U.S. Department of the Treasury

PRESS RELEASES

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
November 16, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $28,250 MILLION

The Treasury will auction $17,250 million of 2-year notes and $11,000 million of 5-year notes to refund $15,381 million of publicly-held securities maturing November 30, 1994, and to raise about $12,875 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $530 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $766 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

LB-1234

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED NOVEMBER 30, 1994

November 16, 1994

Offering Amount	$17,250 million	$11,000 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	Series AN-1996	Series U-1999
CUSIP number	912827 R9 5	912827 S2 9
Auction date	November 21, 1994	November 22, 1994
Receipt of Tenders (Eastern Standard time):		
Noncompetitive tenders	Prior to 11:00 a.m.	Prior to 12:00 noon
Competitive tenders	Prior to 11:30 a.m.	Prior to 1:00 p.m.
Issue date	November 30, 1994	November 30, 1994
Dated date	November 30, 1994	November 30, 1994
Maturity date	November 30, 1996	November 30, 1999
Interest rate	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield	Determined at auction	Determined at auction
Interest Payment dates	May 31 and November 30	May 31 and November 30
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . Accepted in full up to $5,000,000 at the highest accepted yield

Competitive bids . . . . (1) Must be expressed as a yield with two decimals, e.g., 7.10%
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

Remarks by
Lawrence H. Summers
Undersecretary of the Treasury
California Council on International Trade
November 17, 1994

I am delighted to be here. My message to you is simple. Our economy is better poised for a period of sustained economic growth than it has been at any time during my professional lifetime. But that growth depends on our continuing to do what is strongest in our economic tradition. It depends on our continuing to compete, not retreat, in a burgeoning international economy.

Let me say a few words about what I think deserves even more emphasis than it has already received: the private sector revival in the United States. Then I want to discuss this administration's philosophy of export activism, and why promoting market opening around the world is so important for our own and the world's economic health.

Private Sector Renewal

You know, five years ago people thought that the United States was not going to be able to compete with Europe or with Japan. Almost nobody believes that today. It is there in the numbers:

- the United States has created more employment in the last two years than all the OECD states combined, because we have created 4.5 million jobs and they have created negative 500,000 jobs.

LB-1235

It is there in the investment record:

- Gross equipment investment's share of GDP has surged to a level higher than at any time since World War II, and net business investment in equipment is as high a proportion of net domestic product as its been in 40 years.

It is there in the productivity growth:

- which is so rapid that unit labor costs in the United States have actually fallen over the last year. And even in 1993 the labor cost of producing a comparable level of output was almost 40 percent higher in Germany, and 30 percent higher in Japan than in the United States.

And it is there in a set of stories about the business renaissance. When I make that case, I like to think of three companies as standing for this private sector revival, although you could cite many, many other examples.

The first is General Electric, a traditional company that, under pressure from financial markets, has reinvented itself, quadrupling earnings while cutting its workforce in half in just over a decade.

And if you look at Ford, if you look at what is now happening at IBM, if you look at the Fortune 100 companies in the United States and you see how they have downsized and increased productivity over the last decade, and then you look at the Fortune 100 of Europe or the Fortune 100 of Japan, you see many fewer new entrants, you see many fewer instances of success.

It is there in what is perhaps our best forward-looking indicator -- the fact that the U.S. stock market was worth 20 percent less than the Japanese stock market in 1989, but today is worth nearly 30 percent more.

The second company that I think stands for what is different in the United States today is MicroSoft. MicroSoft is worth 80 percent as much, in market value terms, as IBM. That says something about America's capacity for entrepreneurship. That says something about a venture capital industry that is envied around the world. That says something about why American firms take 75 percent of the world's software market. And it says something about how well our capital markets find and promote the technologies of tomorrow.

I think the third reason for optimism about the United States -- and I would cite Federal Express as an example, but I could have chosen many other companies as an example -- is that in all the important areas of post-industrial technology or services, the United States is far ahead. That's the case whether it is Federal Express in delivery, Disney in entertainment, McDonald's in fast food, or WalMart in retail.

All of this sits on a foundation of fiscal and monetary discipline. For the first time in 30 years, we're enjoying an investment-led recovery from a low-inflation base. For the first time in decades, our national debt is going to fall as a proportion of our national income. And for the first time since I can remember, we're going to have the lowest budget deficit as a proportion of income of all the G-7 countries.

A powerful private sector. Solid fundamentals. That's why American firms are now competing so effectively. That's why our exports have grown twice as rapidly over the last eight years as those of Japan or Western Europe.

Export Activism

The economic system is changing more rapidly than ever before. New technologies, new ideas, new products, new ways of selling things are everywhere. If we are to realize the full potential of change, we have to make sure that we can prosper by selling -- not just at home -- but around the world. If we are to realize the global economy's full potential, then trade must become a focal point of our foreign policy. That's why this administration has made expanding exports, and reducing the barriers to our goods, the focus of its attention.

I call our strategy export activism. It is not the reactive protectionist strategy of the past that seeks to erect walls, to benefit industries that are able to squawk loudly. Nor is it the turn the other cheek, *laissez-faire* policy that some of my friends in the economics profession would recommend.

Instead, it is a strategy based on a simple premise: more trade is good. More trade creates jobs, it underpins growth, it ensures prosperity. And trade lays the indispensable basis for political and social progress that can anchor emerging economies in a changing world.

Part of our export activist philosophy involves the vigorous promotion of U.S. goods abroad. That wouldn't be necessary in an ideal world. But this isn't an ideal world. Whether it's direct presidential involvement in the sale of aircraft to Saudi Arabia, whether it's Secretary Brown's tireless efforts to ensure our presence in dynamic new markets -- the $40 billion worth of contracts signed with Indonesia this week alone -- I think it's clear that this administration has worked harder to promote the interests of business abroad than any previous administration.

We're also cutting homegrown hurdles to trade. This administration has removed $30 billion worth of high-tech and computer goods out from under the maze of export licensing and authority requirements, a legacy of the Cold War. And we think another $40 billion worth of exports can be cleared to make it easier for our producers to sell abroad.

Our activism means we won't stand by and let other governments aid their producers and close markets to ours. Exim, the Export-Import Bank, has made a commitment to resist tied aid offers from other countries with tied aid from the US, so that our firms can compete on a level playing field. That and other initiatives have reduced the use of tied aid by $8 billion over 1992. That's $8 billion more in commercial projects we can now bid for.

Reducing Foreign Barriers

But the key to our export activist policy is ensuring that American firms have every opportunity to compete and sell their products abroad. For 50 years we've given foreign firms that opportunity here at home, maintaining the most open markets of any major country. That may have been right in 1954, or in 1964, or even in 1974. But it's not right in 1994.

Other countries' barriers have to come down, so that American firms can compete on a fair and level playing field. That is the heart of the administration's trade policy. It's the heart of NAFTA, and of GATT.

Look at what happened with NAFTA. Mexican trade barriers came down 5 times as much as ours. That has made an absolutely enormous difference to the United States economy. Exports to Mexico were up in the first half of this year by 17 percent, nearly three times faster than to the rest of the world, despite the fact that Mexico suffered a serious recession. In fact, Mexico has just passed Japan as the second largest consumer of our products, with Canada, our number one customer, raising its imports by 10 percent.

No one industry has been the sole beneficiary, because the benefits have been almost across the board. Ford, Archer-Daniels-Midland, Procter and Gamble, have seen sales to Mexico as much as quadruple -- and they'll double and triple again before NAFTA's immediate effects are spent. Ford's vehicle exports alone have skyrocketed 30 times over. And a full 100,000 new jobs have been created for American workers.

It's fair to say that NAFTA has been the single most important shot in the arm this economy has seen in years. But NAFTA's significance goes beyond mere commercial advantage. Mexico as a society passed through a difficult period earlier this year. Alot of people gave the Treasury Department credit when we responded to the Colosio assassination by opening a swap line. But the truth is, that's not what ensured stability in Mexico. What was much more important was that Mexican reform was locked in by NAFTA. That's what ensured that the momentum of privatization, of liberalization, of openness to foreign investment could continue. NAFTA is what kept Mexico on the right path, protecting stability in our hemisphere, while keeping this key economic partner healthy and dynamic.

GATT

That brings me of course to the GATT. And as you think about all the political wrangling that will take place over the next few weeks, as you watch all the strategic moves on the chessboard, keep in mind just what is at stake.

Implementing the Uruguay Round is without a doubt the single most important decision this Congress will make, and perhaps the most important decision any Congress will make for decades. Whatever your economic persuasion, whether you are a free-trader or a mercantilist, this will be the single most important measure Congress can enact to help the United States economy in the foreseeable future. Implementation will give a major impetus to trade liberalization, a major impetus to American firms selling abroad, a major impetus to those countries that are trying to develop. Rejection will mean that the United States will have turned its back on the future.

NAFTA was a remarkable achievement for the United States. But the Uruguay Round is worth more than five NAFTAs in direct benefits to the United States alone. It's worth countless more in gains to our trading partners around the world.

Almost every independent estimate, from the Brookings Institute to the Institute for International Economics, has concluded that the GATT will add a minimum $100 billion, and maybe far more, to annual United States income within 10 years. That's $16 billion annually for California alone. That's $1,700 for every family of four. And those are just the direct gains. The indirect gains -- from erosion of monopoly power, from better rules that will cut political risk and uncertainty -- will be even greater.

Reductions in worldwide tariffs will mean a $750 billion tax cut for the entire planet over ten years, the largest in human history. If you're a mercantilist, if you don't believe the United States should support open markets, you should know that other countries will be doing the vast amount of tariff cutting. Foreign states, many of them the dynamic new markets, will be cutting tariffs from rates as high as 70 percent to near our average level of 4 percent. That means tariffs cut on manufactured products by 1/3. That means deep cuts of from 50 to 100 percent on the kinds of computer parts, semiconductor manufacturing equipment, and other high-tech goods in which the United States specializes.

Just as important, GATT will extend the discipline of open markets to whole new sectors where we are strongest. The theft of intellectual property -- pirate CDs, records, pharmaceuticals -- costs U.S. producers $60 billion yearly. GATT will prevent that intellectual property theft for the first time. Services are the most dynamic part of the U.S. economy, accounting for 60 percent of U.S. jobs. Services will be covered for the first time. And our farmers, whose produce has been blocked by export subsidies and outright bans, will find profound new opportunities to sell overseas.

Of course, GATT will add from 300,000 to 700,000 new jobs to our economy, based on conservative estimates.

I've heard the criticisms of GATT, the warnings that it will somehow impinge on U.S. sovereignty. Let me say unequivocally that these warnings are groundless. Our negotiators wanted to improve the rules for enforcing international trade agreements, because we're the ones who plan to play by the rules. The United States has launched far more complaints against trade violators than any other country over GATT's forty year history. It's in our interest to see that violators -- countries that use hidden trade barriers, or openly break agreements -- are detected quickly. What's more, WTO dispute resolution decisions that go against us do not become binding under American law, and do not override American law. It's up to us to decide how to respond -- whether we want to retain our laws as they are, or follow the international ruling. That means that no organization can require us to dismantle our environmental law, or any state regulations, or any American statute.

As for the agreements negotiated under the Uruguay Round itself, the main ones -- like most-favored nation obligations, decision-making, and dispute settlement, can only be amended when all WTO members agree on them. We can't be railroaded by the other members.

So whether you look at the WTO's ability to enforce the rules which benefit our exporters, or change the system, we're the ones who have the most to gain. And no international trade organization can force the United States to do what we decide is against our interest.

GATT's economic importance is unquestionable. But its political significance may be even more important.

If you take a long-run view of the world, if you step back and ask, how history will regard this period -- the really significant thing is not the end of the Cold War. The real story, the most important event of our time, will be the fact that this was the 20-year period of human history in which 3 billion people living in the developing world got on a rapid escalator towards modernity.

It is estimated that by the year 2010 there will be 600 million people in India and China and Indonesia with a standard of living that is equal to the average of Spain's. That is a seismic shift in human affairs. It is a shift that reflects the successful export of one of the things the United States has been trying to export for a generation -- a philosophy about open markets. And it represents both an enormous economic opportunity for exporters, as well as a remarkable political opportunity to consolidate stability, prosperity, and democracy in the world.

I talked about how NAFTA helped anchor economic and social reform in Mexico. GATT represents the same kind of opportunity for the newly developing countries. They look to the United States to see what kind of societies they should be developing. They look to us to see whether liberalization and economic reform should proceed. Adoption of the GATT presents them with a model of the kind of world we'd like to see blossom in the 21st century.

There are votes that test nations. The vote on the League of Nations after WWI was such a vote. The Congress of the United States voted wrong. That is one of the reasons why the twenty years, from 1920 to 1940, are such a dark period in human history, culminating in the second world war.

The vote on the Marshall plan after World War II was such a vote that tested our nation. That vote went the other way. We saw a Europe where war became an impossibility. We saw the 25 most rapid years of growth in the history of humankind.

Now, after the Cold War, Congress will soon vote on the Uruguay Round. The result will declare whether we are a nation that hides behind barriers, or tears them down. It will declare whether we are a nation that embraces the future, or flees from it. If the 20th century was the American century, then a vote for GATT declares that the 21st century will be the American century as well.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 18, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
NORTH ATLANTIC ASSEMBLY
WASHINGTON, D.C.

I thought I'd take my time with you this morning to discuss some of our recent developments -- economic and political -- here in the United States. And I'd like to observe that there's a great deal of truth in the saying that the more things change, the more they stay the same.

Clearly, the political landscape in the United States is far different today than what it was two weeks ago. The landscape may have changed, yes. But our challenges have not changed.

Immediately after the election, President Clinton told the new leadership on Capitol Hill that he was ready to work with them to reach our goals in a nonpartisan manner. He has reiterated that point in the days since. I learned in my years as Chairman of the Finance Committee, and as a minority member, that cooperation takes you a great deal farther than does confrontation.

What lies ahead of us today is as challenging as it was two weeks ago, and there is a significant amount of common ground.

For instance, the Clinton Administration wants to reform our welfare system, to encourage those who can work to take jobs. This administration supports the line-item veto. I believe the new congressional leadership also shares our goal of sustaining the growth we have created, and keeping inflation low, as we have been able to do. We agree on the desirability of a tax cut for middle-income Americans, but something of that nature must be properly paid for. No one wants higher interest rates and slow growth if it's the price for a slightly smaller tax burden.

LB-1236 (MORE)

We also agree government should be smaller, and we've been doing a great deal on that last one.

I have 8,000 fewer employees in the Treasury Department than were there the day I entered Treasury. Across government there are more than 70,000 fewer than since President Clinton began reducing the size of government and reinventing government. There will be 272,000 fewer federal employees in four years, and it will be the smallest federal work force in 30 years.

We also must not slack in reducing the deficit. We have come a great distance. We'll have it down by well over $120 billion at the end of this year from what we had on our hands when this administration took office. But unless we start dealing with the growth in the cost to the federal government of health care, we're likely to start wiping out the progress we have made on bringing down the deficit.

What we have accomplished in the past two years has made a difference, a real difference. America today is the most productive and competitive nation in the world. We are in a better position to have a sustained recovery than any time in years, going back to Kennedy's day.

We are in this position because this administration gave our private sector the tools it needed to do what it does best -- invest, grow, create jobs.

What is the case today? Our economy has created about 5 million jobs. That's more than all the other OECD states combined. Net business investment in equipment in relation to our net domestic product hasn't been higher in 40 years. Productivity growth has been so strong that unit labor costs have actually fallen in the past year. The cost of production is 40 percent higher in Germany and 30 percent higher in Japan. Growth is steady, and inflation is low. What we have now is this nation's first recovery led by investment in 30 years.

The primary aim of this administration is to ensure that the considerable economic gains we have made in the past two years are not lost. Our goal is to keep the recovery moving steadily along, growing and creating jobs.

To do that, it will take both parties working together. I saw a poll in Time Magazine earlier this week that said that's what Americans expect now. It said 78 percent, nearly four out of every five Americans, believe the new majority in Congress should work with the President -- with him, for progress, not against him, for gridlock.

There is now a shared responsibility to govern. Like the President, I'm looking forward to working together with Congress to meet our challenges.

Just as the domestic challenges have not changed just because we have gone through an election cycle, neither have the challenges we face abroad.

One of the key challenges the North Atlantic Assembly region faces is the creation of economic stability in the transitioning economies of the East.

Five years ago the Berlin Wall came down. I heard a radio report the other day that in many places in Berlin now it is difficult to tell the Wall was ever there. But the physical landscape and the economic landscape are two different things. The remnants of command economies still remain.

Our shared challenge is to continue to do all we can to see that this transition is completed. This administration has played a leading role in assisting the transformation, and it will continue to do so.

