESTION: Could you explain on what grounds this agreement will come about?

MR. KENNEDY: No. I have had no discussions with South Africa. I am aware of the history of the problem. I am aware that South Africa is a sovereign nation and they have their own individual problems and I am sure that the problem of their newly mined gold is not insurmountable and that people with good will and a desire to accomplish a purpose will do so. It is not a question between the United States and South Africa. It is a world question.

QUESTION: Looking to the long term when America finally gets to the stage where a solution is found to end all the problems at home and keeping in mind the era of defense that has now gone back to Britain and Australia in various fields. Do you look to an ultimate solution of the problems within South East Asia in relation to Australia's position here as a joint American-Australian economic venture? In other words, would an economic investment in South East Asia from the American point of view do more than Vietnam is doing?

MR. KENNEDY: I have not given consideration to your precise question. But I think we want to work very closely with Australia. I think our common interests direct that kind of an attitude. I think we have many common interests that we can work on together. I think we can aid the area better through an international organization such as the Asian Development Bank

rather than by joining two nations in a common enterprise. If we can direct our common policies so that you can grow and remain strong, as you are -- Australia has great potential -- the resources, the people, the know-how, the stability of government and all those things -- then you will be in a position to show the leadership and have the financial policy to assume increased participation and increased activity in this area. It will be to your selfish benefit as well as humanitarian. The same holds true of the United States and Japan and with other nations in this area that are making great progress. We are seeing the results of community interest on a multilateral basis that are actually encouraging. One could get terribly discouraged if you just say, "You cannot do this." You cannot do it overnight, but we are not trying to do things overnight. What we are trying to do is find ways of financing and give management and direction so that over a period of time we will have the kind of growth and development that is sustainable. You cannot do that if you have instability of governments or you have policies in governments that are so restrictive that they hold back or they go so fast that they cannot service their debt. When you lend money you expect to be repaid with interest. This is a loan -- otherwise it is a gift -- and so you build a balanced economy. You have to have discipline, and we lecture sometimes countries that get out of hand. I do not like to lecture. I like to sit down with them and talk about their problems and see if we cannot come to a reasonable solution.

Thank you very much, gentlemen.

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STATEMENT OF THE HONORABLE
PAUL W. EGGERS, GENERAL COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON BANKING AND CURRENCY
ON S.34 AND S.296
APRIL 15, 1969
10 A.M. EST

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before the Committee this morning to testify on S.34 and S.296.

These bills would effect a number of significant changes in the Investment Company Act and the Investment Advisors Act. In addition, they have several features which would affect bank trust department activities. Because it is in this latter respect that the proposed legislation falls within the particular field of interest of the Treasury Department, I will devote the bulk of my comments this morning to these portions of the bills. Further, because the two bills have the same effect in this regard, I will for simplicity's sake, refer only to S.34.

S.34 would resolve several questions which have arisen concerning the operation by banks of collective investment funds. These questions

(K-58)

are twofold: First, the extent to which the securities laws are applicable to such funds; and second, the extent to which the operation of such funds may violate the Banking Act of 1933.

These questions concern three distinct types of funds. The first is the traditional common trust fund for the collective investment of moneys held by banks in the capacities of trustee, executor, administrato or guardian. These funds are tax-exempt if operated in conformity with the rules and regulations of the Comptroller of the Currency. They are also specifically exempted from the Investment Company Act of 1940. The bill would provide an exemption for these funds from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, except for the antifraud sections of those statutes. It would also recognize that the Banking Act of 1933 does not preclude banks from operating these funds.

The second type of collective fund is the group trust for the collective investment of assets of tax-exempt stock bonus, pension or

profit sharing trusts. Such pooled funds are also tax-exempt, under Revenue Ruling 56-267. Banks operate these funds both for the collective investment of assets of corporate employee benefit trusts, and those established by self-employed persons. The bill would recognize that all such group trusts are exempt from the Investment Company Act. It would provide that, except for the antifraud sections, the provisions of the Securities Act and the Securities Exchange Act are not applicable to such pooled funds for corporate employee benefit trusts. As to group trusts for the collective investment of assets of trusts of self-employed individuals, S.34 provides that the bank regulatory agencies may exempt interests therein if necessary or appropriate in the public interest and consistent with the purposes of these Acts. Thus, the Comptroller of the Currency as to national banks, the Board of Governors of the Federal Reserve System as to state member banks, and the FDIC as to state nonmember insured banks, would supervise the application of the securities

laws, as such agencies deem necessary, as to these funds. This would enable the banking agencies to coordinate such rules and regulations with their present supervisory activities concerning trust departments. In so doing, the bill follows the precedent wisely established in the Securities Acts Amendments of 1964 as to bank securities. In addition, S.34 would provide confirmation that the Banking Act of 1933 does not prevent the operation of these funds by banks, as long as in conformity with the Regulations of the Comptroller of the Currency.

The third type of collective fund is the commingled account for the collective investment by banks of funds held as managing agent. S.34 would confirm that such funds are governed by the Investment Company Act of 1940, as administered by the Securities and Exchange Commission. It would amend that Act to remove present minor impediments to bank operation of such funds. In addition, S.34 would provide that the operati of funds of this type by banks does not contravene the Banking Act of 193

as long as in conformity with the rules and regulations of the Comptroller of the Currency. It would thus reverse the decision of the District Court for the District of Columbia in the case of Investment Company Institute v. Camp and provide a desirable uniformity of banking regulation for these funds, similar to that which now exists as to common trust funds.

This bill would not involve any novel activity for banks. Banks have been acting in fiduciary capacities for over a century. They have been operating formalized common trust funds for the collective investment of moneys held in these capacities since 1937. Banks have been administering pension trusts in one form or another since they were first established, and have been pooling such trusts for collective investment since 1956. They have been acting as trustee of retirement trusts for the self-employed, and pooling such trusts, since 1962. Banks have administered managing agency accounts since the early 1930's. The only activities which they have not heretofore been able to carry on has been the collective investment of moneys of these accounts.

We believe that it would be highly desirable for banks to be able to make their investment expertise, as well as their experience in acting in fiduciary capacities, available to the public in a form which will permit their accepting smaller accounts. The pooling of retirement trusts for the self-employed, and of managing agency accounts, as permitted by this proposed legislation, would accomplish this end. We further believe that it would be most desirable to remove the technical impediments which have resulted from the uncertainty as to the applicability of the securities laws to these funds. A primary benefit from this would be to open the way for banks more fully to effectuate the Self-Employed Individuals Tax Retirement Act of 1962. To this date, the questions which exist as to the applicability of the securities laws to pooled funds for these trusts have greatly restricted bank acceptance of them. Since such trusts are necessarily small in amount, it becomes necessary to invest them collectively to be able profitably to offer this service. By

enabling banks to pool these funds in a manner consistent with both the objectives of the securities laws, and banking regulatory practice, the bill accomplishes a most desirable objective. Finally, these questions which have arisen pertaining to the securities and banking laws have also created uncertainty on the part of many bankers as to the status of traditional common trust funds, and group trusts for the collective investment of assets of corporate employee benefit trusts. We believe that the clarity which this bill would provide as to these points would also be highly desirable.

Because the activities affected by S.34 involve only a minor departure from the present fiduciary operations of banks, which they have carried on for years subject to the supervision of the banking agencies, it is apparent to us that the additional responsibilities which the bill would place in those agencies can be quite readily assumed. The continued utilization of the banking agencies for the supervision of these funds, and the administration of such of the securities laws as is necessary,

would also provide economies which would not result if these responsibilities were instead conferred upon other agencies. Accordingly, the Treasury Department believes that the banking aspects of S.34 are most desirable and strongly urges that the Committee act favorably thereon.

As indicated at the beginning of my testimony, S.34 and S.296 would also accomplish some revisions of the Investment Company Act and the Investment Advisors Act. Some of these provisions are labeled as reforms in the investment company industry, while others are designed to facilitate, update and improve the administration and enforcement of these Acts. Because the Treasury Department has no extensive background of experience in dealing with conventional investment companies, and the system of regulation and control which has been established as to this type of operation, we believe that it would be inappropriate to comment as to the desirability of enactment of these proposals in either the form taken in S.34 or in S.296. However, should Congress in its wisdom

determine that these measures should be passed, the Department is of the opinion that there will be no difficulty occasioned in their application to bank operated commingled agency accounts.

Finally, the bills contain provisions which would assure an equal status for insurance company separate accounts as against bank commingled managing agency accounts. We feel that this principle may be desirable, and have no objection to its enactment.

STATEMENT OF THE HONORABLE DAVID M. KENNDEY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
ON
REPLENISHMENT OF THE RESOURCES OF
THE INTERNATIONAL DEVELOPMENT ASSOCIATION
10:00 A.M., Wednesday, April 16, 1969

Mr. Chairman and members of the Committee: I appreciate this opportunity to urge that the United States participate in replenishing the funds of the International Development Association.

The Bill before you today -- H.R. 33 -- which would authorize a U. S. contribution of $480 million to IDA, is extremely important to the welfare of the developing nations. It is important as well to the more advanced countries which are contributing through this institution to growth and progress in the developing areas. We have come to realize that economic progress alone does not insure world peace. But it does enable men everywhere to better realize their personal hopes and aspirations. Economic progress thus helps to blunt the despair and frustration which too often lead to wasteful and sometimes dangerous conflicts among men and nations. The United States contribution would be made over a three-year period. I urge you to act favorably on this measure, and to recommend its prompt passage by the Senate.

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As you know, the bill was favorably reported by the House Banking and Currency Committee, and was passed by the House of Representatives on March 12. In both instances, it was approve by a large bi-partisan majority.

This is not surprising. IDA stemmed from an American idea and has received bi-partisan support of four Presidents, member of Congress and many other leaders in American national life. IDA was created primarily at Congressional initiative. Senate Resolution 264 of 1958 originally suggested establishment of the Association as an affiliate of the World Bank.

President Eisenhower strongly recommended the formation oi IDA -- pointing out that, "The well-being of the free world is vitally affected by the progress of the nations in the less developed areas." Presidents Kennedy and Johnson encouraged and approved the subsequent expansion of IDA's operations.

President Nixon is firmly convinced that IDA helps meet an essential need of the developing countries, and that contin support for it is in our own national interest. As the Presid has said: "America's basic self-interest in world development stems from the brutal fact that there can be no sanctuary for the rich in a world of the starving."

The establishment of IDA in 1960, and the agreement to provide it with additional and larger resources in 1964, were, in effect, commitments by other nations to a more equitable sharing of the burden. Today, we ask a second replenishment that would represent additional progress in that direction.

In the first five years of IDA, the economically advanced nations contributed a total of some $150 million a year for its operations. In the following three years, they increased the amount to $250 million a year and, under the proposal I am supporting today, they would contribute $400 million a year. I think it important to note that the United States -- which provided more than 43 percent of the funds from the developed nations when IDA was established -- would contribute 40 percent of the new replenishment.

In the eight years since IDA began operations, several of the developing countries have made truly impressive progress. Yet many other countries are advancing only slowly. The lives of their people are blighted by hunger, sickness and ignorance. These nations -- the poorest of the developing world -- urgently require the assistance that IDA provides. If they are to progress, they must have access to credit on terms they can meet -- specifically, to credits that can be repaid on easier terms over

a longer period of time. Development financing on harder terms would be self-defeating, because mounting debt-servicing costs would drain away the funds provided, and required, for economic growth.

IDA draws on the experience and skill of the World Bank, but lends on terms that would not be possible for the Bank itself. Thus, it plays a unique and vital role in the concerted effort by industrialized nations to assist the developing countries.

We want to encourage other economically-advanced nations to increase their assistance to the "have-not" countries. As other donor nations grow financially stronger, we would like them to assume a greater share of the burden of providing development finance -- and, indeed, under this proposal, they would do just that. They are shouldering their burden in IDA - and I believe that is another compelling argument for continuin our participation in the agency.

Other countries put up three dollars for every two the Uni States provides to IDA. This does not include money they give in addition to their pledges, nor does it include funds which the World Bank transfers to IDA out of its yearly net earnings. The Bank transferred $75 million out of fiscal 1968 net earnings

compared with only $10 million the previous year. I am very pleased that the Bank has increased its contribution to IDA.

I do not foresee a decline in such transfers. On the contrary, should conditions permit, transfers from net earnings over the 1968 level would be in order. I am assured by the President of the World Bank that he will support this objective before his governing board.

In addition to burden-sharing in amounts of financing, IDA assures burden-sharing in terms of financing. Because of IDA's uniform repayment terms, all donor nations assist on the same concessionary terms.

As a multilateral agency, IDA offers other important advantages that are well-recognized by your committee:

-- the objectivity of an international institution

-- the broad and collective experience of its member nations

-- the opportunity to exercise leadership in the development effort.

IDA is also strengthened by its direct affiliation with the World Bank. Because it is directed by the same President, guided by the same Board of Directors and Governors, and utilizes the same expert management and staff, we can be certain that its funds will be expended prudently. Applications for IDA credits

must meet the same strict standards set for requests for World Bank loans, and are given the same careful appraisal. Moreover IDA credits, like the Bank's loans, must be amortized in hard currency. The only essential difference is that IDA provides funds in cases where the borrowers need more favorable foreign currency repayment terms than the Bank can provide.

I am fully satisfied that the terms of the proposed replenishment will protect our balance of payments.

Under the agreement, if our current payments imbalance persists, we will provide in cash until fiscal 1972 only that part of our contribution which is expended for IDA-financed purchasing in the United States. Furthermore, this arrangement would continue after that until other contributors' shares in this replenishment are exhausted. In other words, the agreemen provides that the United States' contribution -- to the extent required for purchasing in other countries -- will be postponed Instead, other countries will accelerate their contributions during this period. I should point out that this arrangement would not affect IDA and the World Bank's traditional system of international competitive bidding.

The budgetary cost of our contribution will be less than the amount of our pledge over the first three years. IDA calls on contributors for cash only when it needs funds to meet disbursements on its credits, and the calls are on a pro rata basis. Because of the lag between credit commitments and disbursements, calls for cash would be only a fraction of the pledges for some time. And let me repeat that: we would be called on for even less than our pro rata share should we continue to have payments difficulties, thus reducing even further the budgetary impact during the early years.

My final point is this: the 18-nation replenishment agreement cannot become effective until the United States agrees to make its contribution. Thus, the future of IDA depends squarely upon Unites States action.

The first step in the replenishment was completed last year when the replenishment resolution of the Board of Governors received the required two-thirds vote of the 102 member countries. However, the U. S. Governor could not vote because Congress did not complete action on the proposal last year. Our country is the only contributing nation that has not approved the resolution.

The second step in the replenishment is approval of the agreement by at least twelve countries whose contributions would

total $950 million of the proposed $1.2 billion total. Eleven countries whose combined contributions would be $472 million have completed action to fulfil their part of the agreement. Therefore, if the United States agrees to make its contribution of $480 million, the second replenishment will be effective.

On the other hand, if we withhold our contribution, the replenishment cannot take effect. Our approval can be expected to bring prompt and favorable response from those countries which have approved the resolution but have not acted on their pledges: Belgium, France, Italy, Japan, Luxembourg, and South Africa.

Because the delay in obtaining additional funds has threatened to suspend IDA lending, several countries are advancing funds against their pledges. Because of their actio IDA has been able to approve additional loans.

Other nations have shown their confidence in the work and future of IDA by approving the replenishment agreement -- and, in some instances, going a step farther and advancing funds. I believe that failure to approve the United States pledge would be a very serious setback -- not just to IDA, but to the entire concept of multilateral assistance we have so vigorous encouraged.

H.R. 33 would authorize the appropriation of $480 million for the U. S. contribution -- without fiscal year limitation, with the full amount remaining available until expended. The U. S. letter of credit this fiscal year and in each of the next two fiscal years, would be $160 million. We would request funds for this year's contribution as a supplemental item. There would be no budgetary expenditures until drawings are made.

The future of the International Development Association -- and perhaps even of the whole concept of international cooperation for development -- now depends upon the United States. If we want IDA to continue in the role we envisioned for it as a strong and effective helper to the less-developed countries, we must renew our support for it. By so doing we will also re-affirm our belief that nations have a common responsibility to work together in solving the world's economic problems.

I hope the Committee will act favorably on H.R. 33, and will report it promptly to the Senate. Thank you.

TREASURY DEPARTMENT
Washington

EXCERPTS FROM REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY, BEFORE THE EXECUTIVE
COMMITTEE OF THE AFL-CIO, GREENBRIER HOTEL
WHITE SULPHUR SPRINGS, WEST VIRGINIA
TUESDAY, APRIL 15, 1969, 6:30 P. M.

At the outset, let me recall Samuel Gompers' response when he was asked, "Exactly what do you want for the American working man?" His reply, as you well know, was: "More! More! More!

Within the bounds of reason and fiscal prudence, so do I. And so does the entire Nixon Administration. However, we don't want it to stop with labor. We want more -- and more -- and more -- for <u>every</u> segment of our population.

This evening, I want to discuss the most serious obstacle to achieving more and more and more for all Americans. You know very well that I'm referring to inflation -- to that insidious enemy of prosperity that riddles the economy and threatens the pay envelopes and living standards of all of us, including, labor.

President Nixon and the economic and financial policy team I represent have assigned the defeat of inflation the highest priority.

In all candor, an insidious inflation is close to having our great economy by the throat. But I assure you of my deep conviction, shared by the others who advise the President in such matters, that for the task of breaking the grip there is strength to spare in both the economy and the people who make it go. We should not panic. But neither should we underestimate, as has happened in the past, the diverse and persistent forces with which we are dealing.

I do not really believe that labor leaders like yourselves need to be reminded of labor's stake in a successful outcome of the fight against inflation. Nonetheless it is instructive to contemplate for a moment what has happened to take-home pay since 1965. There is broad agreement that 1965 was the year in which inflation began to get away from us.

Looking at data from the Bureau of Labor Statistics we find that in terms of constant dollars -- meaning what the money will buy -- the spendable average weekly earnings of production and non-supervisory workers (in private non-agriculture employment and with three dependents) climbed steadily through 1964, when it stood at $76.38.

But between 1965 and 1968 as inflation began to d o its work, the figures for these same earnings level off, holding for the four years at an average of $76.42 in a range between $78.13 in 1967 and $78.61 in 1968.

Now I fully realize that these data are but one measure of the problem but they are representative of what has happened. They are simply not consistent with the reasonable and feasible goal of steadily improving fortunes of American workers in a healthy, soundly expanding economy.

They are a measure of the trouble inflation has caused and a signal of deterioration to come if we do not act with prudence and firmness -- above all with firmness.

And I would remind you that the figures I have cited tell nothing about what is happening in that sector of the labor force where unemployment is highest because the potential workers in it lack the skills that spell a steady job. Familiar, too, are what inflation does to the kind of savings that are most commonly made by low and middle income families. Under present circumstances they are lucky if they get the same value out that they put in, much less realize a legitimate profit from letting others use their money.

As I have so often said, this administration has made up its mind to slow inflation down significantly and to show progress on the problem this year. The fiscal tool at hand for this purpose is increasing revenues and lowering expenditures in order to exert some spending restraint by the Federal government on an over heated economy. The President said: "The Government must be willing to impose upon itself the same new discipline that inflation and rising taxes have imposed upon the American wage earner and his family."

You gentlemen may have noticed that the Nixon Administration has been accused in some quarters of too much talk about intentions to solve problems and too little action to get on with the actual solutions. It is not really a very perceptive criticism, but in any case I would argue that it certainly has no merit with regard to fiscal or budgetary matters.

This administration intends to live within its means.

The first order of business in our battle with inflation is to assure a strong budget surplus. This requires extension of the income tax surcharge, plus carrying out the President's proposed budgetary reductions.

The budget proposals call for a total reduction in expenditures of $4 billion in fiscal 1970 from the revised budget inherited by the Nixon administration. Military cuts account for $1.1 billion of total savings. Other sample reductions include: $185 million in foreign aid spending, $140 million in outlays by the Atomic Energy Commission, and the space program, $345 million in agricultural and natural resources outgo, $420 million in postal and transportation budgets, and $150 million from other programs.

There are also readjustments in projected human resources spending. By paring judiciously and reorganizing to gain efficiency we have managed to budget $390 million less for these programs than was projected. Bear in mind, however, that the 1970 budget provides for an increase of $6.5 billion over 1969 in domestic programs.

These proposals will be submitted to Congress and, of course, are subject to disposition by your elected Senators and Representatives.

While projecting revenues is an inexact science, we expect a budget surplus of at least $5.8 billion, the largest in eighteen years and the fourth largest in our history.

As the President said, we believe a surplus of this size is a clear signal that we are getting our house in order.

A second tool which will assist us in our efforts to control inflation, will be a monetary policy pointed toward restraint, which will work in harness with fiscal policy. Toward this objective, the Federal Reserve Board recently further limited expansion in the supply of money and credit by again raising the discount rates, and as a new step raising reserve requirements of member banks.

The efforts of a restrictive monetary policy already had been reflected in slower growth in bank credit and the money supply in the first quarter, as compared with a very strong increase in the monetary aggregates during 1968.

There is no doubt in my mind that the economy can take this strong medicine. Nor should you doubt that we are sincere about moving to stop it -- to let the surcharge die -- as soon as an end of the Vietnam War, or other changed factors, will permit. Meantime, however, we would be derelict indeed if we did not insist that the medicine be swallowed. The alternative to curbing inflation, which is simply a further spiral ending in a "bust" would be catastrophic.

If that happened, efforts to solve the social problems of poverty, urban blight, unequal opportunity and all the rest would simply go glimmering. Indeed these problems are one reason we are in such deadly earnest about curbing inflation. It is only from the platform of a healthy economy that effective social improvement programs can be launched with any real hope of success.

Now before I speak of what we propose to do on reforming the tax structure, let me touch briefly on the prominent question of whether we can throttle down inflation without throwing people out of work. My answer here is that if we keep our nerve in doing the things that must be done, and stressing that we are talking about temporary measures, we think we can bring it off without a significant or substantial rise in unemployment.

Of one thing I am convinced: Unless we do succeed in bringing inflation under control this year the problems will increase to the point where it can only be changed at a very heavy cost in terms to unemployment.

I would point out that labor is generally scarce these days and that a fair amount of the time would pass before employers, having acquired and trained a work force. would lay workers off. Of course, my view is well known that the real employment problem is not in numbers,but their distribution and in the skills which the economically disadvantaged need to be taught if we are truly to progress in this field.

And now for a word about taxes, which may be singularly appropriate since some of you may have less than four hours in which to send a certain piece of mail, check enclosed, to one of my employees.

There are many, including some members of Congress, who believe that for reasons of equity and justice,tax preferences should be closed before, or coincident with, extending the surcharge.

We agree, equity and justice demand that preferences be closed. But this is a very tough thing to do. To repeat a well known phrase, "One man's loophole is another man's living." Permanent revision of the tax laws is a long, tedious process, and it cannot and should not be considered an economic substitute for the extension of the surtax.

In terms of priority, our mission is simple: in putting the needs of the nation first, we must have the surcharge now, before it expires. At the same time we will begin the arduous task of revising our tax structure.

Let there be no mistake in the minds of the American people: As our tax laws stand today, unfair burdens are imposed on some, while special preferences granted to others are just as inequitable. We know this, and we intend to do something about it.

This administration, working with the Congress, is determined to bring equity and fairness to its tax code. Our goal is meaningful reform legislation in this session of Congress.

President Nixon will send a special Message to Congress very shortly, outlining in general terms the scope of our reform proposals. Next week, the Treasury will present those proposals, in detail, to the Congress.

While I cannot go into specific details of these proposals, let me touch upon a few areas the Treasury staff has been intensively studying since January.

There have been many reports about a Treasury plan to assure that no wealthy person can escape paying his fair share of taxes. These reports are true.

The proposal being looked at for a tax on persons with large amounts of currently sheltered income would place a 50 percent ceiling on that amount of an individual's total income that could enjoy tax-preferred status.

The belief is that our proposal limits preferences while it also takes a giant step toward simplicity and equity.

There are also other areas under study, including the problems of allocation of personal deductions, the tax treatment of conglomerate mergers, the abuse of the special tax exemption for small corporations, exempt organizations, including private foundations, the rules affecting charitable deductions and the tax treatment of mineral production payments.

Now, let me make it as clear as one can, this brief recital of areas under careful scrutiny since January is not necessarily an outline of what will be included in the President's tax reform proposals announced later this week. It does indicate the breadth of our studies, and it means that these and many more areas will all be dealt with during the course of the coming months.

I think it is appropriate here to point out that the revenues derived from possible changes I have described would probably make possible the extension of some benefits to taxpayers in the lower and middle income brackets. We have under intensive study several proposals to lighten the tax burden of as many of these people as we can, and in the course of the next few months our proposals in this area will be made public.

Our mission is to keep faith with the American people. We will not promise what we cannot deliver. We are committed to take every step necessary to protect the wage earner, the farmer and businessman. We will take every step necessary to protect real income from erosion.

Only a combined policy of a strong budget surplus, and a coordinated monetary policy of restraint, can now be effective in battling inflation. This is fundamental, and as President Nixon has said on many occasions, we intend to deal with fundamentals.

I thank you.

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STATEMENT BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE HOUSE COMMITTEE ON BANKING AND CURRENCY
10:00 A.M., THURSDAY, APRIL 17, 1969

Mr. Chairman and Members of the Committee:

I want to thank you, Mr. Chairman, and the other members of the Committee for giving Administration witnesses an early opportunity in these hearings to express our full support for legislation to regulate one bank holding companies and to recommend enactment of H.R. 9385. My brief remarks will be followed by more comprehensive statements by Under Secretary of the Treasury Walker and Assistant Attorney General McLaren.

H.R. 9385 is preventive legislation. It would reasonably, but effectively, stop a trend toward the merging of banking and commerce. This trend, just now developing, threatens to change the nature of the American private enterprise. Our economy could shift from one where commercial and financial power is now separated and dispersed into a structure dominated by huge centers of economic and financial power. Each would consist of a corporate conglomerate controlling a large bank, or a multi-billion dollar bank controlling a large nonfinancial conglomerate.

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H.R. 9385 has the strong endorsement of the President, as well as the support of the Treasury Department, the Bureau of the Budget, the Justice Department, the Council of Economic Advisers, and the three Federal banking agencies.

President Nixon, in his statement of March 24, said:

> "Left unchecked, the trend toward the combining of banking and business could lead to the formation of a relatively small number of power centers dominating the American economy. This must not be permitted to happen; it would be bad for banking, bad for business, and bad for borrowers and consumers.
>
> "The strength of our economic system is rooted in diversity and free competition; the strength of our banking system depends largely on its independence. Banking must not dominate commerce or be dominated by it."

Bank holding company legislation dates to the 1930s. The Banking Act of 1933 defined a bank holding company as a company that owned or controlled 50 percent of one bank. Inadequacies of the early legislation resulted in the Bank Holding Company Act of 1956, which provided the first

comprehensive Federal regulation of all corporations holding 25 percent or more of the stock of two or more commercial banks.

For a decade, the 1956 Act worked satisfactorily. The 117 one-bank holding companies in existence when the Act was passed were increased by an average of 40 per year, and in most cases these were small banks.

By the end of 1968, however, the rate of formations had tripled -- bringing the number of one-bank holding companies existing and proposed to about 800. Even more significant is the size of the banks involved: these 800 controlled nearly a fourth of all commercial bank deposits in the nation -- whereas the small one-bank holding companies existing in mid-1965 accounted for only one-twentieth of the total.

In 1965, more than 80 percent of the banks owned by existing one-bank holding companies had total deposits of less than $30,000,000. In 1968, however, nine of the nation's twelve largest banks -- with deposits ranging from $6 billion to over $20 billion -- announced their intention to create one-bank holding companies.

Clearly the situation has changed markedly in just the past year.

Many bankers feel that they are threatened with being taken over by conglomerates. Businessmen and industrialists

are equally concerned. Their fear is that in the current merger climate, domination of their assets by huge bank holding companies could become a reality.

Unfortunately, the fact is that whoever wins this battle, our free enterprise system will be the loser.

The proposed Bank Holding Company Act of 1969 would rebuild the wall separating diverse economic interests. Under the legislation:

-- The Bank Holding Company Act of 1956 would be amended to extend Federal regulation of bank holding companies to those companies which control one bank.

-- All corporations which have affiliated with banks since June 30, 1968 would be required to confine their activities to the financial, fiduciary or insurance functions specified in the 1956 Act.

-- Activities which are bank-related would be decided by a unanimous agreement of the three appropriate bank regulatory agencies, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

The proposed legislation is in the best inerests of an independent banking system and a free, competitive economy.

This Administration believes the approach contained in this bill is fair and workable. I urge the Congress to give it full support.

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STATEMENT BY THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON
BANKING AND CURRENCY

10:00 A.M., Thursday, April 17, 1969

Mr. Chairman and Members of the Committee, I want to thank you for the opportunity to participate with Secretary Kennedy and Assistant Attorney General McLaren in presenting the Administration's position on Federal regulation of one-bank holding companies.

As the Secretary emphasized, our bill has one simple purpose: to draw a fair but firm line between banking and commerce. Conceptually, this may be relatively easy; in practice there are many complexities.

Let me describe some of those complexities in order to clarify the logic of the provisions of H.R. 9385.

Inasmuch as no one proposes to prohibit the formation of one-bank holding companies, but only to regulate their acquisitions, the first problem lies in defining the appropriate types of activities or functions for such corporations.

Our view is that the essence of banking today is the purveying of financial and related services. Clearly, banking in 1969 involves much more than the acceptance of deposits and the granting of loans.

Beyond fundamental definitions is the question of how far Congress should go in spelling out the scope of these financial and

related functions in legislation, as opposed to delegation of authority to the banking agencies. We believe that the Congressional mandate should be flexible and relatively broad, as it was in the 1956 Act. On the other hand, the powers granted to the banking agencies would be significant and therefore should be rather clearly circumscribed.

Closely related to the problem of definition is the problem of administration -- which agency or agencies should be authorized to carry out the wishes of Congress? Should the authority be centralized in one agency, as in the original Act? Or should the authority be dispersed in the usual manner among the three Federal banking agencies?

The advantage of the first approach would be absolute uniformity of standards and no danger that any one Federal agency could "play off" the others with extreme interpretations of the intent of Congress. On the other hand, the granting of full administrative authority over all bank holding companies -- one-bank as well as multi-bank -- to one agency would in effect result in a significant shift of jurisdictional authority among the three Federal banking agencies. Perhaps some such shifts are desirable; if so, they can be considered later. We believe that this bill should be confined to the simple purpose stated earlier.

The approach we recommend would result in uniformity of standards while still retaining the traditional dispersed approach to Federal bank supervision.

Still another problem relates to competitive and public interest factors in administering the legislation. Certainly no affiliations should be permitted which would tend to create a monopoly or substantially lessen competition. Nor should the affiliates of bank holding companies be permitted to engage in "tie-in" sales or in any line of activity which would be harmful to the public interest.

Our legislation contains explicit provisions dealing with competition and the public interest. These were worked out with the close cooperation of the Department of Justice. Mr. McLaren will discuss these provisions in his testimony.

Finally, we have the question of forcing complete divestiture of non-financial activities or enacting some sort of "grandfather clause," a cut-off date for divestiture requirements. Inasmuch as this is basically forward-looking legislation, designed primarily to prevent future concentrations of economic and financial power, we believe the case for a "grandfather clause" to be very strong. Up to this time, the mixing of banking and commerce has not occurred to any significant extent.

Let me now turn to the specific provisions of H.R. 9385.

Definition of a Bank Holding Company

H.R. 9385 would tighten the definition of bank holding companies by including --

-- any company owning 25 percent or more of the shares of any one commercial bank. Present law applies only if two banks are owned.

-- any company, regardless of the percentage of stock owned, which has the power directly or indirectly to direct or cause the direction of the management or policies of any bank. There is no similar provision in present law; some confusion has arisen because under present law the Federal Reserve Board has authority to determine whether a company controls 25 percent of the stock of a bank.

-- partnerships, by amending the Act's definition of "company" to include partnerships; partnerships were excluded under the 1956 Act.

-- companies whose stock is held in trust except for personal trusts and those terminating within relatively short periods of time; stock held in trust was excluded under the 1956 Act, and even when the rules were tighened in 1966, they did not go as far as our bill.

This tightening of definition speaks for itself. Obviously, the definition had to be extended to include one-bank holding companies if the basic loophole in the 1956 Act is to be closed.

In addition, it is clear that substantially less than 25-percent stock ownership represents control in many larger banks. To be fully effective, therefore, the legislation must permit the banking agencies to define something less than 25 percent as effective control in particular cases.

The new provisions relating to partnerships and stock held in trust will help further to assure that the Act serves its fundamental purpose of drawing a line between banking and commerce.

Activities of Bank Holding Companies

Section 4(c)8 of the 1956 Act permits registered bank holding companies to acquire "shares of any company, all the activities of which are of a financial, fiduciary, or insurance nature and which the [Federal Reserve] Board .... has determined to be so closely related to the business of banking -- as to be proper incident thereto....."

We propose to amend Section 4(c)8 to permit registered bank holding companies -- both one-bank and multi-bank -- to acquire shares in any company engaged exclusively in activities which have been determined "(1) to be financial or related to finance in nature or of a fiduciary or insurance nature, and (2) to be in the

public interest when offered by a bank holding company or its subsidiaries."

Is this definition broader or narrower than the one it replaces? The key words -- "financial," "fiduciary," and "insurance" -- are included in both the existing and proposed statutes. The addition of the phrase "or related to finance in nature" could be interpreted as implying a broadening of functions. But the new language including the public interest as a specific factor to be considered by the administering authority is in the direction of tightening the definition of appropriate related activities.

Whether dropping the clause, ". . . so closely related to the business of banking . . . as to be proper incident thereto . . .," represents a tightening or broadening of the definition is impossible to say -- simply because the "business of banking" has not been clearly defined in law. If, as indicated earlier as our view, the business of banking relates to purveying a relatively wide range of financial services, then the range of activities permissible under Section 4(c)8 would not be broadened significantly by enactment of H.R. 9385. But if the business of banking is interpreted narrowly, significant broadening might well occur.

As a matter of practice, banks in recent years have been providing new types of financial services, and, if free to do so, are likely to continue. Thus the question before the Committee is not that of judging one definition to be broader than the other, but of deciding whether the public interest will be served by authorizing banks, either directly or through affiliates and subsidiaries, to offer a wide variety of financial and related services to the public.

We think that such authority, properly circumscribed, would result in competition that would be good for the economy and good for the user of financial services. We also believe -- as Mr. McLaren makes clear in his statement -- that H.R. 9385 contains fully adequate safeguards to assure that competition, not concentration, will be the result of the legislation.

Administration of the Act

In contrast to other postwar bank regulatory measures, administration of the Bank Holding Company Act of 1956 was not dispersed among the three Federal banking agencies, but was centered in the Board of Governors of the Federal Reserve System. Although our proposed bill would leave the approval of bank acquisition by bank holding companies in the Board, the authority over financial and related acquisitions (in Section 4(c)8) would be administered by the three agencies under guidelines unanimously agreed upon by the agencies,each with one vote.

How would this procedure work?

In effect, Congress would direct the representatives of the three agencies to devise a set of guidelines to be followed by each of the agencies in approving or disapproving applications by bank holding companies for acquisition or _de novo_ creation of new affiliates. In addition to the guidelines relating to competitive and public interest factors, the agencies, through an interagency committee, would be expected to draw up a list of what it agrees are appropriate financial and related activities -- consistent, of course, with the mandate of the Act.

Once the guidelines were agreed upon, the Comptroller of the Currency would have full authority to administer Section 4(c)8 -- _within the guidelines_ -- for holding companies under the jurisdiction of his office. The Federal Reserve Board and the Federal Deposit Insurance Corporation would have similar authority with respect to holding companies under their respective jurisdictions.

In effect, our approach to administering Section 4(c)8 would place the _regulation_ in the three agencies together, with _supervision_ in each one, depending on the class of bank owning the predominance of assets in the holding company.

This approach seems to us to have special advantages in meeting the problems involved in limiting the activities of affiliates of bank holding companies.

In the first place, it is recognized that the mandate in both the 1956 and the proposed 1969 Acts is broad, thus granting significant powers to the banking agencies. The requirement of unanimous agreement on the types of activities permitted under the legislation should help prevent extreme interpretations of the mandate that would permit banks, in effect, to cross the line between banking and commerce. Surely no one can argue logically that a procedure which requires the unanimous agreement of three agencies is more permissive than one which requires the approval of only one agency.

Furthermore, each agency would be required to report to Congress each year with respect to its administration of this provision. Your Committee could therefore maintain surveillance as to the administration of the Act and take corrective steps if the interpretations of the agencies seemed to be inconsistent with Congressional intent.

Some final words about the rationale supporting the Administration's proposal for administering the legislation:

In the years since World War II, Congress in enacting bank regulatory legislation has almost without exception provided for dispersal of the regulatory authority among the three Federal banking agencies, depending upon the type of bank. The Bank Holding Company Act of 1956 was the single exception to that approach.

Advocates of dispersed supervisory authority over banks argue that it prevents the concentration of a huge amount of power (over $500 billion in financial assets) in one Government agency. They also maintain that concentration of all regulation in one agency can, depending on the attitude of the agency heads, result in regulation that is at times arbitrary, burdened with red tape, and in the long run stultifying to what should be a dynamic industry.

Proponents of a single-agency approach to Federal bank regulation point to waste, overlapping and duplication of effort. This argument misses the point. Some overlapping and duplication of effort -- and there is not much -- are a small price to pay if better regulation is the result.

We agree that the Federal bank supervisory arrangements need review. We shall study the arrangements and, if changes seem necessary, take appropriate steps. But we submit that any desire to change the basic regulatory structure should not be allowed to shape the form of this legislation which has but one simple purpose. The Administration proposal keeps this basic form intact.

But even though the basic form of the structure is maintained, the requirement for approval by three agencies <u>assures</u> uniformity of standards and therefore avoids the danger that one agency will get out of step with the others.

The "Grandfather Clause"

The figures which Secretary Kennedy presented in his introductory statement demonstrate that the mixing of banking and commerce which H.R. 9385 is designed to stop had not proceeded very far by 1965. At that time, the great majority of one-bank holding companies in existence involved small banks.

No instances of abuse in connection with these "traditional" one-bank holding companies have been brought to the attention of the regulatory agencies. On the contrary, the banking agencies are convinced that the quality and quantity of financial services available in many small communities have been enhanced as a result of the existence of these companies.

We therefore recommend enactment of a "grandfather clause," and we suggest June 30, 1968, as the appropriate cut-off date. This date is not so far back in time that forced divestitures would disrupt the operations or threaten the viability of most of the smaller, "traditional" one-bank holding companies. On the other hand, the date is early enough to include the great majority of new companies whose organization has pushed the total assets involved to such a high level.

Future activities on the part of the conglomerates which acquired banks before July 1, 1968 -- and therefore could retain them under the "grandfather clause" -- would be restricted to the lines of business or activities in which they were engaged on June 30, 1968. This is a

stringent restriction; in effect it means that any conglomerate which wishes to continue to diversify -- and many of them do -- would be forced to dispose of its bank.

Other Provisions

There is no intention of using H.R. 9385 as a vehicle to permit banks or their affiliates to engage in activities hitherto prohibited by law. The bill in no way expands the authority of banks or banking affiliates to enter the securities business, operate mutual funds or underwrite revenue bonds.

The other major provisions of the legislation pertain to competitive factors to be considered by the banking agencies in administering the Act and implications for enforcement of the anti-trust provisions of the Sherman and Clayton Acts.

I turn now to Assistant Attorney General McLaren for a discussion of those provisions.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 16, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 24, 1969, in the amount of $ 2,703,500,000, as follows:

91-day bills (to maturity date) to be issued April 24, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated January 23,1969, and to mature July 24,1969, originally issued in the amount of $ 1,097,452,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated April 24,1969, and to mature October 23, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, April 21, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

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responsible and recognized dealers in investment securities. Tender from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated ban or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public annou ment will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tende for each issue for $200,000 or less without stated price from any or bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 24, 1969, ir cash or other immediately available funds or in a like face amount of Treasury bills maturing April 24, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be mad for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are exclude from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereund need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which th return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and th notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 15, 1969

TREASURY STATEMENT IN RESPONSE TO QUERIES
CONCERNING SOUTH AFRICAN DRAWING ON THE IMF

As announced today by the International Monetary Fund, South Africa is drawing its gold tranche of $66 million from the IMF.

The United States supports the policy of the IMF that drawings by countries under their gold tranche positions in the Fund should be virtually automatic, and full legal automaticity for such drawings is expected to enter into force shortly by amendment to the Articles of Agreement. In the light of these circumstances and policies, the U.S. raised no objection to this drawing by South Africa, and the U.S. Executive Director agreed to the Fund proposal that $46 million in dollars be included in this drawing, in line with the Fund's current practice for currency use.

At the same time, this particular use of the Fund's resources by a country that has been in a basically strong payments position with rising reserves may raise certain questions as to the consistency of the drawing with the general understandings heretofore associated with use of the gold tranche and with the broader objectives of the IMF. Naturally, we will be observing further developments with respect to the use and repayment of this drawing with these considerations in mind.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 17, 1969

FOR IMMEDIATE RELEASE

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 30, 1969, in the amount of $1,701,601,000, as follows:

276-day bills (to maturity date) to be issued April 30, 1969, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated January 31,1969, and to mature January 31, 1970, originally issued in the amount of $ 1,000,177,000, the additional and original bills to be freely interchangeable.

365-day bills, for $ 1,000,000,000, or thereabouts, to be dated April 30, 1969, and to mature April 30, 1970.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Thursday, April 24, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to

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submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 30,1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 30, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 18, 1969

FOR A.M. RELEASE
FRIDAY, APRIL 18, 1969

TREASURY SECRETARY KENNEDY TO HEAD U.S. DELEGATION
TO TENTH ANNUAL MEETING, BOARD OF GOVERNORS
INTER-AMERICAN DEVELOPMENT BANK
GUATEMALA CITY, GUATEMALA, APRIL 21-25

Secretary of the Treasury David M. Kennedy will head the United States Delegation to the Tenth Annual Meeting of the Board of Governors of the Inter-American Development Bank (IDB) in Guatemala City, April 21-25. As the Bank's U.S. Governor, Secretary Kennedy will address the meeting on April 22.

The Secretary and his party will leave Washington at 12 noon today from Andrews Air Force Base. After a short stopover in Mexico, the party will arrive in Guatemala City on Sunday, April 20 at 4:30 p.m., EST.

Other members of the delegation as Temporary Alternate Governors are:

Charles A. Meyer, Assistant Secretary of State for Inter-American Affairs and U.S. Coordinator, Alliance for Progress; Edward Clark, U.S. Executive Director, IDB; Ralph Hirschstritt, Deputy to the Assistant Secretary of the Treasury for International Affairs.

Advisors on the delegation are:

Nathaniel Davis, U.S. Ambassador to Guatemala; Reuben Sternfeld, Alternate U.S. Executive Director, IDB; Dixon Donnelley, Special Assistant to the Secretary (Public Affairs), Treasury Department; J. Richard Breen, Director, Office of Central American Affairs, Department of State; E. Jay Finkel, Director, Office of Latin America, Treasury Department; Ernest F. Chase, Office of Latin America, Treasury Department.

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The Inter-American Development Bank was founded in 1959, with strong support from the United States and the administration of President Eisenhower, to finance economic and social development programs in Latin America. Its 22 members include the United States and most independent countries of Central and South America. In addition, a number of other industrialized nations have made funds available for lending by the IDB. As of September 30, 1968, the IDB had approved, from all available sources, 479 loans equal to more than $2.6 billion.

Assistant Secretary of State Meyer will assume leadership of the delegation upon Secretary Kennedy's return to Washington, April 22.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 18, 1969

FOR RELEASE 11:00 A.M.,EST
FRIDAY, APRIL 18, 1969

NOTICE TO THE PRESS:

The Treasury Department and the British Embassy jointly announced that the Chancellor of the Exchequer, Roy Jenkins, will visit Washington at the end of April to meet Secretary of the U. S. Treasury David M. Kennedy for a general discussion on financial and economic issues. He will be accompanied by Sir Douglas Allen, Permanent Secretary of the Treasury.

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TREASURY DEPARTMENT
Washington

FOR RELEASE 12:00 O'CLOCK NOON
TUESDAY, APRIL 22, 1969

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY OF THE UNITED STATES AND
UNITED STATES GOVERNOR OF THE INTER-AMERICAN DEVELOPMENT
BANK, AT THE TENTH ANNUAL MEETING OF THE BOARD OF GOVERNORS
OF THE INTER-AMERICAN DEVELOPMENT BANK
GUATEMALA CITY, GUATEMALA
TUESDAY, APRIL 22, 1969

I am delighted to meet with you today as new United States Governor of the Inter-American Development Bank, and as the representative of our recently inaugurated President, Richard M. Nixon.

I am saddened -- as are all of you -- by the untimely passing of Guatemala's Foreign Minister, the President of the United Nations General Assembly, Dr. Emilio Arenales Catalan.

Dr. Arenales was a distinguished leader of Guatemala, of our hemisphere, and of the entire world community. His death deprives everyone, everywhere, of a devoted and tireless worke in the cause of world peace.

Just prior to leaving Washington, I received a letter from President Nixon, who has a deep, personal interest in the work of the Inter-American Bank.

With your permission, I would like to read it to you.

"The forthcoming Guatemala City meeting of the Board of Governors of the Inter-American Development Bank will be the first such meeting you will attend as United States Governor. It is also the first such meeting since I have become President of the United States. I would, accordingly, appreciate it if you would convey the following personal message to the Governors from me:

"It is a pleasure for me to send my greetings to this annual gathering of the Governors of the Inter-American Development Bank. In its 10 years the Bank has come to play a highly constructive role in Latin American development.

"The positive effects of the Bank's lending activities can be seen throughout Latin America. As the resources available to the Bank grow, I am confident that the Bank will make an increasingly vigorous and effective contribution to the economic and social development of the hemisphere.

"The Inter-American Development Bank stands as an outstanding example of multilateral financial cooperation among the nations of the Americas. I want to convey to you my best wishes for continued success."

I join wholeheartedly in the President's expression of confidence and support for the Bank. I am familiar with its important contributions to hemispheric development and its great potential for the future. I look forward to assisting the officers of the Bank and my fellow governors in guiding its progress.