The progress to date has been tremendous -- uneven -- but tremendous. Poland, which started the process, hit its economic trough and has rebounded. Next to Albania, it is the fastest growing economy in Europe. Over half the output from Poland, Hungary, and the Czech and Slovak Republics now comes from the private sector.

These and other countries in Eastern Europe and the former Soviet Union have come a great distance on the path of reform. Inflation has been slashed. Subsidies to inefficient state-run firms have been cut. Prices have been freed and economies are being privatized.

The Russian economic landscape has been transformed -- where the state once ruled, a burgeoning private sector is taking its place.

This fall in Madrid, Ukraine's president pledged a bold reform program to the G-7, and our follow-though on support for those reforms will be critical to their success next year.

Western assistance has been critical in encouraging and supporting this sweeping shift to markets and democracy. Together, we have offered bilateral aid, debt rescheduling, most-favored-nation treatment for their exports, and intensified support from the IMF, the World Bank and the EBRD to nurture reform.

The G-7 created the Special Privatization and Restructuring Program to invest in the new private sector firms in Russia. And the IMF created the Systemic Transformation Facility, a unique lending facility for transition economies. It provides quick support for initial stabilization until the more far-reaching, traditional IMF program can be put in place.

And also as a consequence of our meetings in Madrid last month, the IMF has increased the annual access limit for borrowing to 100 percent of country quotas.

The assistance the Treasury Department is providing is not limited to the economic aspect of the transition process. Several of our senior law enforcement officials visited Russia this summer to explore expanded collaboration. There are real problems with crime in Russia. Our Customs Service, the Secret Service, the Internal Revenue Service and our Financial Crimes Enforcement Network all are working with their Russian counterparts to fight organized crime, drug smuggling and financial fraud.

So the effort just isn't economic aid, or technical advice from economists and the like. It's aimed at strengthening not just the economy, but also the state that administers the transformation.

Now I don't have a crystal ball and I can't tell you how the transformation is going to turn out. I can tell you that in the final analysis, the responsibility lies with these emerging economies. But there is a significant collective responsibility on the part of our nations to do all in our power to encourage this process. This administration has done and will continue to do its part.

There is another aspect of our international agenda that remains constant -- the push to expand markets and lower trade barriers.

Our North American Free Trade Agreement has been in effect for going on 11 months now, and the returns are clear. Our trade is up and jobs are being created as a result. The first six months of the year brought enough new economic activity to support as many as 100,000 new jobs. The lesson is obvious -- trade is growth and trade is jobs.

President Clinton is on his way home now from the meeting of the Asia-Pacific Economic Cooperation organization. If you recall, the leaders agreed to work toward a free trade area encompassing the region by the year 2020. If you count Canada and Mexico in the mix, our total two-way trade in this region last year was $670 billion. Trade growth in the region has been in double digits most years.

We'll be talking trade, among other things, next month in Miami at the Summit of the Americas. I touched on what an impact the North American Free Trade Agreement is having. Counting Mexico, our two-way trade with Latin America and the Caribbean last year was $160 billion.

And our two-way trade with the EU was nearly $200 billion last year.

And we are working across the board for trade improvements that benefit not just the United States, but everyone. Take for instance our negotiations with Japan to obtain greater market access.

That brings me to the final point I want to make this morning about what remains unchanged today on our agenda.

In less than two weeks the House, and then the Senate, will vote on the Uruguay Round of the General Agreement on Tariffs and Trade.

No vote Congress will take in the foreseeable future will do as much to create jobs and sustain growth in this country -- and by extension, create jobs and sustain growth abroad by lowering tariffs and leveling out the playing field.

For the United States, this agreement means 500,000 new, better-paying jobs. It means $150 billion a year in increased income at the decade mark -- an average of $1,700 for every family every year. It means the largest global tax cut ever undertaken -- almost $750 billion in reduced tariffs that consumers and business will have to pay.

If we fail, how long will it take before another agreement is reached? Seven years? Ten years? How long? How much will we give up in terms of lost potential, slowed development, curtailed job creation? I can tell you that waiting just six months costs us $70 billion in lost production over a decade.

We have a singular opportunity here to act as a leader and take a bold step that will benefit all trading nations. There are votes that test nations, and this is one of them.

The United States has demonstrated extraordinary leadership in broadening trade opportunities and in advocating free trade, and I expect that GATT will pass. However, I'm taking nothing for granted and putting everything I have into ensuring it's passage in these last two weeks. There is just too much at stake here.

Thank you.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 18, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
GATT EVENT FOR ASSOCIATION EXECUTIVES

We're getting down to the crunch now. The vote will be in about 10 days. We cannot afford to sit back. We cannot afford to rest. That's why we asked each of you to come today for one more pitch about why GATT is a good deal.

You may be familiar with most of this, but I've always said that in Washington you have to repeat something 42 times before it is taken as fact, so I'm going to say this one more time.

No vote Congress will take all year is as important to our economy as this one. It means half a million jobs. It means $150 billion a year in increased economic activity. It means greater market access and lower tariffs for virtually every segment of our economic structure.

Time after time these days we see evidence of just how important trade is to our economy. Look at what this administration has done to recognize that fact and act on it.

The North American Free Trade Agreement -- it was a year ago yesterday that NAFTA cleared the House. I guess we should be saying happy birthday to NAFTA. That was a tough one, but it's paying off now. After the first eight months, our exports to Mexico were up 21 percent over last year, and there was enough economic activity to support as many as 100,000 new jobs.

Look at Asia and the Pacific. The president's on his way home from the APEC meeting where the leaders agreed to work for a free trade area spanning the Pacific by the year 2020.

We have the summit of the Americas coming up, where talk about broadening our trade ties will be an important factor.

LB-1237 (MORE)

But right now, today, what's in front of us and what we have to act on is the Uruguay Round of the General Agreement of Tariffs and Trade.

I don't think many of you recall back to the days of Smoot-Hawley, but if you remember from your reading, it was a very protectionist time, not just here but around the world. This country had tariffs of 60 percent or more. And it showed in how our economy was structured. Just one job in 30 was trade-related.

But now, eight trade rounds later, it is far far different. Our tariffs are down around 4 percent, more or less, and one job in 13 is related to trade. As our economy matures and as others around the globe begin to develop, trade is the way for us to go in sustaining growth in our economy.

This agreement is going to bring down the tariffs that make it hard for us to compete. And look at the markets out there for us -- Asia, the fastest growing region of the world. Latin America, second fastest.

There are critical benefits across the spectrum in our economy, and one of the more important ones is in the area of intellectual property rights. We're doing more than just bringing down tariffs with GATT, we're seeing to it that entrepreneurs in our economy who come up with good ideas don't get ripped off. The estimates are that American businesses lose something on the order of $60 billion because of counterfeiting.

I was up in New Jersey a couple of days ago, and the example I used was an unauthorized copy of a Bruce Springsteen CD. Now my tastes run a bit more toward Sinatra and Streisand than Springsteen -- but the point is, we gain important protections with GATT for a variety of areas in which intellectual property rights are critical -- music, software, pharmaceuticals, chemicals.

The intellectual property right protections take on even more importance in light of something I saw the other day -- that in 1995, the computer software market worldwide will exceed the market for computer hardware. And we have 75 percent of the software market.

So this agreement is about more than just opening up markets by lowering tariffs abroad to our goods and services.

There are four other important points I want to make today about the Uruguay Round.

First, this is the largest tax cut in history, and I can't imagine saying no to a tax cut like this. Worldwide this agreement will save business and consumers nearly $750 billion -- nearly three quarters of a trillion dollars -- that's how much of a reduction in the burden of tariffs there will be for producers and consumers.

Second, my counterparts overseas call asking what the problem is. We're the only country that has to make up the lost income -- even though in the long run it will bring in far more than we're losing. It's a money-maker for the government, a deficit reducer, but we did the responsible thing and put together a package to replace what we're losing.

Third, what kind of a signal would it send to the rest of the world if the country of free trade turned its back on the most significant trade agreement ever negotiated -- one negotiated under presidents of both parties?

And fourth, think what would happen when we went out to sell overseas. Our tariffs average 4 percent, and the tariff's that are coming down abroad are up there in some cases at 70 percent, 80 percent. Our corporations could be looking at a situation where their competitors have low tariffs when they go for export business, but our firms run smack into those higher tariffs.

All that would do is lose us business, maybe cost us jobs, cost us income we might otherwise have earned.

We have a big vote 10 days from now. The private sector has done a good job of spreading the word about the benefits of GATT. But you can't sit back and rest.

Let me ask a question: If we fail, how long will it take before another agreement is reached? Seven years? Ten years? How long? How much will we give up in terms of lost potential, slowed development, curtailed job creation? I can tell you that waiting just six months costs us $70 billion in lost production over a decade.

I want to leave you with the thought that we have a singular opportunity here to act as a leader and take a bold step that will benefit all trading nations. There are votes that test nations, and this is one of them.

The United States has demonstrated extraordinary leadership in broadening trade opportunities and in advocating free trade, and I expect that GATT will pass. However, I'm taking nothing for granted and putting everything I have into ensuring it's passage in these last days. There is just too much at stake here.

Thank you.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 17, 1994

Contact: Michelle Smith
(202) 622-2960

BENTSEN, RUBIN, PANETTA, KANTOR TO DISCUSS GATT

Treasury Secretary Lloyd Bentsen, National Economic Council Chairman Robert Rubin, Chief of Staff to the President Leon Panetta and United States Trade Representative Mickey Kantor will discuss the importance of passing the Uruguay Round this year with a group of Washington trade association representatives at 2 p.m. **tomorrow**, Friday, November 18.

The event will be held in the Cash Room of the Treasury Department, 1500 Pennsylvania Avenue, N.W.

Media without Treasury or White House press credentials should contact Treasury's Office of Public Affairs with the following information by **noon** Friday for clearance into the building: name, date of birth and social security number.

-30-

LB-1238

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

November 22, 1994

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of October 1994.

As indicated in this table, U.S. reserve assets amounted to $78,172 million at the end of October 1994, up from $76,532 million in September 1994.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/	Reserve Position in IMF 2/
1994					
September	76,532	11,054	9,971	43,440	12,067
October	78,172	11,053	10,088	44,692	12,339

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Valued at current market exchange rates.

LB-1239

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 21, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,316 million of 2-year notes, Series AN-1996, to be issued November 30, 1994 and to mature November 30, 1996 were accepted today (CUSIP: 912827R95).

The interest rate on the notes will be 7 1/4%. All competitive tenders at yields lower than 7.30% were accepted in full. Tenders at 7.30% were allotted 98%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 7.30%, with an equivalent price of 99.908. The median yield was 7.29%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 7.28%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$47,324,103	$17,316,439

The $17,316 million of accepted tenders includes $1,195 million of noncompetitive tenders and $16,121 million of competitive tenders from the public.

In addition, $1,090 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $265 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-1240

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 21, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,694 million of 13-week bills to be issued November 25, 1994 and to mature February 23, 1995 were accepted today (CUSIP: 912794Q64).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.38%	5.53%	98.655
High	5.40%	5.55%	98.650
Average	5.40%	5.55%	98.650

$20,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 42%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$50,001,788	$13,693,530
Type		
Competitive	$43,929,987	$7,621,729
Noncompetitive	1,775,537	1,775,537
Subtotal, Public	$45,705,524	$9,397,266
Federal Reserve	3,165,664	3,165,664
Foreign Official Institutions	1,130,600	1,130,600
TOTALS	$50,001,788	$13,693,530

LB-1241

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 21, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,660 million of 26-week bills to be issued November 25, 1994 and to mature May 25, 1995 were accepted today (CUSIP: 912794S39).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.84%	6.10%	97.064
High	5.86%	6.12%	97.054
Average	5.85%	6.11%	97.059

$23,440,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 10%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$47,067,610	$13,660,309
Type		
Competitive	$40,973,008	$7,565,707
Noncompetitive	1,489,212	1,489,212
Subtotal, Public	$42,462,220	$9,054,919
Federal Reserve	3,300,000	3,300,000
Foreign Official Institutions	1,305,390	1,305,390
TOTALS	$47,067,610	$13,660,309

LB-1242

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 22, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $11,016 million of 5-year notes, Series U-1999, to be issued November 30, 1994 and to mature November 30, 1999 were accepted today (CUSIP: 912827S29).

The interest rate on the notes will be 7 3/4%. All competitive tenders at yields lower than 7.81% were accepted in full. Tenders at 7.81% were allotted 78%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 7.81%, with an equivalent price of 99.756. The median yield was 7.80%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 7.75%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$32,924,299	$11,016,255

The $11,016 million of accepted tenders includes $798 million of noncompetitive tenders and $10,218 million of competitive tenders from the public.

In addition, $530 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $265 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-1243

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
November 22, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $27,200 million, to be issued December 1, 1994. This offering will provide about $1,350 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $25,847 million.

Federal Reserve Banks hold $6,843 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,584 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED DECEMBER 1, 1994

November 22, 1994

Offering Amount	$13,600 million	$13,600 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 Q7 2	912794 S4 7
Auction date	November 28, 1994	November 28, 1994
Issue date	December 1, 1994	December 1, 1994
Maturity date	March 2, 1995	June 1, 1995
Original issue date	September 1, 1994	June 2, 1994
Currently outstanding	$12,395 million	$16,913 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

Monthly Treasury Statement

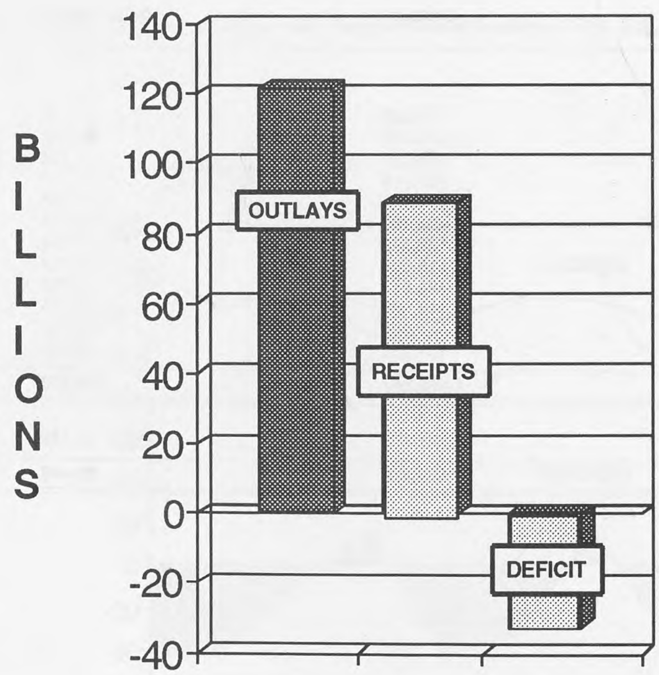
of Receipts and Outlays of the United States Government

For Fiscal Year 1995 Through **October 31, 1994,** and Other Periods

Highlight

This issue includes budget estimates for full fiscal years 1995 and 1996, based on the *Mid-Session Review of the FY 1995 Budget,* released by the Office of Management and Budget on July 14, 1994.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH OCTOBER 1994



Contents

Compiled and Published by

Department of the Treasury
Financial Management Service

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Financial Management Service, Department of the Treasury, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*.

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1994 and 1995, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
FY 1994			
October	78,668	124,090	45,422
November	83,107	121,488	38,381
December	125,408	133,114	7,705
January	122,966	107,718	−15,248
February	72,874	114,440	41,566
March	93,108	125,423	32,315
April	141,326	123,872	−17,454
May	83,546	115,602	32,057
June	138,124	123,275	−14,850
July	84,827	118,025	33,198
August	97,338	121,608	24,270
September	135,895	131,903	−3,993
Year-to-Date	**1,257,187**	**1,460,557**	**203,370**
FY 1995			
October	89,024	121,472	32,448
Year-to-Date	**89,024**	**121,472**	**32,448**

Note: Details may not add to totals due to rounding.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, October 1994 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year[1]	Prior Fiscal Year to Date (1994)	Budget Estimates Next Fiscal Year (1996)[1]
Total on-budget and off-budget results:					
Total receipts	89,024	89,024	1,354,333	78,668	1,425,699
On-budget receipts	65,384	65,384	1,000,459	55,864	1,052,086
Off-budget receipts	23,639	23,639	353,874	22,804	373,613
Total outlays	121,472	121,472	1,521,447	124,090	1,604,939
On-budget outlays	95,298	95,298	1,229,419	100,567	1,298,044
Off-budget outlays	26,174	26,174	292,028	23,523	306,895
Total surplus (+) or deficit (−)	−32,448	−32,448	−167,114	−45,422	−179,240
On-budget surplus (+) or deficit (−)	−29,914	−29,914	−228,960	−44,704	−245,958
Off-budget surplus (+) or deficit (−)	−2,535	−2,535	+61,846	−719	+66,718
Total on-budget and off-budget financing	32,448	32,448	167,114	45,422	179,240
Means of financing:					
Borrowing from the public	32,457	32,457	175,699	4,255	192,078
Reduction of operating cash, increase (−)	−480	−480	......	33,646	......
By other means	471	471	−8,585	7,521	−12,838

[1]These figures are based on the *Mid-Session Review of the FY 1995 Budget*, released by the Office of Management and Budget on July 14, 1994.