I would like to organize my remarks today around a relatively few points that seem important to me as one who assumes his duties as a member of this board after an extended period as a commerial banker. In summary, these points are:

-- First, the multilateral banking approach to development, as exemplified by the Inter-American Bank, is sound and deserves further emphasis. I underscore banking here, with the emphasis on high standards and economic performance by borrowing countries that that term implies.

-- Second, the economic development that the Bank seeks to foster cannot be achieved in Latin America unless inflation is contained -- nor can the United States attain its economic objectives if inflation is unchecked.

-- Third, a climate that permits private enterprise to flourish, that encourages both domestic and foreign private investment, is essential for balanced economic growth.

-- And finally, development can succeed only within the framework of a smoothly functioning world trade and payments system. Prompt action to put into effect the new Special Drawing Rights facility of the International Monetary Fund is essential in this regard.

Let me now expand on each of these points in turn.

The decade since the agreement establishing the Bank was offered for signature has been marked by ever-closer cooperation among nations to help developing areas achieve their legitimate aspirations. The Inter-American Bank exemplifies this willingness of nations to work together to promote a better life for all of their citizens. The Bank not only has served well the mutual interests of the Americas -- it has also been a model for institutions serving the needs of other developing regions.

I returned only a few days ago from Sydney, Australia, where I was privileged to participate in the second annual meeting of the Asian Development Bank, which has made significant progress since its founding in 1966. As you know, the progress of the Asian Bank has been aided by expertise and experience contributed by officials and staff of the Inter-American Bank.

The multilateral approach to development financing -- both world-wide and through regional banks -- offers great hope for the future. Through this approach, nations large and small, rich and poor, can work together effectively to overcome the poverty, hunger, and despair that afflicts too many of our fellow men.

It follows, then, that my government places a high value on multilateral assistance and encourages its increased use by the economically-advanced nations.

At the same time, however, we recognize that in some cases there can be no substitute for bilateral assistance, which provides an important direct link between nations -- thereby promoting a greater understanding of one another's problems and a helpful exchange of mutually useful knowledge.

In reviewing the progress of the Inter-American Bank -- including the accomplishments discussed in the annual report for last year -- I have been particularly impressed by two points:

-- First, the growing ability of the Bank to tap varied sources of capital

-- Second, the success of the Bank's efforts to attract funds from advanced nations other than the United States.

Such diversification of the Bank's sources of funds is important in mobilizing the maximum possible resources for development.

In addition -- and I say this with complete candor -- the Bank's capacity to tap funds from a variety of sources has reduced international demands on the hard-pressed United States capital markets at a time when my country is making a determined effort to solve its balance of payments problem.

I can assure you that this development is welcome indeed.

The steady progress of the Bank since 1959 is a tribute to its leadership. Dr. Felipe Herrera has served with distinction as President of the Bank since its inception. He has given generously of his wisdom, energy and talents, and the Bank, its member countries, and our entire hemisphere, are indebted to him for his outstanding service.

We all recognize that the popular concept of a financial institution is frequently distorted. Are we a cold, impersonal entity?

Not all!

I think the wisdom of the Bank's leadership is reflected in its deep-rooted concern for the most important element in the development of a nation: its people. Through carefully selected investments in the economic and social fields, the Bank strengthens the ability of the peoples of the Americas to contribute more productively to the growth and prosperity of the hemisphere. Thus, it helps to build the essential human base on which economic progress depends.

The continuing efforts by the Bank to strengthen its administrative procedures also demonstrate the foresight of its leadership. These timely moves -- among which I include the procedure established last year for systematic review and appraisal of all aspects of operations -- will increase both the effectiveness and effeciency of operations.

I would like at this point to suggest that the Bank would benefit by giving greater weight to the economic performance of borrowing countries. Borrowers would find it in their own best interest to seek the Bank's objective appraisal of their economic plans and progress.

Similar, I don't think it gratuitous to suggest that the Bank should regard such rigorous appraisals as one of its essential functions.

I am certain that no one in this room today doubts that a very crucial question for the Bank is simply this: are our member nations taking adequate steps to avoid or to curb inflation?

The countries of our hemisphere have learned the hard way that inflation, if left unchecked, is a vicious enemy of development and wildly dissipates its benefits.

The other side of the coin is, of course, the fact that the achievement and maintenance of price stability promotes economic justice and sound and sustainable growth.

In establishing goals for our national economies, each of us must be concerned with the same essential elements -- no matter what the size of our country or its stage of economic development. These key elements are, of course:

-- a satisfactory rate of economic growth.

-- reasonable price stability.

-- reasonably full employment.

-- equilibrium in the balance of payments.

And, Gentlemen, lest you think that I'm seeking to lecture, without regard for my own country's problems, let me say that although the United States continues to enjoy rapid economic growth, we still face the critical problems of inflation and balance of payments deficits.

I would be less than honest if I did not say that unless we in the United States overcome these problems, all of our other economic objectives will be endangered.

However, let me assure you, my fellow Governors, that the United States is determined to solve the problem of inflation. And, if we solve that vexing problem, we will also be well on the way to a solution of our international payments imbalance.

President Nixon and his entire Administration are firmly committed to taking effective action to check inflation and to return our economy to the path of reasonable price stability. We intend to achieve this goal through general economic restraints that are fully compatible with the maintenance of a high level of employment and our system of free, competitive private enterprise. Here, I want to add- perhaps gratuitously -- that private enterprise is the dynamic element in our economy. Any actions that would weaken it would be as dangerous to our future as would be continued inflation.

Historically, Latin American governments have wisely recognized that a flourishing private sector is vital to over-all national development. Happily, foreign private investors are actively seeking to harmonize their objectives with the national goals and basic concepts of their host countries -- particularly with respect to the fields they seek to enter, to active recruitment of local managerial skills, to association with local capital, and to good corporate citizenship in general.

Latin America's industrial sector has been growing faster than Latin America's gross national product as a whole. This reflects many factors:

-- Changed investor attitudes.

-- New opportunities presented by economic integration arrangements.

-- The relaxation of financial controls made possible by more stable conditions in a number of countries.

-- The increased ability of private enterprise to draw on domestic sources of capital.

-- And the provision by foreign investors of financial resources, advanced technology, and established organizations.

Private enterprise, both domestic and foreign, has demonstrated its ability to stimulate increased economic activity in Latin America.

I believe that those Latin American officials who establish domestic policy should continually seek to improve the climate for private enterprise, so that it can add to its already significant accomplishments.

May I add that this search for a better climate applies also to those officials who are concerned with the international flow of private capital.

One very important way in which Latin American governments can help to facilitate international flows of capital for trade and investment is by acting promptly to ratify the agreement on Special Drawing Rights of the International Monetary Fund.

The new Special Drawing Rights facility -- which should be activated this year -- will serve the developing, as well as the developed countries. It will directly add to monetary reserves in proportion to IMF quotas, and will provide the liquidity needed for growing trade and investment.

We should all be gratified that 11 of the members of the Inter-American Bank have taken the necessary steps to ratify the amendment. Some 45 countries, holding more than 60 percent of the votes in the Fund, have completed ratification. However, the amendment requires approval by 67 member countries, holding 80 percent of the total voting power. Since the SDR facility cannot be activated until countries representing at least 75 percent of the Fund's quotas indicate their readiness to participate, I hope that those Latin American nations which have not yet completed both steps will do so promptly.

In closing, let me assure my associates on the Board of Governors that the United States will continue to give its strong support to the objectives of the Inter-American Development Bank.

May I also say that we are prepared to listen -- to look -- and to learn?

We want to hear <u>your</u> views as to what you want to do for <u>yourselves</u> -- and <u>your</u> beliefs about what we can do <u>together</u>.

We earnestly seek your advice and solicit your assistance in finding solutions for our mutual problems.

As President Nixon has said, we seek "a new era of cooperation, of consultation -- but, most important -- of progress, for all the members of our great American family."

Thank you.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, April 21, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated January 23, 1969, and the other series to be dated April 24, 1969, which were offered on April 16, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing July 24, 1969		:	182-day Treasury bills maturing October 23, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.445	6.152%	:	96.892 a/	6.148%
Low	98.436	6.187%	:	96.881	6.169%
Average	98.439	6.175% 1/	:	96.884	6.164% 1/

a/ Excepting 2 tenders totaling $852,000.
78% of the amount of 91-day bills bid for at the low price was accepted
54% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 15,285,000	$ 15,159,000	:	$ 6,834,000	$ 6,834,000
New York	1,947,941,000	1,103,476,000	:	2,035,137,000	903,334,000
Philadelphia	40,549,000	25,149,000	:	17,879,000	7,879,000
Cleveland	44,095,000	42,275,000	:	35,017,000	29,017,000
Richmond	16,314,000	16,314,000	:	6,308,000	5,708,000
Atlanta	54,338,000	39,664,000	:	34,924,000	16,098,000
Chicago	202,623,000	140,774,000	:	141,462,000	55,612,000
St. Louis	59,220,000	48,220,000	:	34,155,000	16,535,000
Minneapolis	29,516,000	22,551,000	:	21,619,000	8,119,000
Kansas City	46,221,000	34,760,000	:	21,790,000	17,290,000
Dallas	17,478,000	17,478,000	:	11,679,000	11,679,000
San Francisco	154,826,000	95,161,000	:	135,386,000	24,466,000
TOTALS	$2,628,406,000	$1,600,981,000 b/		$2,502,190,000	$1,102,571,000 c/

b/ Includes $387,372,000 noncompetitive tenders accepted at the average price of 98.439
c/ Includes $168,729,000 noncompetitive tenders accepted at the average price of 96.884
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.36% for the 91-day bills, and 6.45% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 21, 1969

FOR RELEASE AFTER 10:00 A.M.
Tuesday, April 22, 1969

SUMMARY OF TAX REFORM PROPOSALS

The President has recommended repeal of the 7% investment credit effective April 21, 1969. This means the credit will not be allowable for orders placed on April 21, 1969. This repeal permits his further recommendation of extension of the surcharge at a reduced rate of 5% for the period January 1, 1970, to June 30, 1970, instead of the 10% rate that is being recommended for the balance of the current year. The repeal will provide additional federal revenues for other important tax measures in the planning stage.

The following material is a brief summary of the tax reform proposals presented by the Treasury Department to the House Ways and Means Committee on April 22, 1969.

The net revenue change of the entire package will be small -- the revenue increases of reform measures will be largely offset by the revenue losses from the relief measures. A table showing the overall revenue effects of the entire package for the first full year and in the long run (1970 and 1975) is included.

THE PROPOSALS

I.

The Treasury recommends a general restriction on the net value of certain tax preferences in two respects:

Limit on Tax Preferences (LTP). A 50 percent ceiling would be imposed on the amount of an individual's total income which could enjoy tax preferred status. Total income for this purpose would be determined --

(1) By including appreciation in value of property given to charity;
(2) Before deducting intangible drilling expenses and percentage depletion in excess of cost depletion;
(3) Before deducting certain excessive farm losses;
(4) Before deducting the excess of accelerated over straight line depreciation on real estate.

The four preferences could not exceed half of total income. There would be a $10,000 minimum amount of allowable preferences. Thus, an individual with $100,000 of net business income, which reflects a deduction of $200,000 of accelerated depreciation on real estate in excess of straight line depreciation, would have adjusted gross income of $150,000 (in effect, $50,000 of the excess depreciation would become taxable).

A five-year carryover of disallowed tax preferences (an averaging device) would restrict the effect of this limit to persons who consistently have an excessive amount of these preferences. A three-year transition period, establishing the ceiling at 70 percent, 60 percent, and 50 percent, respectively, would phase in the limit gradually. When fully phased in, the revenue increase will be $80 million.

<u>Allocation of Deductions</u>. An individual with more than $10,000 of tax preferences would also be required to allocate his itemized (non-business) deductions between taxable income and the non-taxed or "allowable" portion of tax preference amounts. For this purpose, tax preferences would also include interest in state and municipal bonds and the excluded portion of long-term capital gains (50%). Thus, all itemized deductions could no longer be applied entirely against taxable income where there is also substantial non-taxable income.

The allocation will be phased in generally over a two year period. Thus, in the first year, only one-half total itemized deductions would be required to be allocated. When fully phased in, the revenue increase will be $500 million.

To provide essential relief to persons in poverty, we recommend a:

Low Income Allowance. An additional allowance would be granted to generally insure that families at the poverty level would not be required to pay any Federal income tax. This allowance, which would be automatically built into the tax tables, would completely exempt more than 2 million families from tax payments, effective at the following income levels:

No. of Exemptions	Income	No. of Exemptions	Income
Family of 1	$1,700	Family of 5	$4,100
2	2,300	6	4,700
3	2,900	7	5,300
4	3,500	8	5,900

The allowance would be phased out as income exceeded the above poverty levels at the rate of $.50 for each dollar of income over the levels. Thus, for a single person the allowance would not exempt income over $3,300; for a family of eight, it would phase out at $6,100. The allowance would be effective for 1970 and thereafter. The revenue loss from this change would be $700 million.

III

The Treasury also recommends the following reforms:

Mineral Production Payments. The tax treatment of mineral production payments would be changed. These "production payments," sold by oil companies and other mineral producers, represent in effect advance payment for future extraction of the minerals, and they are sold to accelerate income to avoid the statutory limitations on credits and deductions, such as the depletion allowance. Henceforth, these production payments will be treated as loans, which is their true substance. Similarly, the duplication of tax benefits by such persons in retaining and selling production payments in so-called ABC transactions will be dealt with in the same way. Bona fide production payments pledged for exploration or development will not be affected. The revenue increase after the first year will be $200 million.

Private Foundations and Exempt Organizations. Certain specific abuses by private foundations would be prohibited:

-- self-dealing between the foundation and related parties
-- failure to distribute real income annually to charity
-- the control of operating business corporation (with a 5-year transition period for existing holdings)
-- engaging in certain political activities, such as voter registration drives.

Penalties for these abuses would be imposed, and power would be given the United States District Courts, acting at the instance of the Justice Department in the absence of state action, to impose appropriate sanctions.

Foundations would also be required to make available for public inspection information as to grants to individuals, the activities of these individuals, and their work product.

Certain specific administrative changes would be made to provide much closer scrutiny and audit of foundation activities.

Present law taxing income from the direct operation of a business by certain tax-exempt organizations would be extended to churches and other tax-exempt organizations not currently covered. The investment income of social clubs and certain similar organizations, now untaxed, would be taxed. All tax-exempt organizations would be taxed on the income of any investment assets acquired with borrowed funds and not related to their tax-exempt functions (so-called Clay Brown bootstrap cases). The revenue increase from these various provisions cannot be estimated.

Charitable Contribution deduction:

The 30 percent limitation on charitable contribution deductions would be increased to 50%, to apply to all taxpayers beginning in 1969.

The unlimited charitable deduction available to certain persons who qualify in at least 8 out of any 10 years would be cut down. Thus, charitable contributions taken together with all other itemized non-business deductions could not exceed 80% of adjusted gross income.

In addition, a number of situation which allow different tax benefits for contributions depending on features of the property given or the method of gift require attention. Under present law, deductions for contributions to charity may be in the form of cash or property, taken at its fair market value.

Except with respect to donations of installment obligations, gain is not recognized to the donor on the making of the charitable gift. Treasury recommends that the deduction for charitable gifts of property, the sale of which would result in reducing income, be restricted to the cost or other basis of the property in the donor's hands. The effect is similar to taxing the appreciation of ordinary income assets in a charitable gift.

Treasury also recommends that no deduction be allowed for the rental value of property leased rent-free to a charity; and that no charitable deduction be allowed for gifts of stock rights unless the shareholder allocates the basis of his old stock in part to the rights which are given to charity.

Treasury also recommends that the special two-year charitable trust rule be repealed. The repeal will mean that in all cases a grantor will be taxed on trust income where a reversionary interest will or may be expected to take effect within ten years. Similarly, in the case of gifts of short term income interests to charity, the donor should not get a deduction unless he is taxable on the income.

Corporate Securities. In recent years there has been a rapid increase in the number and the size of mergers or other consolidations among corporations, particularly in the area of so-called "conglomerate" combinations. While the reasons for this development are principally non-tax, there are tax aspects which require change.

Treasury recommends legislative action on a number of issues, including the installment sales reporting treatment of capital gain recognized on the receipt of bonds, the treatment of original issue discount on bonds, and the interest deduction on the repurchase by a corporation of its own convertible bonds at a premium. In addition, Treasury is seeking to develop a regulation to distinguish debt from equity for purposes of the interest deduction.We consider this distinction is at the heart of the problem of the increased use of debt securities in these transactions.

While the measures recommended by the Treasury at this time are not specifically directed at acquisitions, whether of a conglomerate nature of otherwise, we believe that they will attack some of the basic tax problems involved in combinations and decrease the impetus toward creation of unusual security interests that are difficult for investors to evaluate. The Treasury is also undertaking a basic study of the general treatment of tax free corporate reorganizations.

Multiple Corporations. The advantage taken by a number of large corporations of certain tax relief provisions for small business, whereby a reduced corporate tax rate of 22 percent is applied to the first $25,000 of taxable income, would be ended. Corporate groups ranging up to hundreds of corporations would be consolidated into one for this purpose. The change would be phased in gradually over five years. The revenue increase from this change, when fully effective, will be $235 million.

Farm Income. Various provisions whereby farm deductions, frequently representing the cost of assets acquired, are offset against ordinary income, but the sale of farm assets is taxed only as capital gain, will be amended. The capital gain will be taxed as ordinary income to an appropriate extent. The hobby (gentleman farmer) loss rules preventing the consistent deduction of very large losses by individuals from certain enterprises would be strengthened. The revenue increase from these proposals has not been determined.

Accelerated Depreciation: Public Utilities and Others. Tax-free dividends presently being paid out of accelerated depreciation reserves, principally by public utilities but also by some other corporations, would be made taxable after a three-year adjustment period.

Federal and state regulatory commissions would be prevented from requiring a public utility to compute net income after tax for rate making purposes as if accelerated depreciation had been taken unless the utility voluntarily elects accelerated depreciation. Utilities are forced by the position of some commissions to claim accelerated depreciation to reduce their taxes, and the benefits are flowed through to the consumers at the expense of the Federal revenues generally. This rule will preserve the status quo and prevent further adoption by regulatory commissions of the "flow-through" concept except where the utility itself elects accelerated depreciation. This change will prevent an annaul revenue loss which could reach $1.5 billion if this limitation were not imposed.

Stock Dividends. The practice of a number of corporations issuing dividends in stock which increase the stockholder's interest in such a way that they are a substitute for cash dividends, rather than simply being a larger number of shares for the same interest, would be discouraged by making such dividends taxable. The Treasury proposal substantially follows the recommendation of the Advisory Group on Subchapter C, established by the House Ways and Means Committee in 1956. This provision will prevent a substantial future loss of revenue.

Capital Losses. Net long-term capital gains are in general taxed by including only one-half of the gain in ordinary income. A net long-term capital loss, however, may be deducted up to an annual limit of $1,000 in full against ordinary income. This is not only inconsistent but leads to tax planning of asset sales to separate gains and losses into alternate years. We recommend that each dollar of net long-term capital loss be permitted to offset only 50 cents of ordinary income. The limit of the annual deduction should be kept at $1,000 with the present unlimited carryover. In addition, married persons filing separate returns should be subjected to an annual limit of $500 each. In the long run this change will increase revenues by $100 million.

Restricted Stock Plans. During the past few years, there has been a rapid growth in the number of restricted stock plans. Under these plans, an employee receives stock or other property subject to restrictions on sale or other limitations. Because of these restrictions, tax is not imposed under existing rules until the employee sells the stock, and the amount then subject to tax is limited to the value of the stock when the employee received it. In effect, any increase in value during the period the restrictions are in effect is taxed only if the stock is sold, and then as a capital gain.

Treasury proposes that, as a general matter, where an employee receives stock or other property as compensation, he should be subject to tax when his rights in that property become nonforfeitable. When an employee receives nonforfeitable rights in property subject to restrictions on sale, these restrictions would be ignored, and the amount taxed would be the unrestricted full current fair market value of the property, unless the restrictions are bona fide limitations which continue for the life of the property.

Multiple or Accumulation Trusts. Under present law, income may be accumulated in trust and distributed to the beneficiary without tax to the beneficiary, with certain exceptions, even though that beneficiary pays higher tax than the trust itself. This enables creation of multiple trusts for the same beneficiaries to avoid the progressive rate structure.

Treasury proposes that all income accumulated in trust will be taxed at the beneficiary's regular rates when the income from the trust is received by the beneficiary. In addition, income accumulated in trust for the benefit of the grantor's spouse will be taxed to the grantor as earned, as it is under present law when it is accumulated for the grantor's own benefit. This provision will increase revenues by $70 million.

Moving Expenses. The deduction for moving expenses would be substantailly liberalized to include certain indirect costs, (house hunting trips, temporary living expenses at the new location and the cost of selling or buying a house) up to a maximum of $2,500, of which no more than $1,000 could be for the indirect costs. The higher limit would be available for the direct costs (the costs of buying or selling a house and lease breaking costs.) The revenue loss from this change would be $100 million.

Small Business Subchapter S Corporations. The existing rules permitting small business corporations to be taxed similar to partnerships to avoid the double tax on corporate earnings would be substantially liberalized by expanding existing size and types of income limitations, eliminating technical requirements, and simplifying their operation.

Extension of Special Treatment of Banks Holding Foreign Deposits.

Interest earned on U.S. bank deposits owned by foreigners not resident in the United States and not connected with a trade or business conducted here is exempt from income tax, and the bank deposits themselves are exempt from estate tax. However, existing law provided that these exemptions shall not continue beyond 1972. The expiration date was enacted in 1966 as part of the Foreign Investors Tax Act. At the time, the Congress was concerned that termination of the exemption would have an adverse impact on foreign balances in the United States and therefore deferred the effective date for terminating the exemption for five years.

The balance of payments continues to be a matter of concern. While we cannot forecast what the situation will be by 1973, it is clear that the scheduled termination will make a solution to the problem muchmore difficult to achieve. Accordingly, Treasury recommends that the Congress take action in accordance with the President's recommendation of April 4 that the scheduled termination of the exemption be repealed.

Table 1. -- Tax Reform Proposals

Estimated Increase or Reduction (-) in Calendar Year Tax Liabilities 1/

($ millions)

	1969	1970	Long-run effect 1975
A. Limitation on tax preferences	20	40	80
B. Allocation of deductions	275	500	500
2. Low income allowances	0	-665	-665
3. Mineral production payments	95	140	200
4. Foundations and exempt organizations	*	*	*
5. Charitable deduction changes	-10	-10	-10
6. Corporate securities	*	*	*
7. Multiple surtax exemptions	10	25	235
8. Farm income rules	0	10	50
9. Tax-free dividends from accelerated depreciation	0	0	80
10. Stock distributions	*	*	*
11. Capital loss limitation	65	80	100
12. Restricted stock plans	*	*	*
13. Multiple trusts	55	70	70
14. Moving expenses	-110	-100	-100
15. Subchapter S changes	*	*	*
Net increase (+) or reduction (-)	+400	+90	+540

Based on current income levels with no provision made in long-run estimates for effect of income growth. Estimates include a 10 percent surcharge for 1969 and a 2 1/2 percent surcharge for 1970.

* No basis for estimating revenue effect. In some cases, however, these measures will prevent substantial future revenue loss.

STATEMENT OF THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE
THE HOUSE WAYS AND MEANS COMMITTEE
ON THE PRESIDENT'S TAX PROGRAM
APRIL 22, 1969, 10 A. M.

As President Nixon stated in his message to the Congress yesterday:

> Reform of our Federal income tax system is long overdue. Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of the tax burden.

The program which Assistant Secretary Cohen and his deputy, Mr. Nolan, join with me in presenting today is a highly important first step in reshaping the Federal tax system to make it fair and efficient.

As important as this step is, however, it should be recognized only as the first stage of our program. Many of our proposals are aimed directly at correcting abuses which permit wealthy people and prosperous businesses to avoid a fair share of the tax burden; these proposals have been carefully prepared and evaluated. But time has not permitted the careful study and analysis necessary before all existing preferences can be evaluated and, if appropriate, adjusted or eliminated. The proposal for a "limitation on tax preferences,"

which Secretary Cohen will describe to you, is a fair and effective approach to preventing abuse by the beneficiaries of such preferences. We recognize that this proposal is not the final answer -- but we maintain that it is quite appropriate as an interim measure.

As our study of the income tax system got under way -- and it has been assigned the highest priority -- it became clear that the existing income tax structure results in a paradox for social policy. On the one hand, public policy is pledged to relieving the lot of all those American citizens who live in poverty. On the other hand, the existing system forces many of these people to pay Federal income taxes.

The "low income allowance," which we propose for adoption will assure that persons or families in poverty will not pay any Federal income taxes -- in effect, more than 2,000,000 families will be removed from the tax rolls. The allowance is structured in such manner, however, that the revenue impact is relatively small.

President Nixon's recommendation for repeal of the 7-percent investment credit is also a tax reform measure.

It recognizes the fact that a subsidy to business investment, however desirable in the early 1960's, no longer outranks other important national needs. The revenue released by repeal of the credit will permit earlier tax relief to all individual taxpayers, including those in the middle- and upper-income brackets, by reducing the 10-percent surcharge to 5 percent on January 1, 1970. This represents a reappraisal of the President's earlier decision to request extension of the full 10-percent surcharge until June 31, 1970.

In addition, within a few weeks we shall request consideratioi of two high priority programs -- which also can be funded with part of the revenues released by repeal of the investment credit -- to inaugurate Federal revenue sharing with State and local governments and to provide tax credits to encourage investment in poverty areas and hiring and training of the hard-core unemployed.

The tax reform proposals which we shall discuss with you today are independent of the Administration's firm program to cool our overheated economy. It is true that repeal of the investment credit will tend to dampen demand in a sector of the economy that is moving much too fast -- the market

for business equipment, but it should be emphasized that in the entire set of proposals outlined by the President yesterday revenue gains and losses are essentially balanced. The approximately $4 billion in revenues gained by repeal of the credit, enactment of the limit on tax preferences, and correction of abuses, will be approximately offset by the January 1 phase-down of the surcharge, the enactment of the low income allowance, and the funding of the revenue-sharing and new tax credit proposals.

The lights have been burning late at the Treasury Department and the program of continued tax study and reform ordered by the President will result in much more midnight oil being consumed in the weeks and months ahead. The President has directed Secretary Kennedy to thoroughly review the entire Federal tax system and present recommendations for basic changes no later than November 30, 1969.

As the President said, that is a large order -- but we are determined to do our best, not only in studying and evaluating the many preferences that we have not been able to attack directly now because of shortage of time, but also to move toward basic structural changes that go beyond reform.

To sum up, in the words of the President:

> Fairness calls for tax reform now; beyond that, the American people need and deserve a simplified Federal tax system, and one that is attuned to the 1970's.
>
> We must reform our tax structure to make it more equitable and efficient; we must redirect our tax policy to make it more conducive to stable economic growth and responsive to urgent social needs.

Mr. Chairman and Members of the Committee, we are dedicated to those goals.

I now turn to Mr. Cohen and Mr. Nolan for their summaries of our proposals.

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STATEMENT OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE
THE HOUSE WAYS AND MEANS COMMITTEE
ON THE PRESIDENT'S TAX PROGRAM
APRIL 22, 1969, 10 A.M.

Mr. Chairman and Members of the Committee:

I join in Dr. Walker's statement, and it is my pleasure to present to you our interim program of tax reform and tax relief.

The most critical problems, which we believe should be dealt with promptly, are, first, maintaining confidence in the tax structure by curbing the excessive use of tax preferences by some wealthy taxpayers and, second, removing the burden of the income tax from those who are below the poverty level.

To deal with these two problems we recommend:

(1) A general restriction on the use of certain tax preferences through adoption of:

    (a) A Limit on Tax Preferences which would in general limit preferred income to 50 percent of total income, and

    (b) A requirement for allocating itemized deductions between taxable and preferred income.

(2) Adoption of a special "low income allowance" to exempt from Federal income tax persons whose incomes are below the poverty level. Our ability to pay for this provision depends in substantial part upon enacting the restrictions on tax preferences.

Our interim program also deals with a substantial number of other situations that involve a pressing need for tax reform or tax relief. These include:

(3) The use of mineral production payments to avoid statutory limitations on credits and deductions.

(4) The control of the tax exemption privilege of foundations and the taxation of certain unrelated income of charitable organizations.

(5) An increase in the limit on the charitable contribution deduction from 30 percent to 50 percent; a restriction on the use of the

unlimited charitable contribution deduction; and structural changes to prevent undue advantage being taken of charitable deductions.

(6) The tax problems of certain corporate securities frequently associated with corporate acquisitions.

(7) The use of the special exemption provided for small corporations by large corporate groups using chains or families of corporations to enjoy multiple surtax exemptions.

(8) Various provisions dealing with the reporting of farm income which permit losses to offset ordinary income while related gains are capital gains.

(9) The payment of tax-free dividends by various companies from accelerated depreciation reserves. Related to this is the treatment of the accelerated depreciation election in the public utility regulatory process.

(10) Application of the stock dividend rules to make tax-free, corporate distributions which are substitutes for cash dividends.

(11) The deduction of long-term capital losses in full against ordinary income.

(12) The use of restricted stock plans to defer and limit income tax treatment of compensation arrangements.

(13) The achievement of income splitting through accumulation trusts, especially multiple trusts.

(14) An increase in deductible moving expenses.

(15) Relaxation and simplification of the rules affecting Subchapter S "small business" corporations.

We also recommend:

(16) Elimination of the scheduled termination of certain exemptions now accorded bank deposits owned by foreigners.

The revenue impact of our proposals are shown in Tables 1 and 2. These tables reflect our judgment that several of the tax increase provisions should be put into effect gradually because taxpayers have made important business or investment decisions in reliance on present law. The program will produce approximately balanced revenue impacts in the first two years. Eventually these items will produce a larger net gain. How these longer run revenue gains will be related to the total revenue picture can be decided at a later stage in our reform work. The important thing is that in view of the past reliance on these long-standing provisions, the changes have to be phased in, and unless these changes are started now the revenue will not be available in 1972 and later years to finance other tax reliefs.

Table 1. -- Tax Reform Proposals

Estimated Increase or Reduction (-) in Calendar Year Tax Liabilities 1/

($ millions)

	1969	1970	Long-run effect 1975
A. Limitation on tax preferences	20	40	80
B. Allocation of deductions	275	500	500
2. Low income allowances	0	-665	-665
3. Mineral production payments	95	140	200
4. Foundations and exempt organizations	*	*	*
5. Charitable deduction changes	-10	-10	-10
6. Corporate securities	*	*	*
7. Multiple surtax exemptions	10	25	235
8. Farm income rules	0	10	50
9. Tax-free dividends from accelerated depreciation	0	0	80
10. Stock distributions	*	*	*
11. Capital loss limitation	65	80	100
12. Restricted stock plans	*	*	*
13. Multiple trusts	55	70	70
14. Moving expenses	-110	-100	-100
15. Subchapter S changes	*	*	*
Net increase (+) or reduction (-)	+400	+90	+540

1/ Based on current income levels with no provision made in long-run estimates for effect of income growth. Estimates include a 10 percent surcharge for 1969 and a 2 1/2 percent surcharge for 1970.

* No basis for estimating revenue effect. In some cases, however, these measures will prevent substantial future revenue loss.

Table 2. -- Tax Reform Proposals

Estimated Increase or Reduction (-) in Revenues -- Budget Basis -- Fiscal Years

($ millions)

	Fiscal Years	
	1970	1971
1A. Limitation on tax preferences	25	50
1B. Allocation of deductions	325	500
2. Low income allowances	-285	-665
3. Mineral production payments	110	145
5. Charitable deduction changes	-10	-10
7. Multiple surtax exemptions	10	30
8. Farm income rules	0	10
11. Capital loss limitation	65	80
13. Multiple trusts	55	70
14. Moving expenses	-110	-100
Net increase (+) or reduction (-)	+185	+110

We believe the proposals presented today make inroads on the major tax preferences. In several of these areas we are making recommendations for permanent changes that will substantially eliminate any abuse. In the Limit on Tax Preferences (LTP) and allocation of deductions proposals, we are not taking away the preference as such. We are curbing their excessive use by any individual taxpayer. The outright elimination or reduction of any of these provisions would require careful economic judgments based on extensive data and studies. They support in some degree important segments of our business community, the financing of state and local government activities, and charitable-educational institutions.

Before deciding whether any incentive should be retained in the tax law or modified, we need to compare its cost to the revenue with the benefit the public derives from its existence. These are questions on which the Treasury staff is deeply involved. We have instituted a series of meetings with representatives of the industries and other entities affected by the incentives; we are collecting data; and we will report to the Committee as soon as practicable.

These provisions have been deliberately kept in the tax law over many years, and they constitute standing invitations for taxpayers to erect new buildings, drill for oil, or embark on programs of charitable contributions. Even if we should conclude that it would be unwise to

continue some of these benefits or if we should alter some of them, it would not be appropriate to remove the preference precipitously after taxpayers have embarked on programs which they might not have adopted except for these provisions. For this reason we would not be able to raise significant revenue for the next fiscal year from basic revision of these provisions to meet any appreciable part of the revenue need which can be met by the surcharge.

I now offer more detail on each of these current or interim proposals.

(1) <u>The Problem of Low Taxes on Persons with High Incomes</u>.

It offends the sense of equity of most taxpayers that some individuals with high income pay little or no tax. In large part this is due to a series of provisions in the tax law which are clearly tax preferences. These include:

(a) Percentage depletion on minerals and intangible drilling and exploration expenses to the extent they exceed what would be normal deductions under regular accounting rules.

(b) Deduction of the excess of accelerated depreciation over straight-line depreciation on buildings.

(c) Deduction against non-farm income of farm losses arising from unrealistic accounting methods.

(d) Deduction of the excess of market value over basis of property contributed to charity.

Under present law taxpayers not only offset a large portion of their gross income by combinations of these preferential provisions but the advantage is accentuated because the itemized personal deductions can be offset completely against the remaining taxable income. Furthermore, this latter advantage also exists in cases where taxpayers have tax-exempt interest on state and municipal bonds and long-term capital gains (one-half of which are excluded from taxable income). Itemized personal deductions allocable to these income sources are also fully offset against taxable income under existing law.

We recommend the adoption for individual taxpayers of a Limit on Tax Preferences (LTP) which would place an over-all limitation on the amount of specified tax preferences in any one year. We also recommend requiring the allocation of itemized deductions between income subject to tax and the tax preferences including also tax-exempt interest and the excluded portion of long-term capital gains. LTP is an important and needed measure of tax reform which will insure that the tax preferences which the law provides may not be used to excess by any taxpayer. They could no longer be used to relieve those who can afford it from contributing in part to the maintenance of the Federal Government. The allocation of deductions proposal is an equally important, basic reform which will assure that certain taxpayers do not derive a double benefit from tax preferences by offsetting the entire amount of their personal deductions against taxable income only. Together, these two provisions will take us a long way toward tax fairness and equity.

A. Limit on Tax Preferences.--Under our LTP proposal a 50 percent ceiling would be imposed on that amount of an individual's total income which could enjoy tax-preferred status. For this

purpose, total LTP income would be computed by including appreciation on gifts to charity but without deducting for intangible drilling expenses, the excess of percentage over cost depletion, certain farm losses, and the excess of accelerated over straight-line depreciation on buildings. Farm losses would be included only to the extent that such losses on the cash basis of accounting exceed the amount of such losses on an accrual basis of accounting after capitalizing all capital expenditures.

In other words, an individual would be able to claim these exclusions and deductions only to the extent that his aggregate amount does not exceed one-half of his total income. Stated another way, tax preference amounts will become taxable only to the extent that they exceed income subject to tax from all other sources.

The proposal would, however, in no case reduce an individual's allowable total of tax preferences below $10,000. As a practical matter, the limitation of LTP to amounts exceeding income from taxable sources, plus this $10,000 floor, will mean that taxpayers who do not have excessive amounts of tax preference income will not be affected.

For example, assume a taxpayer had $100,000 of salary and $200,000 of tax preferences. Under existing law, he could exclude all the tax preferences, and he would be taxed on only $100,000. Under LTP, his total LTP income would be $300,000. His <u>allowable</u> preferences would be half of $300,000, or $150,000, this being the maximum amount he could exclude from his tax base. Since the amount

of allowable tax preferences exceeds $10,000, the floor would not apply. He would thus be taxable on $150,000, so that $50,000 of his tax preferences would have become taxable--i.e., would have been disallowed.

Note that if his tax preference amounts had not exceeded $100,000, the amount of his taxable salary, LTP would not have any effect.

If the taxpayer's income from taxable sources were $8,000 and his tax preference amounts were $10,000, LTP would have no effect because he is entitled to a minimum of allowable tax preferences of $10,000.

Furthemore, our proposal provides, in effect, for a five-year averaging provision through the mechanism of a carryover of disallowed preferences. A taxpayer who exceeds the 50 percent limitation in one year, and thus has some of his tax preferences disallowed and included in taxable income, will be able to take advantage of this carryover provision if, in the next five years, the amount of tax preferences claimed falls below the 50 percent level. This averaging feature of our proposal is an important one since it assures that the limit on tax preferences affects primarily those who, year after year, take undue advantage of these preferences.

A three-year transition period is provided whereby the maximum limit on tax preferences will become effective gradually so that investment decisions and planning can be made on the basis

of these new provisions. In 1969, a taxpayer would be able to claim preferences equal to 70 percent of his total income; and this percentage would be reduced to 60 percent in 1970 and finally to 50 percent in 1971. Thus, in 1971 and thereafter no individual could claim more than one-half of his total income as tax-preferred items.

Tax-exempt interest has not been included in the list of tax preferences for LTP purposes because we have been advised by the Department of Justice that there is doubt whether such inclusion would be constitutional.

Capital gain income has not been included as an item of tax preference for LTP. Those taxpayers who do not use the alternative tax of 25 percent on capital gain pay tax on one-half of their income from capital gains at their regular rate. This is in accord with the intent of the LTP proposal. In order to preclude capital gains from further sheltering income, long-term capital gains would not be counted in computing the amount of total income in calculating the 50 percent limit on tax preferences. Thus, if a taxpayer has net business income of $100,000, which reflects an excess of accelerated over straight-line depreciation on real estate of $200,000, and long-term capital gains of $80,000, his limit on tax preferences would be $150,000 (one-half of $300,000) and his adjusted gross income would be $190,000.

On the other hand, those taxpayers who use the alternative rate in effect exclude more than one-half of their capital gains. We are not prepared at present to recommend that the exclusion of such gains be subject to the 50 percent over-all limit on tax preferences. The effect would be to raise the alternative tax in some cases above

25 percent to as much as half of the taxpayer's top rate. This could have a serious economic impact, the ramifications of which would have to be thoroughly considered as a part of a review of capital gains taxation generally.

This proposal has some similarity to the "minimum income tax." The "minimum income tax" as proposed in the Treasury Studies was

broadly designed to have the effect of limiting certain exclusions to 50 percent of a revised adjusted gross income (AGI). It did so, however, in a way that required a special alternative tax base. This separate tax base would itself be a source of complexity. More importantly, the separate base made it so difficult to deal with matters of timing that items such as accelerated depreciation and intangible drilling expenses were left out of the minimum tax proposal. These as well as certain farm losses are covered by LTP. Further, we believe LTP is preferable to the minimum tax in that it achieves an averaging effect, as previously explained, so that it operates only against those taxpayers who consistently achieve an imbalance of tax preferences in relation to taxable income.

B. Allocation of Deductions Proposal.--We also recommend that an allocation of deductions be required whereby an individual with more than $10,000 of tax preference income would be required to allocate his itemized deductions (other than business expenses) proportionately between his taxable income and his excluded income. The latter portion would not be allowed as a deduction.

The items of tax preference to which itemized deductions would be allocated and thus disallowed would be the same four items of tax preference which are included in LTP, but with the addition of the excluded one-half of capital gains and tax-exempt interest.

Tax-exempt interest is included as an item of tax preference in the allocation proposal because it is reasonable to assume that such non-taxable income is used along with taxable income to finance

non-business deductions. There is no constitutional problem because the proposal is in no sense a tax on such interest; it is merely a disallowance of a portion of itemized deductions. Precedent for such allocation with respect to tax-exempt interest exists in present provisions of the Internal Revenue Code.

It is also appropriate to allocate deductions to the one-half of capital gains that is excluded from the tax base since it can fairly be assumed that expenses which are incurred in a particular year in which capital gain is also realized are

financed in part from such excluded income. The effect of this allocation of deductions proposal on capital gains is the same as would be achieved by subtracting from long-term capital gains the allocable amount of the non-business deductions before calculating the 50 percent of long-term capital gains that is included in ordinary income.

Itemized deductions will be allocated to items of tax preference only to the extent that, under the Limit on Tax Preferences proposal, such preference amounts are not required to be added back to income under that proposal. The amounts so added back to income will be treated the same as other taxable amounts in the allocation fraction, and deductions allocable to this total taxable amount will be allowable.

An exemption of $10,000 would be granted so that individuals with $10,000 or less of tax-preferred income (including the excluded half of long-term capital gains) would not have to allocate their deductions. This threshold will relieve the vast majority of taxpayers from having to make the allocation calculation and will assure that only cases of significant tax reduction are affected. However, for those taxpayers with substantial amounts of tax preferences who are required to allocate their non-business deductions, the calculation will be a relatively simple one that lends itself to the existing tax return forms quite easily.

The LTP proposal in the first year, 1969 (fiscal year 1970 receipts), will increase revenues by $20 million. In the second year the increase will be $40 million, and in the third year with LTP in full effect at the 50 percent rate the increase will be $80 million.

The allocation proposal when fully in effect in 1970 will raise revenue of $500 million. In the first year, 1969, allocation would be required for only one-half of itemized deductions, with a revenue effect of $275 million, after allowing for the 10 percent surcharge.

We are not now recommending that LTP and allocation be applied to corporations. A major difference is that in the corporate area the characteristic problem is not an unintended combination of tax preferences but simply intensive use usually of a particular preference which the Congress deliberately legislated as an incentive measure for certain kinds of business. Whether this should be changed necessarily involves a basic reconsideration of the specific preference and the economic effects of its removal or limitation in that industry. This is a project that we are engaged in as part of our present tax reform studies. At the present time, for example, LTP and allocation would have quixotic effect on corporations incurring intangible drilling costs. It might have more serious effects on companies with a single business than on conglomerate-type companies. LTP and allocation serve their purpose well in the case of individuals using preferences in combination to excess, but their application to corporations requires further careful consideration.

This is a proper point to comment on the publicity concerning the 155 returns filed in 1967 with adjusted gross incomes over $200,000 on which no Federal income taxes were paid. Our LTP and allocation of deductions proposals, along with our restriction on use of the unlimited charitable contribution, will result in payment

of tax in a great many of these cases. We are taking administrative steps to identify clearly the causes of non-payment in these cases generally.

As a first step, Treasury cooperated with the staff of the Joint Committee on Internal Revenue Taxation in preparing brief statistical analyses of each of the 154 non-taxable individuals reporting adjusted gross income of $200,000 or more in 1966, indicating sources of income and losses and major itemized deductions. This study is being made available to this Committee. I am including at the end of this testimony some summary data on these cases.

Of the $112.1 million of adjusted gross income reported on the 154 returns, $78.6 million (or 70 percent) was given to charity and deducted, indicating (since the normal limit on charitable contributions is 30 percent) that a substantial number of these persons qualified for the unlimited charitable contribution permitted by law. Interest paid deductions amounted to $27.8 million (or 25 percent of AGI). The deduction for state and local taxes paid totaled $8.7 million (or 7.8 percent of AGI).

There are limitations, however, to this type of analysis. For example, data available on individual tax returns do not generally include tax-exempt interest on state or local bonds. Nor is full information available as to the nature of income or losses derived from partnerships, Subchapter S corporations, etc. Thus, the tax return is not now a complete indicator of taxpaying capacity. Moreover, more startling cases are frequently found among taxpayers who do pay a relatively small amount of tax than among those who pay none. To develop meaningful data not only as to

taxpayers with high adjusted gross income and no tax but also on taxpayers with high real income not reflected in "adjusted gross income," we are taking a number of administrative steps. Thus,

1. A substantial number of 1968 returns recently filed showing large income but low tax are being duplicated and brought to the National Office promptly for analysis.
2. We are designing an additional schedule for the 1969 return to show a revised gross income amount which will include various tax preferences as a basis for analysis and statistical work.
3. A research study is being conducted to bring together data for a representative sample of taxpayers for three consecutive years to determine the degree of recurrence in returns of particular taxpayers of certain items of income and deduction, such as capital gains, investment losses, farm losses, and other items.

We will make available to this Committee and to the Congress additional data developed and the results of our studies as quickly as they become available. These actions will provide information which will be a sound base for further legislation and administrative action.

As I have noted, the problem is not solely wealthy persons who pay no tax, but also the wealthy who pay comparatively little in relation to their income. Among taxpayers with adjusted gross income of $1 million or more, about 650 of the more than 1,000 with that income--about 65 percent--pay a tax of less than 30 percent of their income (including the full amount of capital gains). Among taxpayers with income between $500,000 to $1,000,000, there are about 1,300--about 55 percent--who pay tax less than 30 percent of their income. And among taxpayers in the $100,000 to $500,000 range 30 percent, or about 25,000 persons, pay less than 30 percent of their income in tax. Our LTP and allocation proposals would serve to reduce these disparities in tax burdens.

(2) Low-Income Relief.

First priority for reducing the present burdens of Federal income tax should be given to removing the tax on people in poverty. This should be done in such a way as to involve minimum tax reduction for people at above poverty incomes.

We recommend that an additional deduction for a low-income allowance be extended to certain low-income taxpayers who use the minimum standard deduction. This deduction would be designed so that persons whose income is below the poverty level would be free of Federal income tax. The combination of the low-income allowance and the minimum standard deduction would total $1,100, to which would be added the personal exemption of $600 per person.

Table 3 provides more detail on the operation of this provision. It will be seen that for a single taxpayer the proposal would make income tax free up to $1,700, which is substantially equal to the

Table 3

Low-Income Relief Proposal

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
No. in family	Poverty level 1/	Present level at which tax starts	New level at which tax starts	Level at which benefit disappears	Present tax on income in col. 4
1	$1,735	$ 900	$1,700	$3,300	$117
2	2,240	1,600	2,300	3,700	100
3	2,755	2,300	2,900	4,100	86
4	3,535	3,000	3,500	4,500	74
5	4,165	3,700	4,100	4,900	60
6	4,675	4,400	4,700	5,300	46
7	5,180	5,100	5,300	5,700	28
8	5,785	5,800	5,900	6,100	14

1/ The 1969 poverty levels are assumed to be 6 percent above the HEW non-farm level for 1966.