... No Transactions.

Note: Details may not add to totals due to rounding.

Figure 1. Monthly Receipts, Outlays, and Budget Deficit/Surplus of the U.S. Government, Fiscal Years 1994 and 1995

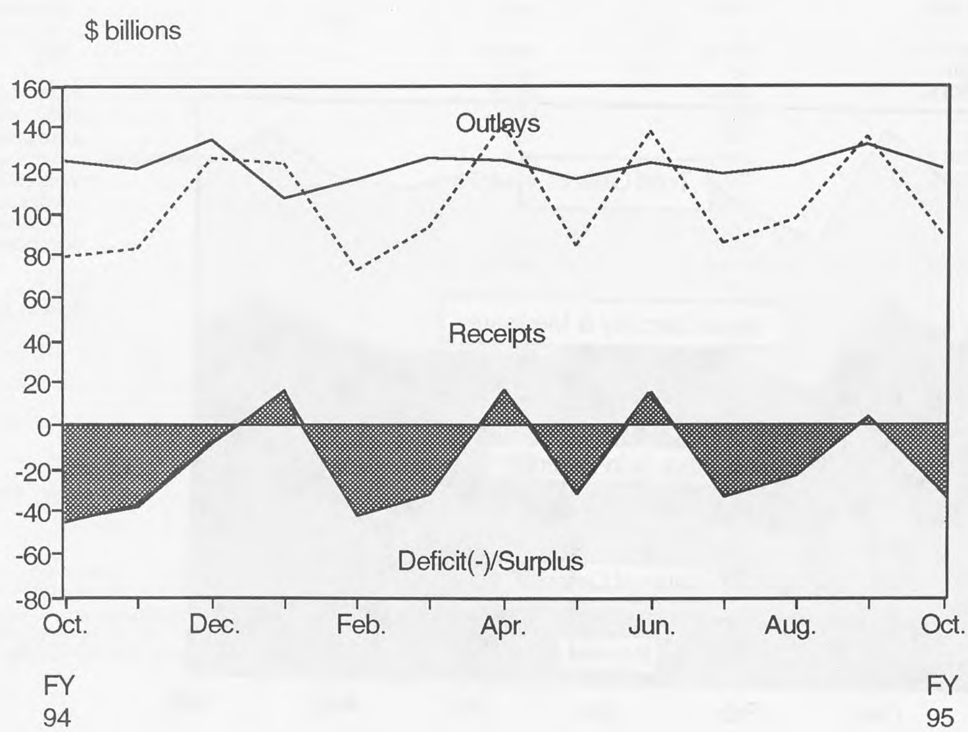


Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1994 and 1995

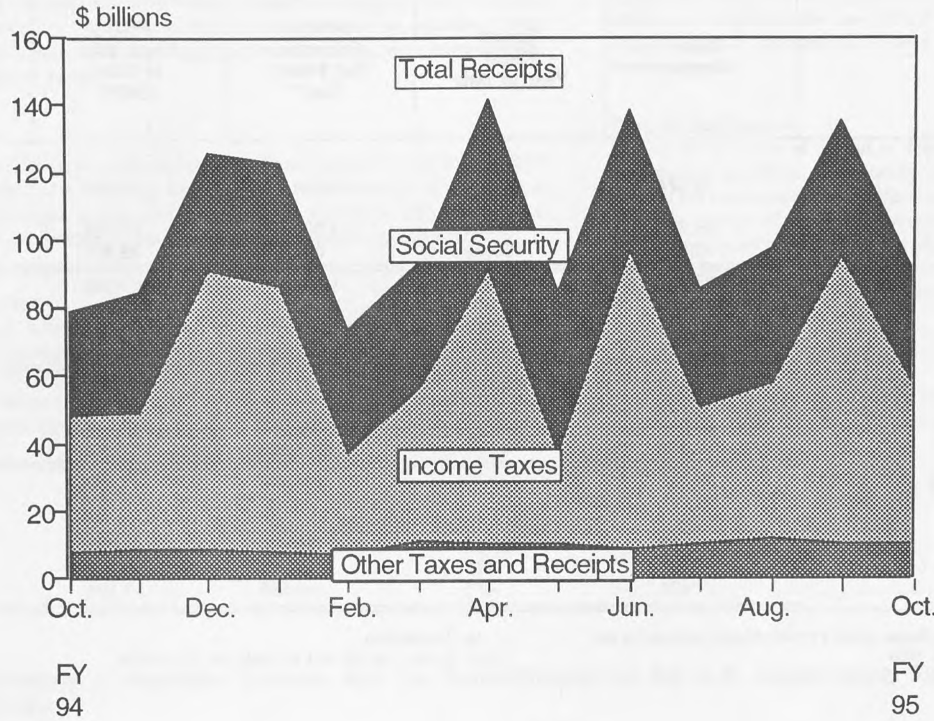


Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1994 and 1995

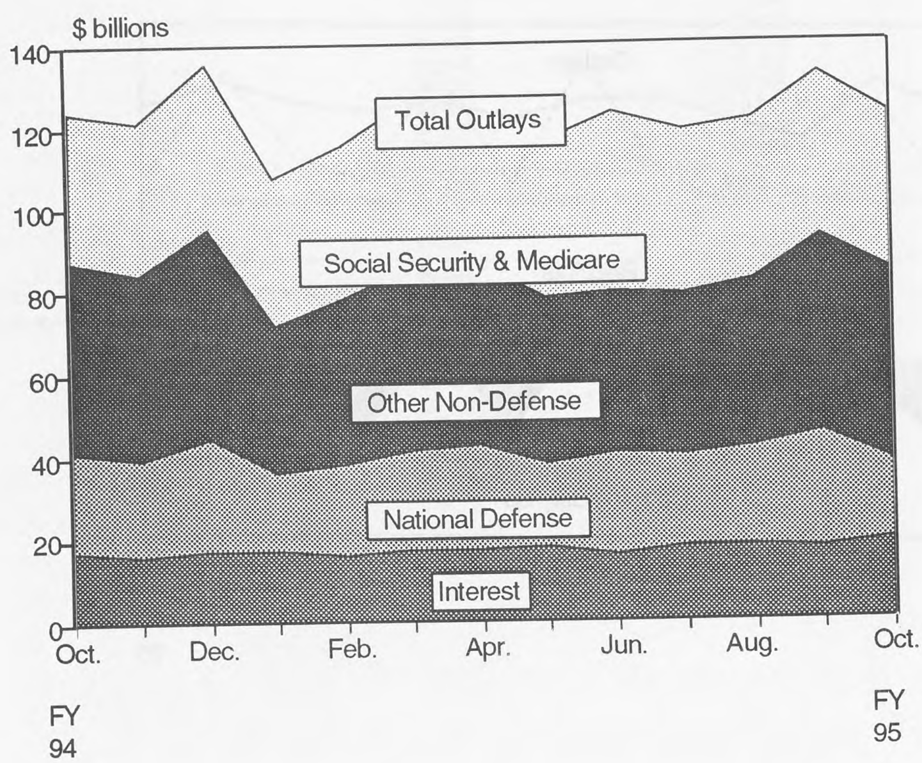


Table 3. Summary of Receipts and Outlays of the U.S. Government, October 1994 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	43,239	43,239	37,680	603,065
Corporation income taxes	3,470	3,470	2,158	143,950
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	23,639	23,639	22,804	353,874
Employment taxes and contributions (on-budget)	7,624	7,624	6,636	103,063
Unemployment insurance	1,073	1,073	1,046	27,756
Other retirement contributions	351	351	343	4,578
Excise taxes	4,275	4,275	3,597	55,975
Estate and gift taxes	1,206	1,206	990	14,706
Customs duties	1,848	1,848	1,708	21,986
Miscellaneous receipts	2,300	2,300	1,706	25,380
Total Receipts	**89,024**	**89,024**	**78,668**	**1,354,333**
(On-budget)	**65,384**	**65,384**	**55,864**	**1,000,459**
(Off-budget)	**23,639**	**23,639**	**22,804**	**353,874**
Budget Outlays				
Legislative Branch	354	354	378	2,931
The Judiciary	184	184	158	3,078
Executive Office of the President	18	18	20	197
Funds Appropriated to the President	3,601	3,601	3,993	11,143
Department of Agriculture	7,599	7,599	4,893	61,277
Department of Commerce	305	305	264	3,690
Department of Defense—Military	17,672	17,672	23,147	258,894
Department of Defense—Civil	2,638	2,638	2,550	31,159
Department of Education	1,949	1,949	1,805	30,302
Department of Energy	1,683	1,683	1,710	15,663
Department of Health and Human Services, except Social Security	23,050	23,050	25,432	341,677
Department of Health and Human Services, Social Security	26,072	26,072	24,562	331,313
Department of Housing and Urban Development	2,903	2,903	2,645	27,755
Department of the Interior	884	884	527	7,306
Department of Justice	908	908	749	11,641
Department of Labor	2,353	2,353	3,362	32,720
Department of State	488	488	843	5,394
Department of Transportation	3,444	3,444	3,151	37,495
Department of the Treasury:				
Interest on the Public Debt	19,732	19,732	17,638	324,235
Other	34	34	−102	16,970
Department of Veterans Affairs	1,699	1,699	2,806	37,737
Environmental Protection Agency	438	438	430	6,658
General Services Administration	−651	−651	239	895
National Aeronautics and Space Administration	845	845	1,079	14,439
Office of Personnel Management	3,410	3,410	3,335	40,437
Small Business Administration	65	65	14	752
Other independent agencies:				
Resolution Trust Corporation	−471	−471	7	−11,113
Other	3,476	3,476	1,409	7,935
Allowances	......	......	......	−1,075
Undistributed offsetting receipts:				
Interest	−611	−611	−359	−91,780
Other	−2,596	−2,596	−2,593	−38,279
Total outlays	**121,472**	**121,472**	**124,090**	**1,521,447**
(On-budget)	**95,298**	**95,298**	**100,567**	**1,229,419**
(Off-budget)	**26,174**	**26,174**	**23,523**	**292,028**
Surplus (+) or deficit (−)	**−32,448**	**−32,448**	**−45,422**	**−167,114**
(On-budget)	**−29,914**	**−29,914**	**−44,704**	**−228,960**
(Off-budget)	**−2,535**	**−2,535**	**−719**	**+61,846**

[1]These figures are based on the *Mid-Session Review of the FY 1995 Budget*, released by the Office of Management and Budget on July 14, 1994.

Note: Details may not add to totals due to rounding.

Table 4. Receipts of the U.S. Government, October 1994 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts
Individual income taxes:									
Withheld	40,480			40,480			34,284		
Presidential Election Campaign Fund	......			......			27		
Other	3,919			3,919			4,053		
Total—Individual income taxes	**44,399**	**1,160**	**43,239**	**44,399**	**1,160**	**43,239**	**38,364**	**684**	**37,680**
Corporation income taxes	**5,513**	**2,043**	**3,470**	**5,513**	**2,043**	**3,470**	**4,269**	**2,111**	**2,158**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	19,673	......	19,673	19,673	......	19,673	20,597	......	20,597
Self-Employment Contributions Act taxes	338	......	338	338	......	338	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FOASI trust fund	20,011	......	20,011	20,011	......	20,011	20,597	......	20,597
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	3,592	......	3,592	3,592	......	3,592	2,207	......	2,207
Self-Employment Contributions Act taxes	36	......	36	36	......	36	......	......	......
Receipts from railroad retirement account	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Other	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	3,628	......	3,628	3,628	......	3,628	2,207	......	2,207
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	7,189	......	7,189	7,189	......	7,189	6,328	......	6,328
Self-Employment Contributions Act taxes	90	......	90	90	......	90	......	......	......
Receipts from Railroad Retirement Board	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FHI trust fund	7,279	......	7,279	7,279	......	7,279	6,328	......	6,328
Railroad retirement accounts:									
Rail industry pension fund	200	7	193	200	7	193	173	(* *)	173
Railroad Social Security equivalent benefit	153	......	153	153	......	153	135	......	135
Total—Employment taxes and contributions	31,270	7	31,263	31,270	7	31,263	29,440	(* *)	29,440
Unemployment insurance:									
State taxes deposited in Treasury	791	......	791	791	......	791	804	......	804
Federal Unemployment Tax Act taxes	281	4	277	281	4	277	241	4	238
Railroad unemployment taxes	5	......	5	5	......	5	5	......	5
Railroad debt repayment	......	......	......	......	......	......	(* *)	......	(* *)
Total—Unemployment insurance	1,077	4	1,073	1,077	4	1,073	1,050	4	1,046
Other retirement contributions:									
Federal employees retirement — employee contributions	342	......	342	342	......	342	338	......	338
Contributions for non-federal employees	9	......	9	9	......	9	5	......	5
Total—Other retirement contributions	351	......	351	351	......	351	343	......	343
Total—Social insurance taxes and contributions	**32,698**	**11**	**32,687**	**32,698**	**11**	**32,687**	**30,832**	**4**	**30,828**
Excise taxes:									
Miscellaneous excise taxes[1]	2,355	30	2,325	2,355	30	2,325	1,716	31	1,685
Airport and airway trust fund	444	6	438	444	6	438	439	......	439
Highway trust fund	1,453	1	1,452	1,453	1	1,452	1,420	1	1,419
Black lung disability trust fund	60	......	60	60	......	60	55	......	55
Total—Excise taxes	**4,312**	**37**	**4,275**	**4,312**	**37**	**4,275**	**3,630**	**32**	**3,597**
Estate and gift taxes	**1,234**	**28**	**1,206**	**1,234**	**28**	**1,206**	**1,015**	**25**	**990**
Customs duties	**1,961**	**114**	**1,848**	**1,961**	**114**	**1,848**	**1,798**	**90**	**1,708**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	1,954	......	1,954	1,954	......	1,954	1,524	......	1,524
All other	351	6	345	351	6	345	183	1	182
Total — Miscellaneous receipts	**2,306**	**6**	**2,300**	**2,306**	**6**	**2,300**	**1,707**	**1**	**1,706**
Total — Receipts	**92,423**	**3,399**	**89,024**	**92,423**	**3,399**	**89,024**	**81,615**	**2,948**	**78,668**
Total — On-budget	**68,784**	**3,399**	**65,384**	**68,784**	**3,399**	**65,384**	**58,811**	**2,948**	**55,864**
Total — Off-budget	**23,639**	......	**23,639**	**23,639**	......	**23,639**	**22,804**	......	**22,804**

[1]Includes amounts for the windfall profits tax pursuant to P.L. 96-223.
... No Transactions.

(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Legislative Branch:									
Senate	35	(* *)	35	35	(* *)	35	37	(* *)	37
House of Representatives	67	(* *)	66	67	(* *)	66	61	1	60
Joint items	7	......	7	7	......	7	8	......	8
Congressional Budget Office	2	......	2	2	......	2	2	......	2
Architect of the Capitol	21	1	20	21	1	20	20	1	20
Library of Congress	172	......	172	172	......	172	198	......	198
Government Printing Office:									
Revolving fund (net)	13	......	13	13	......	13	13	......	13
General fund appropriations	6	......	6	6	......	6	3	......	3
General Accounting Office	29	......	29	29	......	29	35	......	35
United States Tax Court	2	......	2	2	......	2	2	......	2
Other Legislative Branch agencies	3	......	3	3	......	3	3	......	3
Proprietary receipts from the public	......	......	......	......	......	......	......	(* *)	(* *)
Intrabudgetary transactions	−1	......	−1	−1	......	−1	−1	......	−1
Total—Legislative Branch	**355**	**1**	**354**	**355**	**1**	**354**	**379**	**2**	**378**
The Judiciary:									
Supreme Court of the United States	2	......	2	2	......	2	1	......	1
Courts of Appeals, District Courts, and other judicial services	174	(* *)	174	174	(* *)	174	151	(* *)	151
Other	8	......	8	8	......	8	6	......	6
Total—The Judiciary	**184**	**(* *)**	**184**	**184**	**(* *)**	**184**	**158**	**(* *)**	**158**
Executive Office of the President:									
Compensation of the President and the White House Office	4	......	4	4	......	4	4	......	4
Office of Management and Budget	5	......	5	5	......	5	5	......	5
Other	9	......	9	9	......	9	10	......	10
Total—Executive Office of the President	**18**	**......**	**18**	**18**	**......**	**18**	**20**	**......**	**20**
Funds Appropriated to the President:									
International Security Assistance:									
Guaranty reserve fund	80	20	61	80	20	61	52	10	41
Foreign military financing grants	1,914	......	1,914	1,914	......	1,914	1,865	......	1,865
Economic support fund	1,280	......	1,280	1,280	......	1,280	1,400	......	1,400
Military assistance	(* *)	......	(* *)	(* *)	......	(* *)	3	......	3
Peacekeeping Operations	4	......	4	4	......	4	......	......	......
Other	3	......	3	3	......	3	2	......	2
Proprietary receipts from the public	......	6	−6	......	6	−6	......	9	−9
Total—International Security Assistance	3,282	26	3,255	3,282	26	3,255	3,322	20	3,302
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association	246	......	246	246	......	246	194	......	194
International organizations and programs	91	......	91	91	......	91	9	......	9
Other	134	......	134	134	......	134	129	......	129
Total—Multilateral Assistance	472	......	472	472	......	472	331	......	331
Agency for International Development:									
Functional development assistance program	90	......	90	90	......	90	130	......	130
Sub-Saharan Africa development assistance	64	......	64	64	......	64	46	......	46
Operating expenses	28	......	28	28	......	28	48	......	48
Payment to the Foreign Service retirement and disability fund	......	......	......	......	......	......	......	......	......
Other	96	3	93	96	3	93	34	7	26
Proprietary receipts from the public	......	30	−30	......	30	−30	......	38	−38
Intrabudgetary transactions	......	......	......	......	......	......	......	......	......
Total—Agency for International Development	277	32	245	277	32	245	257	46	212
Peace Corps	8	......	8	8	......	8	14	......	14
Overseas Private Investment Corporation	2	10	−8	2	10	−8	2	12	−9
Other	10	1	9	10	1	9	9	(* *)	9
Total—International Development Assistance	769	43	726	769	43	726	614	57	557
International Monetary Programs	−141	......	−141	−141	......	−141	218	......	218
Military Sales Programs:									
Special defense acquisition fund	23	42	−19	23	42	−19	46	(* *)	46
Foreign military sales trust fund	1,076	......	1,076	1,076	......	1,076	1,035	......	1,035
Kuwait civil reconstruction trust fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Proprietary receipts from the public	......	1,298	−1,298	......	1,298	−1,298	......	1,166	−1,166
Other	1	......	1	1	......	1	(* *)	......	(* *)
Total—Funds Appropriated to the President	**5,011**	**1,410**	**3,601**	**5,011**	**1,410**	**3,601**	**5,236**	**1,243**	**3,993**

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month Gross Outlays	This Month Applicable Receipts	This Month Outlays	Current Fiscal Year to Date Gross Outlays	Current Fiscal Year to Date Applicable Receipts	Current Fiscal Year to Date Outlays	Prior Fiscal Year to Date Gross Outlays	Prior Fiscal Year to Date Applicable Receipts	Prior Fiscal Year to Date Outlays
Department of Agriculture:									
Agricultural Research Service	59	......	59	59	......	59	56	......	56
Cooperative State Research Service	31	......	31	31	......	31	33	......	33
Extension Service	28	......	28	28	......	28	33	......	33
Animal and Plant Health Inspection Service	42	......	42	42	......	42	33	......	33
Food Safety and Inspection Service	39	......	39	39	......	39	38	......	38
Agricultural Marketing Service	111	......	111	111	......	111	110	1	109
Soil Conservation Service:									
Watershed and flood prevention operations	30	......	30	30	......	30	26	......	26
Conservation operations	35	......	35	35	......	35	39	......	39
Other	8	......	8	8	......	8	6	......	6
Agricultural Stabilization and Conservation Service:									
Conservation programs	1,686	......	1,686	1,686	......	1,686	507	......	507
Other	42	......	42	42	......	42	47	......	47
Farmers Home Administration:									
Credit accounts:									
Agricultural credit insurance fund	144	106	38	144	106	38	247	101	146
Rural housing insurance fund	285	216	69	285	216	69	254	259	−5
Other	......	......	......	......	......	......	......	......	......
Salaries and expenses	48	......	48	48	......	48	46	......	46
Other	11	(* *)	11	11	(* *)	11	9	(* *)	9
Total—Farmers Home Administration	487	322	165	487	322	165	555	360	196
Foreign assistance programs	22	......	22	22	......	22	−51	......	−51
Rural Development Administration:									
Rural development insurance fund	91	29	62	91	29	62	107	43	64
Rural water and waste disposal grants	30	......	30	30	......	30	26	......	26
Other	3	......	3	3	......	3	2	......	2
Rural Electrification Administration	58	190	−132	58	190	−132	56	292	−236
Federal Crop Insurance Corporation	85	86	−1	85	86	−1	151	72	80
Commodity Credit Corporation:									
Price support and related programs	2,006	279	1,727	2,006	279	1,727	1,358	408	950
National Wool Act Program	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Food and Nutrition Service:									
Food stamp program	2,128	......	2,128	2,128	......	2,128	2,053	......	2,053
State child nutrition programs	528	......	528	528	......	528	439	......	439
Women, infants and children programs	312	......	312	312	......	312	239	......	239
Other	86	......	86	86	......	86	34	......	34
Total—Food and Nutrition Service	3,054	......	3,054	3,054	......	3,054	2,766	......	2,766
Forest Service:									
National forest system	121	......	121	121	......	121	151	......	151
Forest and rangeland protection	166	......	166	166	......	166	42	......	42
Forest service permanent appropriations	235	......	235	235	......	235	9	......	9
Other	39	......	39	39	......	39	30	......	30
Total—Forest Service	561	......	561	561	......	561	233	......	233
Other	56	3	52	56	3	52	49	3	46
Proprietary receipts from the public	......	57	−57	......	57	−57	......	111	−111
Intrabudgetary transactions	......	......	......	......	......	......	(* *)	......	(* *)
Total—Department of Agriculture	**8,566**	**967**	**7,599**	**8,566**	**967**	**7,599**	**6,181**	**1,288**	**4,893**
Department of Commerce:									
Economic Development Administration	23	3	21	23	3	21	22	1	21
Bureau of the Census	44	......	44	44	......	44	34	......	34
Promotion of Industry and Commerce	20	......	20	20	......	20	22	......	22
Science and Technology:									
National Oceanic and Atmospheric Administration	180	1	180	180	1	180	164	(* *)	163
Patent and Trademark Office	−7	......	−7	−7	......	−7	−3	......	−3
National Institute of Standards and Technology	29	......	29	29	......	29	23	......	23
Other	11	4	7	11	4	7	11	3	7
Total—Science and Technology	213	4	209	213	4	209	194	4	191
Other	20	......	20	20	......	20	9	......	9
Proprietary receipts from the public	......	9	−9	......	9	−9	......	12	−12
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	......	......	......
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of Commerce	**320**	**16**	**305**	**320**	**16**	**305**	**280**	**16**	**264**

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Military:									
Military personnel:									
Department of the Army	1,093	......	1,093	1,093	......	1,093	2,204	......	2,204
Department of the Navy	1,695	......	1,695	1,695	......	1,695	2,241	......	2,241
Department of the Air Force	924	......	924	924	......	924	2,190	......	2,190
Total—Military personnel	3,713	......	3,713	3,713	......	3,713	6,634	......	6,634
Operation and maintenance:									
Department of the Army	1,623	......	1,623	1,623	......	1,623	1,519	......	1,519
Department of the Navy	1,451	......	1,451	1,451	......	1,451	1,599	......	1,599
Department of the Air Force	1,492	......	1,492	1,492	......	1,492	1,694	......	1,694
Defense agencies	1,539	......	1,539	1,539	......	1,539	1,601	......	1,601
Total—Operation and maintenance	6,105	......	6,105	6,105	......	6,105	6,413	......	6,413
Procurement:									
Department of the Army	713	......	713	713	......	713	749	......	749
Department of the Navy	1,937	......	1,937	1,937	......	1,937	2,116	......	2,116
Department of the Air Force	1,312	......	1,312	1,312	......	1,312	1,998	......	1,998
Defense agencies	292	......	292	292	......	292	269	......	269
Total—Procurement	4,254	......	4,254	4,254	......	4,254	5,131	......	5,131
Research, development, test, and evaluation:									
Department of the Army	337	......	337	337	......	337	462	......	462
Department of the Navy	697	......	697	697	......	697	506	......	506
Department of the Air Force	852	......	852	852	......	852	1,337	......	1,337
Defense agencies	614	......	614	614	......	614	682	......	682
Total—Research, development, test and evaluation	2,501	......	2,501	2,501	......	2,501	2,987	......	2,987
Military construction:									
Department of the Army	61	......	61	61	......	61	53	......	53
Department of the Navy	47	......	47	47	......	47	91	......	91
Department of the Air Force	121	......	121	121	......	121	95	......	95
Defense agencies	196	......	196	196	......	196	166	......	166
Total—Military construction	425	......	425	425	......	425	404	......	404
Family housing:									
Department of the Army	89	......	89	89	......	89	75	......	75
Department of the Navy	70	......	70	70	......	70	64	......	64
Department of the Air Force	77	......	77	77	......	77	82	......	82
Defense agencies	13	3	10	13	3	10	8	3	5
Revolving and management funds:									
Department of the Army	–41	......	–41	–41	......	–41	–99	......	–99
Department of the Navy	29	......	29	29	......	29	–17	......	–17
Department of the Air Force	......	......	......	......	......	......	......	......	......
Defense agencies:									
Defense business operations fund	174	......	174	174	......	174	1,697	......	1,697
Other	–14	(* *)	–14	–14	(* *)	–14	–12	1	–13
Trust funds:									
Department of the Army	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of the Navy	5	1	4	5	1	4	9	1	8
Department of the Air Force	(* *)	......	(* *)	(* *)	......	(* *)	1	1	(* *)
Defense agencies	10	......	10	10	......	10	49	......	49
Proprietary receipts from the public:									
Department of the Army	......	23	–23	......	23	–23	......	118	–118
Department of the Navy	......	71	–71	......	71	–71	......	129	–129
Department of the Air Force	......	159	–159	......	159	–159	......	106	–106
Defense agencies	......	130	–130	......	130	–130	......	191	–191
Intrabudgetary transactions:									
Department of the Army	118	......	118	118	......	118	123	......	123
Department of the Navy	439	......	439	439	......	439	11	......	11
Department of the Air Force	101	......	101	101	......	101	90	......	90
Defense agencies	–9	......	–9	–9	......	–9	47	......	47
Offsetting governmental receipts:									
Department of the Army	......	......	......	......	......	......	......	......	......
Defense agencies	......	(* *)	(* *)	......	(* *)	(* *)	......	......	......
Total—Department of Defense—Military	**18,060**	**388**	**17,672**	**18,060**	**388**	**17,672**	**23,696**	**550**	**23,147**

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month Gross Outlays	This Month Applicable Receipts	This Month Outlays	Current Fiscal Year to Date Gross Outlays	Current Fiscal Year to Date Applicable Receipts	Current Fiscal Year to Date Outlays	Prior Fiscal Year to Date Gross Outlays	Prior Fiscal Year to Date Applicable Receipts	Prior Fiscal Year to Date Outlays
Department of Defense—Civil									
Corps of Engineers:									
Construction, general	106	......	106	106	......	106	80	......	80
Operation and maintenance, general	144	......	144	144	......	144	87	......	87
Other	144	......	144	144	......	144	164	......	164
Proprietary receipts from the public	......	18	−18	......	18	−18	......	9	−9
Total—Corps of Engineers	394	18	376	394	18	376	332	9	322
Military retirement:									
Payment to military retirement fund	11,470	......	11,470	11,470	......	11,470	11,908	......	11,908
Retired pay	......	......	......	......	......	......	......	......	......
Military retirement fund	2,287	......	2,287	2,287	......	2,287	2,218	......	2,218
Intrabudgetary transactions	−11,470	......	−11,470	−11,470	......	−11,470	−11,908	......	−11,908
Education benefits	−26	......	−26	−26	......	−26	8	......	8
Other	4	(* *)	3	4	(* *)	3	2	(* *)	2
Proprietary receipts from the public	......	2	−2	......	2	−2	......	1	−1
Total—Department of Defense—Civil	**2,659**	**21**	**2,638**	**2,659**	**21**	**2,638**	**2,560**	**10**	**2,550**
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	356	......	356	356	......	356	387	......	387
Impact aid	34	......	34	34	......	34	6	......	6
School improvement programs	102	......	102	102	......	102	117	......	117
Indian education	5	......	5	5	......	5	6	......	6
Other	2	......	2	2	......	2	1	......	1
Total—Office of Elementary and Secondary Education	499	......	499	499	......	499	516	......	516
Office of Bilingual Education and Minority Languages Affairs	15	......	15	15	......	15	15	......	15
Office of Special Education and Rehabilitative Services:									
Special education	247	......	247	247	......	247	224	......	224
Rehabilitation services and disability research	165	......	165	165	......	165	183	......	183
Special institutions for persons with disabilities	10	......	10	10	......	10	6	......	6
Office of Vocational and Adult Education	119	......	119	119	......	119	71	......	71
Office of Postsecondary Education:									
College housing loans	6	17	−11	6	17	−11	......	11	−11
Student financial assistance	750	......	750	750	......	750	703	......	703
Federal family education loans	3	......	3	3	......	3	−35	......	−35
Higher education	66	......	66	66	......	66	65	......	65
Howard University	1	......	1	1	......	1	7	......	7
Other	5	......	5	5	......	5	−2	......	−2
Total—Office of Postsecondary Education	831	17	814	831	17	814	738	11	727
Office of Educational Research and Improvement	44	......	44	44	......	44	34	......	34
Departmental management	39	......	39	39	......	39	34	......	34
Proprietary receipts from the public	......	3	−3	......	3	−3	......	4	−4
Total—Department of Education	**1,969**	**20**	**1,949**	**1,969**	**20**	**1,949**	**1,821**	**15**	**1,805**
Department of Energy:									
Atomic energy defense activities	1,084	......	1,084	1,084	......	1,084	1,083	......	1,083
Energy programs:									
General science and research activities	85	......	85	85	......	85	120	......	120
Energy supply, R and D activities	297	......	297	297	......	297	300	......	300
Uranium supply and enrichment activities	1	......	1	1	......	1	3	......	3
Fossil energy research and development	31	......	31	31	......	31	31	......	31
Energy conservation	35	......	35	35	......	35	33	......	33
Strategic petroleum reserve	21	......	21	21	......	21	16	......	16
Clean coal technology	......	......	......	......	......	......	......	......	......
Nuclear waste disposal fund	22	......	22	22	......	22	27	......	27
Other	74	(* *)	74	74	(* *)	74	29	(* *)	28
Total—Energy programs	566	(* *)	566	566	(* *)	566	558	(* *)	558
Power Marketing Administration	182	135	47	182	135	47	167	89	78
Departmental administration	253	......	253	253	......	253	29	......	29
Proprietary receipts from the public	......	205	−205	......	205	−205	......	58	−58
Intrabudgetary transactions	−59	......	−59	−59	......	−59	22	......	22
Offsetting governmental receipts	......	4	−4	......	4	−4	......	2	−2
Total—Department of Energy	**2,027**	**344**	**1,683**	**2,027**	**344**	**1,683**	**1,860**	**149**	**1,710**