CHART 1

PROPOSED LOW-INCOME TAX RELIEF: MAXIMUM TAX-FREE INCOMES

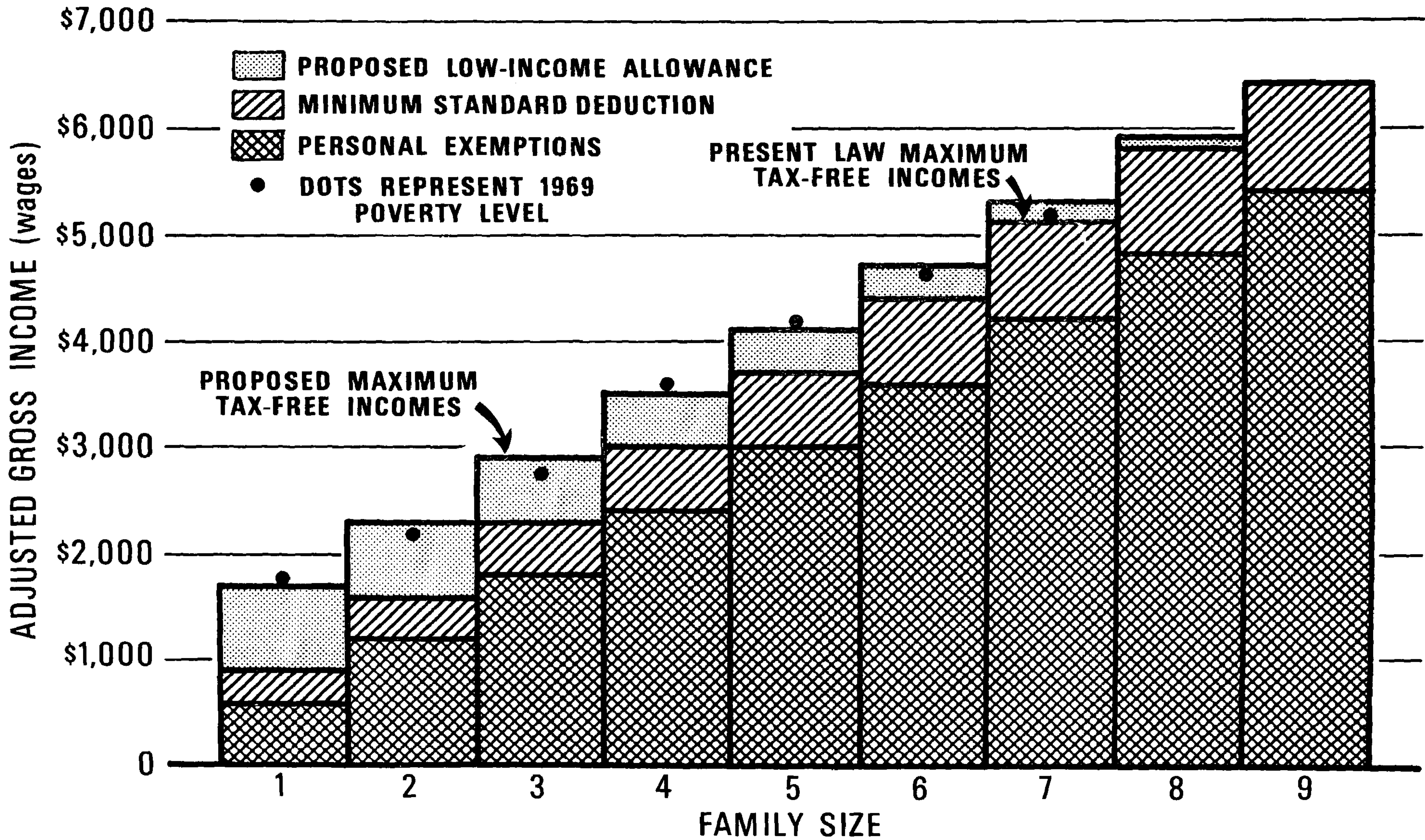
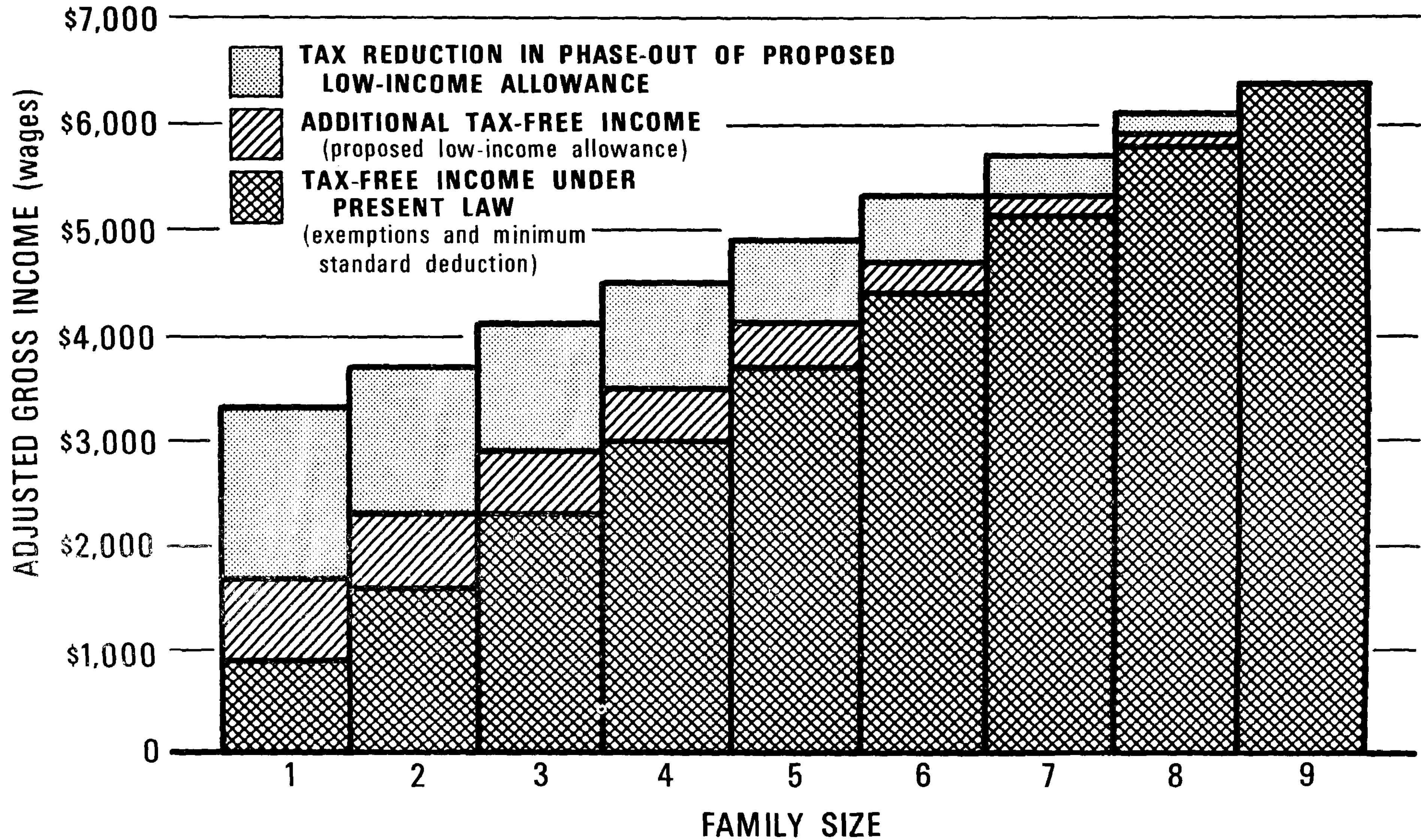


CHART 2

PROPOSED LOW-INCOME TAX RELIEF: INCOME RANGE OF PHASE-OUT OF BENEFITS



imated poverty level income of $1,735. A family of four would no tax on income up to $3,500.

The low-income allowance would be decreased by $1 for each $2 which the taxpayer's adjusted gross income exceeded the maximum taxable amount (including the personal exemption). Thus the -income allowance will phase out as income increases above the imum non-taxable amount. For the single person the added relief ld decline at income levels above $1,700 and disappear at $3,300 income. For the family of four it would phase out between $3,500 $4,500.

All of this would be built into the optional tax table, which the only way that low-income taxpayers can use the standard or mum standard deduction. Thus the provision would not require additional computation on the taxpayer's part. He simply would his tax from the table, as he does now.

The extra provision would provide maximum tax relief of $117 a single person, the tax now payable on a $1,700 income. In egate it would affect about 13 million taxpayers, providing an age tax saving of about $51. It would relieve of all tax t 5 million families who now pay tax on below poverty level nes.

It is recommended that the optional tax tables be extended the present ceiling of $5,000 to an income of $6,100, so that provision would operate entirely on the optional tax tables.

(3) Mineral Production Payments.

The sale of production payments in the extractive industries
ılts in acceleration of depletable income, a failure to match
rating expenses with operating income, and a distortion of the
ral income tax results intended by Congress. This distortion
ıits the avoidance of limitations Congress has placed on the
etion allowance, the foreign tax credit, the investment credit,
the net operating loss deduction. Among other effects, it may
result in creation of artificial net operating losses in sub-
ent years which may be carried back to earlier years for purposes
btaining income tax refunds. The net result may be that over
riod of years, a corporation may pay no income taxes on its
ral operations, even though it has reported a profit to share-
ers each year.

The production payment has also been used in so-called ABC
actions to distort the normal operation of the Federal income
rovisions by creating an unwarranted exclusion of income of
wner of the property, or as others see it, a distortion of
eduction of "lifting" or operating costs of the mineral property.
Originally confined largely to oil and gas transactions, the
of mineral production payments has spread in recent years to
extractive industries and is resulting in significant reduc-
in tax liabilities.

The Treasury recommends that these production payments be
d as loan transactions both with respect to [illegible]

:tion payments and ABC transactions. This treatment would not to production payments pledged for exploration or development. 'he tax reform proposals of the previous Administration recom- . that this change be made with respect to transactions entered .fter the date of enactment. We believe that the distortions ome tax liability involved in these transactions, and increas- ilization in various extractive industries, indicate that distortions should be terminated promptly. Otherwise there e an acceleration of such transactions prior to the enactment legislation. We recommend, therefore, that this provision :ted as promptly as possible and be effective with respect ısactions consummated, or covered by a binding contract entered i1 ıfter April 22, 1969. The industries involved have had ade- ıotice that the tax treatment of production payments was under .deration (see, for example, IRS Technical Information : 999, October 28, 1968).

ıis provision will produce an annual revenue gain of $200 mil- ı the long run, and $95 million in the first year of operation.

) Private Foundations and Exempt Organizations.

major area requiring immediate Congressional attention is atment of private foundations. We are convinced that these ents for receiving and investing wealth are a useful source ibility in achieving new levels of thought and action and in ing the most effective existing operating charities. They

'ich the pluralism of our social order. The very fact, however, t a major direct responsibility of private foundations is wealth its management imposes a special responsibility on the tax tem, which was partly responsible for the existence of the ndation. This responsibility is to see to it that the wealth managed with scrupulous regard for its charitable charge.

In many ways, however, the clear intent of present law to uire devotion of the property of foundations to charitable poses is not achievable under existing statutory standards. ffer the following proposals to help achieve this purpose to improve the system of taxing exempt organizations in general.

1. Eliminate "self-dealing" through a general prohibition against financial transactions between a foundation and its founders, contributors, officers, directors or trustees.

2. Require that all of the net income of a foundation be distributed to charity on a relatively current basis. Moreover, the foundation would be required to distribute amounts equal to 5 percent of the value of its investment assets if this amount is larger than realized income. This rule will insure current charitable benefits commensurate with the tax advantages granted to foundations and their donors.

3. Require that foundations sell or contribute to a publicly supported charity enough of their interests in particular businesses controlled by the foundation or the donor to bring the remaining interest below the control limits that would be set out in law. Foundations would have five years from the present time with respect to existing holdings, and five years from the time of receipt of such a controlling interest as a result of a gift or bequest in the future, to make this disposition. The five-year period would be subject to extension for good cause shown. A controlling interest would be defined as 35 percent of the combined voting power of a corporation (or interest in an unincorporated business), except that holdings between 20 percent and 35 percent could be considered controlling, if control is in fact found to exist.
4. Prohibit private foundations from engaging in activities which directly affect political campaigns, such as voter registration drives.
5. Require private foundations which make direct grants to individuals for educational and other programs to make public the terms of the grants and resultant work product of recipients of these grants.
6. Provide effective sanctions with respect to private foundations. Disallowance of the exempt status of an organization upon audit of its return after disqualifying transactions

have occurred is frequently an inadequate penalty. It often penalizes charity while imposing no detriment upon the private individuals responsible for its disqualifying acts. Also it is an inflexible provision, imposing light or heavy penalties regardless of the seriousness of the prohibited activity.

In order to impose appropriate sanctions for violations of the new requirements of private foundations, we propose a specific set of civil penalties against foundation management, against private persons who improperly deal with foundations and, in some cases, against the foundation itself. In addition, we propose that the Federal District Courts be given jurisdiction to enforce the obligation of a Federally tax-exempt organization to devote funds properly to charitable purposes. Thus, the Internal Revenue Service will be authorized to forward to the Department of Justice a recommendation for such action if other remedies are inadequate. Action in the Federal courts seeking equity relief would be deferred during the time the State Attorney General seeks appropriate relief under state law to correct the abuse. This system should serve to bolster the efforts of State Attorneys General to protect the public interest, efforts which now vary widely from state to state.

7. Extend the provisions for taxation of "unrelated business income" to churches and other exempt organizations not now subject to those provisions. Taxation of the churches to the extent that they enter into the commercial transactions of the market place in direct competition with taxpaying businesses is consistent with the protection of the tax exemption of churches with respect to their passive investment income and the income related to their primary activities.
8. Enact pending legislation to overcome the effect of the Supreme Court decision in the Clay Brown case to prevent a charitable organization from borrowing to purchase investment assets. The effect of such transactions is often to pass the benefit of the tax exemption on to the seller, a non-exempt party, in the form of an artificially high price. There is no warrant in any event for a tax-exempt organization borrowing money to purchase income producing assets unrelated to its charitable function.
9. Tax as unrelated business income the investment income of social clubs and beneficiary societies. When this income is used to pay for services to members, it should be regarded as taxable to the same extent as if it were earned by the members directly and used to pay for their social recreations. The unrelated income provision should not, however, apply to the investment income associated with fraternal insurance.

In addition, I would like to indicate that we consider that the provisions of the tax law with regard to exempt organizations need to be given thorough study. We plan to reexamine both the criteria by which exemption is granted and the requirements for continued tax-exempt status. In addition to the difficulties inherent in vague statutory standards, such as "charitable" or "educational," the present justification for exemption of business-oriented organizations will be explored. Further attention needs to be given to the problem of the consequences of loss of exemption. In many situations, it can be to the advantage of an exempt organization to surrender exempt status. After a taxpayer has obtained a benefit for a contribution to a charitable organization, there is frequently no effective penalty imposed on anyone from the subsequent denial of exemption and no effective control at the Federal level once exemption has been lost.

We have reviewed with Commissioner Thrower the creation of an advisory group on exempt organizations, made up of persons of stature and diverse backgrounds. The group would advise with the Commissioner regarding major policy issues concerning the appropriate activities and methods of operation of exempt organizations. Such a group, we understand, will soon be appointed.

We would like to assure this Committee that the Internal Revenue Service will bend every effort to supervise the exempt organization area as effectively and efficiently as possible within

the confines of the statute. Over the past several years the Service has brought the benefits of automatic data processing to the exempt organization field. An Exempt Organization Master File has been assembled containing at the present time 450,000 organizations. The master file provides invaluable aid in auditing and developing meaningful statistics reflecting the nature of the exempt organization world. Furthermore, exempt organization information returns are now all filed in one Service Center.

Several years ago the Service made a policy decision to achieve the same level of audit coverage for exempt organizations that it achieves in connection with other returns. Since 1964 the Service has completed 65,000 examinations of exempt organizations. Each of these audits represents 14 returns actually screened. During this period 1,180 revocations were recommended and total tax change aggregated $134.3 million.

Further, the structure of the Exempt Organization Branch, a specialized unit within the national office, has been significantly improved, and published ruling activity was increased substantially. Thus 168 rulings in this area were published in 1968 as compared to 18 in the years 1961 through 1963. Other improvements in the handling of these cases were made.

Notwithstanding the significant improvements in the administration of exempt organizations, a major further step will soon be undertaken. A centralized unit in the National Office will select

the large tax-exempt organizations to be audited and will assist in planning and executing the audits themselves. The unit will also provide a quality check on the audit of smaller exempt organizations in the field by review of completed reports. This program should produce greater uniformity of treatment, and make the experience gained thereby readily available for changes in legislation, regulations and rulings policy.

(5) Charitable Contribution Deductions.

The vital role that charitable organizations fulfill in our society is recognized by the charitable contributions deduction--a very strong incentive for charitable giving. We are recommending certain structural improvements in the deduction, but we feel it is appropriate to couple these reforms with an increase in the limitation on the charitable contribution deduction from 30 percent to 50 percent. This will increase the incentive effect of the deduction without permitting any taxpayer to avoid tax on a fair share of his income. The increased limitation for charitable gifts is justified, however, only if these other reforms are enacted.

With respect to the unlimited charitable contribution deduction, which is available only to persons who make very large contributions over a series of years, we believe that some limitation is in order. We recognize that persons who make a significant long-run commitment of a very large part of their income to a charity make a contribution to the charitable activities that would be difficult to replace. At the same time, every taxpayer should be required to make some

significant payment to the maintenance of the Federal Government as opposed to distributing all his income to charity. To balance these considerations, we propose that a taxpayer meeting the present requirements as to the unlimited deduction be permitted to deduct contributions only to the extent that his contributions, plus his other itemized personal deductions, do not exceed 80 percent of his adjusted gross income. This provision applies to taxable years beginning in 1969.

Under the present law deductions for contributions to charity may be in the form of cash or property, taken at its fair market value. Except with respect to donations of installment obligations, gain is not recognized to the donor on the making of a charitable gift in property. The charitable contribution deduction is reduced in the case of gifts of certain depreciable and mineral properties which would, if sold, result in ordinary income. However, there are still a number of major areas in which gifts of property to charity produce unwarranted tax benefits to the donor beyond the intended incentive effect of the deduction. It is important that the benefit of the deduction operate uniformly between taxpayers who substantively have the same income and make the same contribution to charity. The following changes are designed to accomplish this purpose.

In 1958 the Advisory Group on Subchapter C recommended to this Committee that any deduction for charitable contribution of Section 306 stock be reduced by the amount of ordinary income that would have been realized on its sale to a third party. We believe that this recommendation should be adopted by the Congress and that

the principle should be extended to charitable donations of all property which, if sold, would produce ordinary income to the seller. The benefits to the charitable organization from the present rule are not commensurate with the loss to the Treasury from the elimination of ordinary income tax on the profit.

We recommend that the statute be amended to insure that no deduction be allowed for the rental value of property leased rent-free to a charity. The donor in such a case has no income from the rental value and should not get a double benefit in the form of a charitable contribution deduction, any more than a person donating his services to charity.

We recommend that the special two-year charitable trust rule be repealed. This rule permits a taxpayer to avoid the percentage limitations on the charitable contribution deduction. The repeal will mean that in all cases a grantor will be taxed on trust income where a reversionary interest will or may be expected to take effect within ten years. He will, of course, get a charitable contribution deduction for the value of the income interest going to charity.

Under existing law in cases where the income interest goes to charity and the remainder goes to non-charitable beneficiaries, such as the donor's family, the donor is not taxed on the income if he has no reversionary interest (or if any reversion is postponed for more than 10 years). He also is entitled to a charitable contribution deduction for the value of the income interest going to charity. We recommend that this double benefit be ended by allowing the deduction only if the grantor includes the income in his gross income.

Further, we recommend that no deduction be allowed for a gift to charity of stock rights unless the shareholder allocates the basis of his stock in part to the distributed rights. Under existing law, a taxpayer can purchase stock carrying stock rights, contribute the rights to charity and deduct their value, allocate none of his cost to the rights, and then take a loss on sale of the stock which, of course, will have less value without the rights. Our proposal would end this double deduction.

With respect to donations of property which, if sold by the donor, would produce long-term capital gain to the donor, we are not now prepared to recommend that the deduction be reduced by the amount of the untaxed gain. We do recommend, however, that the gain on capital assets so transferred be included with other items that in the aggregate are subject to the limit on tax preferences (LTP).

(6) Corporate Securities.

In recent years there has been a rapid increase in the number and the size of mergers or other consolidations among corporations, particularly in the area of so-called "conglomerate" combinations. The Congress must regard this development with great concern for it constitutes a threat to the competitive climate for U.S. business and to growth opportunities for new firms. The total Congressional concern should be reflected in a number of areas, including possible extension of the antitrust laws, revision of security regulation and accounting rules, and regulation of bank loans to

the extent that present loan limitations facilitate new consolidations. It is also appropriate to investigate the question whether the present tax laws offer special inducements to combinations.

From the evidence presented to this Committee, and from data acquired by the Treasury, it is apparent that the basic tax provision encouraging the merger movement is that which accords tax-free treatment to reorganizations. Over 90 percent of the mergers in recent years have employed some form of tax-free reorganization. The Treasury is beginning an immediate study of the application of the reorganization provisions to see if the rules developed some years ago are still appropriate to current conditions and practices.

Present concern is also expressed about transactions in which debt is a significant element of the acquisition price. Tax policy should focus on the appropriateness of the interest deduction with respect to the issued debt. It appears, however, that the greatly increased use of debt in recent acquisitions is motivated primarily by factors other than the desire to obtain an interest deduction for tax purposes. Thus, testimony before this Committee and information obtained by the Treasury indicates that the greatly expanded use of debt is occasioned by the desire to hedge against inflation, to obtain "leverage" to obtain a more favorable earnings per share ratio, to enable sellers of stock to acquire a prior claim on earnings and assets, and to obtain price stability in the package offer that is made for the stock of the target corporation.

In our tax structure, an interest deduction is properly disallowed only if the underlying obligation constitutes equity rather than debt. We consider that the first section of H.R. 7489 does not address itself to this basic question. The Treasury is presently seeking to develop rules or a regulation that will aid in distinguishing debt from equity and disallow the interest deduction where the interest payments represent in substance a return on equity. These rules would apply whether the instrument comes into existence in an acquisition, in a recapitalization, or in any other manner, and whether the company is closely held or publicly held. Special attention will be given to securities such as subordinated debentures and convertible debentures. Accounting for acquisitions as a "pooling of interest" rather than as a purchase may suggest equity treatment. Convertible debentures that are non-callable for long periods may truly evidence an equity position rather than a creditor status. Other factors which may be significant in the conglomerate area will also be considered. Any new regulations promulgated in this area would, however, have prospective application only.

In addition, we propose that the following immediate steps be taken by legislative action. These steps will impede mergers and acquisitions in which debt securities are used to gain tax advantages, and they are based on sound tax policy.

(1) The Treasury supports adoption of a rule which would deny installment sale treatment under Section 453 for indebtedness issued in registered form or with interest

coupons attached. The reason for this change is self-evident: such instruments, freely traded on the market, do not justify tax deferral.

(2) To achieve consistency of treatment between bondholders and the issuing company where bonds are issued at a discount, we recommend that Section 1232 be amended to require that original issue discount be treated as additional interest income to the bondholders to be reported ratably over the life of the bonds. This rule would not apply to bonds issued by any government or political subdivision. This rule will decrease what we regard as a serious potential area for revenue loss on the issuance of debentures with warrants attached. The bonds are treated as issued at a discount if the warrants have value; the issuer claims a deduction annually for amortization of the discount element; and the holders obtain deferral of substantial amounts of ordinary income. There may be doubt whether this discount income is ultimately being reported as ordinary income on redemption or sale of the bonds. Thus, under the present structure of Section 1232, the income is not characterized as interest income, cannot be made subject to information reporting to the bondholders and the Internal Revenue Service, and is not subject to tax for what may be a long period of time until the bond is sold or redeemed.

(3) The Treasury recommends that Section 163 of the Internal Revenue Code be amended to exclude from the deduction allowable to a corporation on repurchase of its convertible bonds at a premium the amount attributable to the conversion feature of the bonds. Present regulations

reach this result, but court cases have been filed to test them. Any doubt in this area should be eliminated by legislation.

Other measures are being taken in regulations or rulings to insure proper, consistent tax treatment with respect to debt securities. While the legislative measures recommended by the Treasury at this time and these other actions are not specifically directed at acquisitions, whether of a conglomerate nature or otherwise, we believe that they will attack some of the basic tax problems involved in combinations and decrease the impetus toward creation of unusual security interests that are difficult for investors to evaluate.

(7) Multiple Surtax Exemptions.

Presently our corporate tax law provides a relief to small business in the form of a rate of 22 percent, in lieu of the regular 48 percent, on the first $25,000 of corporate income. It is a clear miscarriage of the intent of this provision for one corporate chain to take advantage of the fact that its operations are carried on through the legal form of separate corporations to permit many times $25,000 to be taxed at a low rate. Some corporate groups have hundreds of separate corporations. The present law imposes a small penalty rate of 6 percent on the first $25,000 of income of the separate corporations. This has been grossly inadequate as a penalty. The large chain which can pay tax at a rate of only 28 percent on a large portion of its income has an unintended advantage over the local independent organized as one corporation that pays tax on 48 percent of any income in excess of $25,000.

The sequence of corporate income tax statistics from 1964 through 1966 shows a dramatic increase in the number of corporate entities which are paying the 6 percent penalty rate (imposed by the Congress in 1964 on the multiple surtax privilege). Between 1964 and 1966, the number of corporations in total increased by only 3 percent but the number in controlled groups electing to use the multiple surtax exemptions and pay the additional 6 percent rate rose by 20 percent. A full solution of this unintended extension of the small business privilege is imperative.

The transition to this rule would be accomplished by limiting the permissible number of exemptions in a corporate group in 1969 to 100. This number would be reduced to 50 in 1970, 25 in 1971, 10 in 1972, 5 in 1973, and 1 in 1974. The revenue gain when the revision is fully operative would be $235 million.

(8) Farm Income Rules.

In addition to the inclusion of certain excessive amounts of farm loss in the Limit on Tax Preferences (LTP) provision, further explicit changes in the tax law relating to farm income are essential to deal with the capital gain problem in this area, whether or not the total farm losses are excessive in relation to income.

We recommend that livestock which is subject to depreciation also be subject to recapture of excess depreciation at the time of sale under Section 1245, just as other depreciable personal property.

We also recommend that the holding period for livestock, other than race horses, be extended to two years or two-thirds of the expected useful life of the animal, whichever is shorter, before sales can qualify for capital gains.

Further, we recommend that race horses in the hands of a breeder qualify for capital gain only if: (1) they are breeding animals, which would be demonstrated by the taxpayer's having bred them; or (2) they are used in the racing business for two or more years.

We recommend that a taxpayer with farm operations be required hereafter to keep an "excess deduction account" (EDA) in years in which his farm loss exceeds $5,000. This account would include the amounts by which the ordinary farm deductions in any year exceed by more than $5,000 the total of the ordinary income from farm operations. The $5,000 exclusion would prevent the proposal from having an impact on the small farmer. The amount in the account would be reduced by net ordinary farm income realized in subsequent years. The effect of this excess deduction account would be that any subsequent capital gain associated with the sale of the farm, or of assets used in connection with the farm, would be treated as ordinary income to the extent of the balance in the excess deduction account.

Gain attributable to increases in land values would, however, be excepted from this general rule and would be treated as ordinary income only to the extent that prior deductions of amounts which

would have been capitalized but for special statutory provisions have served to create that gain. Thus, the ordinary income on sale of the land would be limited to the lesser of (a) the excess deductions account (EDA), or (b) the amount of deductions under Sections 175, 180, and 182, allowed with respect to the parcel sold.

A taxpayer would not be required to maintain an EDA if he adopted an accounting method which accounted properly for inventory costs and required capitalization of capital costs.

These changes will help prevent excessive advantage being taken under the present liberal farm accounting rules. This advantage exists under present law because it is the nature of farm cash accounting not to distinguish between current costs and many capital investments. A wealthy taxpayer thus finds it attractive to invest in farms in a situation in which most of his deductible farm "loss" is really a capital investment which can be recovered later at capital gains rates. This is particularly attractive when farm losses can be offset against ordinary income from other sources, but on occasions it also produces unintended benefits for the wealthy person with only farm income. To the extent that the investment is economically sound and thus produces a net economic gain, this net gain would still be capital gain even with our changes if it met the other tests of a capital gain.

Finally, we propose to strengthen the "hobby loss" provisions. Presently, losses are disallowed if a loss of over $50,000 is incurred for five consecutive years. Even if a hobby business is

consistently losing over $50,000 a year, there is too much opportunity to rearrange income and deductions to break the string of five years. The new rule would disallow the deduction of losses if losses exceed $50,000 in any three out of five consecutive years. Other structural changes would also be made in these provisions.

(9) Tax-Free Dividends from Accelerated Depreciation and Public Utilities.

Under existing law, some companies, particularly regulated utilities, are able to make regular tax-free distributions--primarily as a result of the use of accelerated depreciation. These are advertised as "tax-free dividends."

The problem arises because accelerated depreciation is used for tax purposes while straight-line depreciation is used for book purposes, resulting in smaller tax profits than the book earnings available for distribution of dividends. Such dividends would appear to represent distributions of corporate income and not a return of capital, and they should be taxed. Accordingly, we recommend that accelerated depreciation not be taken into account in the computation of earnings and profits unless accelerated depreciation is used for book purposes. This rule would apply generally, and not just to public utility companies. It would be similar to the present rule requiring use of cost depletion rather than percentage depletion in computing earnings and profits. In order to permit adequate adjustment to the new rules, it is recommended that the proposal be applied beginning after the third year following enactment. At current levels this would increase revenue by $80 million.

The use of accelerated depreciation by public utilities raises additional tax problems which require attention. Regulated public utility companies in general account for depreciation on a straight-line basis for purposes of the regulatory process. Where accelerated depreciation is taken for tax purposes, the actual Federal tax paid is lower than the tax liability that would result from the straight-line depreciation taken for regulatory purposes. Often the regulatory commissions permit taxpayers to "normalize" their tax, that is, to treat as a cost the tax consistent with straight-line depreciation and treat the difference between this and the actual tax as a reserve for future taxes, since accelerated depreciation involves tax postponement. This reserve is treated as a customer contribution to the capital of the company, and no rate of return is permitted on it. In other situations the regulatory commissions require companies to take into account as the income tax cost of their operations only the actual tax paid with the result that the tax reduction due to accelerated depreciation is "flowed through" to the customer as a reduction in price.

Legislation has been introduced to provide that the regulatory commissions should not be able to require companies to take these tax benefits nor to require that the benefits be "flowed through."

The Treasury Department does not believe that the Internal Revenue Code should deal with the regulatory process to the extent of specifying how the tax savings should be handled if a particular corporation freely adopts accelerated depreciation.

On the other hand, the tax law quite explicitly provides a choice for taxpayers between the use of accelerated depreciation and straight-line depreciation. We feel that a regulatory commission should not take advantage of this election by providing that it will only give an allowance in the rate calculation for the Federal tax that would be due if the company had adopted accelerated depreciation. Where a taxpayer has already elected accelerated depreciation, the regulatory commission should have the leeway to continue to make the allowance for Federal tax on the basis of continued use of accelerated depreciation.

If the Congress takes no action in this situation and if utility commissions generally proceed to treat companies as though they had adopted accelerated depreciation and require this amount to be flowed through, the total impact on the revenues, over the next few years, could build up to an annual loss of $1.5 billion. If on the other hand, the Congress enacted legislation that would in all circumstances prohibit utility commissions from flowing through tax savings proceeds of accelerated depreciation, there could be a short-term revenue loss as high as $0.6 billion due to some companies feeling free to adopt accelerated depreciation.

In view of the large revenue loss that is possible in any change from the present situation, we think it appropriate for this Congress to enact legislation which would tend to preserve the present state of affairs. This can best be done by preserving

the option to use straight-line depreciation to companies that have so far been using a straight-line depreciation. Accordingly, we recommend that Federal and state regulatory commissions be precluded from requiring a company to adopt accelerated depreciation or computing its income for rate-making purposes as if it had done so unless the utility voluntarily elects accelerated depreciation for tax purposes.

(10) Stock Distributions.

The tax law has recognized for a long time that a distribution of common stock dividends on common stock does not normally represent a taxable event to the shareholder. He is simply receiving additional shares to represent his same unchanged equity interest in the corporation. The law has, however, recognized cases where such a distribution of stock dividends does change the equity interest of the shareholder just as though he had received a cash dividend and reinvested it in more stock. Present law does not draw this distinction properly, and we need a general provision to identify changes in equity ownership associated with stock dividends. A proposal as to the stock dividend problem was made by the Advisory Group on Subchapter C established by this Committee in 1956.

Our proposal substantially follows the recommendation of your Advisory Group. We recommend that Section 305 be amended to make clear that an increase in a shareholder's interest in a corporation, when related to a taxable dividend paid to other shareholders, is to be taxed.

The new section will have the result that in the case of the so-called "two class common stock," in which one group gets cash dividends and another gets comparable stock dividends, the stock dividends will be taxable. These stock dividends represent an increase in the relative equity share of the investors holding the stock dividend-stock just as though they had received cash dividends and had reinvested them in more common stock. The new rule also would treat as a dividend the increase in the equity interest of common stockholders associated with redemption of stock pursuant to a periodic plan of redemptions. For example, an offer by a corporation to redeem 5 percent of any shareholder's stock each year results in increasing the proportionate interest of those who do not redeem --similar in effect to paying a cash dividend on some shares and a stock dividend on others. Further, all stock dividends on preference shares would be taxed. The amendment should apply upon enactment to stock issues after April 22, 1969, and to existing issues on and after January 1, 1991.

(11) Capital Losses.

Net long-term capital gains in general are taxed by including only one-half of the gain in ordinary income. A net long-term capital loss, however, may be deducted in full against ordinary income up to an annual limit of $1,000. This is not only inconsistent but leads to tax planning of asset sales to separate gains and losses into alternate years. We recommend that each dollar of net long-term capital loss be permitted to offset only 50 cents of ordinary income. The limit of the annual deduction should be kept at $1,000 with the present unlimited carryover, except that married taxpayers filing separate returns should be subject to a limit of $500 each. This provision should be effective for 1969 and later years. In the long run this change will increase revenues by $100 million.

(12) Restricted Stock Plans.

During the past few years, there has been a rapid growth in the number of so-called "restricted stock plans." Under these plans, an employee receives stock or other property which he is barred from selling immediately or which is subject to other restrictions. Because of these restrictions, tax is not imposed under existing administrative rulings until the restrictions expire--for example, when the employee may sell the stock--but the amount then subject to tax is limited to the value of the stock when the employee received it. In effect, any increase in value during the period the restrictions are in effect is taxed only if the stock is sold and then as a capital gain.

Last October, the Treasury proposed to change these rules to provide that the amount subject to tax when the employee may sell the stock would be its value at that time. We have carefully reviewed this proposal. We believe that it provides the correct result in many cases but may lead to an unwarranted result in others. We think that a fresh approach is warranted in this area and that this may best be accomplished by new legislation. New legislation also will have the advantage of eliminating the existing uncertainty.

We propose that, as a general matter, where an employee receives stock or other property as compensation, he should be subject to tax when his rights in that property become non-forfeitable and that the amount subject to tax at that time should be

the full, current fair market value of that stock or other property. Thus, we recommend that restrictions barring sale for a specified number of years not be given any effect for tax purposes. On the other hand, restrictions under shareholders' agreements which do not expire by lapse of time, and thus are prompted by bona fide business rather than tax considerations, would be taken into account. Also, restrictions imposed by law would be taken into account. In these cases, the stock or other property would be taxed at a value determined after giving effect to the restrictions.

The rules we propose are comparable to those which have applied for over 25 years to non-qualified pension and profit-sharing plans. Because of the similarity, we believe that the same rules should apply to restricted stock plans.

(13) Accumulation of Income in Trusts.

A widely used device for the avoidance of the progressive rate scale for individuals is the creation of trusts to accumulate income at low rates. The numerous exceptions to the "throwback" rule, which is intended to apply additional tax at the time that a trust distributes accumulated income to a beneficiary, have permitted many individuals to escape substantial taxes. This is particularly acute when multiple trusts are created.

We recommend that all trust distributions of accumulated income be taxed to the beneficiary. The beneficiary would credit against his tax his share of the taxes previously paid by the trust on such income. A simplified computation procedure would be provided, as is now applied to distributions from foreign trusts. The grantor of a trust would also be taxed on all income accumulated for the benefit of his wife. This proposal should become effective for distributions after April 22, 1969, and subsequent years. It will increase revenue by $70 million a year.

(14) Moving Expenses.

We recognize the need to deal with the problems arising under present law in connection with reimbursement of employee moving expenses. These are, in an important sense, costs of earning income, although they do have strong personal elements. Because of this dual nature of the expenses, we believe that the miscellaneous costs of moving including the costs of house hunting trips, the costs of temporary living quarters at a new location, and the costs of selling a house (or buying a new one) should be allowed as a deduction subject to a dollar ceiling. We propose a ceiling of $1,000 for these miscellaneous costs with the proviso that deductions be allowed up to an additional $1,500 to the extent that costs of selling or buying a house or breaking a lease are also involved. To provide uniform treatment of old and new employees, an employer reimbursement for moving expenses should always be included in income, and the employee should take deductions within the above-stated limits for expenses actually incurred. This provision should become effective January 1, 1969. The revenue cost of this provision is $100 million.

(15) Small Business Corporations (Subchapter S).

We recommend that the Congress enact a set of revisions in the treatment of so-called Subchapter S corporations which would make the tax rules for these small business corporations and their shareholders conform more closely to the partnership rules. The changes would make the rules simpler and easier to comply with. The availability of this treatment for small business corporations to avoid the double tax on corporate earnings would also be broadened by removing certain existing limits on its use.

The substance of these changes has been worked out through extended discussion with a committee of the American Bar Association. It was the intention of the Congress in enacting Subchapter S to provide that a number of small corporations should be able to avoid the impact of the corporate tax if they provided that the full corporate income would be reflected on the returns of the stockholders in the same general way in which partnership income is shown on the returns of the partners. Unfortunately, the utilization of Subchapter S has been restricted because of the considerable complexity of the provision. Under the amendments a simpler set of rules will be available, particularly to a corporation which was always a Subchapter S corporation.

These changes would require that certain limitations now applica to partnerships be made applicable to Subchapter S corporations also, such as the limitation with respect to pension plan contributions on behalf of shareholder employees.

For the longer run this Administration believes that the Subchapter S option should be made more broadly applicable than it is now. Conceptually, this is a far more reasonable way of dealing with small businesses than is the extension, or even continuation, of a corporate surtax exemption. We expect to give serious study to possibilities for enlarging the application of Subchapter S in ways that will preserve the important element of simplification, and we hope to report back to this Committee shortly in this area.

(16) Extension of Special Treatment of Banks Holding Foreign Deposits.

Interest earned on U. S. bank deposits owned by foreigners not resident in the United States and not connected with a trade or business conducted here is exempt from income tax, and the bank deposits themselves are exempt from estate tax. However, existing law provides that these exemptions shall not continue beyond 1972. The expiration date was enacted in 1966 as part of the Foreign Investors Tax Act. At the time, the Congress was concerned that termination of the exemption would have an adverse impact on foreign balances in the United States, and the effective date for terminating the exemption was therefore deferred for six years.

The balance of payments continues to be a matter of concern. While we cannot forecast what the situation will be by 1973, it is clear that the scheduled termination will make a solution to the problem more difficult to achieve. Withdrawals are likely to be made long before the effective date for terminating the existing exemptions. Once impelled to consider withdrawal of their deposits by the prospective taxation of these deposits, foreign depositors are likely to be alert to alternative investment opportunities and will take advantage of them as and when they occur. It is, therefore, important that cancellation of the termination date for the income and estate tax exemptions be undertaken at an early date, if it is to be undertaken at all. Accordingly, we recommend that the Congress take action in accordance with the President's balance of payments statement recommendation of April 4 and that the scheduled termination of the exemptions be repealed.

Conclusion

These, then, are our present proposals. We believe these proposals will materially strengthen the structure of our tax system and provide increased equity. We will return with further proposals as soon as we can make good judgments on the basis of further data, study and discussions. For example, we are proceeding to study intensively application of the estate and gift tax laws, the treatment of assets appreciated at the time of death, the operation of the foreign tax credit, and tax problems of particular industries and types of investment.

To achieve an equitable tax structure, action is required, both in the short run and in the long run. In the short run we need to impose limits on the excessive use of tax benefits and incentives that produce disproportionate tax burdens among our citizens. And we must lift the income tax burden from those in poverty.

In the longer run, we have to apply a stringent analysis to the tax incentives and preferences which our law contains. We need to develop a program of penetrating research and analysis of these provisions so that we can proceed with confidence to save what is good in our tax system and to improve or eliminate what is bad. That will prove to be a challenging task, but we shall move promptly and we shall persevere.

Let me conclude with some thoughts from President Nixon's statement yesterday:

> "Reform of our Federal income tax system is long overdue. Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of the tax burden."
>
> "This Administration, working with the Congress, is determined to bring equity to the Federal tax system."

oOo

Sources of Income and Itemized Deductions for the 154 Nontaxable Individuals
With Adjusted Gross Income of $200,000 or more, 1966
(Amounts to nearest thousand dollars)

Income category	Gain	Loss	Net
Adjusted gross income (AGI)	112,145		112,145
Adjusted gross income plus excluded capital gains)	137,169		137,169
Investment income			125,257
Dividends	85,015		85,015
Taxable interest	10,457		10,457
Capital gains (including 50 percent of long-term gains)	26,504	26 1/	26,478
Estate and trust income	2,246	2	2,244
Royalty income	1,035	274	761
Business income			-12,758
Wages and salaries	6,536		6,536
Farm	32	2,655	-2,623
Other business	1,899	10,125	-8,226
Partnership	797	8,761	-7,964
Subchapter S Corp.	133	1,151	-1,018
Rental income	1,150	613	537
Other income	1,460	1,172	288

Deduction category		Amount
Total itemized deductions		130,458
Contributions		78,580
Cash	24,015	
Non-cash	54,948	
Interest		27,802
Home mortgage	1,102	
Other	27,699	
Taxes		8,681
State & local income	4,657	
Real estate	2,072	
Other	1,953	
Medical		239
Miscellaneous		15,156
Tax computation and credits		
Taxable income		1,505
Tax before credits		836
Tax credits 2/		838
Tax after credits		
Depletion 3/		927
Depreciation 3/		3,559

1/ Capital loss after $1,000 limitation.

2/ Principally investment credit and foreign tax credit.

3/ Limited to depletion and depreciation reported on individual income tax returns.

3/5

Table 5

The 154 Nontaxable Individual Income Tax Returns
Reporting AGI of $200,000 or More in 1966,
Classified By Major Tax Reducing Factors 1/

Major tax reducing factor	$200,000 to $500,000 AGI	$500,000 to $1 million AGI	Over $1 million AGI	All nontaxable returns over $200,000 AGI
Deductions				
Charitable contrib.	19	13	17	49
Interest	55	16	1	72
Taxes: State and local income	12	--	--	12
Real estate	1	--	--	1
Not specified	1	--	--	1
Miscellaneous, not specified	12	3	--	15
Credits 2/	3	1	--	4
Total	103	33	18	154

1/ Returns are classified according to the principal factor reducing tax from a high adjusted gross income base.

2/ Primarily investment credits and foreign tax credits.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 22, 1969

TECHNICAL EXPLANATION OF TREASURY TAX REFORM PROPOSALS

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Technical Explanation

Limit on Tax Preferences (LTP)

1. General Description.

The proposal to place a limit on tax preferences (LTP) would impose a ceiling on the maximum amount of tax preferences that an individual could claim in any one year. This ceiling would equal 50 percent of the taxpayer's total income; and for this purpose "total income" equals adjusted gross income (exclusive of any long-term capital gain) plus the total amount of tax preferences. The amount of preference disallowed would be added to adjusted gross income and thus be subject to tax at ordinary income tax rates. In no case, however, would an individual's allowable tax preferences (i.e., those that remain not subject to tax) be reduced below $10,000.

2. Detailed Description of the Proposal.

A. Tax Preferences

The items of tax preferences which are subject to the limit imposed by LTP are as follows:

(1) Charitable Contributions of Appreciated Property. The amount of tax preferences would include appreciation in the value of property donated to charity. The amount so included is limited to the amount allowable as a deduction for the taxable year under the limitation of section 170 (proposed to be increased to 50 percent of an expanded base including adjusted gross income (after application of LTP) plus allowable tax preferences in excess of $10,000*).

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* This is further explained in the technical explanation on allocation of deductions.

When the value of the donated property plus other contributions exceeds the applicable charitable deduction limitation, only so much of the appreciation element shall be considered as a tax preference as is equal to the difference between (a) the deduction limitation, and (b) the sum of the cash and the basis of the property contributed. In other words, if a taxpayer's section 170(b) limitation is $40,000, as computed on the proposed expanded base, and he has contributed to charity cash of $10,000 and property with a tax basis of $13,000 having a fair market value of $50,000, only $17,000 would be included as an item of tax preference for the taxable year in which the contribution is made. The $20,000 in excess of the deduction limit which may be carried over and deducted in a subsequent year would be included as an item of tax preference for the year to which it is carried.

(2) <u>Intangible Drilling Expenses and Percentage Depletion</u>. The taxpayer would also include as an item of tax preference the excess of (i) intangible drilling expenses under section 263(c) and percentage depletion expenses claimed during the taxable year under section 613, over (ii) the allowable amounts of cost depletion and straight-line depreciation that would have been claimed had the expenses been capitalized. For purposes of computing this excess, the mineral properties will be considered on a property-by-property basis as under section 614.

(3) Accelerated Depreciation. Tax preferences will also include the excess of accelerated depreciation on section 1250 property claimed under methods described in section 167(b)(2), (3), or (4), over the amount allowable under the straight-line method in section 167(b)(1). For purposes of computing this excess, the properties will be considered on a property-by-property basis.

(4) Farm Losses. If a taxpayer adopts a method of accounting which requires an inventory and capitalization of direct and indirect costs which would be capitalized under accounting methods generally applicable to other industries, his farm loss is not considered a tax preference. If the taxpayer does not take these steps, however, his farm loss is considered a preference to the extent it exceeds the amount of the farm loss computed under such a method. In the absence of the taxpayer's establishing the precise amount of the preference, it is presumed to be the excess of ordinary farm deductions over ordinary farm income. Capital gain on farm assets is not taken into account.

B. Minimum Allowable Preferences.

A $10,000 floor would be placed on the minimum amount of tax preferences that a taxpayer could claim. Thus, in no case would LTP reduce the amount of allowable tax preferences below $10,000. To effect this result, after determining the maximum amount of tax preferences allowed under the general rule, the taxpayer will compare this amount to $10,000; the greater of these two is his allowable tax preferences.

C. Five Year Carryover of Disallowed Preferences.

If the operation of LTP has resulted in disallowing an amount of tax preferences in one year and thereby subjecting them to tax in that year, a five year carryover equal to the amount of such disallowed preferences is provided. This carryover can then be used in a subsequent year to reduce the taxpayer's ordinary income. However, such reduction will be allowed only to the extent that in the subsequent year the tax preferences are less than the limit on such preferences. For example, if an individual has salary of $100,000 and tax preferences of $20,000, the maximum amount of tax preferences he may claim in the current year is $60,000 (50 percent of $120,000). If he also had a $50,000 carryover of disallowed preferences from prior years, he could use part of his carryover to reduce his adjusted gross income by $40,000 (the difference between his limit on allowable preferences of $60,000 and the preferences he claimed in the current year of $20,000). He would then have an adjusted gross income in the current year of $60,000 rather than $100,000, and a $10,000 carryover to the next year (assuming the carryover was not more than five years old). If the five-year period expires with respect to certain carryovers, that amount of expired carryover will be applied to increase the basis of a capital asset at the time it is sold to the extent a tax preference has been claimed on such asset. This will have the effect of reducing the capital gain on such asset.

D. General Calculation.

Computation of adjusted gross income with LTP would be relatively easy and could be easily adapted to the return form. In general, adjusted gross income is increased by the amount by which (i) the total amount of tax preferences exceeds (ii) the limit on tax preference (which is equal to one-half of total income) or $10,000, whichever is greater. However, if the limit exceeds the amount of preferences claimed and if a disallowance carryover is available, ordinary income may be reduced by the amount of the excess to the extent of the carryover. In the case in which adjusted gross income is less than zero, one-half of the tax preferences will be disallowed. This will have the effect of reducing the taxpayer's net operating loss by the disallowed amount and will accordingly give rise to an equal LTP carryover.

E. Taxpayers Subject to LTP.

Individuals, estates, and trusts would be subject to the limit on tax preferences. Furthermore, a shareholder in a Subchapter S corporation or a partner in a partnership would reflect his proportionate amount of tax preferences claimed by the corporation or partnership in his own return; he would then add this amount to his own amount of tax preference items, and the total amount would be subject to the limit.

F. Transition Period.

In 1969 the limit on tax preferences will be equal to 70 percent of total income (adjusted gross income plus tax preferences), and in 1970 the limit will be 60 percent of total income. In 1971 and thereafter the limit will be 50 percent, so that no individual will be able to claim more than one-half his total income as tax-preferred exclusions or deductions.

Technical Explanation

Allocation of Deductions

A. General calculation rule.

Under the proposal, an individual will be subject to allocation if two conditions obtain: First, if he has the type of deductions subject to allocation (i.e., "allocable expenses"); and second, if he has allowable tax preferences in excess of $10,000.

When these two conditions are met, the total amount allowable as a deduction with respect to the allocable expenses is a figure which is obtained by use of the following formula:

$$\frac{\text{A.G.I.}^{*/}\text{ (as modified)}}{\text{A.G.I. (as modified)} + \text{Allowable Tax Preferences} - \$10{,}000} \times \text{Total Allocable Expenses} = \text{Allocable Expenses Allowable as Deductions}$$

For the purpose of the allocation formula, the definition of adjusted gross income would be modified so that adjusted gross income would be reduced (but not below zero) by the itemized deductions which are not subject to allocation (e.g., trade or business expenses, child care expenses, alimony, etc.) This aspect of the proposal is explained in more detail later in this explanation.

Taxpayers subjectto the allocation rules include individuals, estates, and trusts; and the tax preferences claimed by partnerships and Subchapter S corporations will be passed through to the partners or shareholders to be accounted for in allocating their individual itemized deductions.

As a result of the allocation formula, some taxpayers having otherwise allowable deductions in excess of their standard deduction may find that the amount allowable is now less than the standard deduction. In such case, the standard deduction would be available to the taxpayer in full.

B. Definition of "allocable expenses."

The deductible expenses which are subject to allocation under the proposal (called "allocable expenses") are:

(1) Interest payments deductible under section 163. Although it may be possible to trace the proceeds of a loan to the purchase of particular investment property and, thus, relate the interest expense to a particular item of income, the general allocation formula would nevertheless apply to all interest incurred as a nonbusiness expense, as it is generally a completely arbitary decision as to which expenses or purchases are to be paid from borrowed funds and which with funds on hand. Accordingly, the present rule of section 265 which completely disallows any interest deduction for indebtedness used to purchase or carry wholly tax-exempt obligations will no longer apply; instead such interest deduction will be treated under the general allocation formula.*

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* There is, however, an exception to the general rule that the entire deduction for interest expense is subject to allocation rather than complete disallowance. Under the proposal section 265 (2) would be amended to disallow completely interest expense directly traceable to the first $10,000 of exempt interest income. This rule adopts the theory that the $10,000 exempted from "tax preferences" consists first of exempt interest income and that a person with less than $10,000 of exempt interest income who is entitled to no deduction under present law because of section 265 (2) should be in no better position under the allocation of deductions proposal. If exempt interest income is more than $10,000, the proportionate amount of interest expense traceable to such excess will be placed into the general allocation pool.

(2) Tax payments deductible under section 164. The allocation provision would apply to a tax payment (which is not a business expens even though it may technically be related to a specific item of taxabl income. This rule is provided because of the difficulty and complexit of applying a direct tracing rule and because of the uneven results th would otherwise occur depending on each State's taxing pattern.

(3) Personal theft and casualty losses deductible under section 165 (c)(3). While a casualty loss does not represent an out-of-pocket expense, its deduction is grounded on the theory that the taxpayer must use his income to replace the property. Thus, to the extent that exempt funds are available for this purpose, it is logical to apply the allocation provision.* Only casualty and theft losses under section 165 (c)(3) are subject to allocation.

The allocation proposal does not cover losses incurred in a trade or business deductible under section 165 (c)(1) since such losses are related to fully taxable income; nor does it cover losses deductible under section 165 (c)(2) (relating to losses incurred in a transaction entered into for profit, though not connected with a trade or business) since such losses will, for the most part, merely offset capital gains, except for the limited deduction of $1,000 against ordinary income.

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* Where the casualty loss exceeds total income, the amount disallowed in computing a loss carryover would be limited to the amount of exempt income. Otherwise it would be possible for more of the losses to be disallowed than there is exempt income. If the excess casualty loss is carried forward or back as a net operating loss it would be subject to allocation in the year to which it is carried.

(4) Charitable contributions deductible under section 170. The amount of charitable contributions subject to allocation would be limited to that amount which is deductible under the percentage limitation of section 170 (b), which would be increased to 50 percent of an expanded income base.

In order to prevent the distortion which would result from measuring the percentage limitation for the maximum charitable contribution deduction by reference to adjusted gross income while at the same time disallowing part of that deduction on the basis of excluded items which are not part of adjusted gross income, it is proposed to expand the income base against which the maximum percentage limitation is applied to include the tax preferences used in the allocation formula to the extent they exceed $10,000. The inclusion of these items in the base against which the maximum percentage limitation is applied will be effected in 1971. The exclusion of $10,000 from the limitation base is consistent with the fact that there is no allocation

against the first $10,000 of exempt income. Thus, if an individual's income consists of $100,000 salary and $60,000 of long-term capital gain,* his maximum charitable contribution deduction would be computed by applying the appropriate percentage to $150,000 (instead of $130,000 as under present law). However, his actual contribution would be subject to the allocation provision, as a part of it is related to the excluded $30,000 of capital gain income.

Any carryover resulting from a charitable contribution in excess of the percentage limition will be subject to allocation in the year to which it is carried as though it were made in that year.

(5) Medical, dental, etc., expenses deductible under section 213.

(6) Cooperative housing expenses deductible under section 216. Section 216 allows a stockholder-tenant a deduction for his allocable share of expenses incurred by the cooperative housing corporation for real estate taxes and interest which would otherwise be deducted by the corporation itself. Allocation of this deduction is consistent with the fact that the underlying items--taxes and interest--are subject to allocation when paid directly by a home-owner.

On the other hand, trade or business expenses are not required to be allocated. Thus, for example, taxes or interest which are attributable to a trade or business expense would not be subject to

*As described later in this explanation, the excluded one-half of long-term capital gain is considered a tax preference for purposes of the allocation of deductions proposal.

allocation, whereas taxes or interest which are attributable to a personal or investment expense would be subject to allocation.*

C. Definition of "allowable tax preferences" for purposes of allocation.

The amount of tax preferences which are taken into account for allocation purposes is the same total amount of tax preferences which is allowed after the Limit on Tax Preferences has been applied, with the addition of tax-exempt interest and the excluded one-half of capital gains. However, itemized deductions are allocated and disallowed only to this amount of tax preferences in excess of $10,000.

In detail, the particular items of tax preferred exclusions and deductions which are taken into account in allocation are as follows:

(1) Tax-exempt interest. Interest (including original issue discount) received from any obligations described in section 103 (a) (as limited by section 103 (b)) is considered to be an excluded item under the proposal. Thus, allocable deductions will be disallowed to the extent that they are proportionately allocable to the interest

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* In addition, the deductions for child care under section 214 and alimony under section 215 are not subject to allocation under the proposal. Child care expenses are nonallocable because they are in essence an expense of earning taxable salary; deductible alimony represents, in effect, an assignment of income which is fully taxable to the wife.

on State and municipal bonds.* When tax-exempt bonds sell at a premium, the net yield realized on them may be substantially less than the stated interest. Hence, it is appropriate to reduce such exempt interest by a proportionate amount of the bond premium in determining the amount of excluded items.

Any investment expense which is disallowed under section 265 (which would be amended as described later in this explanation) would be deducted from the applicable tax preferred items of exclusion (exempt interest, capital gains, and the appreciation on property donated to charity) to determine the net amount of those tax preferences. Similarly, any interest expense allocable to the first $10,000 of exempt interest income and disallowed under the new section 265 will also be netted out against exempt interest income.

(2) Depletion and intangible drilling expenses. The proposal treats as a tax preference all percentage depletion and intangible drilling expenses claimed under sections 613 and 263 (c), respectively, in excess of the amounts that would have been allowable under cost depletion and straight-line depreciation of capitalized costs. For these purposes, the properties are considered on a property-by-property basis, as under section 614.

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* Furthermore, any tax-exempt interest that is currently being paid on United States bonds or on obligations of certain corporations organized under an Act of Congress will be included as a tax preference to the extent that, to do so, would not interfere with a contractual obligation guaranteed by the Constitution.

(3) Long-term capital gains. The one-half of net long-term capital gains deductible under section 1202 is considered an allowable tax preference for purposes of allocation.

(4) Charitable contributions of appreciated property. Another of the tax preference items against which the deductions described above must be allocated is the appreciation in the value of property donated to charity for which a tax deduction is taken. The untaxed appreciation represents income that has accrued during the period the property was held; and the transfer of the property by the taxpayer is the event which properly triggers recognition of such income as a tax preference against which deductions should be allocated, since at the time of transfer it becomes evident that the donor will pay no tax on such appreciation. Moreover, the donation to charity of such income gives rise to the charitable deduction.

The amount of appreciation to be included as a tax preference is limited to that for which a tax deduction is obtained under the percentage limitation of section 170. When the value of the donated property plus other contributions exceeds the applicable deduction ceiling, only so much of the appreciation element shall be considered as a tax preference as is equal to the difference between (a) the deduction limitation, and (b) the sum of the cash and the basis of the property contributed. In other words, if a taxpayer's section 170 (b) limitation is $40,000, as computed on the proposed expanded base, and he has contributed to charity cash of $10,000

and property with a tax basis of $13,000 having a fair market value of $50,000, only $17,000 would be considered a tax preference in the taxable year in which the contribution is made. The $20,000 in excess of the deduction limit which may be carried over and deducted in a subsequent year would be treated as a tax preference in the year to which it is carried.

(5) Accelerated depreciation. The amount of depreciation claimed with respect to section 1250 property in excess of what would have been allowed under the straight-line method is considered an item of tax preference. For these purposes, the amount of accelerated over straight-line depreciation will be considered on a property-by-property basis.

(6) Farm losses. If a taxpayer adopts a method of accounting which requires an inventory and capitalization of direct and indirect costs which would be capitalized under accounting methods generally applicable to other industries, his farm loss is not considered a tax preference. If the taxpayer does not take these steps, however, his farm loss is considered a preference to the extent it exceedsthe amount of the farm loss computed under such a method. In the absence of the taxpayer's establishing the precise amount of the preference, it is presumed to be the excess of ordinary farm deductions over ordinary farm income. Capital gain on farm assets is taken into account as a capital gain but will not reduce a farm loss.

(7) A special adjustment is made for those persons who utilize an LTP carryover from a prior taxable year to the extent that adjusted gross income is reduced. Allocating deductions to this amount is proper because the carryover, to the extent used in the taxable year, represents tax preferences which have been disallowed in a prior year but are allowed in the current year for averaging purposes. Therefore, the carryover represents tax preferences which are used to exclude part of the current year's adjusted gross income from the tax base; and as such, deductions allocable to such excluded income should not be allowed.

D. Modified definition of adjusted gross income.

The formula for establishing the ratio of expenses to be disallowed uses the concept of "modified adjusted gross income." That is, the amount of allocable expenses allowable as a deduction is that amount which bears the same ratio to the total allocable expenses, as modified adjusted gross income bears to modified adjusted gross income plus allowable tax preferences in excess of $10,000. "Modified adjusted gross income" is gross income less all allowable deductions other than those subject to allocation (e.g., less all trade or business expenses, alimony, child care, and those section 212 expenses allowable under section 265). In other words, only that amount of taxable income in excess of those deductions fully allowable against that income is taken into account in the allocation formula.

E. <u>Treatment of investment expenses.</u>

Under present law, investment expenses are fully deductible except to the extent allocable to wholly exempt income, as provided in section 265 (1). Under this proposal, the category of exempt income against which investment expenses would be proportionally disallowed would be expanded to include not only wholly tax-exempt interest but also capital gains and the appreciation on property donated to charity. Thus, the deduction for investment expenses would be allowed to the extent it is related to taxable investment income and disallowed to the extent related to exempt investment income from these sources. The effect of this treatment is that investment expenses are allocable only in relation to the income to which they give rise and not in relation to other types of income. This reflects the fact that investment expenses are deductible because they result from producing investment income; whereas the medical expense deduction, for example, is granted because of the nature of the expense.

If an investment expense is disallowed under section 265, an adjustment would be made in computing the amount of tax preferences: the disallowed expenses would be deducted from the gross amount of the tax preferred exclusion, and only the net amount would be considered a tax preference. Similarly, taxable investment income is included in modified adjusted gross income only to the extent that it exceeds investment expenses which are allowable as deductions under section 212 and section 265.

F. Adaptation to the return form.

The handling of the allocation proposal on the return form would not be a difficult matter. The application of the allocation provision would proceed as follows:

(1) Total the allowable tax preferencesafter LTP. If not in excess of $10,000, nothing more need be done. If the total is more than $10,000, the total should be reduced by $10,000.

(2) Compute the amount of allocable expenses.

(3) Compute modified adjusted gross income. It is adjusted gross income less all deductions other than personal exemptions and allocable expenses. This is the numerator of the allowance formula. (Net investment income, i.e., taxable investment income reduced by deductible investment expenses, is included.)

(4) Total the amount of modified adjusted gross income and the amount of allowable tax preferences. This is the denominator of the allowance formula.

(5) The resulting percentage (i.e., item 3 over item 4) is applied to the total of allocable expenses.

(6) The resulting figure is the amount of allocable expenses allowable as a deduction to reach taxable income

G. <u>Transition Period</u>.

For taxable years beginning on or after January 1, 1969, allocation will be required for one-half of the allocable expenses, with the other one-half being fully allowable as deductions. For taxable years beginning in 1970, all allocable expenses will be subject to allocation.

Technical Explanation

Relief for Poverty Level Taxpayers

1. Background

Under existing law there are single individuals as well as families who are paying income tax even though their total incomes are below the poverty levels. There are almost 28 million persons at or below the poverty level, of which 4.3 million are subject to Federal income tax to some degree.

2. Basic Proposal

Under the proposal no taxpayer at or below the poverty levels will be subject to Federal income tax. (Poverty levels (rounded) have been determined on the basis of 1966 HEW poverty levels increased by 6 percent to obtain 1969 levels) This would be accomplished by adjusting the optional tax tables to provide a low income allowance.

3. Low Income Allowance

The allowance would be sufficient to exclude from tax all families with incomes below poverty levels. The allowance will be reflected in the optional tax tables so that a separate computation would not be required, thus assuring simplicity of application. The adjustments will be geared to family size.

The allowances, as shown in Table 1, will be reduced by 50 cents for each dollar of adjusted gross income over poverty levels. As a result, in addition to the elimination of tax for those below poverty levels, tax

reductions will be realized on incomes which exceed poverty levels in decreasing amounts. No individual will have a tax increase. The phase out of the allowance enables relief to be provided for those in poverty at the lowest possible revenue cost.

TABLE 1

	(1)	(2)	(3)	(4)
Family size	Present Level of Nontaxability	New Level of Nontaxability[1]	Maximum Allowance	AGI Level at Which Allowance is Reduced to Zero[2]
1	900	1700	800	3300[3]
2	1600	2300	700	3700
3	2300	2900	600	4100
4	3000	3500	500	4500
5	3700	4100	400	4900
6	4400	4700	300	5300
7	5100	5300	200	5700
8	5800	5900	100	6100

NOTE:

1. Column (2) is the HEW 1966 poverty levels increased by six percent (rounded).
2. Allowance is reduced 50 cents for each dollar of AGI over column (2) levels.
3. For practical purposes the allowance is no longer utilized by the single individual above an AGI level of $3,250 since the ordinary standard deduction is more generous than the minimum standard deduction plus allowance for single individuals with incomes exceeding $3,250.

4. Examples

The following are examples of how the proposed allowances would operate to reduce or eliminate tax:

Example 1 - A married taxpayer with four children filing a joint return and having an AGI of $4,700 has, under present law, exemptions totaling $3600 and a minimum standard deduction of $800. He is subject to tax on $300 and would pay $46 in tax. The proposal would give him an additional allowance of $300 since his AGI does not exceed poverty levels. As a result the taxpayer would have no taxable income.

Example 2 - A married taxpayer with one child filing a joint return and having an AGI of $2,900 has, under present law, exemptions totaling $1,800 and a minimum standard deduction of $500. He is subject to tax on $600 and would pay $86 in tax. The proposal would give him an additional allowance of $600. As a result, the taxpayer would have no taxable income instead of $600 as under present law.

Example 3 - A single individual with an AGI of $2,000 has,under present law, a $600 exemption and a minimum standard deduction of $300. He is subject to tax on $1100 and would pay $163 in tax. The proposal would adjust the optional tax table by an allowance of $650 which is computed by reducing the maximum allowance for a single individual of $800 by 50 percent of the difference between poverty level income and the

taxpayer's AGI (allowance = $800 - 50% ($2000 - 1700) = $650). As a result, the taxpayer would have a taxable income of $450 and would pay a tax of $63 instead of $163 as under present law.

5. Effective Date

The recommended changes in the optional tax tables would be applicable to tax years beginning after December 31, 1969.

2. Ratable Reporting of Original Issue Discount

A. Present Law

Under present law, in general, if a corporation issues a bond, debenture, note, certificate or other evidence of indebtedness (hereinafter referred to as an indebtedness) which is a capital asset in the hands of the holder, and the stated redemption price of the indebtedness at maturity exceeds its issue price, the excess is original issue discount under section 1232 of the Code. If the indebtedness is held to maturity, at such time the holder is taxed at ordinary income rates on the amount of the original issue discount. If the indebtedness is sold or exchanged prior to maturity in a transaction which results in taxable gain, the portion of the gain equal to the original issue discount attributable to the period of time the indebtedness has been held is taxed to the holder at ordinary income rates. The balance of the gain is treated as capital gain. Thus, under section 1232 taxation of original issue discount is deferred until the year of redemption or the year in which the holder sells or exchanges the indebtedness in a taxable transaction. In contrast, the corporation issuing the indebtedness amortizes the amount of the original issue discount over the life of the indebtedness, thus providing a current interest deduction each year to the issuing corporation.

B. Proposal

It is proposed that the tax treatment of the holder of bonds with original issue discount be made consistent with the treatment

Technical Explanation

Corporate Securities

1. Denial of Installment Reporting of Gain

A. Present Law

Under present law, there is a question whether section 453 (b) of the Internal Revenue Code permits a taxpayer to elect installment reporting on the receipt of certain corporate evidences of indebtedness, such as publicly traded long-term convertible debentures, as part of the consideration in a casual sale of real or personal property. Some taxpayers who have received such corporate evidences of indebtedness in exchange for the stock of another corporation have been treating the indebtedness as qualifying for installment reporting under section 453 (b).

B. Proposal

The proposal would eliminate installment reporting on the receipt of corporate and governmental evidences of indebtedness as part of the consideration in a casual sale of real or personal property when the evidence of indebtedness has interest coupons or is in registered form.

C. Effective Date

The proposed rule would apply to sales or other dispositions made after February 24, 1969.

In essence, the effect of this proposal would be to disallow the additional deduction granted by section 170 (b)(1)(C) and (g) of the Code to the extent that such additional deduction allows the taxpayer to reduce taxable income to less than 20 percent of adjusted gross income. For example, assume that a taxpayer's adjusted gross income is $1,000,000 (after the application of the LTP proposal) and that his allowable itemized deductions, including the unlimited charitable deduction, amounted to $900,000 (after the application of the allocation of deductions proposal). In this case, his tentative taxable income would be $100,000 ($1,000,000 less $900,000). Under this proposal, the tentative taxable income would be increased by $100,000 so that final taxable income equalled $200,000 (20 percent of the adjusted gross income of $1,000,000). If, however, only $50,000 of the $900,000 of itemized deductions was attributable to the unlimited charitable deduction, only $50,000 would be added to the $100,000 to make his final taxable income $150,000, or 15 percent of adjusted gross income.

C. Effective Date.

This proposal would become effective for taxable years beginning after December 31, 1968.

7. Changes in the Unlimited Charitable Contribution Deduction.

A. Present Law.

Under section 170 (b)(1)(C) and (g) of the Code an individual can deduct charitable contributions in excess of the general percentage limitation, if in eight out of the 10 preceding taxable years his charitable contributions and income tax paid exceed 90 percent of taxable income. 1/

B. Proposal.

This proposal would require those taxpayers claiming the unlimited charitable deduction 2/ to increase their taxable income by an amount which, then added to the tentative taxable income figure (i.e., the figure arrived at after application of the LTP and allocation of deduction proposals), would equal 20 percent of adjusted gross income. However, this increase could never be greater than the additional charitable deduction allowed under sections 170 (b)(1)(C) and (g); or, stated another way, this proposal would never result in disallowing the charitable deduction allowable under the percentage limitations or other itemized deductions.

1/ For this purpose, taxable income is computed without regard to the charitable deduction, personal exemptions, and any net operating loss carryback.

2/ The qualification rules in section 170 (b)(1)(C) and (g) would not be changed under this proposal. For purposes of determining the amount of taxes paid plus contributions, the amount of tax will equal the tax actually paid and the amount of contribution is the amount of the gift before application of LTP, allocation, or this proposal.

dilution in the equity interest of each share so that each share will be worth $190 and each right worth $10. Between January 15, and January 30 (i.e., after the stock has gone ex-rights) the individual sells the stock for $190 per share and claims a short-term capital loss of $1,000. After January 30, when he receives the tax-free distribution of rights which have no cost basis he donates the rights to charity and claims a $1,000 charitable deduction. Before taking into account the tax effects the individual would appear to be out-of-pocket $1,000. However, after taking into account the tax effects the individual actually makes an after-tax profit. Because he is in the 60 percent tax bracket the $1,000 deduction and the $1,000 loss produced a tax savings of $1,200 so his apparent $1,000 economic gift actually increased his after-tax income by $200 as a result of the double deduction he realized for his single economic gift.

B. Proposal

In these circumstances it is proposed that section 170 be amended to provide that no deduction be allowed for the gift of stock rights unless the donor elects to allocate an appropriate portion of the basis of the underlying stock to the contributed stock rights.

C. Effective Date.

The allocation proposal in connection with a gift of stock rights would apply to gifts made after April 22, 1969.

the year and also claims the right to deduct the $100,000 rental value from his $900,000 of income. A deduction is claimed although the fair rental value of the property attributable thereto has not been included in income.

B. Proposal.

It is proposed that no deduction be allowed for the contribution of the right to use property to a charity.

C. Effective Date.

The use of property proposal would apply to gifts made after April 22, 1969.

6. Contribution of Stock Rights.

A. Present Law.

Under existing law an individual can, in certain circumstances, obtain a double deduction for a single gift of stock rights to charity. A charitable deduction is obtained when the rights are donated, and a loss deduction may be obtained if the stock which was purchased at a price that took into account the value of the rights is sold separate from the rights at a reduced price.

For example, a company listed on the New York Stock Exchange may have announced on January 1, that it will distribute stock rights on January 30, to shareholders of record as of January 15. An individual in the 60 percent marginal tax bracket purchases 100 shares of stock at $200 per share, or a total of $20,000, prior to January 15, knowing that after the rights are distributed the market will discount the shares to reflect

B. The Proposal.

To prevent this unwarranted tax benefit it is recommended that section 170 be amended to provide that the allowable charitable deduction be reduced by the amount of ordinary income or net short term gain that would have resulted if the property had been sold at its fair market value rather than being donated to charity. Under this proposal, the taxpayer in the above example would be entitled to a charitable contribution deduction of $3,000 ($15,000-$12,000).

C. Effective Date.

The ordinary income proposals would apply to gifts made after April 22, 1969.

4. Gifts of the Use of Property.

A. Present Law.

Under existing law a taxpayer, by granting to a charity the right to use property for a specified period, may exclude from income the amounts that would have been included in income had the property been rented to a noncharitable party; in addition, the donor claims a charitable deduction for the fair rental value of the property.

For example, an individual owning a ten story office building which is currently netting $1 million annually may donate use of one floor for a year to a charity. His economic gift is, of course, $100,000, the fair rental value of the space. However, for tax purposes he reports only $900,000 in income for

3. Gifts of Ordinary Income Property.

A. Present Law.

Under present law, when property, which if retained or sold would have produced ordinary income (or short-term capital gain), is given to a charity, there is no tax on the ordinary income earned with respect thereto; in addition, a charitable contribution deduction is allowed for the fair market value of the property.

For example, a married taxpayer filing a joint return with $95,000 of income after allowing for deductions, and personal exemptions, is in the 60 percent marginal tax bracket and would have an after-tax net income of $52,820. If this individual sells an asset valued at $15,000 which would produce $12,000 of income taxable at ordinary income rates, his taxable income would be increased to $107,000 and, after payment of his tax, he would be left with $60,480 of after-tax income. On the other hand, by donating the asset to charity he pays no tax on the $12,000 income and also deducts the full $15,000 value of the gift from his other income thereby reducing his taxable income to $80,000. After payment of Federal income tax he would be left with $61,660. Thus, under present law by donating the asset to charity rather than selling the asset, the taxpayer makes $1,180, the amount by which he improved his after-tax position.

(a) the grantor does not retain a reversionary interest; or

(b) the grantor retains a reversionary interest which will or may reasonably be expected to take effect in possession or enjoyment commencing after the expiration of ten years from the date of the transfer.

However, in circumstances where the income from the trusts is taxed to the grantor, it is proposed that the taxpayer be permitted a charitable deduction notwithstanding the fact that he retains a substantial reversionary interest. In this respect it should be noted that under present law a grantor that creates a trust to pay income to a charity is not permitted to deduct an amount representing the value of the charitable interest if he has a substantial reversion in the property. It is therefore recommended that this rule be amended in order to permit a deduction for the value of the charitable income interest transferred in trust, the interest of which will be or may be reasonably expected to take effect in possession or enjoyment within ten years commencing with the date of the transfer of that portion of the trust.

C. <u>Effective Date</u>.

The repeal of the two-year charitable trust exception and the denial of a deduction for charitable income trust gifts where the income has not been taxed to the grantor shall be applicable in cases of trusts created after April 22, 1969.

B. Charitable Deduction for Income Gifts with Non-Charitable Remainders.

(1) Present Law. Under existing law, a grantor in a high tax bracket desiring to make a substantial gift to a friend or a member of his family may first transfer property to a trust to pay the income to a charity for a term of years, remainder to the intended ultimate beneficiary. Under existing law, he would claim an income tax deduction for the value of the charitable interest and would also exclude from his gross income the income earned by the trust.

For example, assume a taxpayer in the 70-percent bracket transferred property worth $100,000 currently earning interest at the rate of five percent to a trust for two years specifying that $5,000 be paid the charity each year, remainder to A. If he had retained the property for two years he would have received $10,000 in interest taxable at 70 percent for an after-tax return of $3,000. On the other hand, by transferring the property to a trust he received a charitable deduction of $9,498.50 (the present value of the charitable interest). The $10,000 received by the charity is not included in income and the deduction claimed reduces his tax on other income by $6,648.95.

(2) Proposal. It is proposed that the grantor be denied an income tax deduction for the value of an income interest transferred in trust which is committed to charity in circumstances where the income from the trust payable to charity is not taxed to the grantor; i.e.,

2. Charitable Income Trusts.

A. The Two-year Charitable Trust.

(1) Present Law. Under section 673 of the Code a person creating a trust the income from which is payable to others is treated as the owner of the trust and taxable with respect to trust income if either the principal or the income may revert to him within 10 years after the transfer of property to the trust. A special exception contained in section 673 makes this rule inapplicable if the income is payable to a charity for a two-year period. This provision conflicts directly with the percentage limitations governing the deductibility of contributions applicable to the vast majority of taxpayers.

For example, the maximum deductible contribution that could be made each year by an individual who did not qualify for the unlimited deduction and who has $100,000 of dividend income (and no other income) would be $30,000 (or $50,000 under Part 1 above). However, by transferring 60 percent of his stock to a trust with directions to pay the annual income ($60,000) to charity for two years and then return the property to him, the taxpayer may presently exclude the $60,000 from his own income each year and thus circumvent the general provisions limiting deductible charitable contributions to a percentage of adjusted gross income.

(2) Proposal. It is proposed that the special two-year charitable trust rule contained in section 673(b) be repealed.

Amount contributed to charity		$55,000
Percentage Limitation:		
Adjusted gross income	$100,000	
Net Allowable Tax Preferences ($11,000 - 10,000)	1,000	
	$101,000	
Charitable Limitation (50% x $101,000)		$50,500
Maximum Charitable Contribution Deduction (Lesser of eligible contributions or maximum limitation)		$50,500

In this respect, it should be noted that under section 170 (b) (5) the amount by which eligible contributions exceeded 50-percent limit ($4,500 in the above example) may be carried forward for up to five years subsequent to the year of contribution.

C. Effective Date

The increase in the limit on the deductibility of contributions from 30 percent to 50 percent of taxpayers' adjusted gross income shall be applicable to taxable years beginning after December 31, 1968. The limit may be computed on the expanded income base for taxable years beginning after December 31, 1970, when the LTP and allocation of deductions proposal will be fully in effect.

"expanded income base." The expanded income base includes adjusted gross income* plus the taxpayers' allowable tax preferences** in excess of $10,000.

Under the proposal, taxpayers confining their contributions to the five types of organizations generally described above would be entitled to deduct all contributions provided the total deduction claimed did not exceed the 50-percent limit. On the other hand, a taxpayer who does not confine his contributions to the type of publicly supported institutions listed above (for example, a taxpayer who made contributions to a private charitable trust that did not receive substantial support from the general public) will not be entitled to deduct contributions in excess of an amount equal to 20 percent of the same expanded income base on which the 50-percent limit is figured. Of course, that taxpayer could, in addition to the amount contributed to such a trust, deduct contributions to organizations of the type listed above, provided contributions in each classification do not exceed the respective 20 percent and 50 percent limits.

For example, a taxpayer has $100,000 of adjusted gross income. In addition, he has $11,000 of allowable tax preferences. He contributes $55,000 to an educational institution during the taxable year. His maximum allowable charitable contribution deduction is computed as follows:

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* Adjusted gross income is defined for these purposes after application of LTP.

** These are fully defined in the technical explanation covering the allocation of deductions proposal.

Technical Explanation

Revision of Charitable Contribution Deduction

1. Increase in Limitation from 30 Percent to 50 Percent.

A. Present Law

Section 170 of the Internal Revenue Code provides for the deduction of charitable contributions. Section 170 (b) limits the deductibility of contributions to 20 percent of adjusted gross income but also provides for additional deductions equal to 10 percent of adjusted gross income for a total limit of 30 percent provided any contributions claimed in excess of the 20-percent limit are made to organizations defined generally as follows: (1) churches, (2) educational organizations, (3) hospitals and certain medical research organizations, (4) governmental units, and (5) other specified organizations which receive a substantial part of their support from the general public.

B. Proposal

Under the proposal, the additional 10-percent allowance--which, in most cases, makes the effective limit on deductible contributions 30 percent of adjusted gross income--would be increased from 10 percent to 30 percent, thereby making the effective limit on the deductibility of contributions 50 percent of the taxpayers'

Similarly, income from a member of a social club received by the social club's title-holding company in exchange for providing exempt function facil ties would not be subject to the unrelated business income tax. On the othe hand, income from a non-member would be taxable.

All transactions between the title-holding company and its parent exempt organization would be ignored. Thus, rent paid by a social club to its title-holding company would not be income to the title-holding company and would not give rise to a deduction by the social club. Similarly, dividends paid to the social club would not be taxable.

The unrelated business taxable income of the title-holding company would be computed in the same manner as that of the parent.

3. Effective Date.

These provisions will become effective for taxable years beginning after December 31, 1969.

The computation of unrelated business taxable income would be subject to the same rules as social clubs with one addition. The business lease rules under present law and the proposed debt-financed acquisition rules would be applicable to property permanently committed to the insurance function. Thus, for example, if all the conditions of the debt-financed acquisition rules applied, income of a fraternal beneficiary society subject to those rules would be taxable even though the property producing the income were permanently committed to the insurance function.

C. Title Holding Companies.

Under present law, a corporation organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an exempt organization is itself exempt from tax. However, the unrelated business income tax applies to title holding companies if the organization for which it collects income is subject to the unrelated business income tax. This treatment would be extended to all title holding companies since all organizations for which theycollect income would be subjected to the unrelated business income tax by this proposal.

In the case of social clubs and fraternal beneficiary societies, title holding companies for their benefit would be subject to the unrelated business income tax. However, the rules for determining the tax exempt character of the income would be applied as if the purposes of the title-holding company were those of the exempt parent. Thus, for example, if a title-holding company subsidiary of a parent fraternal beneficiary society received rental income, that income would be exempt or taxable depending upon whether or not the income were from property permanently committed to the insurance function in the hands of the title-holding company.

fashion as income of social clubs. The portion of that remaining amount that is membership income in exchange for exempt function facilities would be exempt and all other amounts would be included in computing unrelated business taxable income.

With regard to insurance function income, all income from property (and losses and deductions directly connected to such income or property) permanently committed to providing for the payment of life, sick, accident, or other benefits to members of the society (or dependents), or for operating expenses of providing such benefits, would be excluded from the unrelated business income tax as "income from property permanently committed to the insurance or other beneficial function."

Property would be permanently committed to the insurance or other beneficial function if it is held solely for the purpose of providing for such benefits, meeting operating expenses in providing such benefits or producing income for those purposes, and it is impossible, at any time prior to providing all such benefits, for any part of the property or income to be used for or diverted to any other purpose.

All income not falling within the categories of membership income for exempt function facilities or income from property permanently committed to the insurance function would be includable in the computation of unrelated business taxable income.

dining room at the club would fall within this category.

The specific exemptions under the tax for gains and losses from the sales, exchanges, or other dispositions of property constituting capital assets would be made inapplicable to social clubs. Such gains or losses would be subject to the normal rules of income tax treatment.

In all other respects, the computation of social club income subject to the unrelated business income tax would be the same as that of other tax-exempt organizations. Thus, for example, net operating losses, charitable contributions, and the specific $1,000 deduction would be available in computation of unrelated business taxable income.

(2) Fraternal beneficiary societies. The tax exemption for fraternal beneficiary societies would be limited to--

(i) Income from dues, fees, or other amounts paid by members for providing to such members or their guests goods, facilities, or services in furtherance of the exempt function (both fraternal and beneficial) of the organization; and

(ii) Income from property permanently committed to the insurance or other beneficial function (insurance function income).

Thus, with the exception of the treatment of income from property permanently committed to the insurance or other beneficial function of the fraternal organization, the remaining amounts would be subject to the unrelated business income tax in exactly the same

all of these cases, the income would be exempt only if it met the two-part test described above.

The computation of income subject to the tax would be similar in most respects to the computation presently applicable under the unrelated business income tax in general. However, consistent with the elimination of the "trade or business regularly carried on" tests, deductions would be allowable if directly connected with an activity generating income subject to tax, rather than only if directly connected with an unrelated trade or business regularly carried on. For example, fees paid by a social club for the management of an income-producing portfolio of securities, otherwise deductible as an expense for the production of income, would be allowed as directly connected with that income-generating activity, even though that activity may not constitute a trade or business regularly carried on.

The specific exceptions for investment income (interest, dividends, annuities, rents, and royalties) would be made inapplicable with respect to social clubs. Thus, all investment income would be subject to the two-part test described above. Under the two-part test, income from interest, dividends, annuities, rents, and royalties would ordinarily be taxable since, in most cases, they would not be received in exchange for exempt function facilities. However, such income could be exempt if it were received from the membership in exchange for exempt function facilities. For example, rent paid by a member for a private

business regularly carried on" generally applicable under the unrealted business income tax. Income from an investment[3] would be subject to the tax whether or not the activities engaged in by the social club in generating that income were sufficient to meet the "trade or business" test of the unrelated business income tax. Similarly, an admission fee paid by a nonmember for entry into an annual fundraising dance would be taxable, whether or not the annual fundraising dance were an activity sufficient to meet the test of "regularly carried on."

The three specific exceptions to the term "unrelated trade or business" would not be applicable to social clubs. Thus, income would not be exempt from tax simply because it was generated by a trade or business carried on by persons who worked for the organization without compensation, because it was carried on by the organization primarily for the convenience of its members, or because it consisted of selling merchandise received as contributions. In

3/ The elimination of the present exemption from the unrelated business income tax for dividends, interest, rents, royalties, annuities, and gains from the sale of property for social clubs under this proposal is discussed below.

to be generated from providing exempt function facilities such as food or drink at the club bar or restaurant or playing facilities at the club golf course or tennis court, and (2) the income would have to be from amounts paid by the membership.

Under part 1 of the test, <u>any</u> income which was not in exchange for exempt function facilities would be subject to the tax, regardless of whether it was from member or nonmember sources. Thus, for example, interest paid to a social club on a loan would be subject to the tax whether that loan were to a member or a nonmember. Under part 2 of the test, income from providing exempt function facilities would nevertheless be taxable if it is received from sources outside the membership. For example, amounts paid by a nonmember for a dinner at the club restaurant would be subject to the tax. On the other hand, a similar amount paid by a member would not be subject to the tax, since it would be income from a member in exchange for providing exempt function facilities.

Thus, under the proposal, all income, other than that from members in exchange for exempt function facilities, would be included in gross income, whether or not the activities generating the income were sufficient to meet the requirements of a "trade or

businesses carried on by charitable organizations, colleges or universities primarily for the convenience of their members, students, patients, officers or employees would continue to be limited to those classes of organizations. Since churches fit within the class of "charitable organizations," they would be covered by this exception.

Churches would not be audited to determine if they were carrying on an unrelated business unless the Secretary or his delegate has cause to believe that the church is carrying on such business and notifies the church in writing before commencing an audit. Delegation would be limited to the Regional Commissioner level. Of course, nothing would preclude the Internal Revenue Service from examining an organization to determine if it is in fact a church.

B. Imposition of tax on certain income of social clubs and fraternal beneficiary societies.

(1) Social clubs. Under this proposal, the tax exemption for income of social clubs would be limited to the income from dues, fees, or other amounts paid by members for providing to such members or their guests goods, facilities, or services constituting the basis for the tax exemption (referred to as providing "exempt function facilities"). All other income would be taxable under the unrelated business income tax with certain modifications to be discussed below. Thus, in order to be exempt from tax, social club income would have to meet a two-part test: (1) The income would have

The proposal would extend the present list of organizations subject to the tax to include all exempt organizations. In addition, social clubs and fraternal beneficiary societies would be subject to an additional provision discussed below. This change would subject these organizations to the existing provisions of the unrelated business income tax as presently applied to other tax-exempt organizations, such as charitable or educational organizations. Thus, income from an unrelated trade or business regularly carried on by a church, social welfare organization, cemetary company, credit union, or other exempt organization would be subject to the tax. Unrelated business taxable income would be computed in the same manner as that described above for organizations presently subject to the tax. Thus, the allowance of the deductions and the exceptions, additions, and limitations applicable to the computation of unrelated business taxable income under present law would apply to the income derived by such organizations from regularly carried on trades or businesses. The present business lease rules or the proposed debt-financed acquisition rules would also apply to these organizations.

The three special exceptions to the meaning of the term "unrelated trade or business" under present law would remain unchanged. Thus, a trade or business in which substantially all of the work in carrying it on is performed without compensation for a church, social welfare organization, or local employee association; or which consists of selling merchandise received as gifts or contributions, would not be considered as an unrelated trade or business.[2] However, the present exception for

2/ As discussed below, these exceptions would not apply to social clubs and fraternal beneficiary societies.

business income tax) whether or not some of the assets used in that business were subject to an outstanding indebtedness.

Most capital gains and losses are excluded from unrelated business taxable income. Thus, gain on the sale or exchange of shares of stock would be excludable.

The net operating loss deduction generally applicable under the income tax is allowed in computing unrelated business taxable income. It is computed, however, without taking into account any amount of income or deduction which is excluded from the computation of the unrelated business income tax. Thus, for example, deductions which are not directly connected with an unrelated trade or business could not be used to increase the amount of the net operating loss.

In certain specified cases, all income derived from research (and all deductions directly connected with such income) is excluded from unrelated business taxable income.

Charitable deductions, meeting the qualifications and within the limitations of the provisions dealing with such deductions generally, are allowed whether or not they are directly connected with the carrying on of a trade or business.

A specific deduction of $1,000 is provided.

In the case of a trade or business conducted by a partnership of which an exempt organization is a partner, the exempt organization includes in income or deductions its share of the partnership gross income or deductions.

2. The Proposal.

A. Extension of unrelated business income tax to all exempt organizations.

unrelated business taxable income. Investment income, such as dividends, interest, annuities, royalties, and most rents from real property are excluded. However, in certain cases of rent received on a "business lease," a portion or all of that rent is includable in income. In general a "business lease" is defined as a lease of real property for a term of more than 5 years if at the close of the taxable year there is an outstanding indebtedness which was incurred in acquiring or improving the property. A lease will not be considered a business lease if it is entered into primarily to advance the organization's exempt purposes (other than through the use of funds) whether or not there is an outstanding indebtedness on the property. The amount of business lease income taken into account is the same percentage of total rental income from the property as is the outstanding indebtedness to the adjusted basis in the property.

Under a separate proposal dealing with debt-financed acquisitions of property, certain changes in the "business lease" rules would be made. That proposal would modify the "business lease" rule by, in general, eliminating the 5-year term requirement and extending the rule to any property, rather than just real property. However, as an exception, any property all the income from which is taken into account in computing the unrelated business income tax in general would not be considered property subject to the debt-financed acquisition rules. Thus, for example, income generated from the active conduct of an unrelated trade or business regularly carried on would not be taxed under the debt financed acquisition rules (but would be under the general unrelated

charitable organization from a retail store selling furniture which was operated wholly by volunteers without compensation would not be subject to the tax.

B. A trade or business operated by a charitable organization or by a college or university primarily for the convenience of the organization's members, students, patients, officers, or employees would not be considered an unrelated trade or business. Therefore, income from the operation of a school cafeteria for students would not be subject to the tax.

C. A trade or business which consists of the selling of merchandise substantially all of which has been received by the organization as gifts or contributions also would not be considered an unrelated trade or business. For example, income derived by a tax-exempt organization from the operation of a so-called thrift shop where those who desire to benefit the organization contribute old clothes, books, furniture, et cetera, to be sold to the general public would not be subject to the tax.

In general, the income subject to tax (called unrelated business taxable income) is computed in the manner similar to the computation of taxable income for income tax purposes. However, several significant adjustments are made. Deductions normally allowable under the general rules of income tax may be deducted only to the extent that they meet the additional test of being "directly connected" with the carrying on of the unrelated trade or business. In order to be directly connected the deduction must have a proximate and primary relationship to the carrying on of that business.

Certain exceptions, additions, and limitations apply in computing

Business activities are considered to be "regularly carried on" if they manifest a frequency and continuity, and are pursued in a manner generally similar to comparable commercial activities of non-exempt organizations.

A trade or business is considered to be unrelated if the activities involved in conducting the business are not substantially related (aside from the need for funds) to the performance by the organization of its exempt function. For the conduct of a trade or business to be substantially related to an exempt function, it must contribute importantly to the accomplishment of the exempt function. For example, income from admission charges for a student performance derived by an educational organization operating a school training children in the performing arts, such as acting, singing, and dancing, would not be subject to the tax since student participation in performances before audiences is an essential part of their training. These activities, therefore, contribute importantly to the accomplishment of the educational organization's exempt purpose. On the other hand, if this educational organization were to operate a furniture factory, the income derived from these activities would be subject to the tax, since the activities of manufacturing and distributing furniture do not contribute importantly to the accomplishment of the organization's exempt function of teaching students in the performing arts.