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, except Social Security:									
Public Health Service:									
Food and Drug Administration	79	(* *)	79	79	(* *)	79	60	(* *)	60
Health Resources and Services Administration	178	......	178	178	......	178	131	......	131
Indian Health Services	158	......	158	158	......	158	136	......	136
Centers for Disease Control and Prevention	162	......	162	162	......	162	98	......	98
National Institutes of Health	768	......	768	768	......	768	781	......	781
Substance Abuse and Mental Health Services Administration	191	......	191	191	......	191	200	......	200
Agency for Health Care Policy and Research	12	......	12	12	......	12	10	......	10
Assistant secretary for health	55	......	55	55	......	55	51	......	51
Total—Public Health Service	1,603	(* *)	1,603	1,603	(* *)	1,603	1,467	(* *)	1,467
Health Care Financing Administration:									
Grants to States for Medicaid	6,622	......	6,622	6,622	......	6,622	7,394	......	7,394
Payments to health care trust funds	3,062	......	3,062	3,062	......	3,062	3,765	......	3,765
Federal hospital insurance trust fund:									
Benefit payments	7,737	......	7,737	7,737	......	7,737	7,338	......	7,338
Administrative expenses	96	......	96	96	......	96	94	......	94
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FHI trust fund	7,834	......	7,834	7,834	......	7,834	7,432	......	7,432
Federal supplementary medical insurance trust fund:									
Benefit payments	4,681	......	4,681	4,681	......	4,681	4,520	......	4,520
Administrative expenses	118	......	118	118	......	118	129	......	129
Total—FSMI trust fund	4,799	......	4,799	4,799	......	4,799	4,650	......	4,650
Other	−7	......	−7	−7	......	−7	18	......	18
Total—Health Care Financing Administration	22,309	......	22,309	22,309	......	22,309	23,259	......	23,259
Social Security Administration:									
Payments to Social Security trust funds	630	......	630	630	......	630	977	......	977
Special benefits for disabled coal miners	62	......	62	62	......	62	69	......	69
Supplemental security income program	225	......	225	225	......	225	1,924	......	1,924
Total—Social Security Administration	917	......	917	917	......	917	2,970	......	2,970
Administration for children and families:									
Family support payments to States	1,737	......	1,737	1,737	......	1,737	1,446	......	1,446
Low income home energy assistance	66	......	66	66	......	66	453	......	453
Refugee and entrant assistance	30	......	30	30	......	30	38	......	38
Community Services Block Grant	22	......	22	22	......	22	42	......	42
Payments to States for afdc work programs	51	......	51	51	......	51	42	......	42
Interim assistance to States for legalization	6	......	6	6	......	6	38	......	38
Payments to States for child care assistance	63	......	63	63	......	63	59	......	59
Social services block grant	240	......	240	240	......	240	138	......	138
Children and families services programs	355	......	355	355	......	355	285	......	285
Payments to States for foster care and adoption assistance	158	......	158	158	......	158	255	......	255
Other	(* *)	......	(* *)	(* *)	......	(* *)	......	......	......
Total—Administration for children and families	2,728	......	2,728	2,728	......	2,728	2,797	......	2,797
Administration on aging	52	......	52	52	......	52	43	......	43
Office of the Secretary	41	......	41	41	......	41	16	......	16
Proprietary receipts from the public	......	1,538	−1,538	......	1,538	−1,538	......	1,354	−1,354
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	......	......	......	......	......	......	......	......	......
Federal supplementary medical insurance trust fund	−3,061	......	−3,061	−3,061	......	−3,061	−3,765	......	−3,765
Payments for tax and other credits:									
Federal hospital insurance trust fund	−1	......	−1	−1	......	−1	......	......	......
Other	......	......	......	......	......	......	......	......	......
Total—Department of Health and Human Services, except Social Security	**24,588**	**1,538**	**23,050**	**24,588**	**1,538**	**23,050**	**26,786**	**1,355**	**25,432**

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Benefit payments	23,371	......	23,371	23,371	......	23,371	22,407	......	22,407
Administrative expenses and construction	41	......	41	41	......	41	139	......	139
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Interest expense on interfund borrowings	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FOASI trust fund	23,413	......	23,413	23,413	......	23,413	22,546	......	22,546
Federal disability insurance trust fund:									
Benefit payments	3,200	......	3,200	3,200	......	3,200	2,926	......	2,926
Administrative expenses and construction	89	......	89	89	......	89	66	......	66
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	3,289	......	3,289	3,289	......	3,289	2,992	......	2,992
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions[1]	−630	......	−630	−630	......	−630	−977	......	−977
Total—Department of Health and Human Services, Social Security(off-budget)	**26,072**	**(* *)**	**26,072**	**26,072**	**(* *)**	**26,072**	**24,562**	**(* *)**	**24,562**
Department of Housing and Urban Development:									
Housing programs:									
Public enterprise funds	10	8	2	10	8	2	13	5	8
Credit accounts:									
Federal housing administration fund	562	411	151	562	411	151	525	374	151
Housing for the elderly or handicapped fund	333	55	278	333	55	278	384	59	326
Other	44	......	44	44	......	44	42	(* *)	42
Rent supplement payments	15	......	15	15	......	15	5	......	5
Homeownership assistance	12	......	12	12	......	12	9	......	9
Rental housing assistance	65	......	65	65	......	65	55	......	55
Rental housing development grants	......	......	......	......	......	......	(* *)	......	(* *)
Low-rent public housing	34	......	34	34	......	34	37	......	37
Public housing grants	327	......	327	327	......	327	266	......	266
College housing grants	2	(* *)	2	2	(* *)	2	1	......	1
Lower income housing assistance	855	......	855	855	......	855	886	......	886
Section 8 contract renewals	343	......	343	343	......	343	257	......	257
Other	10	......	10	10	......	10	3	......	3
Total—Housing programs	2,611	474	2,137	2,611	474	2,137	2,483	438	2,045
Public and Indian Housing programs:									
Low-rent public housing—Loans and other expenses	2	1	1	2	1	1	5	15	−9
Payments for operation of low-income housing projects	221	......	221	221	......	221	217	......	217
Community Partnerships Against Crime	11	......	11	11	......	11	14	......	14
Other	1	......	1	1	......	1	......	......	......
Total—Public and Indian Housing programs	234	1	234	234	1	234	236	15	221
Government National Mortgage Association:									
Management and liquidating functions fund	......	......	......	......	......	......	......	(* *)	(* *)
Guarantees of mortgage-backed securities	53	50	3	53	50	3	133	181	−48
Total—Government National Mortgage Association	53	50	3	53	50	3	133	181	−48
Community Planning and Development:									
Community Development Grants	329	......	329	329	......	329	300	......	300
Home investment partnerships program	88	......	88	88	......	88	42	......	42
Other	25	13	12	25	13	12	31	15	17
Total—Community Planning and Development	442	13	429	442	13	429	374	15	359
Management and Administration	93	......	93	93	......	93	66	......	66
Other	7	......	7	7	......	7	2	......	2
Proprietary receipts from the public	......	......	......	......	......	......	......	......	......
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of Housing and Urban Development	**3,440**	**537**	**2,903**	**3,440**	**537**	**2,903**	**3,293**	**649**	**2,645**

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Interior:									
Land and minerals management:									
Bureau of Land Management:									
Management of lands and resources	62	......	62	62	......	62	52	......	52
Other	128	......	128	128	......	128	17	......	17
Minerals Management Service	75	......	75	75	......	75	69	......	69
Office of Surface Mining Reclamation and Enforcement	32	......	32	32	......	32	24	......	24
Total—Land and minerals management	297	......	297	297	......	297	161	......	161
Water and science:									
Bureau of Reclamation:									
Construction program	31	......	31	31	......	31	24	......	24
Operation and maintenance	18	......	18	18	......	18	19	......	19
Other	37	7	29	37	7	29	36	11	24
Central utah project	......	......	......	......	......	......	......	......	......
Geological Survey	58	......	58	58	......	58	42	......	42
Bureau of Mines	13	2	11	13	2	11	15	3	12
Total—Water and science	156	10	146	156	10	146	135	14	121
Fish and wildlife and parks:									
United States Fish and Wildlife Service	78	......	78	78	......	78	78	......	78
National Biological Survey	11	......	11	11	......	11	......	......	......
National Park Service	119	......	119	119	......	119	103	......	103
Total—Fish and wildlife and parks	208	......	208	208	......	208	182	......	182
Bureau of Indian Affairs:									
Operation of Indian programs	129	......	129	129	......	129	95	......	95
Indian tribal funds	–21	......	–21	–21	......	–21	9	......	9
Other	72	(* *)	71	72	(* *)	71	19	(* *)	19
Total—Bureau of Indian Affairs	180	(* *)	179	180	(* *)	179	124	(* *)	123
Territorial and international affairs	230	......	230	230	......	230	100	......	100
Departmental offices	7	......	7	7	......	7	3	......	3
Proprietary receipts from the public	......	181	–181	......	181	–181	......	147	–147
Intrabudgetary transactions	–1	......	–1	–1	......	–1	–16	......	–16
Offsetting governmental receipts	......	......	......	......	......	......	......	(* *)	(* *)
Total—Department of the Interior	**1,075**	**191**	**884**	**1,075**	**191**	**884**	**688**	**162**	**527**
Department of Justice:									
Legal activities	196	......	196	196	......	196	190	......	190
Federal Bureau of Investigation	136	......	136	136	......	136	173	......	173
Drug Enforcement Administration	82	......	82	82	......	82	67	......	67
Immigration and Naturalization Service	133	......	133	133	......	133	102	......	102
Federal Prison System	200	11	190	200	11	190	169	10	159
Office of Justice Programs	116	......	116	116	......	116	61	......	61
Other	92	......	92	92	......	92	21	......	21
Intrabudgetary transactions	–2	......	–2	–2	......	–2	(* *)	......	(* *)
Offsetting governmental receipts	......	35	–35	......	35	–35	......	23	–23
Total—Department of Justice	**954**	**46**	**908**	**954**	**46**	**908**	**783**	**33**	**749**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	353	......	353	353	......	353	345	......	345
Community Service Employment for Older Americans	30	......	30	30	......	30	29	......	29
Federal unemployment benefits and allowances	27	......	27	27	......	27	9	......	9
State unemployment insurance and employment service operations	39	......	39	39	......	39	16	......	16
Payments to the unemployment trust fund	......	......	......	......	......	......	......	......	......
Advances to the unemployment trust fund and other funds	......	......	......	......	......	......	959	......	959

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Labor:—Continued									
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	1,407	......	1,407	1,407	......	1,407	2,317	......	2,317
State administrative expenses	224	......	224	224	......	224	285	......	285
Federal administrative expenses	6	......	6	6	......	6	90	......	90
Veterans employment and training	9	......	9	9	......	9	11	......	11
Repayment of advances from the general fund	......	......	......	......	......	......	......	......	......
Railroad unemployment insurance	4	......	4	4	......	4	5	......	5
Other	1	......	1	1	......	1	2	......	2
Total—Unemployment trust fund	1,650	......	1,650	1,650	......	1,650	2,710	......	2,710
Other	8	......	8	8	......	8	8	......	8
Total—Employment and Training Administration	2,106	......	2,106	2,106	......	2,106	4,075	......	4,075
Pension Benefit Guaranty Corporation	72	49	23	72	49	23	67	50	17
Employment Standards Administration:									
Salaries and expenses	21	......	21	21	......	21	15	......	15
Special benefits	82	......	82	82	......	82	87	......	87
Black lung disability trust fund	46	......	46	46	......	46	48	......	48
Other	16	......	16	16	......	16	14	......	14
Occupational Safety and Health Administration	22	......	22	22	......	22	19	......	19
Bureau of Labor Statistics	19	......	19	19	......	19	11	......	11
Other	19	......	19	19	......	19	38	......	38
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions	−1	......	−1	−1	......	−1	−963	......	−963
Total—Department of Labor	**2,402**	**49**	**2,353**	**2,402**	**49**	**2,353**	**3,412**	**50**	**3,362**
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	206	......	206	206	......	206	190	......	190
Acquisition and maintenance of buildings abroad	20	......	20	20	......	20	37	......	37
Payment to Foreign Service retirement and disability fund	......	......	......	......	......	......	......	......	......
Foreign Service retirement and disability fund	35	......	35	35	......	35	33	......	33
Other	−5	......	−5	−5	......	−5	9	......	9
Total—Administration of Foreign Affairs	256	......	256	256	......	256	269	......	269
International organizations and Conferences	180	......	180	180	......	180	554	......	554
Migration and refugee assistance	45	......	45	45	......	45	10	......	10
International narcotics control	6	......	6	6	......	6	6	......	6
Other	3	......	3	3	......	3	4	......	4
Proprietary receipts from the public	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of State	**488**	**......**	**488**	**488**	**......**	**488**	**843**	**......**	**843**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,779	......	1,779	1,779	......	1,779	1,770	......	1,770
Other	15	......	15	15	......	15	4	......	4
Other programs	20	......	20	20	......	20	31	......	31
Total—Federal Highway Administration	1,814	......	1,814	1,814	......	1,814	1,805	......	1,805
National Highway Traffic Safety Administration	19	......	19	19	......	19	20	......	20
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation	344	......	344	344	......	344	58	......	58
Other	17	1	16	17	1	16	21	1	20
Total—Federal Railroad Administration	361	1	360	361	1	360	79	1	78

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued
[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Transportation:—Continued									
Federal Transit Administration:									
Formula grants	137	......	137	137	......	137	192	......	192
Discretionary grants	144	......	144	144	......	144	113	......	113
Other	40	......	40	40	......	40	19	......	19
Total—Federal Transit Administration	321	......	321	321	......	321	324	......	324
Federal Aviation Administration:									
Operations	245	......	245	245	......	245	369	......	369
Airport and airway trust fund:									
Grants-in-aid for airports	177	......	177	177	......	177	132	......	132
Facilities and equipment	150	......	150	150	......	150	79	......	79
Research, engineering and development	20	......	20	20	......	20	13	......	13
Operations	96	......	96	96	......	96	......	......	......
Total—Airport and airway trust fund	443	......	443	443	......	443	224	......	224
Other	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)
Total—Federal Aviation Administration	688	(* *)	688	688	(* *)	688	593	(* *)	593
Coast Guard:									
Operating expenses	142	......	142	142	......	142	200	......	200
Acquisition, construction, and improvements	20	......	20	20	......	20	12	......	12
Retired pay	40	......	40	40	......	40	32	......	32
Other	16	(* *)	16	16	(* *)	16	7	(* *)	6
Total—Coast Guard	218	(* *)	218	218	(* *)	218	252	(* *)	251
Maritime Administration	36	39	−3	36	39	−3	62	14	49
Other	33	(* *)	33	33	(* *)	33	19	(* *)	19
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions	......	......	......	......	......	......	13	......	13
Offsetting governmental receipts	......	6	−6	......	6	−6	......	(* *)	(* *)
Total—Department of Transportation	**3,490**	**46**	**3,444**	**3,490**	**46**	**3,444**	**3,167**	**16**	**3,151**
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	−99	1	−100	−99	1	−100	−17	1	−18
Other	18	......	18	18	......	18	33	......	33
Financial Management Service:									
Salaries and expenses	18	......	18	18	......	18	13	......	13
Payment to the Resolution Funding Corporation	587	......	587	587	......	587	587	......	587
Claims, judgements, and relief acts	51	......	51	51	......	51	51	......	51
Net interest paid to loan guarantee financing accounts	79	......	79	79	......	79	(* *)	......	(* *)
Other	2	......	2	2	......	2	11	......	11
Total—Financial Management Service	737	......	737	737	......	737	663	......	663
Federal Financing Bank	−114	......	−114	−114	......	−114	−114	......	−114
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	28	......	28	28	......	28	23	......	23
Internal revenue collections for Puerto Rico	18	......	18	18	......	18	16	......	16
United States Customs Service	132	......	132	132	......	132	128	......	128
Bureau of Engraving and Printing	−2	......	−2	−2	......	−2	−1	......	−1
United States Mint	−29	......	−29	−29	......	−29	−11	......	−11
Bureau of the Public Debt	13	......	13	13	......	13	13	......	13
Internal Revenue Service:									
Processing tax returns and assistance	111	......	111	111	......	111	97	......	97
Tax law enforcement	306	......	306	306	......	306	265	......	265
Information systems	99	......	99	99	......	99	60	......	60
Payment where earned income credit exceeds liability for tax	19	......	19	19	......	19	17	......	17
Health insurance supplement to earned income credit	......	......	......	......	......	......	2	......	2
Refunding internal revenue collections, interest	101	......	101	101	......	101	395	......	395
Other	13	......	13	13	......	13	13	......	13
Total—Internal Revenue Service	649	......	649	649	......	649	850	......	850