Three specific exceptions are provided to the concept of "unrelated" trade or business:

A. Any trade or business in which substantially all of the work of carrying it on is performed without compensation would not be considered an unrelated trade or business. For example, income derived by a

(9) Cemetery companies of a mutual or nonprofit nature;

(10) Credit unions;

(11) Small mutual insurance companies in limited lines of insurance; and

(12) Certain crop financing corporations.

In general, the unrelated business income tax is imposed at the corporate rates upon income generated from (1) a trade or business (2) regularly carried on (3) that is not substantially related, aside from the need for funds, to the organization's exempt purposes.[1] The term "trade or business" has the same meaning under these provisions as it has under the income tax provisions dealing with the deductibility of business expenses. Generally, any activity carried on for the production of income from the sale of goods or the performance of services would constitute a "trade or business."

1/ In the case of an organization which is a trust, the individual rather than the corporation rates apply.

Technical Explanation

Expansion of Taxation of Income from Unrelated Businesses and from Investments of Certain Organizations

1. Present Law.

Under present law many types of non-profit organizations meeting the requirements of the Internal Revenue Code (sec. 501) are exempt from Federal income tax. Notwithstanding this exemption, certain of these organizations are subject to an income tax--called the unrelated business income tax--on income derived from a regularly carried on unrelated trade or business. Among the several organizations subject to the unrelated business income tax are charitable, educational, or religious organizations (other than churches), labor, agricultural or horticultural organizations, business leagues, certain mutual banking institutions, and certain employee benefit plans. The organizations not subject to the tax are:

(1) Churches (including conventions or associations or churches);

(2) Social welfare organizations;

(3) Social clubs;

(4) Fraternal beneficiary societies;

(5) Voluntary employee beneficiary associations;

(6) Teachers' retirement funds;

(7) Benevolent life insurance companies, local in nature;

(8) Mutual ditch, irrigation, telephone or like companies;

reduced by the same fraction; and it is necessary to provide a corresponding limitation on the investment credit attributable to the property. The present bills add a sentence to section 48(a)(4) to accomplish this result, specifying that the fraction applicable under section 514(b) for the year in which the property is placed in service will also reduce the base upon which the investment credit is computed.

B. Withholding on Certain Income of Foreign Organizations. Chapter 3 of the Internal Revenue Code provides rules for the withholding of tax on interest, dividends, rent, and other periodical income of foreign taxpayers. Section 1443 of that chapter extends these rules to foreign exempt organizations which are subject to the unrelated business income tax. Because rent has been the only class of periodical income heretofore taxable under the unrelated business income tax, section 1443 presently provides for withholding only on rent. With the present bills' general provision for the taxation of unrelated debt-financed income, whether or not the income is rent, a conforming amendment to section 1443 becomes necessary. Section 4(c) of each bill makes that amendment, substituting the term "income" for "rents" in section 1443.

B. Taxable Year 1972 and Following. Starting in 1972, all organizations would have to report income from property which they had acquired through debt financing (irrespective of when the debt was incurred). By delaying the full impact of the bills for five years, organizations which had acquired property through debt financing will have sufficient time to dispose of these assets in an orderly market. Moreover, even if an organization wishes to retain assets which were mortgaged prior to the introduction of the bills, the five-year transition may enable organizations to liquidate their indebtedness entirely from exempt income from the property or from other assets. Finally, even those organizations which retain their unrelated assets and which are unable to discharge the acquisition indebtedness in full by 1972 will be able to reduce the taxable portion of the income from the property by reducing the amount of the debt during the five-year period.

5. Miscellaneous Matters

A. Investment Credit. Under section 48(a)(4) of the Internal Revenue Code, tax-exempt organizations are allowed an investment credit for certain investments in property used predominantly in the conduct of an unrelated trade or business. Where the credit is produced by investment in debt-financed property, the income from the property will be taxable only after reduction by the debt/basis fraction provided by the new section 514(b); deductions associated with the property are

the bills would not affect pre-June 28, 1966, indebtedness of a church because churches are not currently subject to the rules dealing with debt-financed property. Similarly, the bills would not impose an immediate tax on mineral royalties where the acquisition indebtedness was incurred before June 28, 1966, because mineral royalties do not now fall within the category of business lease income under existing law. Since an extension or renewal of a debt is not considered a creation of a new debt, an extension of a debt incurred before June 28, 1966, would not result in immediate taxation unless the income would have been taxed under existing law.

While the bills generally would immediately tax income from property with respect to which a debt was incurred after June 27, 1966, two transition rules are provided for the year of enactment, however. First, income attributable to the portion of the year prior to date of enactment will be governed by existing law; only the income attributable to the remainder of the year will be taxed under the new rules. Second, in the case of income which would be business lease income under existing law, taxable income for the portion of the year following enactment will be computed under existing law. This means that the new rules will not apply to business lease income until the first taxable year beginning after enactment.

some situations, eliminate tax altogether. It accomplishes that result by enlarging deductions in early years, in which taxability would otherwise be high because of the large amount of indebtedness outstanding. To the extent that the useful life of the property is longer than the term of the indebtedness (and it would seem difficult to argue that a sale has occurred if it is not), acceleration of depreciation shields otherwise taxable income by means of deductions shifted from periods in which no tax at all would be paid. Hence, the bills' limitation of depreciation to the straight-line method is necessary to make their approach meaningful.

G. Multiple Use of Property. If property is used partly for exempt and partly for non-exempt purposes, the income and deductions attributable to the exempt uses are excluded from the computation of unrelated debt-financed income, and allocations are to be made, where appropriate, for acquisition indebtedness, adjusted basis, and deductions assignable to the property.

4. Effective Date Provisions

A. Taxable Years 1966-1971. During a five-year transition period extending through 1971, the bills would apply to income from property with respect to which a debt was incurred on or before June 27, 1966, only if the income would have been subject to tax as business lease income under existing law. Thus, during this period

F. Allowable Deductions. The percentage used in determining the taxable portion of total gross income would also be used to compute the allowable portion of deductions "directly connected with" the debt-financed property or the income from it. The direct connection requirement is carried over from section 512 of present law. The general approach of the bills is to allow all deductions that would be allowed to a normal taxpayer, to the extent consistent with the purpose of the bills and the nature of the special problems to which they are directed. For example, net operating loss and charitable contribution deductions would be allowed, subject to the limitations imposed by existing law on organizations taxable on unrelated business income (e.g., the percentage limitations on the charitable deduction are computed with reference only to the organization's unrelated business income, not its total income).

The deduction for depreciation would be restricted to the straight-line method, however. Accelerated depreciation ordinarily has the effect of deferring tax on income from depreciable property. However, under the approach of the proposed bills, an exempt organizat would become a taxpayer only for a limited period of time -- while acquisition indebtedness remains outstanding -- and would during that time be taxed on a declining proportion of its income. In that settir accelerated depreciation can be used for more than mere tax deferral; it can be used to reduce the total amount of the tax payable or, in

E. Basis. For purposes of the denominator of the debt/basis fraction, adjusted basis would be the average adjusted basis for the portion of the year during which the property is held by the exempt organization. The use of average adjusted basis is for purposes only of fixing the debt/basis fraction. Where property is disposed of, gain or loss will, as usual, be computed with reference to adjusted basis at the time of disposition.

If property is distributed from a taxable corporation to the exempt organization, the exempt organization would be required to use the basis of the distributing corporation, with adjustment for any gain recognized on the distribution either to the exempt organization (as, for example, might be the case if the exempt organization had an acquisition indebtedness applicable to its stock in the distributing corporation) or to the taxable corporation (for example, as recapture of depreciation under sections 1245 or 1250). This rule would prevent an exempt organization from acquiring the property in a taxable subsidiary to secure accelerated depreciation during the first several years of the life of the property, enabling the subsidiary to pay off a large part of the indebtedness during those years and the exempt organization to obtain a stepped-up basis (advantageous both for depreciation purposes and for purposes of enlarging the denominator of the debt/basis fraction) on liquidation of the subsidiary.

(3) Indebtedness incurred in conjunction with federally financed or supervised housing programs.

D. "Average Acquisition Indebtedness". For purposes of the numerator of the fundamental debt/basis fraction, acquisition indebtedness would be averaged over the taxable year. The averaging mechanism precludes an exempt organization from avoiding the tax by using other available funds to pay off the indebtedness immediately before any fixed determination date. If debt-financed property is disposed of during the year, "average acquisition indebtedness" would mean the highest acquisition indebtedness during the preceding 12 months. Without such a rule, an exempt organization could avoid tax by using other resources to discharge indebtedness before the end of one taxable year and dispose of the property after the beginning of the next taxable year. For example suppose exempt organization E has purchased income-producing property for $20,000 and incurred an indebtedness, still unpaid, of $15,000 to make the purchase. If E sells the property on December 31 for $50,000, 75 percent of the $30,000 capital gain would be included in gross income. Suppose, however, E uses other available resources to discharge the indebtedness on December 31, and sells the property January 2. Without the described special rule for dispositions, the numerator of the fraction would be zero, and no part of the gain would be taxable. Under the special rule an organization would have to commit its own funds at least 12 months in advance of disposition to escape tax on gain from the disposition.

incurred in acquiring or improving the property or would not have been incurred "but for" the acquisition or improvement of the property. If an indebtedness is incurred after the property was acquired or improved, it would have to meet a further requirement: it would not be "acquisition indebtedness" unless its incurrence was reasonably foreseeable at the time of the acquisition or improvement. Under special rules, if property is acquired subject to a mortgage, the mortgage would be treated as an acquisition indebtedness incurred by the organization when the property is acquired. The extension, renewal, or refinancing of an existing indebtedness would not be treated as the creation of a new indebtedness. The latter rule would preclude the argument that a refinancing was not reasonably foreseeable at the time of the original acquisition of the property and that, therefore, the obligation extant after the refinancing is not an acquisition indebtedness. There are three exceptions to these rules. They are:

(1) Property which an exempt organization receives, subject to indebtedness, by devise, bequest, or, under certain conditions, gift. The exception permits organizations receiving such property a 10-year period of time within which to dispose of it free of tax or to retain it and reduce or discharge the indebtedness on it with tax-free income.

(2) Property which exempt organizations acquire by the issuance of annuities. The exception is subject to certain limitations, designed to prevent abuse.

(4) Property all the use of which is in a trade or business exempted from tax by section 513(a)(1), (2), or (3). These exceptions apply where (a) substantially all the work in carrying on the business is performed without compensation (e.g., a church thrift shop), (b) a section 503(c)(3) organization carries on business primarily for the convenience of members, students, patients, officers, or employees (e.g., a college cafeteria), or (c) the business consists of selling merchandise substantially all of which has been received as contributions (e.g., Goodwill Industries).

(5) Real property which organizations plan to devote to exempt uses within 10 years of the time of acquisition. A typical situation for which this exception is intended is that of a college temporarily receiving small amounts of rental income from real estate which it has purchased close to its campus for future use in a planned expansion program.

C. <u>"Acquisition Indebtedness"</u>. Income-producing property would become "debt-financed property" -- and its income taxable -- only where there is an "acquisition indebtedness" attributable to it. The latter term would be very similar to "business leases indebtedness" as defined in existing law. Generally, an "acquisition indebtedness" would exist with respect to any property whenever the indebtedness was

B. <u>"Debt-Financed Property"</u>. Debt-financed property would, with **five** exceptions, be all property (e.g., rental real estate, tangible personal property, corporate stock) which is held to produce income and with respect to which there is an "acquisition indebtedness" at any time during the taxable year (or during the preceding 12 months, if the property is disposed of during the year). The five exceptions from this definition would be these:

(1) Property all of the use of which is related to the exercise or performance of the organization's exempt function. Thus, a college could finance construction of a dormitory for its students with borrowed funds and pay off the indebtedness from student rents without subjecting any of those rents to tax.

(2) Property all of the income from which is already subject to tax as income from the conduct of an unrelated trade or business. This exception would prevent double taxation of income from financed property used in a trade or business which is taxable under existing law. The exception would, of course, not apply to organizations presently excepted from tax on income deriving from unrelated business.

(3) Property all of the income from which is derived from research activities excepted from the present unrelated business income tax. There are three classes of such research: (a) that performed for governmental bodies; (b) that performed by colleges, universities, or hospitals for any person; and (c) that performed by certain fundamental research organizations for any person.

3. Income Subject to Tax

A. "Unrelated Debt-Financed Income". While H. R. 12663 and 12664 would apply to income whether or not it is "rent", they would in large part use rules similar to those of the existing leaseback provision in determining what income is to be taxed and in computing how much of it is taxable. Under the new rules, the tax base would be "unrelated debt-financed income". Such income would be the gross income taken into account under the new section 514(b) with respect to "debt-financed property", less the deductions allowable under the new section 514(c) with respect to such property. In general, subsections (b) and (c) of section 514 bring into the computation of the tax base a portion of the total gross income and deductions attributable to debt-financed property, determined by applying to those totals the fraction

$$\frac{\text{average acquisition indebtedness for the taxable year}}{\text{average adjusted basis of the property during the taxable year.}}$$

An addition to existing law is that gains from the sale or other disposition of debt-financed property are included in the gross income figure.

conduct of an unrelated trade or business. The organizations not now subject to the tax (e.g., churches, civic associations, fraternal associations) would be taxable only on the new category of income. This revision would not affect the tax imposed by existing law on unrelated business activities of exempt organizations;[1] its only effect would be to make all exempt organizations taxable on certain debt-financed income.

Churches would not be audited to determine if they were carrying on an unrelated business unless the Secretary or his delegate has cause to believe that the church is carrying on such business and notifies the church in writing before commencing an audit. Delegation would be limited to the Regional Commissioner level. Of course, nothing would preclude the Internal Revenue Service from examining an organization to determine if it is in fact a church.

1/ Changes in these rules are also recommended, however. See the material entitled Expansion of Taxation of Income from Unrelated Businesses and from Investments of Certain Organizations.

Technical Explanation

Curbing of Abuses in Debt Financing of Acquisitions

1. General

H.R. 12663 and 12664, introduced in the 90th Congress, would use the general approach of the statute enacted in 1950 to deal with the leaseback problem (now section 514 of the Internal Revenue Code). Income derived from property acquired or improved with borrowed funds would be taxable if the use of the property is unrelated to the organization's exempt purpose or function. To make as much use as possible of the solution already adopted by Congress, H.R. 12663 and 12664 would integrate this proposed tax into the existing statutory structure. As a result, such basic concepts as the distinction between "related" and "unrelated" activities would be defined by existing law, and the necessity for new and unfamiliar definitions would be reduced.

2. Organizations Subject to Tax

Section 1 of H. R. 12663 and 12664 would amend section 511(a), which imposes the unrelated business tax, to make the tax apply to all organizations exempt from tax by reason of section 401(a) and section 501(c). Section 2 of the bills would expand the definition of "unrelated business taxable income" provided in section 512 to include a new category of unrelated income -- "unrelated debt-financed income". The organizations already subject to the unrelated business tax (e.g., charitable organizations, labor unions) would be taxable both on this category of income and, as at present, on income derived from the active

exemption for prohibited transactions would be made inapplicable to transactions after the effective date. For transactions before the effective date the old sanction would apply.

(c) Unreasonable accumulations and other improper uses of income. The proposed substantive rule would reach some, although not all of the acts which result in loss of exemption under the present law dealing with income accumulations and other improper uses of income.

Therefore, in any case where an act constitutes a violation of both the proposed rules and present law, only the proposed sanctions would apply. Where the act constitutes a violation of the present, but not the proposed law, the old sanction of loss of exemption would apply.

effective date of this legislation. Any organization which applies would be exempt from the entire period, unless it fails to comply in which case loss of exemption would be from the date of notification of failure to comply.

(iv) Relationship between proposed and existing sanctions. In general, the existing sanction of loss of exemption can arise (1) as a result of failure to continue to qualify under the general exemption statute; (2) as a result of engaging in prohibited transactions; and (3) as a result of unreasonable accumulations or other improper uses of income.

(a) Failure to continue to qualify under general exemption statute. Loss of exemption would continue to result from the failure to maintain qualification under the exemption statute. If the acts giving rise to this failure are the same as those constituting a violation of the proposed rules, the specific sanction and equity powers would apply notwithstanding the fact that loss of exemption results in taxation of the organization's income. If the acts giving rise to this failure do not constitute violations of the substantive rules added by these proposals, the new equity power for the preservation of assets for charitable purposes upon loss of exemption would nevertheless apply.

(b) Prohibited transactions. All transactions which are prohibited under existing law would be prohibited under the new self-dealing proposals. Therefore, the existing sanction of loss of

case warrants. However, no action by a State court would defer or abate the imposition of the specific sanctions for self-dealing, adequate return to charity and improper business interests. Thus, for example, the institution of a State court action based upon a self-dealing transaction would result in the deferral of any action by the federal court to rescind the transaction. However, the review of the civil penalties under the specific sanction would not be deferred.

In any case where the appropriate sanction or equitable remedy requires distributions to a publicly supported charity, the governing body of the foundation would be given the opportunity to select the public charitable recipients. In the event of failure of management to select any public charities, the appropriate State authorities for supervision of charitable trusts and corporations would be asked to make the choice, with final authority in the District Court in the absence of selection by foundation management or State authorities.

Finally, in order to give the States a substantive right to enforce the prohibitions against self-dealing, inadequate return to charity and improper business interests, a new rule would be added which would condition the grant of exemption upon inclusion in the organization's governing instruments of requirements to comply with these statutory standards of behavior. Old organizations would be given five years to apply for exemption with amended organizational instruments. Any organization which fails to apply would lose its exemption from the

foundation and private persons could all be joined in one suit would depend upon the general rules of venue under the Judicial Code of the United States.

The equity action would spell out the particular specific sanctions and equitable remedies sought against each defendant. Either party would be entitled to trial by jury; however, the determination of the specific sanctions and appropriate equitable remedies would be exclusively for the Court. Thus, for example, any questions concerning the persons who knowingly authorized the foundation to engage in a self-dealing transaction could be determined by the jury; however, the review of the civil penalty and appropriate equitable relief would be determined by the Court.

The Justice Department would have authority to settle cases to the same extent as the Internal Revenue Service.

(iii) Correlation with State authorities. In the event that appropriate State authorities institute action against a foundation or individuals based upon acts which constitute a violation of the self-dealing, adequate return to charity, or improper business interest rules, the United States District Court before whom the federal civil action is instituted or was pending would be required to defer action on any equitable relief for protection of the foundation or preservation of the assets for charity until conclusion of the State court action. At the conclusion of the State court action, the District Court could consider the State action adequate or provide further equitable relief, consistent with the State action, as the

violation to the appropriate State authority. The Internal Revenue Service would have authority to reach an agreement with the foundation and persons involved. Thus, for example, if a foundation in violation of the adequate return to charity rules voluntarily agreed to pay out all deficient amounts plus 10 percent of those amounts for each year of deficiency, the Internal Revenue Service could agree to that settlement of the case and dispose of it administratively.

However, the Service would not be authorized to settle a case by excusing a foundation from the mandatory divestiture requirements of the adequate return to charity and improper business interest sanctions.

(ii) Judicial proceedings. Persons subject to penalties could seek review in the Tax Court or in a suit for refund in the District Court or Court of Claims under the normal procedures for review of tax cases. However, upon institution of an equity action by the Government, described below, power to review penalties would be vested exclusively in the District Court. Thus, any action to review penalties pending in the Tax Court or Court of Claims would be terminated and be made part of the District Court equity action.

If equity action is necessary, the Internal Revenue Service would refer the case to the Justice Department for the institution of a civil suit pursuant to the equity powers. The United States would be plaintiff and the foundation and all persons against whom remedies or sanctions are sought would be defendants. The extent to which the

(c) Loss of exemption. Upon loss of exemption by a private foundation for any reason, the invocation of equity powers to insure that the foundation's assets are preserved for charitable purposes would be mandatory. The specific form of the remedy to provide such insurance would be up to the United States District Court. For example, in cases where the loss of exemption is temporary under existing provisions which permit foundations to regain exempt status, the appropriate remedy might simply be to insure that the foundation holds its assets until exempt status is reacquired. In cases where the loss of exemption is permanent, the appropriate remedy might be divestiture of the assets formerly held exclusively for charitable purposes to a public charity. In cases where exemption is surrendered voluntarily in order to escape the requirements imposed upon private foundations, the appropriate remedy might be to require the organization to create a separate organization with the assets formerly devoted exclusively to charitable purposes and hold those assets for those purposes.

(d) Proceedings to enforce sanctions.

(i) Administration procedure. Cases involving violations of the substantive rules detailed above would be handled in the normal manner by the Internal Revenue Service. The Internal Revenue Service would set the amount of any penalty in the first instance, which would be determined, assessed and collected as taxes. The Revenue Service would send to the foundation involved and each person against whom any civil penalty is to be imposed a "notification of violation," containing a brief description of the violation involved. At the same time, the Internal Revenue Service would send a copy of the notification of

the substantive rules, and (2) equity powers (including but not limited to, power to substitute trustees, divest assets, enjoin activities and appoint receivers) to ensure that foundation assets are preserved for charitable purposes and that violations of the substantive rules will not occur in the future. For example, the purchase of securities owned by a foundation in a self-dealing transaction could be rescinded if the market value of the assets had increased. If the securities had first increased and then declined, the trustees could be surcharged for depriving the foundation of the opportunity to dispose of the assets at a higher price. If the value of the securities declined immediately after the self-dealing transaction, the appropriate remedy might be to do nothing under the equity powers.

The mandatory specific sanctions would apply regardless of the action or non-action under the equity powers. Thus, even if no remedies were necessary to protect the foundation or preserve the assets for charitable purposes, the civil penalties and divestiture requirements under the specific sanctions would be mandatory.

(iii) Improper business interests. An improper business interest (whether in excess of the foundation-controlled business rule or an interest in a donor-controlled business) would be required to be sold or contributed to a publicly supported charity. In addition, a civil penalty of from $500 to $5,000 upon each member of the foundation's governing body (directors or trustees as the case may be) would be imposed by the Internal Revenue Service for each year during which an improper business interest was held. The divestiture requirement and civil penalties would be enforced under the proceedings described below.

In addition, in the case of an interest in a donor controlled business the statute of limitations on assessments against the donor for the year of donation would be left open until the year following the year of divestiture and the value placed on the donated interest would take into consideration facts surrounding the divestiture which bear upon the value of the interest at the time of donation.

(b) Equity powers. In addition to the specific sanctions described above, United States District Courts would be invested with (1) equity powers (including but not limited to, power to rescind transactions, surcharge trustees and order accountings) to remedy any detriment to a foundation resulting from any violation of

A separate civil penalty would be imposed for each violation of the substantive prohibition. Thus, two self-dealing sales would result in two separate penalties against each of the persons liable for such penalties.

In addition, no deduction would be granted for any amount transferred to a foundation in a self-dealing transaction. For example, any excess value over the purchase price paid by a foundation in a self-dealing bargain purchase transaction would not give rise to a charitable contribution deduction. Furthermore, any interest paid to a foundation in connection with a self-dealing loan transaction would not be deductible. However, the basis of assets purchased from a foundation in a self-dealing transaction would be permitted to reflect the amount paid the foundation.

(ii) Adequate return to charity. A private foundation which failed to distribute an adequate return to charity under the substantive rules would be required to distribute all of the deficient amounts plus 12 to 25 percent of those amounts (determined by the Internal Revenue Service) for each year in which the deficiencies existed to a publicly supported charity. No part of the 12 to 25 percent additional payout requirement could be used to meet the adequate return to charity requirements for the future. These distribution requirements would be enforced under the proceedings to be described below.

engage in a self-dealing transaction. The penalty would be set by the Internal Revenue Service, under procedures hereinafter described, between $500 and $5000 regardless of the magnitude of the self-dealing transaction. However, the $5000 figure could be exceeded, up to a ceiling of 10 percent of the value of foundation assets involved in the self-dealing transaction. For example, a purchase of $10,000 of foundation assets by the foundation's creator could result in a civil penalty of from $500 to $5000. However, a purchase of $100,000 of foundation assets could, if the Internal Revenue Service chose to value those assets, result in a civil penalty of up to $10,000 (10 percent of $100,000).

The value of foundation assets involved in a self-dealing transaction would be only the value of what has been transferred from the foundation. Thus, in the case of a lease of foundation property, the fair rental value of the property, rather than the value of the property itself, would constitute the value of foundation assets involved in the self-dealing transaction. Amounts transferred to the foundation in connection with the self-dealing transaction would have no effect on this figure.

7. Sanctions to Enforce Substantive Requirements.

A. Present law.

Under present law, the only sanction for violation of any of the statutory requirements imposed upon private foundations is loss of exemption. The consequences of loss exemption are disqualification as a recipient of charitable contributions and taxation of taxable income (if any). Loss of exemption can be either retroactive or prospective depending upon circumstances not here relevant.

B. Treasury proposals.

(1) General description. Two distinct sets of sanctions would be provided. Specific sanctions for each of the three substantive rules in the form of civil penalties against errant individuals and divestiture requirements against the foundation would be provided as deterrents. Imposition of these specific sanctions would be mandatory upon a finding of violation. In addition, United States District Courts would be invested with a set of equity powers sufficient to remedy any violation of the substantive rules in such a way as to insure no financial detriment to the foundation and to preserve the assets of the foundation for charitable purposes.

(2) Detailed description.

(a) Specific sanctions.

(i) Self-dealing. A civil penalty of from $500 to $5000 or, if greater, 10 percent of the value of the foundation assets involved in the self dealing transaction would be imposed against the self dealer and against any foundation manager who knowingly caused the foundation to

6. Direct Grants to Individuals.

A. Present law.

Present law permits a private foundation to make direct grants to individuals consistent with its charitable or educational programs.

B. Treasury proposal.

Private foundations (but not other charitable organizations) would be required to make available to the general public the names of individuals who are recipients of direct grants, together with a general description of the proposed activities at the time of the grant and the completed activities upon termination of the project for which the grant was made. Any work of the recipient containing the results of the activities financed by the grant would also be required to be made available to the general public.

Information would be considered "made available to the general public" if the foundation maintains the information for inspection at its principal location and makes copies available to persons who request such information for amounts not in excess of the cost of copying.

Failure to comply with this requirement would result in a civil penalty of from $500 to $5000 upon each member of foundation management for each grant program under procedures described below.

5. Prohibition Against Political Activity

A. Present Law.

Under present law, foundations, as well as other charitable organizations, are prohibited from participating or intervening in any political campaign on behalf of any candidate for public office. On the other hand, such organizations are permitted to engage in educational activities which present a full and fair exposition of the facts and in activities which defend civil rights secured by law, even though such activities may have an effect upon political campaigns.

B. Treasury Proposal.

A private foundation (but not other charitable organizations) would be prohibited from engaging in any activity which "directly affected" a political campaign, regardless of its educational or other connection with the exempt purposes of the organization. Thus, for example, voter registration drives, educational campaigns about issues presented for consideration by the general electorate, or panel discussions with the candidates would be prohibited. Violation of this prohibition would result in loss of exemption and invocation of equity powers to preserve the assets for charitable purposes as described below.

Nonexempt trusts in which more than 50 percent of the income or corpus is to be paid or permanently set aside for charitable purposes would be subject to these rules in the same manner as private foundations. Existing trusts of this nature would not be covered.

4. Sanction for Failure to File Information Return

A. Present Law.

Under present law foundations are required to file information returns. The penalty for failure to comply with this requirement is imprisonment not exceeding one year and a fine not exceeding $10,000.

B. Treasury Proposal.

A foundation which fails, without reasonable cause, to file a timely and complete information return would be subject to a penalty of $10 for each day of delay beyond the prescribed filing date. The maximum penalty under this provision would be $5,000. A similar penalty with a similar maximum would be imposed upon officers, directors or trustees responsible for filing such returns if, after notice from the Internal Revenue Service, they omit (without reasonable cause) to remedy the failure to file within a specified reasonable time.

The three exceptions to this meaning of "business" under the "Foundation controlled business" rule would not apply. The same concepts of related and unrelated trade or business would apply.

(3) Rules applicable to both foundation-controlled and donor-controlled business rules. The five-year holding period for required divestiture under these rules could be extended upon securing approval from the Internal Revenue Service. Such an extension would not be granted solely upon the grounds of inability to find an acceptable buyer or sell at a fair market price, since the alternative of distribution by contribution would be available. Extension would be granted, however, in cases where divestiture of the improper business interest would have serious consequences on the market for the securities.

Foundations would be given five years from the effective date to make the reductions in present holdings required by these rules. Extension could be granted as stated above. Existing foundations whose governing instruments, as presently drawn, compel them to hold specified business interests would be exempt from these requirements, but only if local law prevents suitable revision of such instruments.

The general prohibition against self-dealing would not apply to the sale of assets owned by a foundation on the effective date of this legislation divestiture of which is required under these provisions. However, that general prohibition would apply to business interests acquired after the effective date.

The persons whose stockholdings would be added to the donor's to determine control would be the donor's brothers, sisters, spouse, in-laws, aunts, uncles, nieces, nephews, ancestors and lineal decendants. In addition, if corporations controlled by, or trusts for the benefit of, the donor and these related persons own stock, such stock would be attributed to the appropriate person to the extent of his interest therein. Finally, if the donor is a corporation, the stockholdings of officers, directors, controlling shareholders (and the members of their families referred to above) would be added to that of the corporation in determining control.

As long as the corporation is donor-controlled, _any_ interest held by the foundation at the end of the five-year holding period would be required to be sold or contributed to a publicly supported charity. Thus, a foundation holding a 5 percent nonvoting preferred stock interest in a corporation 100 percent of whose voting stock is owned by the donor would be required to dispose of that 5 percent interest. Donor control would be determined at the end of the holding period. Thus, if, although present at the time of donation, control is not present at the end of the holding period, no divestiture under this rule would be required.

Both interests in corporations and unincorporated businesses would be subject to this rule. However, in the case of an unincorporated business, the 35 percent limitation would apply to the combined interests of the donor (and related persons) and the foundation in the capital or profits, rather than total combined voting power.

if (1) substantially all of the work in carrying it on is performed without compensation; (2) it is carried on primarily for the convenience of the members, officers, or employees of the foundation; or (3) it consists of selling merchandise substantially all of which has been received as gifts or contributions to the foundation.

For example, a foundation which solicits and receives as contributions old clothes, books, or furniture,could conduct a business of selling those articles to the general public; a foundation engaged in the rehabilitation of handicapped persons could maintain a store to sell items made in the course of the rehabilitation training; and a foundation would be permitted to operate a cafeteria or restaurant, primarily for the convenience of its employees.

(2) Donor-controlled businesses. A private foundation would be required to sell or contribute to a publicly supported charity any donated interest in a donor-controlled corporation conducting an unrelated trade or business within five years from the date of donation.

A corporation would be considered "donor controlled" if the combined ownership of the donor (and certain related persons) and the foundation constitutes more than 35 percent of the total combined voting power of the corporation. Foundation ownership would include both direct and indirect stockholdings. Thus, stock held by a trust for the benefit of a foundation would be considered as owned by the foundation to the extent of the foundation's beneficial interest in the trust.

For example, two foundations with the same substantial contributor would be related. Similarly, a foundation whose substantial contributor is the wife of the substantial contributor of another foundation would be related to such other foundation, since the wife would be prohibited from engaging in financial transactions with both foundations. Where the stock holdings of the related foundations total more than the permissible percentages, each foundation would be responsible for reducing its holdings so that the group holdings do not constitute more than the percentage limitations. Thus, for example, if foundation A holds 15 percent and foundation B holds 40 percent beyond the five-year holding period, foundations A and B would <u>both</u> be in violation of the rule. If foundation B refuses to comply and foundation A wishes to comply, foundation A would have to eliminate its holdings.

Three forms of activities for the production of income would be specifically excluded from the meaning of "business" --

Lending, other than that resulting from the active conduct of commercial lending or banking;

Holding of royalties and mineral production payments as inactive investments; or

Holding of leases of real property (and associated personal property) of a passive nature.

The present law defining businesses which are not substantially related to a foundation's exempt activities (for purposes of the unrelated business income tax) would be applied to this provision. The three specific exceptions to that definition would also be applied to this provision. Thus, a business would not be considered unrelated

voting power would constitute control only if the foundation, in fact exercised control. Control would be exercised in fact if foundation officials (trustees, officers, directors, etc.) direct the management or policies of the business.

Nonvoting stock would be ignored for purposes of computing control. Thus, a foundation holding 15 percent of the voting stock and 100 percent of the nonvoting stock of a corporation would not be required to divest any interest in the corporation.

Control would be determined by considering the stock owned, directly or indirectly, by the foundation. Thus, stock owned by a trust for the benefit of the foundation would be considered as indirectly owned by the foundation to the extent of its beneficial interest therein. Voting stock owned by a donor, on the other hand, would be ignored since it is neither owned directly nor indirectly by the foundation. (However, such stock would be considered under the donor-controlled business rule to be explained below.)

Both interests in corporations and unincorporated businesses would be subject to this rule. However, in the case of an unincorporated business, the percentage limitations would apply to interests in the capital or profits, rather than total combined voting power.

In order to prevent avoidance of these limitations through the use of "multiple foundations," all of the stock interests of "related" foundations would be added together to determine control. Related foundations would be ones with which one or more of the same persons may not engage in financial transactions under the self-dealing rules.

3. Improper Business Interests.

A. Present Law.

(1) Direct operation of business. Under present law a foundation may not be organized or operated for the primary purpose of conducting an unrelated trade or business. To the extent that an unrelated trade or business is conducted within this limitation, its profits are subject to tax under the unrelated business income tax.

(2) Operation of business through a corporation. There are no limitations upon conducting an unrelated trade or business through the ownership of a controlling interest in a corporation. Of course, the profits of such a corporation are taxable under the regular corporate income tax.

B. Treasury Proposal.

(1) Foundation controlled businesses. A private foundation would be required to sell or contribute to a publically supported charity a controlling interest in a corporation conducting an unrelated trade or business within five years from the date of receipt of that interest by donation. A foundation would be prohibited from acquiring a controlling interest by any means other than by donation.

Control would be conclusively presumed by the ownership of more than 35 percent of the total combined voting power of the corporation. Stock interests between 20 and 35 percent of the total combined

interest can, for any reason, be held by the trust, charitable distributions equal to the larger of 5 percent of the value of that remainder interest or the full amount of realized income on that remainder interest would be required.

C. Effective date.

The adequate return to charity requirements would apply to foundations presently in existence as well as those to be created in the future. However, for those foundations presently in existence, a two-year transition period would be provided so that they would have adequate time to adjust their investments.

Furthermore, a rule would be provided exempting from the adequate return to charity requirements income required to be accumulated or corpus prohibited from invasion by the governing instruments of existing organizations. Of course, these existing organizations would be subject to the present prohibitions against unreasonable accumulations and other improper uses of accumulated income under existing law.

A private foundation would be considered "nonoperating" if it does not have substantially more than half of its assets devoted directly to and does not directly expend substantially all of its income for the active conduct of charitable activities. Holding assets for the production of income or distributing income to operating charities would not meet the "devoted directly" asset test or the "directly expended" income test. Thus, for example, a private foundation which holds investment assets and distributes the income from those investment assets to an operating charity would be a nonoperating private foundation subject to this provision. On the other hand, a private foundation which has, as its only substantial asset, a public museum, and which uses any income for the operation of the museum would be an operating foundation not subject to this provision.

Income of a nonexempt trust permanently set aside for charity would be required to be distributed in the year following the year of realization. For example a nonexempt trust required by its governing instrument to permanently set aside 20 percent of its income for charitable purposes would be required to distribute 20 percent of its realized income in the year after the year of realization. Income interests would not be subject to the 5 percent rule.

A charitable contribution consisting of a remainder interest in a nonexempt trust would not be subject to the 5 percent or realized income rule until the intervening interest terminated. At that time the remainder interest would be subject to both rules. Thus, for example, if under the terms of the trust after the intervening interest terminated the remainder

Two exceptions to this rule would be provided. The first would allow a foundation to treat as an expenditure amounts which are set aside for a definite charitable purpose specified at the time the funds are set aside, provided the purpose requires accumulations by the foundation rather than the intended charitable recipient and the foundation receives a favorable ruling in advance permitting such an accumulation. Under this exception, the funds would actually have to be expended within 5 years, unless the organization is granted an extension for an additional period not to exceed 5 years. No limitation would be imposed on the number of 5-year extensions that could, if justified, be granted.

A second exception would allow a private nonoperating foundation to avoid the adequate return to charity requirements to the extent that it had, during the immediately preceding 5-year period, expended amounts in excess of those requirements. For example, a foundation with zero income for 6 years on $100,000 of corpus and $10,000 per year in distributions for the first 5 of those 6 years would not be required to distribute anything in the sixth year. Its required distribution to charity for the first 5 years would be 5 percent of $100,000 per year, or $25,000. Therefore, it is entitled to forego the adequate return to charity requirements in the sixth year up to $25,000.

The proposal would apply only to private nonoperating foundations and nonexempt trusts empowered by their governing instruments to permanently set aside amounts for charitable purposes.

Investment assets which can be valued by reference to regularly available sources, such as stock exchanges or over-the-counter markets, would be valued at fair market value at the beginning of the foundation's accounting period. For other assets, cost or, if contributed, the value claimed as a deduction by the donor, would be used with a revaluation procedure once every 5 years.

Any liabilities directly connected with investment assets would be taken into consideration in valuing investment assets. However, liabilities incurred in connection with an organization's exempt functions, as, for example, borrowing to finance a scholarship program, could not be used to offset the value of any investment assets.

Realized income would include investment income such as rents, interest, dividends, short-term capital gains and income subject to the unrelated business income tax after certain adjustments (such as the income tax paid). Deductions would be allowed for expenses directly connected with the generation of this income. Long -term capital gains and contributions would not be considered income for this purpose.

The purposes for which the amounts would have to be expended would be—

(1) contributions to publicly supported charitable organizations;

(2) contributions to privately supported operating organizations;

(3) direct expenditures for charitable programs; and

(4) purchases of assets which the foundation devotes directly to charitable activities.

C. Effective Date.

These provisions would apply to transactions engaged in after the effective date of the provisions. In the case of the use of property in which both the foundation and the donor have an interest, the rule prohibiting such use would apply only to interests acquired by the foundation after the effective date of these provisions.

2. Adequate Return to Charity.

A. Present law.

Under present law, certain exempt organizations are prohibited from accumulating income unreasonably, using accumulated income to a substantial degree for purposes other than those constituting the basis for the organization's exemption or investing accumulated income in such a manner as to jeopardize the carrying out of the function constituting the basis for the organization's exemption.

B. Treasury proposal.

This proposal would require a private nonoperating foundation to distribute the larger of 5 percent of the value of its investment assets or the full amount of its realized income in the year following the close of the accounting period.

An organization's "investment assets" would include all assets other than those devoted directly to charitable activities. For example, a portfolio of stocks and bonds would constitute investment assets subject to the 5 percent rule. On the other hand an organization which maintains a park open to the community as part of its charitable activities would not be required to value the park as part of "investment assets" against which the 5 percent rule would be applied.

The private persons subject to these provisions would be:

(1) the creator of, substantial contributor to or an official (director, officer, trustee, etc.) of the foundation;

(2) directors, officers and persons who own 20 percent or more of the stock (or interest in the capital or profits) of a corporation or partnership which is a substantial contributor to the foundation;

(3) a corporation or partnership 20 percent or more of the stock or interest in the capital or assets of which is owned by the creator, substantial contributor or official of the foundation;

(4) brothers, sisters, spouse, in-laws, aunts, uncles, neices, nephews, ancestors and lineal descendants of any persons in (1) or (2) above;

(5) an estate or trust for the benefit of any of the persons in (1) or (2) and

(6) a trust of which any person in (1) or (2) is considered the owner under Subpart E of part 1 of subchapter J (relating to grantors and others treated as substantial owners).

In applying the ownership test in paragraphs (2) and (3) above, stock or interests in partnerships owned by brothers, sisters, spouses, in-laws, aunts, uncles, neices, nephews, ancestors, lineal descendants and trust and estates for their benefit would be attributed.

In addition, a nonexempt trust empowered by its governing instrument to permanently set aside amounts for charitable purposes would be prohibited from engaging in self-dealing transactions with any income or corpus which it has so permanently set aside.

The general prohibition would apply to both direct and indirect transactions involving the transfer or use of foundation assets. Thus, for example, a loan by a donor to a corporation which he controls, followed by a gift of the corporation's note to the foundation, would be prohibited.

The following transactions would be specifically exempted from the general prohibition against self-dealing:

(1) reasonable compensation for personal services actually rendered and reimbursement for expenses actually incurred;

(2) facilities and services of the foundation made available on a nonpreferential basis;

(3) purchases by the foundation of incidental supplies (at no more than fair market value);

(4) interest free loans to the foundation, and their repayment;

(5) transactions between a foundation and a corporation pursuant to the terms of securities of such corporation in existence at the time acquired by the foundation (e.g., the call of a callable bond);

(6) transactions between a foundation and a corporation pursuant to any liquidation, merger, redemption, recapitalization or other corporate adjustment or reorganization, but only if all of the securities of the same class as that held by the foundation are subject to the same terms and such terms provide for receipt by the foundation of no less than fair market value; and

(7) purchases (at no less than fair market value) of foundation assets owned on the effective date of the legislation divestiture of which is required by the improper business interest rules recommended herein.

B. Treasury proposals.

The proposal would add a new rule for private foundations in the form of a general prohibition against engaging directly or indirectly in any transaction involving the transfer or use of any assets in which the foundation has an interest with a donor or parties related to the donor. Self-dealing transactions which a foundation would be prohibited from entering into under this general rule would include (although not be limited to) lending, borrowing, purchasing, selling or leasing. Corporations controlled by private foundations would be prohibited to the same extent as the controlling private foundation.

In addition, a special rule would prohibit use by the donor and certain related persons of property in which the foundation has an interest acquired from the donor, regardless of any interest in the property retained by the donor. For example, use by the donor of property in which the foundation has been given an undivided interest by the donor would constitute a self-dealing transaction, regardless of the fact that the donor retained an undivided interest in the property. Of course, use of foundation property in which the donor has no interest, such as water rights which the foundation owns off the donor's private beach, would be prohibited under the general rule.

Technical Explanation

Private Foundations

The Treasury proposal with respect to Private Foundations prohibits self-dealing, provides for an adequate return to charity, and prohibits ownership of certain business interests and certain political activities. It also provides sanctions for failure to file information returns and for enforcement of the new provisions. These provisions would be made applicable only to corporations or trusts exempt from income tax as ones organized and operated for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals. However, the provisions would not apply to the following organizations:

(1) Organizations which normally receive a substantial part of their support from the general public or governmental bodies;

(2) Churches or conventions or associations of churches;

(3) Educational organizations with regular faculties, curriculums, and student bodies; and

(4) Organizations whose purpose is testing for public safety.

Nonexempt trusts empowered by their governing instruments to pay or permanently set aside amounts for certain charitable purposes would also be subject to these provisions.

1. Prohibition Against Self-dealing.

A. Present law.

Present law places limited restrictions upon transactions between certain exempt organizations and their donors (and certain other related persons). In general, these restrictions require that certain specified transactions be conducted at arms length.

3. Effective Date.

The proposed rules would be made effective for transactions consummated or entered into on or after April 22, 1969. Transactions which the parties consummated prior to April 22, 1969 would continue to be treated under present law.

subject to a mortgage. Thus, the income derived from the property used to satisfy the production payment will be taxed to the owner of the mineral property and will be subject to the allowance for depletion. In the case of a working interest burdened by a retained production payment, the production costs attributable to minerals applied to satisfy the production payment would be deductible in the year incurred. A similar result will be obtained in the case where a production payment is retained by the lessor in a leasing transaction, by treating the retained production payment as a bonus granted by the lessee to the lessor payable in installments.

Example.-A, the owner of a producing oil and gas lease, sells the lease to B for $1 million and retains a production payment of $3 million (plus interest at 5-1/2 percent) payable from 75 percent of the production from the lease. Simultaneously, A sells the retained production payment to C for $3 million cash. A will treat the gain on the sale of his interest as capital gain. B will include the production payment revenue in his gross income, subject to depletion, during the payout period, and will deduct as current expenses the lifting costs incurred with respect to the oil used to satisfy the production payment. C will treat the $3 million as a nontaxable return of capital and will treat the interest as ordinary income.

Accordingly, the proceeds of the "sale" of the carve-out would not be taxable to the seller thereof, but income derived from the property subject to the carve-out would be taxable to him in the years of production, subject to the allowance for depletion. Costs of producing the mineral subject to the carve-out would be deductible in the year incurred.

The tax result to the purchaser of the production payment would not in most cases be affected by this proposal. He would be treated as receiving a return of capital plus interest.

Example.-The A coal company transfers a $300,000 production payment to B bank. The production payment is payable out of 90 percent of the net profits to be derived from the operation of the coal properties and bears 5-1/2 percent interest. The payout period is estimated to be 3 years. In the year of the transaction, A treats the proceeds as a loan (nontaxable receipt). In each of the 3 payout years, A includes as taxable income subject to depletion the amounts used to discharge the production payment, and deducts the expenses incurred in each year to produce the coal subject to the carve-out. If the payment is made on the basis of $100,000 each year plus the interest due, the B bank will treat the $100,000 as a return of principal, and will treat the interest as ordinary income.

B. ABC Transactions and Retained Production Payments.

Where a mineral property is transferred subject to a production payment (whether or not created by the immediate transferor), it is proposed that the transferee of the mineral property be treated as if he acquired the

C. ABC Transactions.

The retained production payment is utilized in connection with the so-called ABC transaction. In an ABC transaction A, the owner, sells a mineral property to B (who will own and operate the property) for a small downpayment, and A reserves a production payment (bearing interest) for the major portion of the purchase price. A then sells the production payment to C who is often a bank, a tax-exempt charity, or pension fund. A realizes capital gain on the sale of his interest to C and B. C receives income subject to depletion (normally cost depletion sufficient to eliminate taxable income) on the production payment. B excludes the production payment from his income but, until recently, B was permitted to deduct currently the expenses of producing the minerals applied to the production payment.

2. The Proposal.

The proposal generally would treat production payments as loan transactions. 1/ As a result, the owner of the mineral interest subject to the production payment will take income and expenses with respect to the production payment into account in the same taxable year.

A. Carved-Out Production Payments.

It is proposed that a carved-out production payment, whether relatir to a working interest or a nonoperating interest, be treated as a loan.

1/ This proposal does not apply to production payments pledged for, or because of, exploration or development. Such transactions do not operate to distort the depletion allowance.

production payment receives depletable income during the payout period. The purchaser of the working interest excludes the amounts used to pay off the production payment during the payout period but, until recently, deducts the costs of producing the minerals subject to the production payment.

Technical Explanation

Mineral Production Payments

1. Background.

A production payment is a right to a fixed amount of production from a mineral property if, as, and when the production occurs and, depending upon the manner in which it is created, it may be classified as either a carved-out production payment or a retained production payment. The production payment may be for a specific dollar amount, and it usually bears interest. The payment is secured by an interest in the minerals, and usually the known mineral reserves available are substantially in excess of that required to pay off the production payment.

A. Carved-Out Production Payments.

In the case of a carved-out production payment, the owner of the mineral interest sells the payment to an outside party, usually a financial institution. Under present law, the purchaser of the production payment treats the payments received as income subject to the allowance for depletion (usually cost depletion). The amounts utilized to pay the production payment are excluded from income by the owner of the burdened interest during the payout period but, the expenses attributable to producing that income are deducted in the year incurred.

B. Retained Production Payments.

In the case of a retained production payment, the owner of the mineral interest sells the working interest but reserves the production payment in himself. Under present law, the owner of the retained

Technical Explanation

Corporate Securities

1. Denial of Installment Reporting of Gain

A. Present Law

Under present law, there is a question whether section 453 (b) of the Internal Revenue Code permits a taxpayer to elect installment reporting on the receipt of certain corporate evidences of indebtedness, such as publicly traded long-term convertible debentures, as part of the consideration in a casual sale of real or personal property. Some taxpayers who have received such corporate evidences of indebtedness in exchange for the stock of another corporation have been treating the indebtedness as qualifying for installment reporting under section 453 (b).

B. Proposal

The proposal would eliminate installment reporting on the receipt of corporate and governmental evidences of indebtedness as part of the consideration in a casual sale of real or personal property when the evidence of indebtedness has interest coupons or is in registered form.

C. Effective Date

The proposed rule would apply to sales or other dispositions made after February 24, 1969.

2. Ratable Reporting of Original Issue Discount

A. Present Law

Under present law, in general, if a corporation issues a bond, debenture, note, certificate or other evidence of indebtedness (hereinafter referred to as an indebtedness) which is a capital asset in the hands of the holder, and the stated redemption price of the indebtedness at maturity exceeds its issue price, the excess is original issue discount under section 1232 of the Code. If the indebtedness is held to maturity, at such time the holder is taxed at ordinary income rates on the amount of the original issue discount. If the indebtedness is sold or exchanged prior to maturity in a transaction which results in taxable gain, the portion of the gain equal to the original issue discount attributable to the period of time the indebtedness has been held is taxed to the holder at ordinary income rates. The balance of the gain is treated as capital gain. Thus, under section 1232 taxation of original issue discount is deferred until the year of redemption or the year in which the holder sells or exchanges the indebtedness in a taxable transaction. In contrast, the corporation issuing the indebtedness amortizes the amount of the original issue discount over the life of the indebtedness, thus providing a current interest deduction each year to the issuing corporation.

B. Proposal

It is proposed that the tax treatment of the holder of bonds with original issue discount be made consistent with the treatment

B. Convertible Securities and Stock Rights

For purposes of the new exception, any security convertible into stock or any right to acquire stock will be treated as outstanding stock of the corporation. Thus, a taxable increase (hereafter referred to as a section 305 distribution) will result if the ratio at which any debenture is convertible into stock, or the amount of stock purchasable under a warrant is increased and the increase is related to a taxable distribution.

C. Constructive Stock Distributions

If a corporation redeems any portion of its stock pursuant to a plan of periodic redemptions, a section 305 distribution will be considered as made with respect to the stock of any shareholder whose proportionate interest in the assets and earnings and profits of the corporation is thereby increased. The amount of distribution with respect to any shareholder will be determined by reference to the amount of stock that would have been required to be distributed to such shareholder immediately before the redemption in order to give such shareholder the same increase in proportionate interest. For purposes of this rule, a reduction in the ratio at which one type of a corporation's stock may be converted into another type will be treated as a redemption of stock.

The following examples illustrate the application of this rule:

Example (2). Corporation Y has outstanding, in addition to its common stock, a class of preferred stock which is limited and preferred as to cash dividends. On January 1, 1970, Y pays a cash dividend on the preferred stock and on July 1, 1970, it makes a common stock distribution with respect to its common stock. The two distributions are considered related, but the proportionate interests of the common shareholders in the assets and earnings and profits of Y are not increased. Therefore, the stock distribution is not taxable.

Example (3). (i) Corporation Z is organized on January 1, 1970, with two types of stock outstanding, type A stock and type B stock. Each type B share may be converted, at the option of the holder, into type A shares. During 1970, the conversion ratio is one share of type A stock for each share of type B stock. At the beginning of each subsequent year, the conversion ratio is increased by .05 shares of type A stock for each share of type B stock. Thus, during 1971, the conversion ratio would be 1.05 shares of type A stock for each share of type B stock; during 1972, the ratio would be 1.10 shares, etc.

(ii) On December 31, 1970, Z pays a cash dividend on the type A stock. On January 1, 1971, when the conversion ratio is increased to 1.05 shares of type A stock for each share of type B stock, a distributic is considered as made with respect to each share of type B stock of a right to acquire .05 shares of type A stock. Since both distributions are considered related and since the proportionate interests of the type shareholders in the assets and earnings and profits of Z are increased, the rights distribution to the type B shareholders would be taxable undei section 301.

by the granting of a choice to shareholders. This has led to a potential substantial revenue loss and to inequities among the recipients of corporate dividend distributions. To make it clear that this circumvention of the statute is not to be permitted, the proposal would provide for two additional exceptions to section 305.

2. Proposal

A. Disproportionate Distributions

The first of the new exceptions to section 305(a) would provide that if stock (or rights to stock) are distributed in conjunction with a taxable dividend distribution (that is, a distribution to which section 301 applies) that is made with respect to another portion of the corporation's outstanding stock, then the distribution of the stock (or rights to stock) would be taxable if such distribution has the effect of increasing the recipient's proportionate interest in the assets and earnings and profits of the corporation. For purposes of this exception, a distribution would be considered to be made in conjunction with another distribution if it is made within 12 months of the other distribution or if both distributions are made pursuant to a single plan.

The following examples illustrate the application of this exception to section 305(a):

Example (1). A and B each own 50 percent of the outstanding stock of a corporation X. On January 1, 1970, X makes a stock distribution with respect to A's stock, and on July 1, 1970, it pays a cash dividend on B's stock. Since the distributions are considered related and since A's proportionate interest in the assets and earnings and profits of X is increased, the stock distribution to him would be taxable under section 301.

Technical Explanation

Stock Dividends

1. Background and Purpose

At present, section 305(a) of the Internal Revenue Code provides, in general, that a distribution made by a corporation to its shareholders of its stock (or rights to acquire its stock) is not taxable. Section 305(b) contains two exceptions to this rule. First, the distribution is taxable if it is made in discharge of preference dividends for the taxable year of the corporation in which it is made or for the preceding taxable year. Second, the distribution is taxable if it is, at the election of any of the shareholders, payable either in stock (or rights to acquire stock) or in money or other property.

While in enacting section 305, Congress sought to avoid the confusion and uncertainty existing under prior law, it intended, through section 305, to continue the taxation of stock dividends where the shareholder had a choice between receiving cash or stock. The ability to choose a stock dividend in lieu of a cash dividend offers to the shareholder the opportunity to defer the payment of tax (and, in some cases, avoid it entirely) and to convert what would be ordinary income into capital gain.

Since the enactment of section 305, some corporations have used various devices which achieve substantially the same results as obtained

even though the taxpayer elects to return to straight-line depreciation. Similarly, the commissions would continue to have authority to require flow-through if the taxpayer voluntarily elects accelerated depreciation in the future.

3. Effective Date.

The proposal in connection with accelerated depreciation and rate making for public utilities would apply on or after January 1, 1969.

In order to permit adequate adjustment to the new rules, it is recommended that the proposal with regard to the computation of earnings and profits be applied beginning after the third year following enactment.

If utility commissions generally proceed to treat companies as though they had adopted accelerated depreciation and require this amount to be flowed through, the total impact on the revenues, over the next few years, could build up to an annual loss of $1.5 billion. If, on the other hand, the Congress enacted legislation that would in all circumstances prohibit utility commissions from flowing through the proceeds of accelerated depreciation, there could be a short-term revenue loss as high as $0.6 billion due to the adoption of accelerated depreciation by certain utilities which would not act in this manner if they anticipated the possibility of flow-through. Thus, since a substantial revenue loss will occur as a result of either of the above-mentioned changes, it is proposed that the present state of affairs be preserved.

B. Proposal.

Under the proposal regulatory commissions would be prohibited from requiring a utility which has always used straight-line depreciation to adopt accelerated depreciation or to compute its tax as if it did. This is in accord with the intent of the tax law which explicitly provides a choice for taxpayers between the use of accelerated depreciation and straight-line depreciation. Where a taxpayer has previously elected accelerated depreciation, regulatory commissions would continue to have authority to require flow-through--i.e., make the allowance for Federal tax on the basis of continued use of accelerated depreciation,

In the case of utilities claiming accelerated depreciation for tax purposes, "normalization" ignores the effect of accelerated depreciation on the tax payment; that is, the utilities claim as an expense the tax that would be paid had straight-line depreciation been used, and the difference between the actual tax paid and the higher tax based on straight-line depreciation is treated as a reserve for future taxes. This reserve is ordinarily treated as a customer contribution to the capital of the company, and no rate of return is permitted on it. The immediate tax reduction gives the utility additional working capital over what it would have had had it been on a straight-line method and enables it to reduce its requirements for equity or debt-financing.

In other situations, the regulatory commissions have required companies to take into account as the income tax cost of their operations only the actual tax paid, with the result that the tax reduction due to accelerated depreciation is "flowed through" to the customer as a reduction in the price of utility services. This has caus some utilities to continue to use straight-line depreciation since they obtai working capital benefit. However, in some situations, the regulatory commissior have given companies credit only for the income taxes that would have been paid had accelerated depreciation been claimed even though straight-line depreciation has been used for tax purposes. Consequently, a number of utilities have argued that the regulatory agencies should be prohibited from requiring a utility to adopt accelerated depreciation and flow-through of the benefits thereunder without the express consent of the utility.

The problem arises because accelerated depreciation is not used for book purposes so that book earnings exceed taxable profits. That is, dividends which are in fact paid out of book earnings exceed taxable earnings and profits. Such dividends are treated as a return of capital which reduce the shareholder's tax basis in his stock (to the extent it exceeds the adjusted basis of the stock, it is treated as capital gain) but do not result in ordinary income.

B. Proposal.

Under the proposal accelerated depreciation would not be taken into account in the computation of earnings and profits unless accelerated depreciation is used for book purposes. The depreciation deduction in the computation of earnings and profits would be limited solely to that computed under the straight-line method as provided in section 167(b)(1) unless accelerated depreciation is used for book purposes.

2. Accelerated Depreciation and Rate Making for Public Utilities.

A. Present law.

Utilities, as a general rule, use straight-line depreciation for book purposes. Since rates are fixed in order to achieve a specified return after taxes, the depreciation claimed for tax purposes and its effect on the amount of the Federal income tax paid are important factors in the determination of rates. For many years, regulatory agencies have been dealing with the problem of how to treat a reduction in Federal taxes due to the use of accelerated depreciation pursuant to section 167(b)(2), (3) and (4) of the Internal Revenue Code in determining book after-tax profits. They have followed two procedures--normalization and flow-through.

Technical Explanation

Treatment of Accelerated Depreciation
by Regulated Utilities

1. Tax-free Dividends.

A. Present law.

A corporate distribution is taxable as a dividend to the extent the distribution is made out of earnings and profits accumulated after February 2 1913, or out of earnings and profits of the current year. The amount in excess of current or accumulated earnings and profits reduces the adjusted basis of the stock; and any remaining excess is treated as gain from the sale or exchange of property. In computing earnings and profits, depreciation is presently deductible in the amount allowable for income tax purposes, rather than any other amount which might be charged to accumulated depreciation on the books.

Under existing law, some corporations, particularly regulated utilities are making tax-free distributions primarily as a result of the use of accelerated depreciation which exhausts earnings and profits for tax purposes. This is particularly true if the benefits of accelerated depreciation are "flowed-through" to the consumer resulting in a rate reduction and lower income.

The section 1245 recapture would apply only to sales in years commencing on or after January 1, 1970.

The extension of lives of livestock would apply to livestock acquired after January 1, 1970.

The changes in section 270 would apply only to years commencing on or after January 1, 1970.

Year	1970	1971	1972	1973	1974
Ordinary Income	$200,000	$300,000	$150,000	$400,000	$100,000
Capital Gain[2]	- 0 -	75,000		150,000	
Total Income	$200,000	$375,000	$150,000	$550,000	$100,000
Add[3]	50,000	50,000	50,000	50,000	50,000
Total Allowable Deductions	$250,000	$425,000	$200,000	$600,000	$150,000
Less Specially Treated Deductions	300,000	- 0 -	100,000	400,000	- 0 -
Measure of Allowable Deductions	$ - 0 -	$425,000	$100,000	$200,000	$150,000
Other Deductions	- 0 -	$500,000	$250,000	- 0 -	$175,000
Less Measure of Allowable Deductions	- 0 -	425,000	100,000	200,000	150,000
Deductions Disallowed	- 0 -[4]	$ 75,000	$150,000	- 0 -	25,000

5. Effective Dates.

Taxpayers would be required to keep an EDA for all years commencing on or after January 1, 1969, but gains realized in 1969 would be exempted from its operation.

2/ Capital gain income is included only to the extent of the taxed one-half.
3/ Deductions are disallowed only to the extent they exceed gross income and $50,000. This is the $50,000 of allowable loss. It must, however, first be offset against the specially treated deductions.
4/ If other deductions are less than the measure of allowable deductions, no deductions are disallowed.

EXAMPLE

These changes may be shown by the following example:

Year	Ordinary Income	Specially Treated Deductions	Other Deductions	Business Capital Gain	Present § 270 Loss[1]
1970	$200,000	$300,000	- 0 -	- 0 -	None
1971	300,000	- 0 -	$500,000	$150,000	$ 50,000
1972	150,000	100,000	250,000	- 0 -	100,000
1973	400,000	400,000	- 0 -	300,000	None
1974	100,000	- 0 -	175,000	- 0 -	75,000

As now computed, the loss would not exceed $50,000 in five consecutive years, and section 270 would not be applicable.

Under the proposal, the loss in each year would be computed by including only one-half of capital gain in income. The losses thus would be:

1970	None
1971	125,000
1972	100,000
1973	None
1974	75,000

Since the loss exceeds $50,000 in three of the five years, a recomputation of income in each year would be necessary. The deductions disallowed would be computed as follows:

1/ This column is the amount which would be used to determine whether the loss exceeded $50,000 in any year.

There are two additional problems related to section 270. The first lies in the computation of the size of the loss to ascertain whether it exceeds $50,000 in the requisite number of years. The other difficulty arises in computing the amount of the disallowed deductions when the section is otherwise applicable.

Under the proposal both of these computations would be altered. At present the amount of the income included in the computation includes the full amount of the capital gain realized on the sale of property used in the trade or business even though only one-half of that amount is subject to tax. Under the present proposal, gross income of the trade or business for purposes of determining the amount of loss under section 270 would be reduced by the untaxed half of capital gains attributable to the business.

The proposal would also alter the amount of disallowed deductions. Under present law specially treated deductions consisting of interest, taxes, casualty and abandonment losses, farm drought losses and expenses, and items which a taxpayer may either capitalize or expense are wholly excluded from computation of the loss and in determining the disallowed deductions. Under the proposal, these deductions will remain fully allowable if otherwise allowable, but they will reduce the amount of otherwise allowable deductions.

depreciation deductions taken after December 31, 1968, would be subject to this recapture rule. This rule would be effective even though the taxpayer had no excess deductions account.

B. Extension of livestock lives

Livestock which may qualify under section 1231 (b) of the Code, which treats net gains as capital gain, would be redefined into two categories. First, as to all livestock now qualifying other than race horses, the holding period, now 12 months, would be extended to two-thirds of the useful life of the animal or two years, whichever is the shorter. A race horse in the hands of the breeder (or any other person who deducted raising costs including a taxpayer having a basis determined in whole or in part by reference to the basis in the hands of one who has deducted raising costs) would not be treated as property used in the trade or business of racing unless it had been raced for a two year period. A race horse would not be treated as breeding livestock and thus qualify under section 1231 (b)(3) unless the particular animal had been bred.

4. Revision of section 270

Section 270 disallows certain deductions when the taxpayer incurs losses in a trade or business in excess of $50,000 for five consecutive years. This section would be amended so that the recomputation would be made if the $50,000 loss amount were exceeded in any three of five consecutive years.

($65,000) less basis ($15,000)). Of that amount $40,000 is treated as ordinary income, and $10,000 is treated as capital gain.

Example 3.

The taxpayer incurs soil and water conservation expenses in the amount of $30,000 on unimproved farm land in 1969. His farm deductions in that year, including the $30,000 amount, exceeded farm ordinary income by $15,000. The land which would qualify as a section 1231 asset under present law is sold at a $50,000 gain in 1973. At that time the amount in the EDA is $100,000. The total amount of prior deductions under sections 175, 180, and 182 with respect to the land is the $30,000 amount expended in 1969 for soil and water conservation expenses. The gain on the sale of the land is treated as ordinary income to the extent of $30,000, and the balance is treated as capital gain.

3. Capital Gain on Livestock

Two changes are proposed with respect to capital gains on livestock.

A. Recapture of excessive depreciation of livestock

Under section 1245, as added by the Revenue Act of 1962, a disposition of personal property may result in the recapture of depreciation deductions taken with respect to such property. However, livestock is excepted from the application of this rule. In order to put livestock on the same footing as all other personal property, the exception for livestock would be eliminated. However, only

productive state in 1974. The income of his other farm operations is exactly equal to the expenses of these operations, but the taxpayer incurs development costs on the fruit trees in the amount of $5,000. In 1970, 1971, 1972, 1973, he incurs developmental expenses of $15,000 each year with respect to the fruit trees, and other farm income and expenses net out to zero. In early 1974, he sells the orchard for $85,000 in a transaction which would qualify for capital gain treatment under present law. No amount has been deducted on account of the land pursuant to sections 175, 180, or 182. The sales price is allocable $20,000 to land and $65,000 to the fruit trees. The EDA account totals $40,000 computed as follows:

Year	EDA		
	Additions	Subtractions	Balance
1969	- 0 -		
1970	$10,000		$10,000
1971	10,000		20,000
1972	10,000		30,000
1973	10,000		40,000
1974		$40,000	- 0 -

The EDA has no effect on the gain on the land ($10,000) which is treated as capital gain. The EDA does, however, affect the gain on the trees. The total gain on the trees is $50,000 (sales price

Year	EDA Additions	EDA Subtractions	EDA Balance
1969	$15,000		$15,000
1970	- 0 -	$6,500	8,500
1971	- 0 -	- 0 -	
1972		8,500	- 0 -

This chart summarizes the following transactions: In 1969, the taxpayer enters $15,000 in the excess deductions account (EDA) (the excess of the $20,000 loss over $5,000). In 1970, the EDA is reduced by the net ordinary income from farming ($5,000). Since the amount in the EDA is larger than the capital gain on the sale of the bull, the $1,500 income on the sale of the bull is treated as ordinary income. The EDA is accordingly also reduced by the amount of capital gains treated as ordinary income ($1,500) by reason of this proposal. At the end of 1970, the EDA is $8,500. The loss in 1971 does not add to the account, however, because the loss is less than $5,000. Thus, the account remains at $8,500. When the livestock is sold in 1972, only $8,500 of the $12,500 gain is treated as ordinary income, and the balance of the gain is treated as capital gain.

Example 2.

In 1969, the taxpayer purchases unimproved farm land (at a cost of $10,000) on which he plants fruit trees (at a cost of $15,000, which cost is capitalized). The trees are expected to reach the

A taxpayer would not be required to keep an EDA if he used accounting methods which are generally applicable to business enterprises other than farming. Such methods generally include the use of inventories where necessary to determine income properly. Similarly, such methods require that all costs properly attributable to property used in the trade or business and having a useful life beyond one year be capitalized without regard to any special provisions of the Internal Revenue Code or regulations permitting such capital expenditures to be deducted currently. Where inventories of livestock are involved, a method would be acceptable under this proposal only if the inventory valuation reflected direct costs and a proper allocation of indirect costs incurred by the taxpayer in raising the animals.

EXAMPLES

Example 1.

The taxpayer, a corporate executive, owns a farm with respect to which, in 1969, ordinary deductions exceed ordinary income by $20,000. In 1970 the farm produces net ordinary income of $5,000 and, in addition, a prize bull, which has a zero basis, is sold for $1,500 in a sale which would qualify for capital gains treatment under existing law. In 1971, the farm shows a net loss of $3,500. In 1972, his ordinary farm income just equals farm expense, but he sells breeding livestock which he held more than two years, valued at $12,500 but without any basis.

The taxpayer's EDA would be computed as follows:

The farm loss would be computed by reducing farm gross income, other than income subject to capital gain treatment, by the amount of deductions attributable to the farming operation. For this purpose farm income would not include receipts from mineral royalties, timber sales, sand and gravel sales, or rents except share crop arrangements under which the landlord bears some risk of loss. Farm deductions would include all amounts attributable to the farming operation.

Gain realized on a disposition of property used in farming which under current law would otherwise be capital gain would be treated as ordinary income to the extent of the amount in the excess deductions account, including any excess deductions in the year of sale. The EDA would be reduced by the amount of such gain. Gain attributable to increases in land values would not be subject to this rule, however, unless there were prior deductions which created the increase in land values. Thus, gain on land would be ordinary income only to the extent of prior deductions under sections 175, 180, or 182 with respect to the parcel sold, but in no event in excess of EDA.

All losses attributable to farming would continue to be available to offset other income of the years in which incurred or income of other years as a net operating loss carryover. The EDA does not affect the allowance of any such losses.

Farm Proposal

Technical Explanation

1. Background

Under existing law, the sale of many farm assets -- whether livestock, orchards, land, or other assets -- generally results in long-term capital gain under section 1231 although all or a substantia part of the cost of raising or developing such assets may have been reflected in ordinary losses on the cash method of accounting. In most instances, such farm losses have offset ordinary income from other sources. The combination of deferral of tax attributable to the cash accounting method and the benefit of deducting costs against ordinary income, offset only by later capital gains, requires changes in tax treatment. In addition, there are structural defects in the hobby loss limitations in section 270, which, while not confined to farm losses, frequently have potential application in this area. These defects require correction.

2. Excess Deductions Account

This proposal would apply to all taxpayers who incur total ordinary farm deductions in excess of total ordinary farm income. In the case of corporations such excess would be added in full to an excess deductions account (EDA). All other taxpayers would add such excess to the extent it exceeds $5,000 each year to an EDA. A taxpayer would keep such an EDA for all taxable years commencing after December 31, 1968. The EDA would be reduced by net farm income in any subsequent year.

D. Additional first year depreciation.

Under present law a taxpayer may elect to take, as a depreciation deduction, 20 percent of the cost of certain qualified property in the year the property is acquired. The aggregate cost of the property subject to this special provision is limited to $10,000 per year. Corporations which constitute a parent-subsidiary group, defined somewhat differently than the parent-subsidiary definition contained in the multiple surtax exemption provisions, are restricted to one $10,000 limitation per group. The proposal would conform the parent-subsidiary definition to that used in the multiple surtax exemption provisions and extend the present law restriction on multiple additional first-year depreciation deductions to brother-sister controlled groups as defined under this proposal. This restriction would make use of the definitions and special rules under the surtax exemption provisions but since any depreciation deduction not allowed in the first year by reason of these changes would be allowable in subsequent years under the normal depreciation rules, no transition rule is necessary.

3. Effective Date.

These provisions would become effective for taxable years beginning after December 31, 1968. For those covered by the transition schedule, the full effect of the provision would take place with taxable years beginning in 1974.

As with the minimum accumulated earnings credit, the restrictions on the number of limitations on the small business deduction for life insurance companies would apply to parent-subsidiary controlled groups as defined under present law and brother-sister controlled groups as defined under this proposal.

C. Investment Credit.

The investment credit provisions allow a taxpayer to use his investment credit to offset 100 percent of the first $25,000 of tax liability but only 50 percent of amounts above $25,000. These provisions also allow a taxpayer to use up to $50,000 of his cost of acquiring used property in the computation of his investment credit. Corporations which constitute a parent-subsidiary group, defined somewhat differently than the parent-subsidiary definition contained in the multiple surtax exemption provisions and somewhat differently for each limitation, are restricted to one of each of these two limitations per group. The proposal would conform the parent-subsidiary definition to that used in the multiple surtax exemption provisions and extend the present law restriction on multiple investment credit limitations to brother-sister controlled groups as defined under this proposal. This restriction would make use of the definitions and special rules under the surtax exemption provisions, but since the investment credit contains provisions for carrying over from one year to the next excess investment credit (including any amount of credit disallowed under this proposal), no special transition rule is necessary.

$100,000 of retained earnings would be protected. Similar allocation rules would apply during the transition period where a group of corporations is allowed less than one credit per corporation.

The restrictions on the number of minimum accumulated earnings credits would apply to parent-subsidiary controlled groups as defined under present law and brother-sister controlled groups as defined under this proposal.

B. The Limitation on the Small Business Deduction for Life Insurance Companies.

Under present law, life insurance companies are allowed a small business deduction of 10 percent of investment yield, up to a maximum of $25,000. Present law does not restrict, solely on the basis of membership in a controlled group of corporations, the number of these limitations that can be claimed. The proposal would limit the maximum number of such limitations available to a controlled group of corporations in accordance with the transition schedule applicable to the surtax exemption. As under present law, the 6-percent penalty would not attach to multiple use of the $25,000 limit in accordance with the transition schedule. Rules similar to those applicable in the case of the surtax exemption would be provided for allocating the $25,000 limitation on the small business deduction for life insurance companies. However, consistent with the substantive provision itself, no one member of the group would be entitled to a deduction of more than 10 percent of its investment yield, which is the limitation imposed under present law.

permitting earnings and profits to accumulate instead of being distributed. The tax does not apply to earnings and profits of the taxable year which are retained by a corporation for the reasonable needs of the business. Furthermore, even if reasonable needs are not present, the first $100,000 of accumulated earnings on a cumulative basis is exempt from the tax.

Present law does not restrict, solely by virtue of being a member of a controlled group of corporations, the number of these credits that can be claimed. The proposal would limit the maximum number of minimum accumulated earnings credits available to a controlled group of corporations in accordance with the transition schedule applicable to the surtax exemption. As under present law, the 6-percent penalty would not be imposed on those groups claiming multiple benefits during the transition period.

The one minimum accumulated earnings credit available to a group, after the transition period, would first be allocated evenly to each member of the controlled group, and then, to the extent that any member does not have sufficient accumulated earnings to utilize fully its pro rata share of the credit, that excess credit would be allocated evenly to the members of the group who do have unprotected accumulations. For example, if in the first year of operation, one of two corporations constituting a controlled group retains earnings of $25,000 and the other retains earnings of $75,000, the credit would first be divided equally between the two corporations and then the excess credit from the first ($25,000) would be allocated to the second, and the entire

tion, or (iv) any combination thereof. For purposes of this provision, the term "principal stockholder" means an individual who owns (within the meaning of the constructive stock ownership rules contained in the multiple surtax exemption provisions) 5 percent or more of the voting power or value of shares in such corporation. Direct or indirect control of an exempt organization would include any kind of control whether or not legally enforceable and regardless of the method by which control is exercised or exercisable.

In the brother-sister case, stock in a corporation owned by an exempt organization would be ignored if such organization is controlled, directly or indirectly, by (i) such corporation, (ii) an individual, estate or trust who is a principal stockholder of such corporation, (iii) an officer of such corporation, or (iv) any combination thereof. "Principal stockholder" and "directly and indirectly controlled" would have the same meaning as those referred to above. In addition, the 50 percent stock ownership requirement for application of the excluded stock rules would be expanded from one to five persons in the case of brother-sister controlled groups, consistent with the change in the definition of a brother-sister controlled group.

2. Other Tax Benefits To Which This Proposal Applies.

A. The $100,000 Minimum Accumulated Earnings Credit.

Section 535(c)(2) of the code provides a minimum accumulated earnings credit of $100,000 for purposes of applying the accumulated earnings tax. This tax applies only to a corporation which is formed or availed of for the purpose of avoiding income tax with respect to its shareholders, by

(4) Excluded stock.

Under present law, some taxpayers might seek to avoid the percentage of ownership tests through use of controlled tax-exempt foundations. For example, an individual who owns two corporations might seek to avoid the 80 percent portion of the brother-sister controlled group test by transferring a 21-percent stock interest to a nonstock[1] tax-exempt foundation which he, or interests related to him, control. Under the multiple surtax exemption provisions of existing law, stock owned by certain specified persons and entities (such as certain employee pension plans) is treated as if it were not outstanding for purposes of applying the percentage of ownership tests involved in the parent-subsidiary and brother-sister controlled group definitions. However, for these rules to apply, one person must own at least 50 percent or more of the voting power or value of shares of each of the corporations to be included in the group.

These rules are designed to defeat attempts to circumvent the percentage of ownership tests by transferring stock to the specified entities. The proposal would add organizations exempt from tax under section 501(a) controlled by certain specific persons to the entities whose stock holdings would be ignored for purposes of applying the controlled group definitions. In the parent-subsidiary case, stock owned by such an organization would be ignored if the organization is controlled directly or indirectly by (i) the parent corporation or subsidiary corporation, (ii) an individual, estate or trust who is a principal stockholder of the parent corporation, (iii) an officer of the parent corpora-

[1] The constructive stock ownership rules of existing law might preclude the use of foundations organized in corporate form with outstanding stock in

The following two examples illustrate the operation of this two-part test:

Example 1

	Percent of Stock Ownership (pt. 1)		Percent of Identical Ownership (pt. 2)	
	Corporation No. 1	Corporation No. 2	Corporation No. 1	Corporation No. 2
Shareholders:				
A----------------	30	75	30	30
B----------------	70	25	25	25
Total	100	100	55	55

Example 2

	Percent of Stock Ownership (pt. 1)		Percent of Identical Ownership (pt. 2)	
	Corporation No. 1	Corporation No. 2	Corporation No. 1	Corporation No. 2
Shareholders:				
A---------------	80	20	20	20
B---------------	20	80	20	20
Total	100	100	40	40

In both examples, individuals A and B together own 100 percent of both corporations. Thus, part (1) of the test is met. However, under part (2) of the test, the stock holdings of A and B are restricted to the lowest percentage of any member to be included in the group. Thus, in Example 1, because stockholder A owns only 30 percent of Corporation No. 1 he is considered to own only 30 percent of Corporation No. 2. Part (2) of the test is satisfied in Example 1, but not in Example 2. Consequently, the corporations in Example 1 would constitute a brother-sister controlled group while those in Example 2 would not.

Part (1) of this test is satisfied if the group of five or fewer persons as a whole owns at least 80 percent of the voting stock or value of shares of each corporation, regardless of the size of the individual holdings of each person. Thus, for example, part (1) (but not necessarily part (2)) is met whether one person owns 80 percent of the voting stock of each corporation, four persons each own 20 percent of the voting stock of each corporation, or one person owns 60 percent of the voting stock of one corporation and 40 percent of another, and another person owns 40 percent of the voting stock of the first and 60 percent of the second.

Part (2) of the test is satisfied only if the same five or fewer persons own more than 50 percent of the voting stock or value of shares of each corporation, considering stock owned by a particular person only to the extent that it is owned identically in each of the corporations. Thus, for example, a person who owns 80 percent of the voting stock of one corporation and 30 percent of another would be considered as owning 30 percent of both corporations for purposes of part (2) of the test.

(3) Definition of controlled group.

As indicated above, the restrictions on the claiming of multiple surtax exemptions would apply to corporations which are components members of a parent-subsidiary or brother-sister controlled group.1/

(a) Parent-subsidiary controlled group. The present definition of a parent-subsidiary controlled group--corporations connected through 80 percent stock ownership, either directly or through one or more intermediary corporations with a common parent would remain unchanged.

(b) Brother-sister controlled group. Present law defines a brother-sister controlled group as a group of corporations in which the voting stock or value of shares of each member is owned 80 percent by the same person (i.e. individual, estate or trust). Under the proposal, the present definition would be changed so that a group of corporations would constitute a brother-sister controlled group if (1) the same five or fewer persons own at least 80 percent of the voting stock or value of shares of each corporation, and (2) these five or fewer individuals own more than 50 percent of the voting power or value of shares of each corporation considering a particular person's stock only to the extent that it is owned identically with respect to each corporation. This definition is the same as that under section 1551 (relating to the disallowance of surtax exemptions and accumulated earning credits in cases of transfers in order to secure the exemption or credit).

1/There are two minor kinds of controlled groups: (1) combined groups consisting of three or more corporations each of which is a member of a parent-subsidiary or brother-sister controlled group and one of which is both a common parent and a brother-sister corporation, and (2) certain insurance company groups. Membership in both types depends in part upon membership in a parent-subsidiary or brother-sister controlled group. Therefore, these groups are affected by these proposals in the same manner as parent-subsidiary and brother-sister controlled groups and are not independently discussed herein.

Taxable years including the first Dec. 31 after	Maximum number of surtax exemptions
Fourth Dec. 31	10
Fifth Dec. 31	5
Sixth and subsequent Dec. 31's	1

During the transition period the present provision for election to claim multiple surtax exemptions upon payment of the 6 percent penalty would be continued, subject to the maximum number available under the transition schedule. For example, in the second year, a controlled group of 100 corporations could claim multiple surtax exemptions, but would be restricted to 50 under the transition schedule. If it did, it would be required to pay the penalty of 6 percent of the amount of income (50 x $25,000 = $1,250,000) subject to the surtax exemptions as provided under existing law. The penalty would be allocated to each member to the extent that it claimed a surtax exemption.

(2) Allocation of surtax exemptions.

The one $25,000 surtax exemption available to a controlled group after the transition period would be divided equally among the members of the group, or allocated according to a plan consented to by all members of the group. The group would be allowed to change the plan from year to year if all members consented. In the absence of consent by all members, the surtax exemption would be allocated equally. During the transition period these allocation rules would apply in the same manner, but to the limited amount of surtax exemptions under the transition schedule and with the proviso that no more than $25,000 be allocated to any one corporation.

B. General description of recommendation.

The proposal would limit, gradually over a 6-year transition period, corporations which are members of a parent-subsidiary or brother-sister controlled group to one $25,000 surtax exemption per group. During the transition period the present option to claim multiple surtax exemptions (subject to the maximum number allowable under the transition rule) upon payment of a 6-percent penalty tax would be continued. The exemption (or exemptions during the transition period) available to the group would be allocated either evenly or under any other plan consented to by all members of the group which did not allocate more than $25,000 to any one member of the group. The definition of a brother-sister controlled group under present law would be broadened to include groups of corporations owned and controlled by five or fewer persons, rather than only those owned and controlled by one person as provided in existing law.

C. Specific provisions.

(1) Limitation of surtax exemptions.

The proposal would limit the maximum number of surtax exemptions that could be claimed by a controlled group of corporations in accordance with the following transition schedule:

Taxable years including the first Dec. 31 after	Maximum number of surtax exemptions
Jan. 1, 1969	100
Second Dec. 31	50
Third Dec. 31	25

Technical Explanation

Multiple Corporations

1. Surtax Exemptions.

A. Present law.

Existing law provides for a two rate structure for corporate income tax with the lower rate, called the surtax exemption, applicable to the first $25,000 of corporate income. Many large corporate organizations carry on business activities through a series of separate corporate entities, dividing the total income of what is in reality one large enterprise among numerous corporate entities, each one of which claims a surtax exemption. In many cases, the corporations are arranged so that most of them have less than $25,000 of income with the result that almost all of the enterprise's income is claimed to be taxable at reduced rates. In order to restrict somewhat the tax benefits of multiple surtax exemptions, present law provides that corporations which constitute a parent-subsidiary or brother-sister controlled group (defined as two or more corporations related through stock ownership in certain specified ways) must share one $25,000 surtax exemption, or elect to continue claiming separate surtax exemptions upon payment of a penalty tax of 6 percent of the first $25,000 of income of each corporation. This penalty tax has only the effect of reducing the surtax exemption benefit from $6,500 to $5,000.1/

1/The value of the surtax exemption is a constant amount for all corporatio that utilize it fully equal to the amount of additional tax on $25,000 that would have to be paid if that $25,000 were taxed at the higher rate than th lower corporate rate. The value of the surtax exemption, under existing corporate rates is 26 percent (48 percent less 22 percent) times $25,000, or $6,500.

can demonstrate to the satisfaction of the Secretary or his delegate that the amount in excess thereof is related to the cost of borrowing and is not attributable to the conversion feature of the indebtedness. This exception is needed in order to increase the ceiling in the event of rising interest rates and changing market and credit conditions generally.

C. Effective Date

Since the Treasury Department and the Internal Revenue Service regard this proposal as merely declaratory of existing law, the proposal would be retroactive.

3. Limit on Deduction of Convertible Indebtedness Repurchase Premium

A. Present Law

The issue has been raised under existing law whether a corporation which repurchases its own convertible indebtedness at a premium may deduct the entire difference between the stated redemption price at maturity and the actual repurchase price. It is the position of the Treasury Department and the Internal Revenue Service that the amount of the deduction is limited under existing law to an amount which represents a true interest expense, *i.e.*, the cost of borrowing, and that the Code provides no allowable deduction for the amount of the premium attributable to the conversion feature since the repurchase with respect to this amount is, in effect, merely a capital transaction.

B. Proposal

Under the proposal, if a corporation repurchases its own convertible indebtedness at a price in excess of the issue price plus any amount of discount deducted prior to repurchase, or (in the case of bonds issued subsequent to February 28, 1913) minus any amount of premium returned as income prior to repurchase, the amount of the corporation's deduction would be limited to an amount not in excess of a normal call premium for corporate indebtedness. An exception to the normal call premium rule with respect to the corporation's deduction would be permitted in those cases in which the corporation

be capital gain. If A holds the bond to maturity, he reports no gain or loss on retirement ($100 stated redemption price less $100 adjusted basis). If, however, A sells the bond to B on June 30, 1974, for $92.50, his ratable share of the 1974 original issue discount is $1, taxable as ordinary income. A will also have a capital gain of $5.50. B, the second holder of the bond, must include in gross income $2 of original issue discount and $3 interest income for each taxable year (until the bond is sold, exchanged or redeemed). However, B is allowed a deduction of $1 each year, which is his ratable portion of the excess of his purchase price for the bond over A's adjusted basis ($92.50 purchase price less $87 adjusted basis to A divided by 5.5 years). At the end of each taxable year, B increases his basis by $1 ($2 less $1).

Under the proposal, a corporation issuing an indebtedness in registered form would be required to supply the holder with an annual information return (Form 1099) with respect to the ratable amount of original issue discount to be included in the holder's gross income each year.

C. Effective Date

The proposal would apply to indebtedness issued by a corporation after the date of enactment of the legislation.

under section 171. Subsequent holders of the indebtedness would be treated in a similar manner.

If the corporation reacquires the indebtedness at any time prior to the stated maturity date, any excess of the amount received by the holder over the basis of the indebtedness in his hands at that time will be capital gain.

The foregoing rules would not apply where there is no original issue discount as defined in section 1232 (b)(1), which excludes certain minor amounts.

The rule would not apply to bonds issued by any government or political subdivision.

The proposal may be illustrated by the following example:

On January 1, 1970, A, an individual, purchases at original issue for $80, X corporation's 10-year 3 percent coupon bond which has a stated redemption price of $100. The ratable amount of original issue discount to be included in A's gross income in each taxable year (until the bond is sold, exchanged or redeemed) is $2 (1/10 of $100 stated redemption price less $80 issue price). In addition, A would include in gross income each year the $3 of interest income received. Each year that A holds the bond he would also increase his basis by the reported $2 of original issue discount. If X corporation purchases the bond on January 1, 1975, for $105 A will have a gain of $15 ($105 amount realized less $90 adjusted basis) all of which will

by the issuing corporation. Thus, when a corporation issues its indebtedness for less than face value, the amount of the original issue discount as determined under section 1232 of the Code would be included in the holder's gross income on a ratable basis over the life of the indebtedness.*/ The rule would not apply unless the evidence of indebtedness is issued in registered form or with interest coupons attached. However, the rule would apply regardless of whether the exchange is for cash, stock or other property (including the assets of another corporation). The basis of the indebtedness in the hands of the holder would be correspondingly adjusted, i.e., increased ratably, as the original issue discount is included in gross income.

If, prior to maturity, the holder sells or exchanges the indebtedness in a transaction resulting in a taxable gain, the excess of the amount realized over the adjusted basis of the indebtedness would be a capital gain. The second holder would then be treated as standing in the place of the first holder, so that the balance of the original issue discount not yet included in gross income by the first holder would be included ratably over the remaining life of the indebtedness by the second holder. However, if the second holder purchases the indebtedness for an amount in excess of the adjusted basis of the indebtedness in the hands of the first holder, the ratable amount of the excess would be allowed as a deduction to the second holder over the remaining life of the bond, similar to amortization of bond premiums

*/ The corporation would be required to amortize the original issue discount over the life of the indebtedness; it would not be permitted to amortize to an earlier permissible call date.

Example (1). Corporation M has 1000 shares of stock outstanding. C. and D each own 500 shares of the M stock. Pursuant to a plan authorized by the Board of Directors, M offers to redeem up to 5 percent of each shareholder's stock each year for five years. During 1970, C has 25 shares of his stock redeemed for cash, but D continues to hold all of his stock. D's proportionate interest in the assets and earnings and profits of M is increased by 1.28 percent (D owned 50 percent of the M stock immediately before the redemption and 51.28 percent immediately thereafter). Since the distribution in redemption pursuant to a plan in these circumstances would be essentially equivalent to a dividend, the cash C receives is taxable under section 301. D receives a taxable distribution under section 301 which is measured by the number of shares which would have been distributed to him had the corporation sought to increase his interest by 1.28 percent and had C continued to hold 500 shares. In the instant case, the taxable distribution to D is 26.3 shares.

Example (2). (i) Corporation N has two types of stock outstanding, 500 shares of type A stock which is owned by E and 500 shares of type B stock which is owned by F. Each type B share is convertible, at the option of the holder, into type A stock. At the end of each year, the conversion ratio is decreased one percent for each $1 of cash dividends that are paid on the type B stock during that year. On January 1, 1970, the conversion ratio is one share of type A stock for each share of type B stock. During 1970, corporation N pays a $5 cash dividend per share on the type B stock and on December 31, 1970, the conversion ratio is reduced to .95 shares of type A stock for each share of type B stock.

(ii) Under the proposal, the type B stock is treated as if it were type A stock in an amount equal to the number of type A shares into which it would be converted. Hence, immediately before the reduction in the conversion ratio, 1000 shares of type A stock are considered to be outstanding and immediately thereafter, 975 shares of type A stock are considered to be outstanding. F, therefore, is considered to have redeemed 25 shares of type A stock and E, whose proportionate interest in the assets and earnings and profits of N has been increased, is considered to have received, using the calculations employed in Example (1), a distribution of 26.3 shares of type A stock. Since the distribution is related to F's cash dividend, it would be taxable under section 301.

D. Preferred Stock Distributions

Under the second proposed exception to section 305, any distribution by a corporation of its stock (or rights to acquire the stock) made or considered as made with respect to its preferred stock, or an increase in the conversion ratio of preferred stock into other stock of the corporation, or an increase in the redemption value of preferred stock, would be treated as a distribution of property to which section 301 applies whether or not related to a taxable dividend. Where the redemption value of preferred stock is in excess of the issue price, the amount of dividend in each year is computed by dividing the excess of redemption value over issue price by the number of during which the preferred shares cannot be called for redemption. This rule will not apply, however, to the extent of a call premium not exceeding 10% of the issue value of the stock where the stock cannot be called for at least five years.

Effective Date

The amendments made by the proposal would not apply, except on or after January 1, 1991, to a distribution of stock (or rights to acquire stock) made or considered as made with respect to stock that is outstanding on April 22, 1969, except that the exception for disproportionate distributions would apply with respect to stock outstanding on that date unless the stock on which the related section 301 distribution is made was also outstanding on April 22, 1969.

Technical Explanation

Consistency of Capital Gain and Loss Rules

1. Present Law

Under present section 1211 of the Internal Revenue Code, all taxpayers may deduct capital losses to the extent of capital gains, and in the case of individuals, capital losses which exceed capital gains may be deducted against ordinary taxable income of the taxpayer up to $1,000 per year. There is an unlimited right to carry an excess forward to future taxable years.

The mechanics of present law are as follows: Long term capital gains and long-term capital losses are offset against each other and a net long-term capital gain or loss determined. Similarly, short-term capital gains and short-term capital losses are offset against each other and a net short-term capital gain or loss determined. If the taxpayer has in the same year a combination of either net long-term capital gain and net short-term capital loss or net long-term capital loss and net short-term capital gain, the larger amount is reduced by the smaller, and the excess retains its original character. However, in computing the current deduction against taxable income, no distinction is made between long-term capital losses and short-term capital losses; each is allowed dollar-for-dollar against ordinary taxable income, subject to the $1,000 limitation.

In the case of long-term capital losses, this dollar-for-dollar offset is inconsistent with the fact that only a maximum of one-half of long-term gains is subject to tax and that if the long-term gains and losses were realized in the same year, they would offset each other in the tax computation.

In order to make the treatment of capital losses parallel to the treatment of capital gains, the proposal would permit the deduction of only 50 percent of net long-term capital losses against ordinary taxable income. Net short-term capital losses would continue to be deductible in full as under present law, and the present overall $1,000 limit would continue as a ceiling on the combined total of allowable annual deductions for net long-term and short-term losses.

A further problem under present law has been the advantage which may be gained by married couples who file separate returns. When separate returns are filed, the $1,000 limit on the current deduction of net capital losses is in effect doubled for the couple since a separate $1,000 limit applies for each spouse. If both spouses have capital transactions and a joint return is filed, their gains and losses are pooled together and netted against each other as if there were only one taxpayer who had realized all of them. The married couple is treated as a single economic unit in this manner and can realize substantial benefits over filing separate returns. For example, one spouse's long-term capital

loss can be used to offset the other spouse's short-term capital gain which would otherwise be taxable at ordinary income rates. It is inconsistent with this treatment to then let them be treated as two taxpayers when this proves more advantageous, as for example, if both have capital losses.