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Treasury:—Continued									
United States Secret Service	51	......	51	51	......	51	36	......	36
Comptroller of the Currency	31	4	26	31	4	26	29	8	21
Office of Thrift Supervison	11	1	10	11	1	10	15	2	13
Interest on the public debt:									
Public issues (accrual basis)	18,682	......	18,682	18,682	......	18,682	17,429	......	17,429
Special issues (cash basis)	1,051	......	1,051	1,051	......	1,051	209	......	209
Total—Interest on the public debt	19,732	......	19,732	19,732	......	19,732	17,638	......	17,638
Other	2	......	2	2	......	2	5	......	5
Proprietary receipts from the public	......	166	−166	......	166	−166	......	347	−347
Receipts from off-budget federal entities	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	−1,180	......	−1,180	−1,180	......	−1,180	−1,356	......	−1,356
Offsetting governmental receipts	......	60	−60	......	60	−60	......	56	−56
Total—Department of the Treasury	**19,999**	**232**	**19,766**	**19,999**	**232**	**19,766**	**17,949**	**413**	**17,536**
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,175	......	1,175	1,175	......	1,175	1,097	......	1,097
Other	56	22	34	56	22	34	18	21	−3
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	68	46	22	68	46	22	36	54	−18
Loan guaranty revolving fund	93	31	62	93	31	62	111	40	70
Other	48	6	42	48	6	42	38	35	4
Compensation and pensions	105	......	105	105	......	105	1,400	......	1,400
Readjustment benefits	73	......	73	73	......	73	73	......	73
Post-Vietnam era veterans education account	3	......	3	3	......	3	7	......	7
Insurance funds:									
National service life	87	......	87	87	......	87	96	......	96
United States government life	1	......	1	1	......	1	2	......	2
Veterans special life	9	3	6	9	3	6	9	3	6
Other	4	......	4	4	......	4	−13	......	−13
Total—Veterans Benefits Administration	491	85	406	491	85	406	1,758	132	1,626
Construction	49	......	49	49	......	49	51	(* *)	51
Departmental administration	117	......	117	117	......	117	88	......	88
Proprietary receipts from the public:									
National service life	......	23	−23	......	23	−23	......	30	−30
United States government life	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Other	......	57	−57	......	57	−57	......	16	−16
Intrabudgetary transactions	−2	......	−2	−2	......	−2	−7	......	−7
Total—Department of Veterans Affairs	**1,886**	**187**	**1,699**	**1,886**	**187**	**1,699**	**3,004**	**198**	**2,806**
Environmental Protection Agency:									
Program and research operations	67	......	67	67	......	67	67	......	67
Abatement, control, and compliance	152	......	152	152	......	152	73	......	73
Water infrastructure financing	140	......	140	140	......	140	153	......	153
Hazardous substance superfund	60	......	60	60	......	60	124	......	124
Other	292	(* *)	292	292	(* *)	292	36	(* *)	36
Proprietary receipts from the public	......	22	−22	......	22	−22	......	22	−22
Intrabudgetary transactions	−250	......	−250	−250	......	−250	......	......	......
Offsetting governmental receipts	......	1	−1	......	1	−1	......	1	−1
Total—Environmental Protection Agency	**461**	**23**	**438**	**461**	**23**	**438**	**453**	**23**	**430**
General Services Administration:									
Real property activities	−645	......	−645	−645	......	−645	284	......	284
Personal property activities	−69	......	−69	−69	......	−69	−49	......	−49
Information Resources Management Service	44	......	44	44	......	44	−17	......	−17
Other	19	......	19	19	......	19	22	......	22
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Total—General Services Administration	**−650**	**(* *)**	**−651**	**−650**	**(* *)**	**−651**	**240**	**(* *)**	**239**

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
National Aeronautics and Space Administration:									
Research and development	391	......	391	391	......	391	539	......	539
Space flight, control, and data communications	304	......	304	304	......	304	385	......	385
Construction of facilities	28	......	28	28	......	28	28	......	28
Research and program management	69	......	69	69	......	69	126	......	126
Other	53	......	53	53	......	53	1	......	1
Total—National Aeronautics and Space Administration	**845**	**......**	**845**	**845**	**......**	**845**	**1,079**	**......**	**1,079**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	288	......	288	288	......	288	266	......	266
Payment to civil service retirement and disability fund	......	......	......	......	......	......	......	......	......
Civil service retirement and disability fund	3,124	......	3,124	3,124	......	3,124	2,985	......	2,985
Employees health benefits fund	1,285	1,235	50	1,285	1,235	50	1,244	1,146	98
Employees life insurance fund	114	189	−75	114	189	−75	110	129	−19
Retired employees health benefits fund	1	1	(* *)	1	1	(* *)	1	1	(* *)
Other	25	......	25	25	......	25	7	......	7
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	......	......	......	......	......	......	......	......	......
Other	−2	......	−2	−2	......	−2	−3	......	−3
Total—Office of Personnel Management	**4,835**	**1,425**	**3,410**	**4,835**	**1,425**	**3,410**	**4,610**	**1,275**	**3,335**
Small Business Administration:									
Public enterprise funds:									
Business loan fund	17	20	−3	17	20	−3	48	54	−6
Disaster loan fund	44	21	23	44	21	23	19	34	−15
Other	2	2	(* *)	2	2	(* *)	5	2	3
Other	45	(* *)	45	45	(* *)	45	33	(* *)	32
Total—Small Business Administration	**108**	**43**	**65**	**108**	**43**	**65**	**104**	**89**	**14**
Other independent agencies:									
Action	15	......	15	15	......	15	13	......	13
Board for International Broadcasting	(* *)	......	(* *)	(* *)	......	(* *)	12	......	12
Corporation for National and Community Service	10	......	10	10	......	10	......	......	......
Corporation for Public Broadcasting	286	......	286	286	......	286	275	......	275
District of Columbia:									
Federal payment	714	......	714	714	......	714	52	......	52
Other	7	12	−5	7	12	−5	7	......	7
Equal Employment Opportunity Commission	20	(* *)	20	20	(* *)	20	13	(* *)	13
Export-Import Bank of the United States	353	76	278	353	76	278	25	135	−110
Federal Communications Commission	15	5	10	15	5	10	9	3	7
Federal Deposit Insurance Corporation:									
Bank insurance fund	312	439	−127	312	439	−127	328	277	52
Savings association insurance fund	12	14	−2	12	14	−2	3	8	−5
FSLIC resolution fund	37	124	−87	37	124	−87	348	348	(* *)
Affordable housing and bank enterprise	(* *)	......	(* *)	(* *)	......	(* *)	1	......	1
Federal Emergency Management Agency:									
Public enterprise funds	23	36	−12	23	36	−12	73	17	56
Disaster relief	261	......	261	261	......	261	141	......	141
Emergency management planning and assistance	17	......	17	17	......	17	17	......	17
Other	11	......	11	11	......	11	13	......	13
Federal Trade Commission	10	......	10	10	......	10	6	......	6
Interstate Commerce Commission	6	......	6	6	......	6	3	......	3
Legal Services Corporation	55	......	55	55	......	55	1	......	1
National Archives and Records Administration	9	(* *)	9	9	(* *)	9	3	(* *)	3
National Credit Union Administration:									
Credit union share insurance fund	−3	2	−4	−3	2	−4	48	10	38
Central liquidity facility	......	5	−5	......	5	−5	10	10	......
Other	−3	(* *)	−4	−3	(* *)	−4	−7	(* *)	−8

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Other independent agencies:—Continued									
National Endowment for the Arts	18	......	18	18	......	18	20	......	20
National Endowment for the Humanities	14	......	14	14	......	14	11	......	11
National Labor Relations Board	17	......	17	17	......	17	11	......	11
National Science Foundation	185	......	185	185	......	185	222	......	222
Nuclear Regulatory Commission	41	45	−4	41	45	−4	40	47	−6
Panama Canal Commission	46	46	−1	46	46	−1	47	45	2
Postal Service:									
Public enterprise funds (off-budget)	3,805	[2]3,157	648	3,805	3,157	648	3,616	4,125	−509
Payment to the Postal Service fund	61	......	61	61	......	61	61	......	61
Railroad Retirement Board:									
Federal windfall subsidy	22	......	22	22	......	22	23	......	23
Federal payments to the railroad retirement accounts	46	......	46	46	......	46	12	......	12
Rail industry pension fund:									
Advances from FOASDI fund	−91	......	−91	−91	......	−91	−91	......	−91
OASDI certifications	91	......	91	91	......	91	90	......	90
Administrative expenses	6	......	6	6	......	6	5	......	5
Interest on refunds of taxes	17	......	17	17	......	17	(* *)	......	(* *)
Other	1	......	1	1	......	1	1	......	1
Intrabudgetary transactions:									
Payments from other funds to the railroad retirement trust funds	......	......	......	......	......	......	......	......	......
Other	−46	......	−46	−46	......	−46	−12	......	−12
Supplemental annuity pension fund	246	......	246	246	......	246	239	......	239
Railroad Social Security equivalent benefit account	397	......	397	397	......	397	385	......	385
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—Railroad Retirement Board	689	......	689	689	......	689	653	......	653
Resolution Trust Corporation	613	1,085	−471	613	1,085	−471	1,211	1,204	7
Securities and Exchange Commission	20	......	20	20	......	20	10	......	10
Smithsonian Institution	26	......	26	26	......	26	20	......	20
Tennessee Valley Authority	1,015	750	265	1,015	750	265	984	878	106
United States Information Agency	73	......	73	73	......	73	87	(* *)	87
Other	221	210	11	221	210	11	179	44	134
Total—Other independent agencies	**9,010**	**6,006**	**3,005**	**9,010**	**6,006**	**3,005**	**8,567**	**7,151**	**1,416**
Undistributed offsetting receipts:									
Other interest	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	......	......	......	......	......	......	......	......	......
The Judiciary:									
Judicial survivors annuity fund	......	......	......	......	......	......	......	......	......
Department of Defense—Civil:									
Military retirement fund	−1,021	......	−1,021	−1,021	......	−1,021	−1,081	......	−1,081
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund:									
Federal employer contributions	−158	......	−158	−158	......	−158	−159	......	−159
Postal Service employer contributions	−45	......	−45	−45	......	−45	−37	......	−37
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	−394	......	−394	−394	......	−394	−425	......	−425
Payments for military service credits	......	......	......	......	......	......	......	......	......
Federal disability insurance trust fund:									
Federal employer contributions	−71	......	−71	−71	......	−71	−46	......	−46
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of State:									
Foreign Service retirement and disability fund	−8	......	−8	−8	......	−8	−9	......	−9
Office of Personnel Management:									
Civil service retirement and disability fund	−746	......	−746	−746	......	−746	−816	......	−816
Independent agencies:									
Court of veterans appeals retirement fund	......	......	......	......	......	......	......	......	......
Total—Employer share, employee retirement	−2,442	......	−2,442	−2,442	......	−2,442	−2,572	......	−2,572

Table 5. Outlays of the U.S. Government, October 1994 and Other Periods—Continued

[$ millions]

Classification	This Month: Gross Outlays	This Month: Applicable Receipts	This Month: Outlays	Current Fiscal Year to Date: Gross Outlays	Current Fiscal Year to Date: Applicable Receipts	Current Fiscal Year to Date: Outlays	Prior Fiscal Year to Date: Gross Outlays	Prior Fiscal Year to Date: Applicable Receipts	Prior Fiscal Year to Date: Outlays
Undistributed offsetting receipts:—Continued									
Interest received by trust funds:									
The Judiciary:									
Judicial survivors annuity fund	......	......	......	......	......	......	......	......	......
Department of Defense—Civil:									
Corps of Engineers	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Military retirement fund	−363	......	−363	−363	......	−363	−169	......	−169
Education benefits fund	−1	......	−1	−1	......	−1	(* *)	......	(* *)
Soldiers' and airmen's home permanent fund	−1	......	−1	−1	......	−1	−3	......	−3
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund	−8	......	−8	−8	......	−8	−7	......	−7
Federal supplementary medical insurance trust fund	−33	......	−33	−33	......	−33	−13	......	−13
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund	−66	......	−66	−66	......	−66	−44	......	−44
Federal disability insurance trust fund	−16	......	−16	−16	......	−16	−15	......	−15
Department of Labor:									
Unemployment trust fund	−32	......	−32	−32	......	−32	−11	......	−11
Department of State:									
Foreign Service retirement and disability fund	(* *)	......	(* *)	(* *)	......	(* *)	−1	......	−1
Department of Transportation:									
Highway trust fund	−36	......	−36	−36	......	−36	−19	......	−19
Airport and airway trust fund	−8	......	−8	−8	......	−8	−1	......	−1
Oil spill liability trust fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of Veterans Affairs:									
National service life insurance fund	−2	......	−2	−2	......	−2	−2	......	−2
United States government life Insurance Fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Environmental Protection Agency	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
National Aeronautics and Space Administration	......	......	......	......	......	......	(* *)	......	(* *)
Office of Personnel Management:									
Civil service retirement and disability fund	−5	......	−5	−5	......	−5	−3	......	−3
Independent agencies:									
Railroad Retirement Board	−10	......	−10	−10	......	−10	−36	......	−36
Other	1	......	1	1	......	1	−1	......	−1
Other	−31	......	−31	−31	......	−31	−35	......	−35
Total—Interest received by trust funds	−611	......	−611	−611	......	−611	−359	......	−359
Rents and royalties on the outer continental shelf lands	......	154	−154	......	154	−154	......	21	−21
Sale of major assets	......	......	......	......	......	......	......	......	......
Spectrum auction proceeds	......	......	......	......	......	......	......	......	......
Total—Undistributed offsetting receipts	**−3,053**	**154**	**−3,207**	**−3,053**	**154**	**−3,207**	**−2,931**	**21**	**−2,952**
Total outlays	**135,116**	**13,644**	**121,472**	**135,116**	**13,644**	**121,472**	**138,800**	**14,710**	**124,090**
Total on-budget	**105,785**	**10,487**	**95,298**	**105,785**	**10,487**	**95,298**	**111,152**	**10,585**	**100,567**
Total off-budget	**29,331**	**3,157**	**26,174**	**29,331**	**3,157**	**26,174**	**27,648**	**4,125**	**23,523**
Total surplus (+) or deficit			**−32,448**			**−32,448**			**−45,422**
Total on-budget			**−29,914**			**−29,914**			**−44,704**
Total off-budget			**−2,535**			**−2,535**			**−719**

MEMORANDUM

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	4,172	3,894
Receipts from off-budget federal entities	......	......
Intrabudgetary transactions	19,242	21,665
Governmental receipts	151	129
Total receipts offset against outlays	23,565	25,688

[1]Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.

[2]The Postal Service accounting is composed of thirteen 28-day accounting periods. To conform with the MTS calendar-month reporting basis used by all other Federal agencies, the MTS reflects USPS results through 10/14 and estimates for $1,115 million through 10/31.

... No Transactions.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, October 1994 and Other Periods

[$ millions]

Assets and Liabilities Directly Related to Budget Off-budget Activity	Net Transactions (–) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Liability accounts:						
Borrowing from the public:						
Public debt securities, issued under general Financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	41,418	41,418	11,023	4,677,750	4,677,750	4,719,167
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	41,418	41,418	11,023	4,692,750	4,692,750	4,734,167
Plus premium on public debt securities	–8	–8	–8	1,333	1,333	1,325
Less discount on public debt securities	415	415	–455	78,631	78,631	79,045
Total public debt securities net of Premium and discount	40,995	40,995	11,470	4,615,453	4,615,453	4,656,448
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	–2,106	–2,106	47	28,543	28,543	26,437
Total federal securities	38,889	38,889	11,517	4,643,996	4,643,996	4,682,885
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	6,494	6,494	7,242	1,213,115	1,213,115	1,219,609
Less discount on federal securities held as investments of government accounts	62	62	–20	1,472	1,472	1,533
Net federal securities held as investments of government accounts	6,432	6,432	7,263	1,211,644	1,211,644	1,218,076
Total borrowing from the public	32,457	32,457	4,255	3,432,352	3,432,352	3,464,810
Accrued interest payable to the public	6,129	6,129	9,245	43,287	43,287	49,417
Allocations of special drawing rights	84	84	–125	7,189	7,189	7,274
Deposit funds	273	273	1,051	7,320	7,320	7,593
Miscellaneous liability accounts (includes checks Outstanding etc.)	–4,669	–4,669	–5,359	4,938	4,938	268
Total liability accounts	**34,275**	**34,275**	**9,067**	**3,495,087**	**3,495,087**	**3,529,362**
Asset accounts (deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash:[1]						
Federal Reserve account	–1,684	–1,684	–11,257	6,848	6,848	5,164
Tax and loan note accounts	2,164	2,164	–22,389	29,094	29,094	31,258
Balance	480	480	–33,646	35,942	35,942	36,422
Special drawing rights:						
Total holdings	117	117	–165	9,971	9,971	10,088
SDR certificates issued to Federal Reserve banks	......	......	......	–8,018	–8,018	–8,018
Balance	117	117	–165	1,953	1,953	2,070
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	......	......	31,762	31,762	31,762
Maintenance of value adjustments	455	455	–676	7,163	7,163	7,618
Letter of credit issued to IMF	134	134	23	–25,923	–25,923	–25,789
Dollar deposits with the IMF	–6	–6	–7	–96	–96	–102
Receivable/Payable (–) for interim maintenance of value adjustments	–314	–314	458	–837	–837	–1,151
Balance	269	269	–202	12,069	12,069	12,337
Loans to International Monetary Fund	......	......	......	(* *)	(* *)	(* *)
Other cash and monetary assets	2,658	2,658	2,678	21,417	21,417	24,074
Total cash and monetary assets	3,523	3,523	–31,336	71,380	71,380	74,903
Net activity, guaranteed loan financing	–97	–97	–180	–9,721	–9,721	–9,818
Net activity, direct loan financing	490	490	365	12,667	12,667	13,157
Miscellaneous asset accounts	–2,028	–2,028	–5,153	–1,386	–1,386	–3,413
Total asset accounts	**1,889**	**1,889**	**–36,304**	**72,941**	**72,941**	**74,829**
Excess of liabilities (+) or assets (–)	**+32,386**	**+32,386**	**+45,371**	**+3,422,146**	**+3,422,146**	**+3,454,532**
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	62	62	51	......	......	62
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (–))	**+32,448**	**+32,448**	**+45,422**	**+3,422,146**	**+3,422,146**	**+3,454,595**

[1]Major sources of information used to determine Treasury's operating cash income include the Daily Balance Wires from Federal Reserve Banks, reporting from the Bureau of Public Debt, electronic transfers through the Treasury Financial Communication System and reconciling wires from Internal Revenue Centers. Operating cash is presented on a modified cash basis, deposits are reflected as received and withdrawals are reflected as processed.