Each spouse must have his own losses in order to claim them on a separate return. However, in community property states all capital gains and losses from community property are split between the spouses by operation of community property law. Taxpayers in common law states may also secure two $1,000 limitations by filing separate returns, but, as stated, only if the assets sold are in joint names or each spouse sells assets owned separately. Furthermore, couples in common law states who file separate returns must be willing to give up the split-income rates applicable to joint returns, and the overwhelming number of such couples would not gain from so doing. Thus, in some situations, present law provide an artificial incentive for filing separate returns, and the advantage to be derived from so doing is substantially greater for couples in community property states than for couples in common law states.

2. Proposal

The proposal would eliminate this problem by applying the same rule for purposes of the capital loss limitation as is presently applied with respect to the $1,000 standard deduction limitation. That is, the limitation would be lowered to $500 for each spouse, instead of $1,000, in the case of a married person filing a separate return.

Provision would be made for the carryover of net long-term capital loss to the extent that it exceeds twice the amount allowed as a deduction against taxable income as outlined above. This provision changes present law by requiring that the amount which may be carried over must be reduced by <u>double</u> the amount of long-term capital loss allowed as a deduction. This change is necessary to effect the new rule that only one-half of net long-term capital losses will be deductible against taxable income.

As under present law, carryover is permitted for the full amount of any net short-term capital loss which is not abosrbed against ordinary taxable income under the $1,000 limitation.

The application of the proposal may be illustrated by the following examples:

<u>Example A.</u> An individual has a long-term capital loss of $3,000 and no other capital gains or losses. He would be entitled to a current deduction limited to $1,000, and would be permitted to carry over to the following year a long-term capital loss of $1,000. If he had no capital gains or losses in the subsequent year, he could deduct $500.

<u>Example B.</u> An individual has a long-term capital loss of $1,800 and a short-term capital loss of $600 in the same year. In a case such as this, where there is both a net long-term capital loss and a net short-term capital loss in the same year and the total of these losses exceeds the amount that may be deducted under the overall $1,000 deduction limitation, it is necessary to determine the

character of the loss which is deducted currently so that the character of the loss carried forward may be established. Under present law, it is provided that the $1,000 limitation is first absorbed by the short-term losses. This rule would not be changed. Thus, in this example, the entire $600 of short-term loss would be deductible first; $400 of the long-term capital loss would then be deductible. Under the new 50 percent rule for long-term losses, this $400 deduction would represent $800 of the total long-term capital loss, thus leaving $1,000 of that loss to be carried over and treated as a long-term capital loss in the following year. If he had no capital gains or losses in the subsequent year he could deduct $500.

3. Effective Date.

This proposal would apply to taxable years beginning after December 31, 1968. A transitional rule will be provided for the application of the proposed amendments. Thus, the extent to which net capital losses which occur in a taxable year prior to the first year in which the proposal becomes effective may be carried over into such first year will be governed by present law. Further carryover of such losses into succeeding years would be governed by the new provisions. For example, if an individual realized a $3,000 long-term capital loss in 1968, $1,000 of which was deductible in 1968, he could carry over $2,000 of that loss into 1969 (the first year in which the proposal is effective) and, if he has no other losses in 1969, claim a deduction for $1,000 with respect to that loss. He would have no carryover into 1970.

Technical Explanation

Restricted Stock Plans

1. Present Law

The theory upon which the existing regulations are based is that a restriction upon the transferability of property reduces--often significantly and almost always immeasurably--the value of that property. Consequently, the transfer of restricted stock to an employee is deemed to be an open transaction until the restrictions affecting value lapse, at which time tax is imposed.

Under existing regulations, the amount treated as compensation at the time of lapse is the lesser of (i) the unrestricted fair market value at the time of transfer, or (ii) the unrestricted fair market value at the time of lapse, reduced in either case by any amount paid by the employee. This tax treatment has several advantages for the employee: Even though he receives a nonforfeitable interest in property, the imposition of tax is deferred possibly until he retires when his marginal tax rate may be substantially smaller than during his active working life. Any increase in value between the time of transfer and the time of lapse is taxed--if at all--as a capital gain and not as ordinary income, as would be the case if the employee received unrestricted stock at the time the restrictions lapse.

2. The Proposal

A. Time of Imposition of Tax

Under the proposal, an employee would be subject to tax at the time he acquires a nonforfeitable interest in the restricted stock (or other property). For this purpose, only substantial forfeitures would be taken into account. Thus, for example, requirements that the stock be returned to the employer if the employee commits a crime against the employer, or if he accepts employment with a firm in competition with the employer, would be disregarded as insubstantial. On the other hand, a requirement that the stock be returned to the employer if the employee fails to complete an additional period of service with the employer would be considered substantial, and the employee would not be considered to acquire a nonforfeitable interest until he completes that period of service.

B. Amount of Compensation

The amount treated as compensation at the time the employee acquires a nonforfeitable interest would be the current fair market value of the stock or other property determined, with two exceptions, without regard to any restrictions, reduced in any case by amount paid by the employee as consideration. In the case of stock of the employer corporation, restrictions which would be taken into account in determining fair market value are:

(1) restrictions imposed by federal securities law or imposed solely to comply with federal securities law, and

(2) restrictions which by their terms will never lapse.

Thus, an employee who receives stock of the employer corporation subject to a so-called investment letter would be considered to receive compensation equal to the fair market value of the stock. However, if the employer has agreed to register the stock for public sale, or if there is an understanding that the stock will be registered, the investment letter would be disregarded in determining value. Such an understanding would be presumed to exist if there is a registration within the two-year period following the transfer.

An employee who receives stock of the employer corporation subject to the condition that it can only be sold to the corporation or other shareholders of the corporation at a formula price would also be treated as receiving compensation equal to the restricted fair market value of the stock. Such a restriction is an inherent element of the property received by the employee, and its effect on value will never be removed. Failure to take account of this restriction would therefore be improper.

In the case of an employee who receives stock of the employer corporation subject to a restriction which by its terms will never lapse, he would be considered to receive compensation if such restriction is cancelled or otherwise ceases to apply unless the employee and the employer can establish that the cancellation was not intended to be compensatory, both parties treat the transaction consistently (by a closing agreement with the Internal Revenue Service if the Service deems this necessary). Where the cancellation is compensatory, the amount treated as compensation at the time of cancellation would

be the excess of the then current fair market value (without regard to the restriction) over the then current fair market value (with regard to the restriction).

Under the proposal, the employer would be allowed a deduction in respect to the transfer of restricted stock or other property at the same time as the employee is considered to receive compensation and in an amount equal to that treated as compensation to the employee.

3. Effective Date.

In general, the proposed tax treatment would apply to any transfer of restricted stock made after June 30, 1969. However, existing rules would apply to transfers made after that date but before February 1, 1970, if pursuant to a written plan adopted and approved before June 30, 1969. Existing rules would also apply to transfers of restricted stock made before January 1, 1972, if pursuant to a binding written contract entered into before April 22, 1969, or if upon the exercise of an option granted before April 22, 1969.

Technical Explanation

Taxation of Accumulated Income In Trusts

1. General Background.

Our present tax system is premised on a progressive rate scale which increases the percentage of income paid in taxes as income increases. When taxpayers create additional entities for the purpose of spreading income among several taxpayers thereby lowering the overall tax rate, this progressive system is abused. One marked abuse is the creation of trusts to accumulate income at relatively low rates and to distribute that income with little or no additional tax even when the beneficiary is in a high tax bracket.

This abuse comes about because under present law, if a person creates a trust and does not retain certain controls over the trust property, he is not taxed on the income of the trust. Rather, the trust itself is taxed unless the income is currently distributed or required to be distributed to the trust's beneficiaries. Thus, the tax on income accumulated by the trust is paid by the trust, a separate taxpayer with its own exemptions, deductions, and rate of tax. If the income is distributed to the beneficiaries, they are taxed, but the amount of taxable income may not exceed the distributable net income of the trust.

Present law attempts to solve the problem with a special rule known as the throwback rule. In substance, the throwback rule provides that the excess of an "accumulation distribution" over distributable net income for the current year (generally taxable income less capital gains not required to be paid out or not paid out to beneficiaries) is taken back through the 5 preceding years and treated as a distribution of the

preceding years to the extent of the trust's undistributed net income; that is, its "unused" distributable net income for those preceding years. The character of the items making up the distribution is determined by the composition of the distributable net income for the year to which attributed. Thus, to the extent that the distributions would have been included in the beneficiary's income for each preceding year had they been distributed in the preceding years, they are included in the beneficiary's income of the current year. In addition, the beneficiary is regarded as having received and paid to the Federal Government the taxes paid by the trust on the accumulated distributions. The beneficiary's tax for the year of receipt, however, is not to exceed what the beneficiary would have paid had the amounts been distributed when earned. This throwback process is limited, however, to the 5 years preceding the year of distribution. Thus, any part of the distribution attributed to years early than the fifth preceding year is received tax free by the beneficiary.

In addition to the time limitation, there are several exceptions to the throwback rule. If the accumulation distribution falls within one of the exceptions, the beneficiary receives it tax free, and the general purpose of the rule is frustrated. The exceptions are--

(1) a distribution of income which was accumulated prior to the beneficiary's attaining the age of 21;

(2) a distribution of accumulated income to a beneficiary to meet his "emergency needs";

(3) a distribution of accumulated income which is a final distribution and which is made more than 9 years after the last transfer to the trust;

(4) a distribution of accumulated income not in excess of $2,000;

(5) certain gifts of specific sums of properties paid in not more than three installments; and

(6) certain periodic mandatory distributions under trusts created prior to 1954.

2. The Proposal.

The proposal would apply to any trust which has accumulated income. Such trusts would, however, fall into one of two categories, namely, (1) trusts created by one spouse for the benefit of the other spouse, and (2) all other trusts which accumulate income.

A. The trust for a spouse.

In a case where a spouse creates a trust for the benefit of the other spouse, all the income of the trust which may be used for the benefit of the beneficiary spouse is taxed to the spouse who created the trust as the income is earned. This proposal effectuates the concept that a husband and wife should be treated as one economic unit.

Example.-A husband creates a trust and contributes $50,000 in 7-percent bonds to the trust. The income is to be accumulated for 3 years and then distributed to his wife. The interest income of $3,500 will be added to husband's other income and taxed at the husband's marginal tax rate.

B. Other trusts accumulating income.

For other trusts, the proposal does two things. It would eliminate the exceptions to the present throwback rule. It would also convert the 5-year throwback to an unlimited throwback. To avoid burdensome record-keeping and to provide simplification, the proposal provides for the computation of the unlimited throwback by a new, short method. Basically, this is done by an averaging device, the mechanics of which are as follows:

(1) An average annual income is computed by dividing the total accumulated income distributed by the number of preceding taxable years of the trust from which the distribution was deemed to have been made.

(2) An average annual tax increase is then computed by adding the average annual income (as computed in step (1)) to the beneficiary's income for the present taxable year and the two preceding taxable years; recomputing the beneficiary's tax for those years taking into account the added income; adding the increases in tax for those years together; and dividing by 3.

(3) This average annual increase in tax is then multiplied by the number of preceding taxable years of the trust from which the distribution was deemed to have been made. This amount is the limitation of the beneficiary's tax liability, i.e., the beneficiary must pay tax on the total distribution in the present taxable year but in not more than the amount determined by this averaging device. The limitation is before the application of any allowable credit for taxes paid by the trust. Special rules

Technical Explanation

Liberalization of Moving Expense Rules

1. Background and Present Law.

The moving expenses incurred by a taxpayer as a result of a job-related move of his household to the area of a new principal business post give rise to two basic income tax questions: (1) whether such expenses are deductible; and (2) whether reimbursement by an employer of an employee's moving expenses is income to the employee. Prior to the Revenue Act of 1964, there were no Internal Revenue Code provisions specifically dealing with moving expenses. Thus, the law in the area developed from administrative rulings and court decisions. Prior to 1964, moving expenses were not deductible under any circumstances. Reimbursements for moving expenses were, generally, taxable, except for reimbursements for direct expenses of a transferred employee. "Direct" expenses included only the cost of transporting the taxpayer, members of his household, and their belongings from the old to the new residence, including any meals and lodging en route. Reimbursement for all other expenses, such as house-hunting trips, real estate costs, and so forth (referred to as "indirect" moving expenses), was taxable. Even reimbursement for direct expenses was taxable in the case of a new employee (as opposed to a transferred old employee).

With the intention of promoting labor mobility and of equalizing the tax treatment between reimbursed and unreimbursed employees, Congress in the Revenue Act of 1964 enacted the present section 217 of the

Internal Revenue Code. Section 217 permits, under certain prescribed conditions, the deduction, from gross income, of job-connected moving expenses, which are defined as including the expenses of transporting the taxpayer, members of his household and their belongings from the old residence to the new residence, including meals and lodging en route, i.e., the same direct costs reimbursement which are excludable by transferred old employees. The deduction is available to new employees and to unreimbursed transferred employees.

Other than to provide that the moving expense deduction would not be allowed for a reimbursed expense which is not included in gross income, Congress chose in 1964 not to deal specifically with the reimbursement question. Thus, the pre-1964 law, under which transferred employees may exclude reimbursements for direct moving expenses remains in effect today. This treatment gives the reimbursed old employee an unwarranted tax preference over new and unreimbursed employees. While the latter may deduct their expenses under section 217, they may do so only if they satisfy the qualification tests under that section; however, reimbursed old employees may simply exclude from income the reimbursement for direct moving expenses and forego the deduction, and thereby receive the favorable tax treatment without the need to satisfy the tests for deductibility. Furthermore, although the items of reimbursement which may be excluded are limited by administrative ruling to the same direct expenses as are deductible under section 217, this limitation has been challenged in litigation.

While the administrative position has been sustained in most cases, one recent Tax Court decision, currently on appeal by the Government, has permitted exclusion of reimbursement for certain indirect expenses which are not deductible under section 217. To the extent that such reimbursements are held by courts to be excludable from income, reimbursed old employees are given a clear tax preference over the unreimbursed and new employees, whose tax benefit is limited to the deduction of only the direct expenses allowed under section 217.

2. **General Summary of Recommendations.**

In order to eliminate fully the present distinction in tax treatment between reimbursed old employees on the one hand and unreimbursed and new employees on the other, it is recommended that the Internal Revenue Code be amended to provide specifically that all reimbursements for employee moving expenses are includible in the employee's gross income. Whether or not reimbursed, all employees will be able to claim deductions as prescribed in section 217, subject to the limitations and requirements of that section.

It is also proposed that the limited categories of moving expenses which are deductible under the present section 217 be liberalized to permit deductions of certain of the more significant indirect expenses which are commonly incurred in connection with a move. Thus, deduction would be permitted for house-hunting trips, temporary living expenses, and certain real estate costs, but deductibility of these expenses would be subject to an overall dollar limitation of $2,500 of which expenses related to house-hunting trips, and temporary living expenses could constitute in the aggregate no more than $1,000.

3. <u>Inclusion in Gross Income of Moving Expense Reimbursements.</u>

The proposal provides that all reimbursements or payments for moving expenses are includable in gross income of the person receiving the reimbursement or on whose behalf the payment is made. Thus, section 61(a)(1) would be amended to make clear that "compensation for services," as the term is used in that paragraph, includes reimbursements and payments for every type of moving expense. This would reverse the present administrative position that some reimbursements may be excluded, and would reverse the court decisions which have held certain reimbursements excludable. The amendment would apply, as does the paragraph which it amends, to reimbursements which are in the nature of compensation for services, whether the recipient is an employee or an independent contractor. Moving expenses reimbursements received other than as compensation for services will be treated the same as under present law. For example, a re-

imbursement or payment by a corporation of a stockholder's moving expenses may be includable in gross income as a dividend under section 61(a)(7); a reimbursement which clearly represents a gift would be excludable under the general rule of section 102.

Amounts paid on account of a taxpayer's moving expenses are includable in gross income regardless of the manner in which payment is made. For example, gross income is realized whether the taxpayer pays the expenses and receives reimbursement or whether the payor makes payment on the taxpayer's behalf directly to the third party who renders the services for which payment is due.

Under present law remuneration for services of an employee is subject to withholding of income and social security taxes. Moving expense reimbursements, in the case of employees, are subject to this general withholding rule. However, present law provides an exception to the withholding requirements to the extent that at the time of the reimbursement or payment it is reasonable to believe that a moving expense deduction will be allowable to the employee under section 217 of the Code with respect to the expenses being reimbursed. This rule of present law would be continued. Thus, withholding would be required on moving expense reimbursements or payments made to employees only to the extent that no deduction with respect thereto is provided in section 217, as amended by the bill. Reimbursements to transferred employees which are excludable from gross income under present law and which would become includible under the bill are deductible under section 217, and, thus, they would not be subject to withholding.

As under present law, withholding would be required on any reimbursement to the extent it exceeds the employee's anticipated expense.

4. Deduction for Moving Expenses.

A. General.

Section 217 of the Code would be revised to expand the presently limited categories of expense for which deduction is allowed, and to provide an exception from one of the tests of qualification for deduction (*i.e.*, the 39-week rule) in certain cases where an action of the taxpayer's employer, or the death or disability of the taxpayer, makes it impossible for the taxpayer to satisfy the test.

As under existing law, a general rule would provide that a deduction shall be allowed for certain business-related moving expenses of employees. Also as under present law, self-employed persons would not be entitled to the deduction.

B. Definition of deductible moving expense.

The term "moving expenses" would be specifically defined for purposes of the deduction permitted by the general rule. The specific definition would consist of several categories of expenses. Only those expenses specifically included within this definition would qualify for the moving expense deduction.

The cost of transporting the taxpayer and the members of his household, and the cost of transporting his household goods and personal effects from the former residence to the new place of residence, which costs are deductible under present law, will continue to be deductible. These are the same expenses which, under present administrative interpretation, are excludable from gross income in the case of

reimbursed transferred employees, and which will be includible in gross income under the proposal.

Four new categories of costs would be added to the definition of moving expenses deductible under present law. The first of these covers expenses for premove house-hunting trips. The costs of transportation, meals and lodging for the taxpayer or his spouse, or both, are included, provided that both the old residence and the new principal place of work are located within the United States. The trip with respect to which a deduction is claimed must be a bona fide house-hunting trip. Travel expenses related to seeking employment will not be deductible, even if some house-hunting is done during the same trip. Thus, the direct transportation expenses of a premove trip will not be deductible unless the taxpayer has already secured employment in the new location prior to embarking on the trip. Similarly, only so much of the meals and lodging expenses as is incurred subsequent to securing employment (whether or not the employment was secured before the trip was begun) would be deductible.

Deduction would also be permitted for temporary living expenses in the area of the new principal place of work prior to moving into new permanent quarters. Allowable temporary living expenses are limited to meals and lodging for the employee and members of his household. Other expenses, such as laundry, local transportation, etc., are not included. The allowable expenses for meals and lodging are limited to those incurred within the first 30 days following arrival in the area of the new principal place of work. In cases where the employee and all the members of his household arrive on the same day, the day of arrival

will be treated as the first day of the 30-day limitation period. In cases where the employee and/or members of his household arrive on different days, the 30-day period will begin to run on the first day on which an expense which is claimed as a deduction under this provision is incurred. As in the case of house-hunting expenses, temporary living expenses are not deductible if related to seeking employment. Thus, deductible temporary living expenses are limited to those incurred after the taxpayer has secured employment.

Deduction would be allowed for expenses related to the sale of the residence from which the taxpayer moves. If the taxpayer does not own the residence from which he moves, this provision also permits the deduction of the cost of settling an unexpired lease. This provision would not permit the deduction of any realized capital loss on the sale of a residence. As under present law, such losses are not deductible, even if the sale was occasioned by a change in job location.

The deduction is limited to certain expenses incurred in effecting the sale, such as a commission paid to a real estate agent and advertisin expenses. Expenses incurred for physical improvements or repairs intended to enhance salability by improving the condition or appearance of the property are not included in the class of selling expense which are deductible under this provision.

Finally, the costs related to the purchase of a new residence at the new principal place of business are deductible.

The four new categories of deductible expenses (*i.e.*, house-hunting trips, temporary living expenses and real estate costs) would be subject to an overall limitation of $2,500 of which expenses related to house-hunting trips and temporary living expenses constitute in the aggregate no more than $1,000.

The provision in present law, which delineates the extent to which moving expenses of persons other than the taxpayer are deductible, would be retained without change. These individuals must have the same former residence and the same new residence as the taxpayer and must be a member of the taxpayer's household.

C. Conditions for allowance of deduction.

Two conditions must be met in order to qualify for the moving expense deduction. These two conditions are unchanged from present law. However, a new provision would be added which creates exceptions to one of the conditions in limited circumstances.

The so-called 20-mile test contained in present law would not be changed. This rule provides that the new place of work must be located at least 20 miles farther from the old residence than was the former place of work, or, if the taxpayer had no former place of work, then at least 20 miles from his former residence.

The present law 39-week test would also be continued. Under this rule, a taxpayer must be employed full-time during at least 39 of the 52 weeks following his arrival at the new principal place of work in order to qualify for the moving expense deduction. However, a new

exception would be added under the proposal, providing for a waiver of the 39-week test in cases where the taxpayer is unable to satisfy that test as a result of death, disability, or an unexpected action of his employer. Thus, the 39-week test will not apply in cases in which the taxpayer moves after having received a job commitment which he could reasonably anticipate would be of sufficient duration to satisfy the 39-week test, but is later unable to satisfy that test as a result of death, disability, or a transfer by, or an involuntary separation from the service of, the employer from whom he had the premove commitment.

In order for the exception to apply in the case of a transfer, such tranfer must have been at the instance of the employer, and not at the employee's request. In the case of separation from service, such separation must have been brought about by the employer rather than the employee (i.e., only if the employee is "fired," not if he "resigns" voluntarily). Dismissal of an employee which results from deliberate activity of the employee intended to provoke dismissal will not qualify as "involuntary" separation from service. Involuntary separation or transfer will operate to waive the 39-week test only if such event occurs while the taxpayer is in the employ of an employer from whom he had an employment commitment before he moved. Thus, for example, if the taxpayer is transferred by employer A from New York to California and after the transfer the taxpayer voluntarily leaves A to take a job with employer B and is subsequently involuntarily dismissed by B, the conditions are not met and the exception to the 39-week rule does not operate.

D. Technical provisions.

The present rules for application of the 39-week test in cases where the test is not satisfied before the due date of the tax return would not be changed except for very minor technical changes to conform to the proposed new exception. The authority specifically granted to the Secretary or his delegate to prescribe regulations to carry out the provisions of the moving expense deduction would be continued. The present rule providing that no deduction shall be permitted for expenses for which the taxpayer receives a reimbursement which he does not include in gross income would be eliminated. This provision is no longer necessary since the proposal would require all moving expense reimbursements to be included in gross income.

E. Double deduction.

Although selling expenses of the type allowed as deductions under this proposal are not deductible under existing law, such expenses may now be offset against the sales price of a residence for purposes of computing the amount of gain, if any, which is realized by a taxpayer upon the sale or exchange of his residence. If the deduction which is allowed for selling expenses under this proposal is combined with the present offset treatment which is applicable to such expenses, the result, to the extent of the dollar limitation contained in the proposal, is the allowance of a double deduction for the selling expenses whenever the sales price of the property exceeds the adjusted basis of the property.

Similarly, under existing law expenses related to the purchase of a new residence, while not deductible, are added to the basis of the new residence whether or not the acquisition of such residence qualifies for the nonrecognition provisions of section 1034. The taxpayer, by increasing the basis of his new residence, decreases the amount of gain, if any, which will be realized on the future sale or exchange of the new residence. Thus, the combination of the decrease in the gain realized and the allowance of the deduction for costs related to the purchase of a new residence also results in a double deduction with respect to such expenses.

In order to eliminate the possibility of such a double benefit accruing to taxpayers it is proposed that section 1001 be amended to provide that a taxpayer be required to include, as an amount realized, an amount equal to the deduction such taxpayer received under the new section 217 related to the sale of the old house. In addition, the new section 217 would provide that the basis of the new residence may not be increased by expenses allowed under that section, and section 1016 would be amended to provide that a taxpayer would be required to reduce the basis of his new residence by an amount which is equal to the amount of deduction he received for expenses related to the purchase of the new residence.

5. Effective Date.

The amendments made by the proposal will apply to taxable years beginning after December 31, 1969.

Technical Explanation

Subchapter S -- Small Business Corporations

1. General

A. Background.

A comprehensive revision of subchapter S of the Internal Revenue Code (sections 1371-1378) is proposed to make it easier and simpler to comply with and to eliminate unintended hardship and benefits.

In general, the Internal Revenue Code treats a corporation as an entity separate and apart from its shareholders. Thus, income earned by the corporation is taxed to it and distributions are taxed to shareholders. Under subchapter S, however, certain qualifying domestic corporations can elect not to pay the regular corporate income tax and instead to have the income or loss of the corporation taxed directly to shareholders. This results, in a general way, in a pattern of taxation similar to that of partnerships and is made available to small corporations with a simple structure that is essentially similar to most partnerships. For larger, more complicated corporations, the ordinary pattern of taxation is considered more appropriate. However, because of the hybrid nature of the subchapter S entity -- not quite a corporation and not quite a partnership --

the governing rules have been complex and frequently misunderstood in ways which lead to unintended hardships. On the other hand, certain taxpayers have made use of these provisions to obtain tax benefits which are inconsistent with the partnership nature of the entity for tax purposes.

B. Proposal.

The proposal would alleviate these problems. The aim has been to simplify the provisions of subchapter S, in part by incorporating some of the rules applicable to partnerships. In so doing, unnecessary restrictions which have been barriers to those who are aware of them and traps for those who are not would be eliminated. At the same time, the unwarranted advantages of subchapter S as compared to the partnership form would be denied.

2. Eligibility to use Subchapter S

A series of tests have been developed to limit the use of subchapter S to the small business essentially equivalent to a partnership and to mitigate administrative problems in taxation of income. The proposed rules closely follow present law with several liberalizations to deal with specific problems which have developed. The following conditions, which must be satisfied for the entire period the election

is in effect, would be imposed as prerequisites to being considered a "small business corporation".

A. Number of Shareholders.

Under existing law a corporation must have ten or fewer shareholders. This is a more administrable test of size than a standard based upon total assets or gross receipts which are subject to frequent fluctuation.

To permit some flexibility when in the course of operations it becomes necessary to increase the number of shareholders (e.g., to issue stock to key employees), an increase to no more than 15 shareholders would not be disqualifying if it occurs:

(i) after the corporation has been an electing corporation for five consecutive taxable years, or

(ii) as a result of a transfer of stock by bequest or inheritance prior to the passage of the five-year period.

Under present law, stock owned by a husband and wife which is community property or which is held as joint tenants, tenants by the entirety or tenants in common, is considered to be owned by one shareholder. This has caused a problem in cases where one spouse dies and his interest goes to the estate. Under the proposal the death

of either or both of the husband and wife in these circumstances would not change the number of shareholders as long as the stock is held by the estate of the deceased spouse and the survivor or the estates of both in the same proportion as held by the husband and wife before death.

B. Affiliated Group.

Under the proposal, as well as present law, an electing corporation cannot be a member of an "affiliated group" of corporations, i.e., it can not own 80 percent or more of the stock of another corporation unless such other corporation has not begun business and has not had any gross income (taxable income under present law).

This requires an essentially simple structure but permits the organization of wholly inactive subsidiaries, perhaps to reserve a corporate name in another jurisdiction.

C. Rights and Interests of Stockholders.

The outstanding shares of the corporation must be identical as to the rights and interests which they convey in the profits and assets of the corporation, whether such rights and interests are created by the corporate charter or by separate agreement. However, unlike present law, differences in voting rights would be permitted.

This provision to allow only "one class of stock" is consistent with the intent to limit subchapter S to simple corporations, mitigates against income shifting among family groups and avoids the accounting problems of allocating income when the stockholders have varying rights.

The major difficulty under current law is the possible loss of qualification when a purported debt interest is determined to represent an equity investment for tax purposes. The regulations originally provided that if an instrument purporting to be a debt obligation were actually stock, it would be considered a second class of stock. This was later changed to provide the current rule that if the purported debt obligations are owned in the same proportion as the nominal stock, they will not be considered a second class of stock. However, the danger of disqualification remains when the "debt" interest is not proportional. This risk would be eliminated under the proposal.

Under the proposal the existence of any interest not designated as stock, which has neither voting rights nor rights to distributions beyond a fixed annual interest rate and a fixed amount upon redemption or payment, will not cause the corporation to be disqualified even if the interest is determined to be equity capital.

The holders of such interests, although shareholders for certain purposes, including except as indicated below the treatment of distributions, would not be considered shareholders for purposes of the special rules under subchapter S (e.g., they would not be counted in determining the number of shareholders nor would they have to consent to an election). Further, all "interest" distributions with respect to such "obligations" would be taxed as ordinary income whether or not there were earnings and profits.

D. Nature of Shareholders.

As under present law, all shareholders would have to be individuals, other than non-resident aliens, or estates. Individuals would have to have outright ownership; life tenancy for example would not be sufficient. However, two liberalizing changes would be made.

Stock owned by a trust would, in two circumstances, be considered as owned by the holders of the beneficial interests.

(i) If under sections 671 through 677 of the Code all income of the trust, including capital gains, is taxed to the grantor of the trust because of the control he has maintained over the trust, the grantor would be treated as the shareholder.

(ii) Stock owned by a voting trust would be considered to be owned by those persons who would be entitled to receive the stock on termination of the voting trust. A voting trust would be defined as a written agreement which confers on the trustee the right to vote, requires all distributions with respect to the stock of the corporation to be paid to or on behalf of the beneficial owners and requires title and possession of the stock to be delivered to such beneficial owners on termination. The agreement or State law must provide for termination of the trust on or before a specified day.

Furthermore, transitory ownership by a person or persons for a period of sixty consecutive days or less during an election year (including ownership prior to an election made within the first month of the year) would not be disqualifying if no distributions were made to ineligible shareholders. If these conditions are not met by virtue of a distribution or ownership for 61 days, the corporation would be disqualified as of the day the ineligible person became a shareholder rather than the day of the disqualifying event. If the

conditions are met then for purpose of allocating income and loss, the stock owned by the ineligible shareholder would be deemed to be owned by the person to whom it is transferred.

E. Source of Income.

The provision of present law that a small business corporation may not derive more than 80 percent of its gross receipts from sources outside the United States would be retained.

However, the requirement that a small business company may not have more than 20 percent of its gross income in the form of passive investment income would be eliminated.

F. Taxable Year.

Under present law a significant deferral of tax can result if a fiscal year is selected for the corporation which differs from the taxable year of the shareholders. A one-year deferral of taxation on eleven months of income can be obtained by selecting a fiscal year ending January 31. In the latter case, income earned by the corporation between February 1 and December 31, 1968, for example, will be taxed to shareholders on a calendar year as 1969 income if it is not distributed in 1968 since the corporation's year in which such income is earned ends during the shareholder's taxable year

comprising the calendar year 1969. This result can not ordinarily be accomplished by the use of a partnership since unless there is a business purpose for a different year, a partnership's taxable year must conform to the taxable year of its principal partners.

Accordingly, under the proposal the taxable year of an electing corporation subject to transitional rules would be required to be one of the following:

(i) The calendar year.

(ii) The taxable year of all shareholders owning more than 10 percent of the shares of the corporation's stock.

(iii) Any year for which it has a business purpose shown to the satisfaction of the Secretary of the Treasury or his delegate.

If a corporation makes an effective election under subchapter S, its first electing year would end on the following December 31 unless the corporation establishes a business purpose for another taxable year or all 10 percent shareholders have a taxable year other than the calendar year and the corporation chooses to end its taxable year on the last day of such year.

An existing electing corporation on the date of would be permitted to retain its existing taxable year only so long as persons owning 50 percent of the outstanding stock of the corporation on the date of enactment continue to own at least 50 percent of the outstanding stock for an uninterrupted period continuing through the first day of the taxable year. For this purpose, the percentage owned by any shareholder shall be taken into account only to the extent it does not exceed the percentage owned on the date of enactment. Furthermore, an electing corporation which has adopted a year other than a calendar year because of a valid business purpose or because it conforms to the taxable year to its 10 percent shareholders count not maintain such year for a period during which the subchapter S election were in effect unless the conditions which permitted such fiscal year were satisfied on the first day of such period. If any of the conditions allowing a fiscal year were not satisfied on such first day, the corporation would be automatically changed to a calendar year unless it satisfied the conditions for another fiscal year.

A subchapter S corporation could, at any time, change to the calendar year or to the taxable year of all shareholders owning more than 10 percent of the corporation's shares without consent.

3. Election

A. Time for Election.

An election to be taxed under subchapter S may be made for any taxable year at any time during the first month of such year or at any time during the preceding taxable year. For a new corporation the first month of its taxable year does not begin until it has shareholders, acquires assets or begins doing business, whichever is first to occur. Unless an election is terminated, it continues in effect and need not be renewed annually.

The proposal would continue present law except that the rules would be liberalized to permit an earlier election. Thus, if a corporation on a calendar year decides in June of 1969 that it would like to elect subchapter S for 1970 it could do so immediately and need not make a note to do so in December, 1969, or January, 1970, as required under present law.

B. Consent.

As under present law, a consent to the election must be filed by all persons who are shareholders on the first day of the taxable year for which the election is effective unless the election is made after such first day (i.e., within the first month of the taxable year).

In the latter case, persons who are shareholders on the day of the election must consent and for the purpose of allocating income and loss, such persons would be deemed to be shareholders since the first day of the taxable year.

Thus, persons who were shareholders during the year but who disposed of their shares prior to the election would not be charged with subchapter S income or allowed a deduction for losses. This represents a change from present law under which losses can be allocated to such persons. The change is needed since income, as hereafter explained, would be allocated on a daily basis in accordance with the present procedure for allocating losses. Income, unlike losses, should not be allocated to non-consenting shareholders.

C. Election following Termination.

If an election is effective for any time or is terminated retroactively during the first year in which it was to take effect then, as under present law, following the termination of such election a new election can not be made by the corporation (or its successor) for any year prior to its fifth taxable year beginning after the taxable year during which the termination is effective unless the Secretary or his delegate consents to such new election.

This rule has caused some difficulty in cases of inadvertent termination because frequently the fact of termination is not discovered until it is too late to apply for consent to make a new election for a period in which the corporation qualified and thought it was an electing corporation.

Therefore, under the proposal, if an election is terminated because a corporation ceased to be a small business corporation (e.g., it had 11 shareholders, a trust as a shareholder for 61 days, it owned 100 percent of the stock of another corporation, etc.) and if the corporation qualified for a later year, filing a timely return as a subchapter S corporation for such later year would be deemed to be a binding request for consent to a new election for such year. In determining whether consent will be granted, the fact that a termination was inadvertent would be taken into account.

4. Termination of an Election

Under present law termination of an election is generally retroactive to the first day of the taxable year even if it is caused by an event occurring at the end of the year. This has led to hardship in some cases and opportunity for manipulation in others. Therefore, under the proposal a termination would generally take effect on the

day of the triggering event. This rule could enable taxpayers to cut short an electing year prior to the realization of income in order to pass losses through to shareholders. Therefore, in order to limit the opportunity for such manipulation, an election for less than an entire taxable year would not be permitted and terminations during such first year will take effect retroactively.

An election could be terminated by reason of the failure to qualify as a small business corporation or by a revocation.

A. Failure to Qualify as a Small Business Corporation.

The election would not be effective for any time in which the corporation failed to meet the six conditions for a small business corporation set forth above. The election would terminate on the date in which the corporation ceased to be a small business corporation unless this occurred during the first year of the election, or because the corporation had more than 80 percent of its gross receipts from foreign sources (which must be determined on the basis of a full taxable year). In these two cases, the election would terminate as of the first day of the taxable year.

B. Revocation.

The election could be revoked by the consent of all shareholders or by a new eligible shareholder who has not consented to the election

and who is a shareholder during a period following the time of such election and for which the election is effective. To terminate an election a new shareholder would be required to file a revocation of the election within 60 days after he becomes a shareholder or, if the shareholder is an estate, within 60 days after the executor or administrator qualifies or 60 days after the end of the corporation's taxable year, whichever is earlier.

This procedure differs from present law under which the election terminates unless there is affirmative consent by new shareholders. The necessity of furnishing such consent has in some cases been overlooked and has caused serious hardship when new shareholders who, though wishing to continue the election, failed to consent within the required time and the procedure for granting an extension could not be satisfied. Therefore, it seems better to put an affirmative burden on a shareholder wishing to terminate.

A revocation during the first year of the election takes effect on the first day of such year. A revocation by a new shareholder would take effect on the day he becomes a shareholder. However, if the revoking shareholder acquires the stock from an ineligible shareholder[1]

1/ An ineligible shareholder would have no power to revoke an election.

who did not cause the election to be terminated because he held the stock less than 60 days and did not receive a distribution, then the termination would take effect on the date the ineligible shareholder acquired his stock. This rule is needed because the shareholder who follows an ineligible shareholder would pick up income allocable to the ineligible shareholder's shares for the latter's period of ownership.

A revocation by consent of all shareholders would take effect on the day of filing with the Internal Revenue Service unless a different date is specified. Any later date in the same taxable year could be specified and if the revocation is filed within the first month of the taxable year, the first day of such year could also be specified.

5. Effect of Election by Small Business Corporations

If a valid election is made, the corporation, with two exceptions, will not be subject to corporate income tax and the income and loss will be passed through to the shareholders. Furthermore, special rules will be in effect for determining the earnings and profits of the corporation, and the taxation of distributions to shareholders as well as the basis of their shares. Although this pattern continues existing law, substantial changes have been made in the applicable rules. These are hereafter explained.

A. Corporation.

A tax would be imposed on the corporation in the following two situations:

(i) The tax under present section 1378 on capital gains, which is imposed in order to limit the use of subchapter S on a temporary basis to realize capital gains and pass the proceeds through to shareholders with only one tax, would continue.

(ii) The tax imposed under section 47 in the case of an early disposition of property on which an investment credit was claimed would be imposed with respect to property purchased by the corporation during the period prior to the election.

This latter rule is a change from present law. In the case of an acquisition during election years, the investment credit is made available to those persons who are shareholders on the last day of the year and these persons would be responsible for any recapture. This rule is unchanged. However, where the investment credit was claimed by the corporation prior to the election, under present law the shareholders cannot be charged with recapture income and neither

can the corporation when a disposition occurs during the period the election is in effect. Thus, under current law an election under subchapter S is treated as a disposition unless the shareholders and the corporation agree to be jointly and severally liable for the tax that would be incurred if there is a future disposition by the electing corporation. Under the proposal the tax would be imposed on the subchapter S corporation and the rule that an election is a disposition in the absence of an agreement, as referred to above, would be eliminated. The new rule would apply to dispositions in an electing year beginning after the date of enactment except where the subchapter S election in a prior year was treated as a disposition.

B. Shareholders.

(1) In general. New rules are proposed for the taxation of income and the allowance of losses incurred by subchapter S corporations, including such matters as allocation of items among the shareholders, time for inclusion, basis adjustments and determination of corporate earnings and profits.

Present law is unsatisfactory both because it is extremely complex and because planning of corporate distributions has an unnecessary effect on tax treatment of the shareholders. The partnership rules have, on

the other hand, led to less difficulties. Therefore, the general rules for taxation of partners and partnerships would be applied to subchapter S corporations. However, the partnership provisions would not be carried over intact to subchapter S. There are two principal reasons for this result:

(i) Subchapter S can be elected by existing corporations with accumulated earnings and profits. Such corporations cannot become partnerships without liquidating and paying a capital gains tax. To impose such a tax as a prerequisite to an election is inconsistent with the intent to make subchapter S more readily available. On the other hand, allowing future distributions to be made without regard to such earnings is inappropriate. Moreover, an avenue for tax avoidance would be opened if a corporation could have its accumulated earnings taxed at capital gains rates by electing under subchapter S and then, after the earnings are distributed, resume regular corporate status perhaps by failing to qualify as a small business corporation.

(ii) A partnership, to a large extent, is considered an aggregate of individual interests and not a separate entity. Complex rules have been developed to carry out this concept (e.g., basis adjustments on transfer of interests, treatment of gain on sale of a partnership interest as ordinary income to the extent allocable to certain items, separate allocation of items of income and deductions, including items related to contributed property). These rules may not cause great difficulty for simple partnerships, but the potential for complexity exists and it is advisable to avoid it. Moreover, the entity approach seems more appropriate for a subchapter S corporation both because of the legal attributes attached to corporations under State law and because their status as electing corporations is easily ended and therefore may not be permanent.

(2) Taxation of income and loss to shareholders.

(a) Allocable Amount. Each shareholder would be required to include in his gross income or would be allowed (subject to certain limitations) a deduction for his portion of the subchapter S income or loss attributable to each share of stock owned by him during the taxable year.

Each shareholder's portion of income or loss would be computed by determining the daily income or loss (the total amount divided by the number of days in the year) and allocating it on a pro rata basis to the stock outstanding on each such day.2/

This is the present rule for allocating losses of a sub-chapter S corporation. It also tends to be the method of allocating partnership income and loss although the partners may allocate income on any other reasonable basis if there is no tax avoidance motive. The current scheme of taxation of income of subchapter S corporations retains the regular corporate rules and thus the allocation of income depends upon the nature and timing of distributions. This results in a potential shifting of income either intentionally as a planning devise or inadvertently.

Thus, under present law if there are no distributions, the taxable income for the year is taxed (as a constructive dividend) to those persons who are shareholders on the last day of the year regardless of how long they held their stock. If money distributions during the year equal or exceed the taxable income, then the taxable income for the year is in effect taxed as ordinary dividends to the shareholders

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2/ As provided under present law income may be reallocated among shareholders who are members of the same family if this is necessary in order to reflect the value of services rendered.

who receive the dividends. If money distributions are less than the taxable income, the remainder is taxed to those persons who are shareholders on the last day of the taxable year.

Property distributions during the year do not affect the amount of undistributed income potentially taxable to shareholders on the last day of the year. But, since current earnings and profits are allocated between property distributions and the constructive distribution, unless there are sufficient accumulated earnings and profits, the constructive dividend will not equal the full taxable income. The property distributions would account for at least the difference, however. These rules are needlessly complex and confusing and under the proposal the amount of current income taxed to each shareholder would not be affected by distributions during the year.

(b) Computation of subchapter S income. Subchapter S income would be defined to mean taxable income determined in the same manner as a regular corporation with the following adjustments (items iii and v represent a change from current law):

(i) Net operating loss carryovers would not be allowed.

(ii) Dividend received deductions would be disallowed.

(iii) A capital loss carryover would be allowed only for capital losses incurred by a corporation, which is an electing corporation on the date of enactment, in taxable years for which the present subchapter S rules are applicable. This represents a change from present rules, under which such carryovers are generally allowed, because as hereafter explained a capital loss pass through would be permitted.

(iv) A deduction would be allowed for any capital gains tax paid pursuant to section 1378.

(v) Subchapter S income allocable to the nominal shareholders would be reduced but not below zero by payments made with respect to "obligations" determined to be equity capital (and which did not cause loss of qualification) if--

(a) Payments are not pro rata to the shareholders (pro rata distributions would generally be treated in the same manner as distributions with respect to nominal stock),

(b) There is a fixed and non-contingent obligation to pay "interest" annually, not dependent upon profits,

(c) Distribution is made within 2-1/2 months of the close of the corporation's taxable year, and

(d) The payment is reasonable in relation to the investment.

(c) <u>When included</u>.

(i) <u>In general</u>. As indicated above, subchapter S shareholders at present are taxed on income when it is distributed which can lead to bunching of two years' income in one. For example, assume an electing corporation had $10,000 of income for both the taxable year ended June, 1967, and the year ended June, 1968, and distributed $10,000 in November, 1967. The 1967 income was not distributed and will be taxed as a dividend on June 30, 1967. The $10,000 distributed in November, 1967, although considered a distribution of income for the year ended June, 1968, is taxable when distributed in 1967. As a result, the

shareholders would include $20,000 or 2 years' income in their income tax returns for 1967. This problem has been alleviated under a 1966 amendment which treats distributions within the first 2-1/2 months after the end of a taxable year as distributions of the undistributed taxable income for the prior year. However, a doubling up still occurs in this case since the November distribution was made after the 2-1/2 month period ended.

On the other hand, in the absence of a transfer of interests, a partner's share of income and losses is included in his tax return for his year during which the partnership year ends. In the above example, as applied to a partnership, the partners would be taxed on $10,000 of income in 1967 and $10,000 in 1968, which seems to be a more logical result.

Therefore, the adoption of the partnership rule which is now applied to the losses of sub-chapter S corporations is proposed.

(ii) Termination of election in middle of taxable year. If a subchapter S election is terminated in the middle of a taxable year, the short period would be treated as a taxable year ending on the date of termination for the purpose of determining income and loss and the time of inclusion on the shareholder's return.

The corporation's income or loss for its entire taxable year would be allocated between subchapter S income for the electing period and corporate taxable income for the balance of the year on a daily basis unless the corporation elects to compute its actual income for the period in the same manner as it would in the case of a full taxable year. The corporation would not be required to annualize income for either the electing period or the balance of the year.

(iii) Transfer of shares. If a share of stock is disposed of during a taxable year by sale, liquidation, gift, or inheritance, the income or loss allocable to the transferred share would be included on the

return of the transferor for the year which includes the day of transfer. This is the partnership rule in the event of a complete termination of a partner's interest by sale or liquidation and the current sub-chapter S rule for losses allocable to a deceased shareholder. This is also the result under the partnership provisions if the tranfer of interests causes a termination of the partnership's taxable year.

However, the successor of a deceased partner picks up the income or loss for a year which has not terminated at the time of death including the portion applicable to the period the decedent was alive. Further, a donor of an interest, or an individual who sells part of his interest, although he includes his allocable portion of the income or loss applicable to the transferred interest, does not do so until the partnership year ends.

The suggested rule seems most logical, particularly since it makes income inclusion and the adjustment of basis coincide. It would also avoid the complexity caused by the diversity of the current partnership provisions.

Upon the transfer of a share, the allocable portion of the subchapter S income would be determined on the basis of the entire year's income unless the corporation and the transferor elect to determine the actual income or loss derived by the corporation up to the date of transfer, as if this period were an entire taxable year. Allocation on the basis of actual income would be permitted only in the event of death or a transfer which results in a complete termination of interest in the corporation within the meaning of section 302 (b)(3). (Family attribution, section 318 (a)(1), would not apply if immediately after the transfer the former shareholder has no interest in the corporation (including an interest as officer, director, or employee) other than an interest as a creditor without regard to whether there is a reacquisition within the 10-year period.)

If this exact method is utilized to determine income, the section 1378 tax would be computed for

each separate period except that if a greater tax would be due on the basis of an entire year the latter amount would be payable.

(d) Nature of income and loss. Income or loss of a subchapter S corporation would be considered attributable to a trade or business carried on by the shareholder. This is in accord with current law with respect to losses. Income is currently considered a dividend.

As under present law, subchapter S income would not be subject to tax under the self-employment tax or affect the recipient's right to Social Security benefits. However, if the corporation fails to pay an adequate salary to an employee who owns more than 10 percent of its shares of stock (directly or by family attribution under section 318 (a)(1)), the Commissioner would be authorized to treat all or a part of the shareholder's portion of subchapter S income as salary for Social Security tax purposes. This would eliminate the present practice of designating all profits as dividends rather than salary in order to avoid Social Security taxes or the restrictions on Social Security benefits while continuing to work.

Items of income and loss would not retain their separate character in the shareholder's hands as under the partnership rules, but as under current law capital gains would be passed through to the extent of subchapter S income. In addition, each shareholder would be allowed to take account of his pro rata share of the corporation's long-term and short-term capital loss in excess of capital gains earned by the corporation.

Capital gains treatment would be denied to shareholders owning more than 10 percent of the shares of the corporation's stock at any time during the year, with respect to their allocable share of income from the disposition of property which would not have been treated as a capital asset in their hands.

(3) Distributions.

(a) No accumulated earnings. Distributions by a corporation which had always been an electing corporation under the new rules[3] or which at the time of its election under the new rules had no accumulated earnings and profits would, under the proposal, never be considered to be dividends while the election remains in effect. All such distributions would be treated as a return of capital, i.e., they

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3/ As hereafter explained, under present rules a corporation could under certain circumstances accumulate earnings and profits in electing years.

would first reduce the basis of the shareholder's stock and if they exceed such basis they would be treated as capital gains. The shareholder's basis for this purpose would be determined as of the last day of the taxable year in which the distribution is made or the day the stock is disposed of if earlier. All distributions would be taxed as if received on such day regardless of their nature or the actual time of receipt.

(b) Earnings and profits in electing years. This result follows under the proposal because, unlike the situation under present law a subchapter S corporation would not increase accumulated earnings and profits during election years.4/ It would, however, keep account of earnings and profits in a special account known as subchapter S earnings and profits. In general, subchapter S earnings and profits would equal the total earnings and profits for all years that the current election has been in effect minus the sum of--

(i) The deficit in earnings and profits for each such year to the extent that the deficit in any year did not exceed the amount of the corporation's subchapter S

4/ Under present law the accumulated earnings and profits of a subchapter S corporation is not increased by undistributed income taxed to shareholders nor is it reduced by the amount of an operating loss which is passed through. However, it would be increased by items not taken into account in computing income and loss but which affect earnings and profits, e.g., tax exempt interest or the excess of percentage over cost depletion.

earnings and profits as of the beginning of the year in which the deficit occurred (i.e., subchapter S earnings and profits would not be reduced below zero), and

(ii) All distributions of money treated as distributions of subchapter S earnings and profits.

However, a pro rata portion of subchapter S earnings and profits would be eliminated in the event of transfer of a share of stock to the corporation in a transaction which is treated as a distribution in exchange for stock.

The corporation's subchapter S earnings and profits account at the beginning of the first taxable year under the proposal would be the total amount of the previously taxed income accounts of all shareholders under present law at the end of the preceding taxable year (including such amounts as would be taxed to the shareholders during their taxable year which may not yet have ended).

(c) Corporations with accumulated earnings. If a corporation has accumulated earnings and profits, distributions would be taxed in the following manner. Money distributions to the extent of subchapter S earnings and profits as of the end of the year in

which the distribution takes place would not be considered dividends.5/ Money distributions in excess of such amount and all property distributions would be dividends to the extent of the accumulated earnings and profits at the end of the year in which the distribution takes place. Accumulated earnings and profits would be reduced by any deficit for the year in excess of subchapter S earnings and profits at the beginning of the year and this adjustment would be made before the tax effect of any distribution is determined. Accumulated earnings would also be reduced by any distribution therefrom.

A special rule would be provided for money distributions within the first 2-1/2 months of a taxable year following a year for which an election was not in effect. The purpose of this rule is to remove an unintended benefit which may exist under present law. Today if a corporation elects subchapter S, and makes a distribution within the first 2-1/2 months of the year, it is claimed that the corporation may obtain a double benefit from this distribution--i.e., it may reduce its accumulated earnings tax base for the prior year without incurring any additional tax on its shareholders. The proposal would make clear that a distribution in these circumstances is a dividend.

5/ In order to prevent tax avoidance by tax free money distributions to high-bracket shareholders and taxable property distributions (or no distributions) to low-bracket shareholders, money distributions for this purpose means only pro rata distributions.

Except for this special rule, distributions up to the amount of income[6] earned during subchapter S years, including the year of distribution, could be distributed even where there were accumulated earnings without fear of ordinary income treatment (and ordinarily the shareholders would have sufficient basis to avoid capital gains taxation). This is not necessarily true today.

For example, under present law if a corporation's first electing year ended on June 30, 1967, and it had $20,000 of income for such year and $5,000 for the year ended June 30, 1968, a distribution in November of 1967 in excess of $5,000 will be a dividend if there were accumulated earnings.

Although the shareholders in this case will pick up $20,000 of income for the year ended June, 1967, they will not do so until December 31, 1967, and therefore they are not credited with previously taxed income (PTI) until such time. Thus, although over the two-year period the corporation earned $25,000, if $25,000 were distributed in November, 1967, the shareholders could, if there were sufficient accumulated earnings include $45,000 in their gross income for the two-year period.

6/ Since subchapter S earnings and profits are based on earnings and profits rather than taxable income this would not be the case where deductions which are not allowable in computing income reduce earnings and profits below taxable income.

Since PTI cannot be transferred upon the transfer of shares, if there is a new shareholder in the corporation a similar result can occur under present law even if distributions are more carefully timed.

(d) Distributions after termination. Another problem concerns distributions following the termination of an election, particularly when the shareholders are unaware that termination is impending. Under current law distributions of previously taxed income must be made while the corporation's election is in effect. Once the election terminates, all PTI accounts are lost and the regular corporate rules apply. It is proposed to allow a one-year period following termination during which distributions would be treated as distributions of subchapter S earnings and profits to the extent thereof. A 120-day period would also be allowed following a determination that an earlier inadvertent termination took place. Such distributions could be made in money or in the obligations of the corporation and could be made to any shareholder, even though such person was not a shareholder of the corporation while the election was in effect and even if the shareholder is a person who would be an ineligible shareholder in a subchapter S corporation.

Although the concept of subchapter S earnings and profits is of no importance to a corporation without pre-election accumulated earnings and profits while its election remains in effect, the amount remaining undistributed at the time of termination must be known in order to determine the tax effect of post-election distributions.

(e) Repayment of distributions. The subchapter S election of a corporation may have terminated without its shareholders being aware of the termination. These shareholders may have caused the corporation to make distributions to them in the belief that these distributions would be subject to only one tax. If, however, the Commissioner subsequently determines that the corporation's election did in fact terminate for a year during which such distributions were made, the distribution may be treated as dividends taxable in full to the shareholders and the corporation would be separately taxable on its income.

Under the proposal, a refund would be allowed for the tax payable by a shareholder with respect to distributions made in the *bona fide*, but erroneous, belief that an election was in effect at the time of the distribution. In order to obtain the refund,

repayment of the distribution would be required to be made to the corporation within 120 days after the time the Commissioner's determination became final. The refund would be payable as of the year of repayment to the corporation and no interest would be paid for prior years.

Repayments would be deemed to be repayments of the latest distribution first and the tax attributable thereto would be determined by computing the decrease in the tax which would result for the taxable years during which the distributions involved were actually made if the amount of repaid distributions had not been distributed in such taxable years. Corporate earnings and profits would be increased as of the time of the original distribution by the amount deemed to be a repayment of a distribution out of earnings and profits. Provision would be made for waiver of the statute of limitations and appropriate consents from the corporation and all shareholders affected.

If the shareholder so elects, he could repay the amount of a distribution net of any tax attributable thereto and the refund of tax would be allowed to the corporation.

An estate could obtain a refund for repayment of distributions made to a deceased shareholder, but to the extent that any repayment obligation is deductible as a claim against the estate, it would have to be offset by the amount of tax refundable.

(4) Basis.

A shareholder's basis for his interest in an electing corporation would be adjusted on the last day of the taxable year or with respect to an interest disposed of during the year on the day of disposition by increasing such basis by the shareholder's portion of subchapter S earnings and profits or decreasing such basis, but not below zero, by the shareholder's portion of the deficit for the year. Earnings and profits or deficit would be allocated to shareholders in the same manner as income and loss as described above. Any portion of a deficit which is applied to reduce accumulated earnings and profits would not be allocated to shareholders to reduce basis. Unlike present law, basis reduction on account of distributions would not be applied until after the above adjustments are made.

A basis decrease would first reduce the shareholder's basis for each share of stock by the amount of deficit allocable thereto; secondly, if his basis for such stock is exhausted, but he still

has basis for other shares of stock owned by him at any time during the taxable year, the basis of other shares would be reduced pro rata; and finally, if his basis for all of his stock in the corporation is exhausted, his basis for debt in the corporation would be reduced. These rules follow present law.

A basis increase would generally be applied to the share of stock to which the earnings and profits are allocable. However, if the basis of debt in the corporation held by the shareholder at the end of the taxable year has at any time been reduced as provided in the preceding paragraph and the shareholder's basis for such debt reflects the reduction, the increase in basis would first apply to the basis of such debt to the extent of the reduction. This is a new rule and would mitigate against the recognition of ordinary income on the disposition of debt which would be required under the proposal as hereafter explained. Any remaining increase would apply to the basis for stock. The amount would be allocated among shares of stock in proportion to the shareholder's portion of earnings and profits attributable to each such share.

Adjusting basis by items which are not included in determining taxable income or loss would represent a departure from current law and follows the partnership rules. It would enable a corporation

to pass through tax exempt income to shareholders. For example, if the only item of income accrued by a subchapter S corporation were $1,000 of tax exempt interest, the shareholder's basis would be increased by $1,000 and a distribution would be applied against such basis. Under today's law basis is not increased, the corporation has $1,000 of earnings and profits and the distribution of tax exempt interest is a dividend.

(5) Limitation on allowance of losses.

(a) In general. As under present law, the shareholder's deduction of his portion of the corporation's loss would be limited by the sum of the adjusted basis for his stock owned at any time during the year and the adjusted basis of any indebtedness of the corporation to such shareholder. The basis of indebtedness would be determined at the close of the taxable year or on the last day on which the taxpayer was a shareholder.

In either case, the basis would be determined before reduction for the current year's deficit. Further, to take account of the fact that the deficit may include some positive items, for the purpose of computing the allowable loss a shareholder's basis would be increased by the amount, if any, by which the shareholder's

portion of the loss exceeds his portion of the subchapter S deficit for the year.[7] For example, assume a corporation has tax exempt income of $100 and an operating loss of $200. The deficit will be $100 and since the loss exceeds the deficit, basis will be increased by $100 before applying the loss limitations. If there were no deficit for the year the entire amount of the loss would always be allowable.

If a portion of a loss were disallowed, it would reduce pro rata the amount of ordinary loss and short-term and long-term capital loss which would otherwise be allowable. In determining the timing of inclusion of such loss in the event of a transfer of a portion of a shareholder's interest during the taxable year, the portion allowed would be allocated to shares in the ratio that the shareholder's loss (long-term capital, short-term capital, or ordinary as the case may be) allocable to each share bears to the shareholder's total loss.

A shareholder's portion of the corporation's loss not allowed as a deduction in a taxable year of such shareholder because of the limitation described above would be allowed as a deduction

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7/ Under the proposal, basis would not be increased by subchapter S income in order to allow capital loss (or in certain unusual circumstances an ordinary loss) to the extent that there are non-deductible items in excess of tax exempt income. This is an unlikely concurrence of components and it would not justify the complexity necessary to alter the result.

in any succeeding taxable year of such shareholder. This represents a liberalization of current law and is in accordance with the partner ship provisions. The non-deductible part of such loss would not be transferable but might be deducted only by the same shareholder in a subsequent year.

If the corporation's election remains in effect, the carryover loss would be deductible during the shareholder's taxable year during which the electing year ends, to the extent that such shareholder's basis for stock or debt, after giving effect to all transactions in such electing year, is increased above zero at the end of such taxable year of the corporation or at the date of disposition of his interest if earlier. If any part of the shareholder' loss has not been allowed as a deduction at the time the corporation' election terminates, it would be allowed as a deduction when and to the extent that the basis of such shareholder's stock or debt is increased above zero within the 12 calendar months immediately following the date of termination. Any deduction so allowed would result in a corresponding reduction in basis.

One further departure from present law and the partnership provisions should be noted. The suggested procedure adjusts basis (and also subchapter S and accumulated earnings) by the amount of

any loss and determines the tax effect of any loss before giving effect to distributions during the year. Thus, if a partner's basis is $100 and he receives a $100 distribution in a year in which his share of the partnership's loss is $100, the distribution is applied against basis and the loss is disallowed. Under the proposal in the case of an electing corporation, the loss would be allowed and the distribution could be a dividend. The suggested rule appears simpler and more logical in that it is consistent with the treatment given to income both under the proposal and in the case of partnerships.

(b) Treatment of loss if corporation has accumulated earnings and profits. If a corporation has accumulated earnings and profits, the treatment of losses can become more complicated. This situation arises if there is a deficit for the year in excess of the subchapter S earnings and profits at the beginning of the year. As indicated above, such excess would reduce accumulated earnings and profits to the extent thereof. Since the loss is deemed to be out of a pre-subchapter S accumulation of earnings, it should not be allowed to the shareholders. This procedure also tends to produce consistent results regardless of the timing of income, loss and

distributions. The loss allowed to shareholders in these circumstances would be the loss for the year less that portion of the deficit applied to accumulated earnings and profits which consists of an allowable loss. The loss is not simply disallowed to the extent of the reduction in accumulated earnings, however, because such reduction could in part be the result of items which are not deductible in computing either an ordinary or capital loss. In general, it is proposed that such items (i.e., non-deductible items in excess of tax exempt income) be applied against earnings and profits first. Thus, the loss would be disallowed to the extent that the deficit applied to accumulated earnings and profits exceeds the amount, if any, by which the deficit exceeds the loss. This approach will accomplish the desired result, except in the unusual case referred to above where there is a combination of subchapter S income, capital loss and non-deductible items.

Any loss disallowance would be applied pro rata to reduce the allowable ordinary, long-term capital loss and short-term capital loss otherwise available.

6. Special Rules

The following rules are proposed to eliminate unwarranted advantages now available by using subchapter S.

A. Recapture on Disposition of Debt.

If the basis of debt in a corporation has after the effective date of the proposal been reduced by reason of a deficit in subchapter S earnings and profits and if the basis of the debt in the hands of the holder (who may be a transferee) reflects all or part of such reduction, then gain on sale, redemption or other disposition of the debt which would otherwise result in capital gain and which does not result in a complete termination of interest in the corporation would be treated as gain from the sale or exchange of an asset which is not a capital asset to the extent of the lesser of:

(i) The amount of the reduction reflected in the shareholder's basis for debt, or

(ii) The earnings and profits of the corporation at the time of the redemption or sale.

This rule prevents the possibility of converting income into capital gain by holding a portion of a subchapter S interest in the form of debt, reducing the basis of such debt by subchapter S losses and then after the election is terminated redeeming the debt at a time when a partial stock redemption would be treated as a dividend.

As indicated above, the occasions when this situation would otherwise arise is reduced by a new rule which would require the basis of debt to be restored in the event of subsequent subchapter S earnings.

B. Certain Employee Benefits.

The advantage in utilizing subchapter S instead of a partnership for the purpose of granting tax favored employee benefits to the owners of the business would be reduced in two areas:

(i) Pensions. The amount by which the sum deductible by an electing corporation on account of a contribution to a qualified employee benefit plan on behalf of an employee, who owns at any time during the taxable year more than 10 percent of the shares of the corporation's stock, including ownership by attribution under section 318 (a)(1), exceeds either 10 percent of the employee's "earned income" from the corporation or $2,500, whichever is less, would be included in the employee's gross income as compensation.

Unless a profit-sharing plan has both a definite contribution formula and a provision that forfeitures will be applied to reduce contributions, any contribution

reallocated to such shareholders in a subsequent year, whether or not an election is in effect in such year, would be treated as if contributed on behalf of such shareholder in the year deducted for the purpose of applying the above limits, except that any income resulting would be taxable in the year of reallocation. (This applies to the amount originally contributed which is forfeited, or the amount reallocated, whichever is less.)

Amounts included in the employee's income under this provision would be treated as contributions by the employer in determining whether the plan meets the requirements of section 401 relating to qualification. "Earned income" would mean the amount of the salary paid by the corporation to the employee plus any corporate income which may be allocated to the employee by the Commissioner to reflect reasonable compensation for services rendered.

In the case of a profit-sharing plan, carryforwards under the second sentence of section 404 (a)(3) (credit carryovers) would not be permitted from an electing year to a non-electing year or vice versa.

An ordinary loss would be allowed in determining adjusted gross income to the extent any amounts included in gross income under this provision exceeds amounts actually distributed under the plan. (ii) Food and lodging. The exclusion provided by section 119 would not apply to the value of food and lodging provided by the corporation to employees who own more than 10 percent of the shares of the corporation's stock.

Technical Explanation

Deposits in U. S. Banks

1. Income Tax Treatment

A. Present Law

Existing section 861(a)(1) provides generally that interest paid by a resident of the United States, corporate or otherwise, is income from sources within the United States. Subparagraph (A) of section 861(a)(1) provides that interest on amounts described in section 861(c) is not U.S. source income and, therefore, not subject to the Federal income tax if it is received by a nonresident alien individual or a foreign corporation and is not effectively connected with the conduct of a trade or business within the United States. The amounts described in section 861(c) are: (a) deposits with persons carrying on the banking business; (b) deposits or withdrawable accounts with savings and loan or similar associations; and (c) amounts held by an insurance company under an agreement to pay interest thereon. The final sentence of section 861(c) provides that effective with respect to amounts paid or credited after December 31, 1972, section 861(c) and subparagraph (A) of section 861(a)(1) shall cease to apply and, accordingly, such amounts would be subject thereafter to Federal income tax.

B. The Proposal

Under the proposal, section 861(c) would be revised by striking out the final sentence thereof. The effect of this amendment would be to continue the existing treatment of interest received by nonresident alien individuals and foreign corporations from deposits, accounts, and amounts described in section 861(c) as foreign source income beyond the cut-off date of December 31, 1972.

Related conforming amendments would strike out the "after December 31, 1972" language in the parenthetical material contained in subparagraphs (C) and (D) of section 861(a)(1) relating to interest paid by domestic commercial banking branches of foreign corporations. The effect of these amendments would be to consider income received by nonresident alien individuals and foreign corporations from domestic commercial banking branches of foreign corporations as subject to Federal income tax if such interest is effectively connected with the conduct of a trade or business by the recipient within the U. S. If the interest received is not so effectively connected it would be considered, under subparagraph (A) of section 861(a)(1), as income not from sources within the United States. These conforming amendments would apply with respect to amounts paid or credited after the effective date of the act.

2. Estate Tax Treatment

A. Present Law

Existing section 2105(b)(1) provides that, for purposes of Federal estate tax, amounts described in section 861(c) -- as enumerated in paragraph 1. A. above -- shall not be deemed property within the U.S. if any interest thereon, were such interest received by the decedent at the time of his death, would be treated by reason of section 861(a)(1)(A) as income from sources without the United States. Accordingly, such amounts would not be includible in the gross estates of nonresidents not citizens of the United States dying before January 1, 1973. Since, under existing law, section 861(c) and 861 (a)(1)(A) cease to apply after December 31, 1972, such amounts would be includible in the gross estate of such decedents dying after December 31, 1972. Under section 2104(c), deposits with a domestic commercial banking branch of a foreign corporation would also be included in the gross estate of a decedent dying after December 31, 1972 who was a non-resident not a U.S. citizen.

B. The Proposal

The automatic consequence of the proposal under paragraph 1. B. above, continuing the income tax exemption on U.S. bank deposits beyond the December 31, 1972, cut-off

date, would be to similarly continue the existing estate tax treatment beyond such date.

A related amendment would delete the introductory language in the second sentence of section 2104(c), so that sentence would provide that deposits with a domestic commercial banking branch of a foreign corporation shall be deemed property within the United States. The effect of this change would be to include such deposits in the gross estate of a nonresident alien decedent. Section 2105(b)(1) would operate to provide an exception in cases where the interest thereon was not effectively connected with the conduct of a trade or business in the United States. Such an amendment is necessary to conform the treatment of deposits in domestic branches of foreign banks with those in U.S. banks. This amendment would be effective with respect to decedents dying after the effective date of the act.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 23, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 1, 1969, in the amount of $2,701,238,000, as follows:

91-day bills (to maturity date) to be issued May 1, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated July 31, 1968, and to mature July 31, 1969, originally issued in the amount of $1,000,963,000 (additional amounts of $501,533,000, $1,103,254,000, and $200,365,000 were issued October 31, 1968, January 30, 1969, and March 3, 1969, respectively), the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated May 1, 1969, and to mature October 30, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, April 28, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

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responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 1, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 1, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 23, 1969

FOR IMMEDIATE RELEASE

RESPONSE TO QUERIES CONCERNING TREASURY'S EXPANDED EFFORTS AGAINST ORGANIZED CRIME:

The Treasury Department is making a major effort in support of the Administration's drive against organized crime as set down in the President's message to Congress today. The Treasury will participate on a full partnership basis with the Department of Justice and other federal departments and agencies, the Department said today in response to queries.

The complete resources of the Treasury Department -- including each of its investigative and enforcement arms -- will be used as needed in pressing the war on crime. Treasury agents of the Revenue Service, the Secret Service and the Bureau of Customs will continue to work and cooperate with other agencies in the detection of wrong-doing and the development of evidence leading to the prosecution of law violations.

The Treasury Department, the second largest law enforcement department in the Federal Government will provide a major part of the manpower in the expanded effort against organized crime. Of the $25 million in additional appropriations in the Administration request of $61 million for organized crime efforts, Treasury is requesting an increase of $9.4 million and 680 more agents and supporting forces over that requested in the previous Administration's budget. Of the nearly $61 million being requested this year for the onslaught against organized crime, Treasury efforts will require $18,500,000.

The new request, with the Johnson Administration request in parentheses, is as follows:

Customs, $900,000 ($400,000); Secret Service $800,000 ($300,000), Internal Revenue Service, $16,800,000 ($8,400,000).

(OVER)

Since January 20, the status of Treasury's law enforcement effort has been upgraded in general by putting it under the direct supervision of an Assistant Secretary -- Eugene T. Rossides. He is in the process of enlarging and reorganizing his staff and upgrading Treasury's law enforcement in keeping with Treasury's expanded efforts. The General Counsel's office for the first time in its history has hired an attorney with a background in criminal law in order to better support Treasury's law enforcement efforts.

Treasury, in cooperation with the Justice Department, will write legislation amending wagering tax laws which should give the IRS greater enforcement power to collect federal revenue due on gambling income. As a result of these efforts, it is estimated that millions of dollars in uncollected wagering taxes can come into the Federal Treasury.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Thursday, April 24, 1969.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated January 31, 1969, and the other series to be dated April 30, 1969, which were offered on April 17, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 276-day bills and for $1,000,000,000, or thereabouts, of 365-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	276-day Treasury bills maturing January 31, 1970		365-day Treasury bills maturing April 30, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	95.443 a/	5.944%	94.018	5.900%
Low	95.393	6.009%	93.936	5.981%
Average	95.418	5.977% 1/	93.987	5.931% 1/

a/ Excepting 1 tender of $910,000
82% of the amount of 276-day bills bid for at the low price was accepted
97% of the amount of 365-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 275,000	$ 275,000	$ 2,445,000	$ 2,445,000
New York	1,227,896,000	407,396,000	1,585,863,000	856,563,000
Philadelphia	5,737,000	737,000	12,373,000	2,373,000
Cleveland	541,000	541,000	7,135,000	2,135,000
Richmond	426,000	426,000	1,753,000	1,753,000
Atlanta	14,735,000	9,785,000	19,651,000	10,851,000
Chicago	63,209,000	18,209,000	88,357,000	44,357,000
St. Louis	9,419,000	7,419,000	13,872,000	7,872,000
Minneapolis	10,300,000	10,300,000	10,605,000	10,605,000
Kansas City	990,000	990,000	6,459,000	6,459,000
Dallas	11,210,000	3,210,000	11,880,000	3,880,000
San Francisco	82,881,000	40,881,000	116,745,000	50,740,000
TOTALS	$1,427,669,000	$ 500,169,000 b/	$1,877,138,000	$1,000,033,000 c/

b/ Includes $13,039,000 noncompetitive tenders accepted at the average price of 95.418
c/ Includes $39,631,000 noncompetitive tenders accepted at the average price of 93.987
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.28% for the 276-day bills, and 6.30% for the 365-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 25, 1969

FOR RELEASE A.M. NEWSPAPERS
SATURDAY, APRIL 26, 1969

TREASURY RELAXES LICENSING REGULATIONS
ON GOLD COIN IMPORTS

The Treasury Department announced today a revision of gold coin import regulations to permit imports of gold coins minted prior to 1934 without license.

Relaxation of the licensing requirement is effective today and was made to remove an inconsistency in regulations on imported pre-1934 gold coins, which generally had to have licenses, and those regularly traded within the United States.

Gold coins minted during or after 1934, however, may be imported only with a license from the Director, Office of Domestic Gold and Silver Operations, Treasury Department, Washington, D. C. Such licenses are issued only for rare and unusual coins of recognized special value to collectors. Importation of gold coins minted in 1960 or afterwards still will not be licensed.

Before this change in the regulations, all coins made prior to April 5, 1933 could be freely bought, sold, and held within the United States. However, only rare and unusual gold coins could be imported and then only pursuant to a specific license. Under this standard, certain coins minted before 1934 did not qualify for import even though they were freely traded in the domestic market. With the change in the Regulations any gold coin may be imported which can now be legally traded within the United States.

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(OVER)

The amendments will simplify existing restrictions on numismatists while continuing to serve the basic purpose of the Gold Regulations. The current licensing policy will be retained for coins minted after January 1, 1934.

Gold coins may still be detained at Customs stations for examination as to their authenticity. Counterfeit coins may not be imported and are subject to seizure. Restrikes, that is modern reproductions of gold coins bearing a much earlier date, will also not qualify for importation. Therefore, travelers and coin collectors should be especially careful that the coins they purchase abroad are genuine.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 25, 1969

FOR IMMEDIATE RELEASE

SECRETARY KENNEDY AND CHANCELLOR JENKINS
TO HOLD INFORMAL DISCUSSIONS ON ECONOMIC MATTERS

British Chancellor of the Exchequer Roy Jenkins will arrive in Washington Sunday on one of his periodic visits to the United States.

His visit, announced previously by the Treasury Department and the British Embassy, will provide an opportunity for Mr. Jenkins to meet members of the Administration.

Since his arrival time coincides with the weekend, Treasury Secretary David M. Kennedy has invited Chancellor Jenkins for dinner and to spend the evening at Camp David. Treasury and the British Embassy said their informal discussions are expected to cover economic matters of mutual interest to the two nations.

Mr. Jenkins will be accompanied by Sir Douglas Allen, permanent Secretary of the Treasury. Mr. Jenkins last visited the United States in October of last year.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 28, 1969

FOR IMMEDIATE RELEASE

JOINT U.S.-U.K. STATEMENT FOLLOWING MEETING
BETWEEN TREASURY SECRETARY DAVID KENNEDY AND
CHANCELLOR OF THE EXCHEQUER ROY H. JENKINS

Secretary of the Treasury David Kennedy met with the Chancellor of the Exchequer Mr. Roy H. Jenkins at Camp David today.

It was the first occasion on which Mr. Kennedy and Mr. Jenkins had talked since the former assumed office. The Chancellor's visit to the United States was arranged several weeks ago to enable him to meet members of the new U.S. Administration. He and the Secretary took the opportunity to review several matters of mutual interest. They discussed economic and financial developments within their two countries, and the progress being made toward their respective objectives.

They also exchanged views on some aspects of the International Monetary System, including international credit conditions and the prospective entry into force of the Special Drawing Rights in the IMF.

They agreed to consult together as appropriate in the future.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
onday, April 28, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated July 31, 1968, and the other series to be dated May 1, 1969, which were offered on April 23, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing July 31, 1969		182-day Treasury bills maturing October 30, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.473	6.041%	96.952 a/	6.029%
Low	98.468	6.061%	96.940	6.053%
Average	98.470	6.053% 1/	96.945	6.043% 1/

a/ Excepting one tender of $5,000
80% of the amount of 91-day bills bid for at the low price was accepted
94% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 28,216,000	$ 17,161,000	$ 3,236,000	$ 3,235,000
New York	2,246,668,000	1,200,008,000	1,690,396,000	811,661,000
Philadelphia	37,356,000	21,251,000	19,805,000	9,805,000
Cleveland	38,078,000	33,186,000	33,054,000	22,079,000
Richmond	19,660,000	18,060,000	11,117,000	6,617,000
Atlanta	50,906,000	34,586,000	31,635,000	16,279,000
Chicago	238,253,000	123,803,000	183,303,000	129,003,000
St. Louis	61,070,000	40,229,000	33,815,000	18,815,000
Minneapolis	28,131,000	20,916,000	18,033,000	9,373,000
Kansas City	31,994,000	27,485,000	14,420,000	13,143,000
Dallas	27,508,000	16,708,000	19,069,000	9,069,000
San Francisco	154,138,000	48,148,000	132,980,000	51,165,000
TOTALS	$2,961,978,000	$1,601,541,000 b/	$2,190,863,000	$1,100,244,000 c/

b/ Includes $363,383,000 noncompetitive tenders accepted at the average price of 98.470
c/ Includes $152,548,000 noncompetitive tenders accepted at the average price of 96.945
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.23% for the 91-day bills, and 6.32% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 29, 1969

FOR IMMEDIATE RELEASE

STATEMENT BY TREASURY GENERAL COUNSEL
ON CONFLICT OF INTEREST ALLEGATIONS

Paul W. Eggers, General Counsel of the U.S. Treasury, today sent the following statement and letter to Wright Patman, Chairman of the House Banking and Currency Committee, regarding allegations of conflict of interest involving Treasury Secretary David M. Kennedy:

On Thursday, April 24, 1969, I attended the hearing on one-bank holding companies and heard Representative Wright Patman make representations against the Secretary as to conflict of interest in connection with his stock in the Continental Bank and Conill Corporation. Subsequent to that meeting, I requested the Secretary to permit me to make an independent investigation in this matter. This I have done and I find the following facts to exist:

(1) According to the stock records of the Continental Illinois National Bank and Trust Company of Chicago, neither Mr. Kennedy nor Mrs. Kennedy owns any stock in their own name.

(2) I questioned Mr. Kennedy and he stated that neither he nor his wife owns any equitable interest in any stock other than the equitable interest they own in the stock transferred to the Old Colony Trust Company, Boston, Massachusetts, under a trust created by Mr. & Mrs. Kennedy.

(3) Mr. Kennedy stated that he had no knowledge from the trustee and no communication with the trustee as to the status of the stock transferred in trust.

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(4) According to the Bank records, there are 7,846 shares of Conill Corporation stock in the name of Old Colony Trust Company, Boston, Massachusetts.

(5) On April 1, 1969, according to a plan of re-organization, shareholders of the Bank exchanged shares of Bank stock for Conill Corporation on a share-for-share basis.

(6) Upon retirement, Mr. Kennedy had a right to receive his interest in the profit-sharing plan of the Bank, partly in cash and partly in kind. He could have elected to take 3800 shares of Bank stock under the plan. However, he elected to take his distribution entirely in cash.

(7) Mr. Kennedy owned a stock option for the purchase of 30,855 shares of Continental Illinois National Bank and Trust Company of Chicago stock. The tax law would require Mr. Kennedy to hold this stock for a period of six months after purchase in order to realize long-term capital gain on the sale. There were no restrictions under the terms of the option or under the law to prevent the sale of the stock prior to the termination of the six months. The result of making the sale prior to the expiration of the six months resulted in a short-term capital gain instead of a long-term capital gain and the gain on such sale would be taxed at ordinary income tax rates.

(8) Mr. Kennedy exercised the option and within a few days thereafter sold all the shares so acquired. From my discussions with the people who handled this sale, I determined that this was an arms-length transaction. Mr. Kennedy has completely divested himself of any interest whatsoever in this stock.

(9) On January 10, 1969, the Board of Directors of Continental Illinois National Bank and Trust Company of Chicago awarded a separation allowance to Mr. Kennedy in the amount of $200,000, this amount being equal to one-year's salary. The separation compensation is payable

in five annual installments, the first installment becoming due and payable after Mr. Kennedy leaves office. This contractual right was fixed and certain on January 10, 1969, and no action Mr. Kennedy would take while in office can alter this amount. Full disclosure of this contractual agreement was made to the Senate Finance Committee.

Based on these facts in my investigation, as General Counsel of the Treasury I have issued an opinion to Mr. Kennedy that no conflict of interest exists. The stock acquired under the stock option was immediately sold and this was in accordance with the arrangements made by Mr. Kennedy with the Senate Committee on Finance. The only stock owned by Mr. & Mrs. Kennedy was transferred in trust, and this was done in accordance with Mr. Kennedy's arrangements with the Senate Finance Committee.

Attachment

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THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

April 29, 1969

My dear Mr. Chairman:

During the course of the hearings on H. R. 6778, you have made charges of conflict of interest against Secretary Kennedy. I have made a thorough investigation of these charges and I find that they are erroneous both as to the facts alleged and as to the conclusions drawn.

The fact is that neither Secretary Kennedy nor Mrs. Kennedy is a stockholder of record of any stock either in Continental Illinois Bank and Trust Company, or in Conill Corporation. Neither has any beneficial interest in stock of either corporation except stock which was placed in trust prior to Secretary Kennedy taking office in full accord with the agreement and understanding which he had with the Senate Committee on Finance.

I am enclosing a copy of a press release which I have issued this afternoon on this subject. It is requested that this letter and the press release be made a part of the Record of the hearings on H. R. 6778.

Sincerely yours,

/s/ Paul W. Eggers
Paul W. Eggers

The Honorable
Wright Patman, Chairman
Banking and Currency Committee
House of Representatives
Washington, D. C. 20515

Enclosure

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 29, 1969

FOR IMMEDIATE RELEASE

U.S. AND JAPAN MUST WORK FOR FREER TRADE,
SECRETARY KENNEDY TELLS JAPANESE MISSION

The United States and Japan must work together to insure freer trade between the two nations, Treasury Secretary David M. Kennedy told a group of leading Japanese businessmen today.

The businessmen are members of an economic mission to the Southern United States led by Masao Anzai, president of Showa Denko chemical company. They met at Treasury with Secretary Kennedy. Also participating in the meeting were Treasury's Assistant Secretary for International Affairs, John R. Petty, the Japanese Ambassador to the United States, Takeso Shimoda, and the Financial Minister of the Embassy, Haruo Nakajima.

"Although some pressures for trade barriers have arisen in the United States, President Nixon feels strongly -- and I do -- that freer trade is in the best interests of the United States and all nations," Mr. Kennedy told the group.

Mr. Kennedy also praised the economic progress of Japan and the support it is giving to developing nations, including assistance provided through the Asian Development Bank. He commended Japan for using its growing economic strength "to take a position of greater responsibility in international markets and the world system," and expressed confidence that it will continue to do so in the future.

The economic mission is the third such group the Japanese Government has sponsored to visit specific geographic areas of the United States. Since coming to this country April 8, the members have visited major Southern cities, exchanging views with business and other leaders and discussing expansion of U.S.-Japan trade.

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(MORE)

Mission members who took part in today's meeting, in addition to Mr. Anzai, were Iwao Iwanaga, President, Mitsui Petrochemical Industries; Toyosaburo Taniguchi, Chairman, Toyobo Company; Koji Shindo, Chairman, Mitsui O.S.K. Lines; Somei Iwata, President, Noritake Company; Hosai Hyuga, President, Sumitomo Metal Industries, and Yutaka Egashira, President, Chisso Corporation.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 30, 1969

FOR IMMEDIATE RELEASE

REVISION OF ESTATE TAX TREATY BETWEEN
THE UNITED STATES AND FRANCE TO BE DISCUSSED

The Treasury Department announced today that discussions will be held between representatives of the United States and France beginning June 2 in Paris to revise the estate tax convention between the two countries. Consideration will also be given to enlarging the scope of the existing convention to include gift taxes.

Modification of the convention will be considered in light of the Foreign Investors Tax Act of 1966, which substantially reduced U.S. taxes on citizens of foreign countries with assets in the United States, and of the draft model estate tax convention developed by the Fiscal Committee of the Organization for Economic Cooperation and Development (OECD).

Written comments and suggestions in connection with the forthcoming discussions with France should be submitted by May 27, 1969 to Edwin S. Cohen, Assistant Secretary of the Treasury, Department of the Treasury, Washington, D.C. 20220.

Persons interested in an estate and gift tax convention may consult existing U.S. treaties, such as those with Canada, Italy or Japan, which have been published by the Department of State in the series called "U.S. Treaties and Other International Agreements". They may also wish to consult the OECD report published in 1966 and entitled "Draft Double Taxation Convention on Estates and Inheritances".

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 30,1969

FOR IMMEDIATE RELEASE

LIMITS ON INDIRECT OWNERSHIP OF GOLD BY AMERICANS
POINTED OUT BY TREASURY

The Treasury has been informed that a mutual fund has been formed in Europe for the purpose of investing in gold bullion.

Treasury officials, in response to inquiries, pointed out that the Department's Gold Regulations apply not only to direct ownership of gold but also to the acquisition of indirect interests in gold. Thus it is illegal for Americans to acquire or hold securities issued by any company, including a mutual fund, that holds gold as a substantial part of its assets and as a store of value, rather than for specific and customary industrial, professional or artistic use.

This prohibition is applicable to United States citizens wherever resident, non-citizens resident in the United States, and to United States companies.

It also should be noted that any share contracts denominated in gold, or in an amount of dollars measured in terms of gold, or convertible into gold, have been declared by Congress to be against public policy and are not enforceable in U.S. courts.

Investments in companies which hold gold for specific and customary industrial, professional or artistic use -- such as a dental supply house or a gold mining company -- are not prohibited under the Department regulations.

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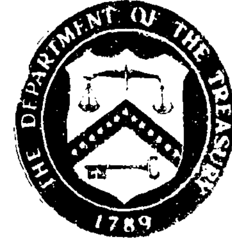
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 30, 1969

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 8, 1969, in the amount of $3,002,023,000, as follows:

91-day bills (to maturity date) to be issued May 8, 1969, in the amount of $ 1,700,000,000, or thereabouts, representing an additional amount of bills dated February 6, 1969, and to mature August 7, 1969, originally issued in the amount of $1,100,483,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated May 8, 1969, and to mature November 6, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, May 5, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

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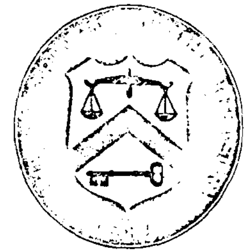
responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 8, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 8, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 30, 1969

TREASURY ANNOUNCES $6.8 BILLION REFUNDING OF MAY 15 AND JUNE 15 MATURITIES

The Treasury today announced that it is offering holders of the 5-5/8% Treasury Notes of Series B-1969, maturing May 15, 1969, and the 2-1/2% Treasury Bonds of 1964-69, maturing June 15, 1969, the right to exchange their holdings for a 15-month note or a 7-year note.

The notes being offered are:

6-3/8% Treasury Notes of Series D-1970, dated May 15, 1969, due August 15, 1970, at 99.95 to yield about 6.42%, and
6-1/2% Treasury Notes of Series B-1976, dated May 15, 1969, due May 15, 1976, at par.

In the case of exchanges of the 5-5/8% notes subscribers for the 15-month notes will receive a cash payment on account of the difference between the par value of the maturing notes and the issue price of the new notes.

In the case of exchanges of the 2-1/2% bonds interest will be adjusted as of June 15, 1969. The payments due to and from subscribers and the net amounts payable to subscribers are as follows (per $1,000 face value):

NEW NOTES	Payable to Subscriber Account of Issue Price of New Notes	Accrued Interest Payable: To Subscriber on 2-1/2% Bonds (12-15-68 to 6-15-69)	Accrued Interest Payable: By Subscriber on New Notes (5-15-69 to 6-15-69)	Net Amount to be paid to Subscriber
Due 8/15/70	$ 0.50	$ 12.50	$ 5.45925	7.54075.
Due 5/15/76	-	12.50	5.47554	7.02446.

The public holds about $5.9 billion of the securities eligible for exchange, and about $0.9 billion is held by Federal Reserve and Government accounts.

Cash subscriptions for the new notes will not be received.

The books will be open for three days only, on May 5 through May 7, for the receipt of subscriptions. Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Office of the Treasurer of the United States, and placed in the mail before midnight May 7, will be considered as timely. The payment and delivery date for the notes will be May 15, 1969. The notes will be made available in registered as well as bearer form. All subscribers requesting registered notes will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service.

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Coupons dated May 15, 1969, on the notes maturing on that date should be detached and cashed when due. The May 15, 1969, interest due on registered notes will be paid by issue of interest checks in regular course to holders of record on April 15, 1969, the date the transfer books closed. Coupons dated June 15, 1969, on the bonds due on that date must be attached.

Interest on the notes due August 15, 1970, will be payable on August 15, 1969, and February 15 and August 15, 1970. Interest on the notes due May 15, 1976, will be payable on November 15, 1969, and thereafter on May 15 and November 15 until maturity.

Estimated Ownership of the May and June 1969 Maturities
as of March 31, 1969

(In millions of dollars)

	May 15 5-5/8% Note	June 15 2-1/2% Bond	Total
Commercial banks	2,033	1,363	3,396
Mutual savings banks	82	21	103
Insurance companies:			
Life	4	16	20
Fire, casualty and marine	19	56	75
Total, insurance companies	23	72	95
Savings and loan associations	186	65	251
Corporations	79	496	575
State and local governments	408	63	471
All other private investors	973	64	1,037
Total, privately held	3,734	2,144	5,928
Federal Reserve Banks and Government Accounts	493	397	890
Total outstanding	4,277	2,541	6,818

Office of the Secretary of the Treasury
Office of Debt Analysis

April 30, 1969

Federal Income Tax Treatment of Exchange of 2-1/2% Treasury Bonds of June 15, 1969, for 6-3/8% Treasury Notes of August 15, 1970, or 6-1/2% Treasury Notes of May 15, 1976

The Internal Revenue Service released on April 30, 1969, a Revenue Ruling which will be published in Internal Revenue Bulletin No. 1969-21, dated May 26, 1969, dealing with the determination of amount of and recognition of gain or loss in an exchange of Treasury securities.

That Ruling would apply to exchanges of 2-1/2% bonds of June 15, 1969, for 6-3/8% notes of August 15, 1970, or 6-1/2% notes of May 15, 1976, under the current offering, as follows:

1. The effective date of exchange will be the date on which the holder of the outstanding bonds submits his subscription.

2. An investor's taxable gain or loss will be determined by comparing his basis in the bonds surrendered with the amount of money received ($0.50 per $1,000 in the case of an exchange for the 1970 notes and nothing in the case of an exchange for the 1976 notes), plus the fair market value of the new notes, which is equal to the mean of the bid and asked prices for those notes on the date on which he submits his subscription.

3. An investor will take the fair market value of the new notes on the date on which he submits his subscription as his basis in those notes.

4. An investor will include the six months' interest payment on the bonds ($12.50 per $1,000) in his gross income. The one month's interest on the notes ($5.45925 per $1,000 in the case of the 6-3/8% notes and $5.47554 per $1,000 in the case of the 6-1/2% notes) will be treated as a capital investment and upon receipt of the first interest payment (August 15, 1969, in the case of the 1970 notes and November 15, 1969, in the case of the 1976 notes) he will deduct that amount as a recovery of capital and report the balance as interest income.

News Release

Internal Revenue Service
Washington, DC 20224
Tel. (202) WO 4-4021

For Release: Immediate
April 30, 1969

IR-975

The U. S. Internal Revenue Service today announced that the following Revenue Ruling will be published in Internal Revenue Bulletin No. 1969-21, dated May 26, 1969.

SECTION 1001.--DETERMINATION OF AMOUNT OF AND RECOGNITION OF GAIN OR LOSS

26 CFR 1.1001-1: Computation of gain or loss.
(Also Section 1012; 1.1012-1.)

Rev. Rul. 69-263

On October 1, 196_, the Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offered Treasury notes dated October 15, 196_, at 99.85 percent of their face value in a taxable exchange for Treasury Bonds maturing November 15, 196_, in amounts of $1,000 or multiples thereof. In connection with the exchange, cash of $1.50 per note was given to the holders of the Treasury Bonds. The books were open for purposes of this exchange only on October 3, 196_, and payment for the notes subscribed had to be made on or before October 15, 196_. In addition to the $1.50 per note, interest on the bonds and notes was adjusted so that investors received a full six months' interest payment on the bonds less one month's interest on the notes. During the time that the books were open the notes were traded on a when-issued basis. On October 3, 196_, the bid and the asked prices for the notes were 100.02 and 100.04 respectively (decimals in prices are thirty-seconds).

On the basis of the foregoing it is held that:

(1) For Federal income tax purposes the effective date of the exchange of the outstanding bonds for notes is October 3, 196_, the date on which the holder submitted his subscription.

(2) Pursuant to the provisions of section 1001 of the Internal Revenue Code of 1954, investors' taxable gain or loss will be determined by comparing their basis in the bonds surrendered with the amount of money received, plus the fair market value of the notes ($1,000.9375 per note, which is equal to the mean of the bid and the asked prices for the notes on October 3, 196_).

(3) Investors will take the fair market value of the notes on October 3, 196_, as their basis in such notes under section 1012 of the Code.

(4) Investors will include the six months' interest payment on the bonds in their gross income. The one month's interest on the notes will be treated as a capital investment and upon receipt of the first interest payment thereafter investors will deduct such amount as a recovery of capital and report the balance as interest income. See L. A. Thompson Scenic Railway Co. v. Commissioner, 9 B. T. A. 1203 (1928).

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