... No Transactions.
(* *) Less than $500,000
Note: Details may not add to totals due to rounding

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, October 1994 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	3,422,146	3,422,146	3,218,965
Adjustments during current fiscal year for changes in composition of unified budget:			
Revisions by federal agencies to the prior budget results	......	......	526
Excess of liabilities beginning of period (current basis)	3,422,146	3,422,146	3,219,491
Budget surplus (–) or deficit:			
Based on composition of unified budget in prior fiscal yr	32,448	32,448	45,422
Changes in composition of unified budget	......	......	......
Total surplus (–) or deficit (Table 2)	32,448	32,448	45,422
Total-on-budget (Table 2)	29,914	29,914	44,704
Total-off-budget (Table 2)	2,535	2,535	719
Transactions not applied to current year's surplus or deficit:			
Seigniorage	−62	−62	−51
Total-transactions not applied to current year's Surplus or deficit	−62	−62	−51
Excess of liabilities close of period	**3,454,532**	**3,454,532**	**3,264,862**

Table 6. Schedule B—Securities Issued by Federal Agencies Under Special Financing Authorities, October 1994 and Other Periods

[$ millions]

Classification	Net Transactions (–) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank of the United States	......	......	......	(* *)	(* *)	(* *)
Federal Deposit Insurance Corporation:						
FSLIC resolution fund	......	......	......	538	538	538
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages	......	......	(* *)	6	6	6
Department of Housing and Urban Development:						
Federal Housing Administration	2	2	30	112	112	114
Department of the Interior:						
Bureau of Land Management	......	......	......	13	13	13
Department of Transportation:						
Coast Guard:						
Family housing mortgages	......	......	......	(* *)	(* *)	(* *)
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	1	1	192	192	193
Independent agencies:						
Farm Credit System Financial Assistance Corporation	......	......	......	1,261	1,261	1,261
National Archives and Records Administration	......	......	......	298	298	298
Postal Service	......	......	......	......	......	......
Tennessee Valley Authority	−2,109	−2,109	16	26,121	26,121	24,012
Total, agency securities	**−2,106**	**−2,106**	**47**	**28,543**	**28,543**	**26,437**

... No Transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, October 1994 and Other Periods

[$ millions]

Classification	Transactions: This Month	Transactions: Fiscal Year to Date: This Year	Transactions: Fiscal Year to Date: Prior Year	Account Balances Current Fiscal Year: Beginning of: This Year	Account Balances Current Fiscal Year: Beginning of: This Month	Account Balances Current Fiscal Year: Close of This month
Borrowing from the Treasury:						
Funds Appropriated to the President:						
International Security Assistance:						
Guaranty reserve fund	337	337	......	413	413	750
Agency for International Development:						
International Debt Reduction	......	......	......	315	315	315
Housing and other credit guaranty programs	......	......	......	125	125	125
Private sector revolving fund	......	......	......	1	1	1
Overseas Private Investment Corporation	......	......	......	16	16	16
Department of Agriculture:						
Foreign assistance programs	−7	−7	......	550	550	544
Commodity Credit Corporation	−14,942	−14,942	1,323	16,909	16,909	1,967
Farmers Home Administration:						
Agriculture credit insurance fund	−1,748	−1,748	−2,385	4,032	4,032	2,284
Self-help housing land development fund	1	1	......	(* *)	(* *)	1
Rural housing insurance fund	975	975	......	4,497	4,497	5,472
Rural Development Administration:						
Rural development insurance fund	715	715	−10	2,091	2,091	2,806
Rural development loan fund	40	40	......	21	21	61
Rural Electrification Administration:						
Rural communication development fund	......	......	31	57	57	57
Rural electrification and telephone revolving fund	695	695	......	8,212	8,212	8,907
Rural Telephone Bank	116	116	......	586	586	702
Department of Education:						
Guaranteed student loans	......	......	......	1,605	1,605	1,605
College housing and academic facilities fund	1,288	1,288	13	596	596	1,884
College housing loans	......	......	......	411	411	411
Department of Energy:						
Isotope production and distribution fund	......	......	......	14	14	14
Bonneville power administration fund	......	......	58	2,617	2,617	2,617
Department of Housing and Urban Development:						
Housing programs:						
Federal Housing Administration	−21	−21	......	783	783	762
Housing for the ederly and handicapped	−770	−770	−475	8,484	8,484	7,714
Public and Indian housing:						
Low-rent public housing	......	......	......	135	135	135
Department of the Interior:						
Bureau of Reclamation Loans	......	......	......	11	11	11
Bureau of Mines, Helium Fund	......	......	......	252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans	−1	−1	......	26	26	25
Department of Justice:						
Federal prison industries, incorporated	......	......	......	20	20	20
Department of Transportation:						
Federal Railroad Administration:						
Railroad rehabilitation and improvement financing funds	......	......	......	14	14	14
Settlements of railroad litigation	......	......	......	−39	−39	−39
Amtrak corridor improvement loans	......	......	......	2	2	2
Regional rail reorganization program	......	......	......	39	39	39
Federal Aviation Administration:						
Aircraft purchase loan guarantee program	......	......	......	(* *)	(* *)	(* *)
Department of the Treasury:						
Federal Financing Bank revolving fund	−2,422	−2,422	−1,981	94,357	94,357	91,936
Department of Veterans Affairs:						
Loan guaranty revolving fund	......	......	......	1,107	1,107	1,107
Guaranty and indemnity fund	......	......	......	181	181	181
Direct loan revolving fund	......	......	......	2	2	2
Vocational rehabilitation revolving fund	......	......	......	2	2	2
Environmental Protection Agency:						
Abatement, control, and compliance loan program	......	......	......	26	26	26
Small Business Administration:						
Business loan and revolving fund	......	......	......	7,289	7,289	7,289

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, October 1994 and Other Periods—Continued

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing for the Treasury:—Continued						
Other independent agencies:						
Export-Import Bank of the United States	220	220	813	2,632	2,632	2,852
Federal Emergency Management Agency:						
National insurance development fund	......	......	......	87	87	87
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund	......	......	......	85	85	85
Railroad Retirement Board:						
Railroad retirement account	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	−1	−1	231	2,781	2,781	2,781
Smithsonian Institution:						
John F. Kennedy Center parking facilities	......	......	......	20	20	20
Tennessee Valley Authority	......	......	......	150	150	150
Total agency borrowing from the Treasury financed through public debt securities issued	**−15,524**	**−15,524**	**−2,381**	**163,642**	**163,642**	**148,118**
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military sales	−7	−7	−6	3,785	3,785	3,779
Department of Agriculture:						
Rural Electrification Administration	5	5	−93	21,916	21,916	21,921
Farmers Home Administration:						
Agriculture credit insurance fund	......	......	......	6,063	6,063	6,063
Rural housing insurance fund	−260	−260	......	24,391	24,391	24,131
Rural development insurance fund	......	......	......	3,675	3,675	3,675
Department of Defense:						
Department of the Navy	......	......	......	1,624	1,624	1,624
Defense agencies	......	......	......	−145	−145	−145
Department of Education:						
Student Loan Marketing Association	......	......	−30	......	......	......
Department of Health and Human Services, Except Social Security:						
Medical facilities guarantee and loan fund	−1	−1	......	63	63	62
Department of Housing and Urban Development:						
Low rent housing loans and other expenses	......	......	......	1,747	1,747	1,747
Community Development Grants	−4	−4	−8	110	110	106
Department of Interior:						
Territorial and international affairs	......	......	......	22	22	22
Department of Transportation:						
Federal Railroad Administration	......	......	......	15	15	15
Federal Transit Administration	......	......	......	665	665	665
Department of the Treasury:						
Financial Management Service	......	......	−30	......	......	......
General Services Administration:						
Federal buildings fund	41	41	35	1,780	1,780	1,821
National Aeronautics and Space Administration:						
Space flight, control and data communications	......	......	......	......	......	......
Small Business Administration:						
Business loan and investment fund	−7	−7	−7	581	581	574
Independent agencies:						
Export-Import Bank of the United States	......	......	......	3,926	3,926	3,926
Pennsylvania Avenue Development Corporation	8	8	7	250	250	258
Postal Service	−1,200	−1,200	......	8,973	8,973	7,773
Resolution Trust Corporation	−798	−798	−1,849	26,519	26,519	25,721
Tennessee Valley Authority	−200	−200	......	3,400	3,400	3,200
Total borrowing from the Federal Financing Bank	**−2,422**	**−2,422**	**−1,981**	**109,360**	**109,360**	**106,938**

Note: This table includes lending by the Federal Financing Bank accomplished by the purchase of agency financial assets, by the acquisition of agency debt securities, and by direct loans on behalf of an agency. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to agencies in lieu of agencies borrowing directly through Treasury or issuing their own securities.

... No Transactions.
(* *) Less than $500,000
Note: Details may not add to totals due to rounding

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, October 1994 and Other Periods

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal funds:						
Department of Agriculture	......	......	3	......	......	......
Department of Commerce	(* *)	(* *)	−2	13	13	13
Department of Defense—Military:						
Defense cooperation account	−4	−4	......	5	5	(* *)
Department of Energy	107	107	−10	4,527	4,527	4,634
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund:						
Public debt securities	−77	−77	31	5,742	5,742	5,664
Government National Mortgage Association:						
Management and liquidating functions fund:						
Public debt securities	......	......	(* *)	......	......	......
Agency securities	......	......	......	16	16	16
Guarantees of mortgage-backed securities:						
Public debt securities	31	31	17	3,713	3,713	3,745
Agency securities	......	......	......	1	1	1
Other	19	19	22	193	193	212
Department of the Interior:						
Public debt securities	459	459	143	2,722	2,722	3,181
Department of Labor	−27	−27	−50	5,330	5,330	5,303
Department of Transportation	11	11	16	974	974	985
Department of the Treasury	55	55	(* *)	7,452	7,452	7,507
Department of Veterans Affairs:						
Canteen service revolving fund	......	......	......	37	37	37
Veterans reopened insurance fund	−2	−2	−2	524	524	522
Servicemen's group life insurance fund	−38	−38	......	41	41	3
Independent agencies:						
Export-Import Bank of the United States	−57	−57	118	57	57	......
Federal Deposit Insurance Corporation:						
Bank insurance fund	123	123	−9	13,972	13,972	14,095
Savings association insurance fund	3	3	−6	2,493	2,493	2,495
FSLIC resolution fund						
Public debt securities	78	78	560	1,649	1,649	1,727
Federal Emergency Management Agency:						
National flood insurance fund	......	......	−71	200	200	200
National Credit Union Administration	8	8	−30	3,052	3,052	3,060
Postal Service	−658	−658	702	1,271	1,271	613
Tennessee Valley Authority	−2,690	−2,690	−65	3,954	3,954	1,263
Other	3	3	5	1,017	1,017	1,020
Other	−123	−123	−155	2,626	2,626	2,503
Total public debt securities	−2,780	−2,780	1,219	61,564	61,564	58,784
Total agency securities	......	......	......	17	17	17
Total Federal funds	**−2,780**	**−2,780**	**1,219**	**61,581**	**61,581**	**58,801**
Trust funds:						
Legislative Branch:						
Library of Congress	8	8	4	4	4	12
United States Tax Court	......	......	......	5	5	5
Other	(* *)	(* *)	(* *)	27	27	27
The Judiciary:						
Judicial retirement funds	29	29	−1	245	245	273
Department of Agriculture	2	2	(* *)	273	273	275
Department of Commerce	......	......	(* *)	(* *)	(* *)	(* *)
Department of Defense—Military:						
Voluntary separation incentive fund	24	24	20	763	763	786
Other	(* *)	(* *)	4	157	157	157
Department of Defense—Civil:						
Military retirement fund	10,797	10,797	10,823	105,367	105,367	116,164
Other	31	31	−3	1,307	1,307	1,338

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, October 1994 and Other Periods—Continued

[$ millions]

Classification	Net Purchases or Sales (–)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Trust Funds—Continued						
Department of Health and Human Services, except Social Security:						
Federal hospital insurance trust fund:						
Public debt securities	502	502	–974	128,716	128,716	129,218
Federal supplementary medical insurance trust fund	–750	–750	602	21,489	21,489	20,739
Other	9	9	10	836	836	845
Department of Health and Human Services, Social Security:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	653	653	–569	413,425	413,425	414,078
Federal disability insurance trust fund	688	688	–635	6,100	6,100	6,788
Department of the Interior:						
Public debt securities	46	46	–11	234	234	280
Department of Justice	......	......	106	......	......	......
Department of Labor:						
Unemployment trust fund	–380	–380	–676	39,788	39,788	39,408
Other	–9	–9	–8	59	59	50
Department of State:						
Foreign Service retirement and disability fund	–24	–24	–82	7,179	7,179	7,155
Other	......	......	......	50	50	50
Department of Transportation:						
Highway trust fund	–503	–503	–780	17,694	17,694	17,191
Airport and airway trust fund	80	80	273	12,206	12,206	12,286
Other	2	2	–4	1,683	1,683	1,685
Department of the Treasury	–26	–26	–24	258	258	233
Department of Veterans Affairs:						
General post fund, national homes	......	......	......	38	38	38
National service life insurance:						
Public debt securities	–62	–62	–61	11,852	11,852	11,791
United States government life Insurance Fund	–1	–1	–2	115	115	114
Veterans special life insurance fund	–5	–5	–6	1,509	1,509	1,503
Environmental Protection Agency	117	117	4	6,250	6,250	6,367
National Aeronautics and Space Administration	......	......	(* *)	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	–2,000	–2,000	–1,857	338,889	338,889	336,889
Employees health benefits fund	–63	–63	–47	7,572	7,572	7,509
Employees life insurance fund	78	78	25	14,929	14,929	15,008
Retired employees health benefits fund	(* *)	(* *)	(* *)	1	1	1
Independent agencies:						
Harry S. Truman memorial scholarship trust fund	(* *)	(* *)	......	53	53	53
Japan-United States Friendship Commission	(* *)	(* *)	(* *)	17	17	16
Railroad Retirement Board	–39	–39	–112	12,203	12,203	12,164
Other	71	71	3	226	226	297
Total public debt securities	9,274	9,274	6,023	1,151,534	1,151,534	1,160,808
Total trust funds	**9,274**	**9,274**	**6,023**	**1,151,534**	**1,151,534**	**1,160,808**
Grand total	**6,494**	**6,494**	**7,242**	**1,213,115**	**1,213,115**	**1,219,609**

... No Transactions
(* *) Less than $500,000.

Note: Investments are in public debt securities unless otherwise noted.
Note: Details may not add to totals due to rounding.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1995
[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Receipts:														
Individual income taxes	43,239												43,239	37,680
Corporation income taxes	3,470												3,470	2,158
Social insurance taxes and contributions:														
Employment taxes and contributions	31,263												31,263	29,440
Unemployment insurance	1,073												1,073	1,046
Other retirement contributions	351												351	343
Excise taxes	4,275												4,275	3,597
Estate and gift taxes	1,206												1,206	990
Customs duties	1,848												1,848	1,708
Miscellaneous receipts	2,300												2,300	1,706
Total—Receipts this year	**89,024**												**89,024**	......
(On-budget)	**65,384**												**65,384**	......
(Off-budget)	**23,639**												**23,639**	......
Total—Receipts prior year	*78,668*												......	*78,668*
(On budget)	*55,864*												......	*55,864*
(Off budget)	*22,804*												......	*22,804*
Outlays														
Legislative Branch	354												354	378
The Judiciary	184												184	158
Executive Office of the President	18												18	20
Funds Appropriated to the President:														
International Security Assistance	3,255												3,255	3,302
International Development Assistance	726												726	557
Other	−381												−381	133
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	1,749												1,749	900
Other	5,850												5,850	3,993
Department of Commerce	305												305	264
Department of Defense:														
Military:														
Military personnel	3,713												3,713	6,634
Operation and maintenance	6,105												6,105	6,413
Procurement	4,254												4,254	5,131
Research, development, test, and evaluation	2,501												2,501	2,987
Military construction	425												425	404
Family housing	247												247	226
Revolving and management funds	147												147	1,568
Other	280												280	−217
Total Military	17,672												17,672	23,147
Civil	2,638												2,638	2,550
Department of Education	1,949												1,949	1,805
Department of Energy	1,683												1,683	1,710
Department of Health and Human Services, except Social Security:														
Public Health Service	1,603												1,603	1,467
Health Care Financing Administration:														
Grants to States for Medicaid	6,622												6,622	7,394
Federal hospital ins. trust fund	7,834												7,834	7,432
Federal supp. med. ins. trust fund	4,799												4,799	4,650
Other	3,055												3,055	3,783
Social Security Administration	917												917	2,970
Administration for children and families	2,728												2,728	2,797
Other	−4,508												−4,508	−5,060
Department of Health and Human Services, Social Security:														
Federal old-age and survivors ins. trust fund	23,413												23,413	22,546
Federal disability ins. trust fund	3,289												3,289	2,992
Other	−630												−630	−977
Department of Housing and Urban Development	2,903												2,903	2,645

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1995—Continued

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Outlays—Continued														
Department of the Interior	884												884	527
Department of Justice	908												908	749
Department of Labor:														
Unemployment trust fund	1,650												1,650	2,710
Other	702												702	652
Department of State	488												488	843
Department of Transportation:														
Highway trust fund	1,794												1,794	1,774
Other	1,650												1,650	1,377
Department of the Treasury:														
Interest on the public debt	19,732												19,732	17,638
Other	34												34	−102
Department of Veterans Affairs:														
Compensation and pensions	105												105	1,400
National service life	64												64	66
United States government life	1												1	2
Other	1,528												1,528	1,338
Environmental Protection Agency	438												438	430
General Services Administration	−651												−651	239
National Aeronautics and Space Administration	845												845	1,079
Office of Personnel Management	3,410												3,410	3,335
Small Business Administration	65												65	14
Independent agencies:														
Fed. Deposit Ins. Corp.:														
Bank insurance fund	−127												−127	52
Savings association insurance fund	−2												−2	−5
FSLIC resolution fund	−87												−87	(* *)
Postal Service:														
Public enterprise funds (off-budget)	648												648	−509
Payment to the Postal Service fund	61												61	61
Resolution Trust Corporation	−471												−471	7
Tennessee Valley Authority	265												265	106
Other independent agencies	2,719												2,719	1,705
Undistributed offsetting receipts:														
Employer share, employee retirement	−2,442												−2,442	−2,572
Interest received by trust funds	−611												−611	−359
Rents and royalties on outer continental shelf lands	−154												−154	−21
Other	(* *)												(* *)	(* *)
Totals this year:														
Total outlays	**121,472**												**121,472**	......
(On-budget)	**95,298**												**95,298**	......
(Off-budget)	**26,174**												**26,174**	......
Total-surplus (+) or deficit (−)	**−32,448**												**−32,448**	......
(On-budget)	**−29,914**												**−29,914**	......
(Off-budget)	**−2,535**												**−2,535**	......
Total borrowing from the public	**32,457**												**32,457**	**4,255**
Total-outlays prior year	*124,090*												......	*124,090*
(On-budget)	*100,567*												......	*100,567*
(Off-budget)	*23,523*												......	*23,523*
Total-surplus (+) or deficit (−) prior year	*−45,422*												......	*−45,422*
(On-budget)	*−44,704*												......	*−44,704*
(Off-budget)	*−719*												......	*−719*

... No transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of October 31, 1994

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport	445	443	2	445	443	2	12,206	12,206	12,286
Black lung disability	60	46	14	60	46	14	......	......	......
Federal disability insurance	3,797	3,289	508	3,797	3,289	508	6,100	6,100	6,788
Federal employees life and health	......	11	−11	......	11	−11	22,503	22,503	22,518
Federal employees retirement	1,141	3,160	−2,019	1,141	3,160	−2,019	346,317	346,317	344,322
Federal hospital insurance	7,574	7,834	−260	7,574	7,834	−260	128,716	128,716	129,218
Federal old-age and survivors insurance	21,018	23,413	−2,395	21,018	23,413	−2,395	413,425	413,425	414,078
Federal supplementary medical insurance	4,545	4,799	−254	4,545	4,799	−254	21,489	21,489	20,739
Highways	1,489	1,942	−454	1,489	1,942	−454	17,694	17,694	17,191
Military advances	1,298	1,076	222	1,298	1,076	222	......	......	......
Railroad retirement	402	666	−264	402	666	−264	12,203	12,203	12,164
Military retirement	12,854	2,287	10,567	12,854	2,287	10,567	105,367	105,367	116,164
Unemployment	1,105	1,650	−545	1,105	1,650	−545	39,788	39,788	39,408
Veterans life insurance	25	95	−70	25	95	−70	13,477	13,477	13,408
All other trust	709	127	582	709	127	582	12,251	12,251	12,525
Total trust fund receipts and outlays and investments held from Table 6-D	**56,462**	**50,839**	**5,623**	**56,462**	**50,839**	**5,623**	**1,151,534**	**1,151,534**	**1,160,808**
Less: Interfund transactions	18,652	18,652	......	18,652	18,652	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	37,809	32,187	5,623	37,809	32,187	5,623			
Total Federal fund receipts and outlays	**54,189**	**92,260**	**−38,071**	**54,189**	**92,260**	**−38,071**			
Less: Interfund transactions	17	17	......	17	17	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	54,172	92,243	−38,071	54,172	92,243	−38,071			
Less: offsetting proprietary receipts	2,958	2,958	......	2,958	2,958	......			
Net budget receipts & outlays	**89,024**	**121,472**	**−32,448**	**89,024**	**121,472**	**−32,448**			

... No transactions.
Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against bugdet outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, October 1994 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	43,239	43,239	37,680
Corporation income taxes	3,470	3,470	2,158
Social insurance taxes and contributions:			
Employment taxes and contributions	31,263	31,263	29,440
Unemployment insurance	1,073	1,073	1,046
Other retirement contributions	351	351	343
Excise taxes	4,275	4,275	3,597
Estate and gift taxes	1,206	1,206	990
Customs	1,848	1,848	1,708
Miscellaneous	2,300	2,300	1,706
Total	**89,024**	**89,024**	**78,668**
NET OUTLAYS			
National defense	18,801	18,801	24,284
International affairs	4,339	4,339	4,732
General science, space, and technology	1,115	1,115	1,421
Energy	525	525	425
Natural resources and environment	3,418	3,418	1,912
Agriculture	2,048	2,048	1,442
Commerce and housing credit	858	858	377
Transportation	3,434	3,434	3,130
Community and Regional Development	1,171	1,171	896
Education, training, employment and social services	3,705	3,705	3,562
Health	8,631	8,631	9,315
Medicare	11,099	11,099	10,729
Income security	15,275	15,275	17,367
Social Security	26,702	26,702	25,538
Veterans benefits and services	1,677	1,677	2,819
Administration of justice	1,340	1,340	1,009
General government	1,261	1,261	642
Interest	18,669	18,669	17,082
Undistributed offsetting receipts	−2,596	−2,596	−2,593
Total	**121,472**	**121,472**	**124,090**

Note: Details may not add to totals due to rounding.

Explanatory Notes

1. Flow of Data Into Monthly Treasury Statement

The Monthly Treasury Statement (MTS) is assembled from data in the central accounting system. The major sources of data include monthly accounting reports by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. These reports detail accounting transactions affecting receipts and outlays of the Federal Government and off-budget Federal entities, and their related effect on the assets and liabilities of the U.S. Government. Information is presented in the *MTS* on a modified cash basis.

2. Notes on Receipts

Receipts included in the report are classified into the following major categories: (1) budget receipts and (2) offsetting collections (also called applicable receipts). Budget receipts are collections from the public that result from the exercise of the Government's sovereign or governmental powers, excluding receipts offset against outlays. These collections, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the public that are of a business-type or market-oriented nature. They are classified into two major categories: (1) offsetting collections credited to appropriations or fund accounts, and (2) offsetting receipts (i.e., amounts deposited in receipt accounts). Collections credited to appropriation or fund accounts normally can be used without appropriation action by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being appropriated. They are subdivided into two categories: (1) proprietary receipts—these collections are from the public and they are offset against outlays by agency and by function, and (2) intragovernmental funds—these are payments into receipt accounts from Governmental appropriation or funds accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts. The transactions may be intrabudgetary when the payment and receipt both occur within the budget or from receipts from off-budget Federal entities in those cases where payment is made by a Federal entity whose budget authority and outlays are excluded from the budget totals.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions, where the payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, where the payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions, where the payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, by subfunction, or by agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by off-budget Federal entities) as employers into employees retirement funds, (2) interest received by trust funds, (3) rents and royalties on the Outer Continental Shelf lands, and (4) other interest (i.e., interest collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

3. Notes on Outlays

Outlays are generally accounted for on the basis of checks issued, electronic funds transferred, or cash payments made. Certain outlays do not require issuance of cash or checks. An example is charges made against appropriations for that part of employees' salaries withheld for taxes or savings bond allotments — these are counted as payments to the employee and credits for whatever purpose the money was withheld. Outlays are stated net of offsetting collections (including receipts of revolving and management funds) and of refunds. Interest on the public debt (public issues) is recognized on the accrual basis. Federal credit programs subject to the Federal Credit Reform Act of 1990 use the cash basis of accounting and are divided into two components. The portion of the credit activities that involve a cost to the Government (mainly subsidies) is included within the budget program accounts. The remaining portion of the credit activities are in non-budget financing accounts. Outlays of off-budget Federal entities are excluded by law from budget totals. However, they are shown separately and combined with the on-budget outlays to display total Federal outlays.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS*.

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

- *A Glossary of Terms Used in the Federal Budget Process, March 1981* (Available from the U.S. General Accounting Office, Gaithersburg, Md. 20760). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

- *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

- *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only). This publication provides detailed information concerning the public debt.

- *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402, by subscription or single copy). Quarterly. Contains a mix of narrative, tables, and charts on Treasury issues, Federal financial operations, international statistics, and special reports.

- *Budget of the United States Government, Fiscal Year 19 __* (Available from GPO, Washington, D.C. 20402). This publication is a single volume which provides budget information and contains:

  -Appendix, The Budget of the United States Government, FY 19 __
  -The United States Budget in Brief, FY 19 __
  -Special Analyses
  -Historical Tables
  -Management of the United States Government
  -Major Policy Initiatives

- *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20227). This annual report represents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

Scheduled Release

The release date for the November 1994 Statement will be 2:00 pm EST December 21, 1994.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (202) 512-1800. The subscription price is $35.00 per year (domestic), $43.75 per year (foreign).
No single copies are sold.

The Monthly Treasury Statement is now available on the Department of Commerce's Economic Bulletin Board.
For information call (202)482-2939.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL
12 p.m. Sunday, November 27, 1994

Contact: Rebecca Lowenthal
(202) 622-2960

PRE-SUMMIT CUSTOMS CONFERENCE WILL ADDRESS HEMISPHERIC TRADE AND FINANCIAL ISSUES, TARGET BUSINESS COMMUNITY

The Treasury Department announced today that the U.S. Customs Service will host a conference for the international trade and financial community December 4-6, 1994 in Miami, Florida. The conference will precede the Summit of the Americas, the largest gathering of Western Hemisphere leaders in history.

An estimated 3,000 exhibitors, speakers, and participants will examine how hemispheric trade affects government and business on a practical level, and how customs, international trade and banking officials can smooth the flow of commerce and systematize customs laws and regulations. The symposium will feature a series of discussions on topics of interest to international businesses, including opportunities in emerging capital markets, issues facing the region's textile trade, changes in customs agency procedures in the hemisphere and NAFTA implementation. Customs, trade and financial representatives from at least 21 countries will lend diverse international perspective to the panels.

"This is a fitting prelude to the Summit of the Americas as well as a tremendous opportunity for all members of the trade community to examine the challenges facing us," said Treasury Under Secretary for Enforcement Ronald K. Noble. "As hemispheric trade continues to grow, all of those who do business in the region -- be they bankers, brokers, importers or exporters -- need to understand the laws governing trade, the prospects for integrated and automated regulation, and the prospects for growth in the financial sectors of the many young democracies."

Under Secretary Noble and Frederico Peña, Secretary of the U.S. Department of Transportation, are scheduled to speak during the three-day conference. Also expected are Customs Commissioner George Weise, Treasury Assistant Secretary for Management George Muñoz; Senator Bob Graham of Florida; Florida Governor Lawton Chiles; and Florida Comptroller Gerald Lewis.

Event co-hosts include banking associations, the Port of Miami, and other organizations with interest in vital regional trade issues.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 28, 1994

Contact: Hamilton Dix
(202) 622-2960

TREASURY ANNOUNCES SYSTEMS SECURITY AWARD WINNERS

Treasury Assistant Secretary for Management George Muñoz Monday announced Carlos Moura and the Office of Information Resources are the winners of Treasury's third annual Telecommunications and Information Systems Security Awards.

The awards recognize effectiveness in implementation, management or improvement in telecommunications and information systems security.

Moura, the individual award winner, is a computer security program manager with the Criminal Investigations Division of the Internal Revenue Service. He initiated the program which scopes sensitive but unclassified systems under operations and under development at both headquarters and field levels. He drafted security policy, implementing dial-up access, created an ongoing security awareness training program, and recommended innovative security measures for a secure LAN (local area network).

Winner of the organization award, the Office of Information Resources (OIR) at the Financial Management supports the Electronic Certification System where over 60 million federal payments a month are electronically signed. This system is one of the most significant technological advances in the government's financial business operations in recent times and will serve as an important foundation for future secure commercial applications.

Announcing the awards, Muñoz said, "This awards program has a direct impact on the improvement of Treasury telecommunications and information security systems. I am encouraged by the number and high calibre of nominations in this third awards presentation."

The awards will be formally presented at the Treasury Department on December 6.

-30-

LB-1246

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 28, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,642 million of 13-week bills to be issued December 1, 1994 and to mature March 2, 1995 were accepted today (CUSIP: 912794Q72).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.43%	5.58%	98.627
High	5.44%	5.59%	98.625
Average	5.44%	5.59%	98.625

$3,520,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 55%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$48,676,439	$13,641,591
Type		
Competitive	$43,119,318	$8,084,470
Noncompetitive	1,403,659	1,403,659
Subtotal, Public	$44,522,977	$9,488,129
Federal Reserve	3,392,880	3,392,880
Foreign Official Institutions	760,582	760,582
TOTALS	$48,676,439	$13,641,591

An additional $190,218 thousand of bills will be issued to foreign official institutions for new cash.

LB-1247

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 28, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,627 million of 26-week bills to be issued December 1, 1994 and to mature June 1, 1995 were accepted today (CUSIP: 912794S47).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.84%	6.10%	97.048
High	5.86%	6.12%	97.037
Average	5.86%	6.12%	97.037

Tenders at the high discount rate were allotted 55%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$45,273,988	$13,626,613
Type		
Competitive	$39,136,801	$7,489,426
Noncompetitive	1,214,049	1,214,049
Subtotal, Public	$40,350,850	$8,703,475
Federal Reserve	3,450,000	3,450,000
Foreign Official Institutions	1,473,138	1,473,138
TOTALS	$45,273,988	$13,626,613

An additional $368,262 thousand of bills will be issued to foreign official institutions for new cash.

LB-1248

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

The International Economic Situation
Remarks by
Lawrence H. Summers
Under Secretary of the Treasury
to the 1994 Business Issues Conference
Institute of Internal Auditors
November 14, 1994

Introduction

I am delighted to be here. My message to you is simple. The United States has the most dynamic private sector in the world. Our economy is better poised for a period of strong, sustained economic growth than it has been at any time during my professional lifetime. But that growth depends on our continuing to do what Americans do well. As President Clinton has said, we must compete, rather than retreat.

Let me say a few words about what I think deserves even more emphasis than it has already received: the private sector revival in the United States. I will also talk a little bit about the macroeconomic basis of the current expansion in the United States, and the prospects for global expansion. Then I want to discuss this administration's philosophy of export activism, and why promoting market opening around the world is so important for our own and the world's economic strength.

Private Sector Renewal

You know, five years ago people thought that the United States was not going to be able to compete with Europe or with Japan. Today, many fewer believe that. It is there in the numbers:

- the United States has created more employment in the last two years than all the OECD states combined, because they have created negative 500,000 jobs.

It is there in the investment record:

- Gross equipment investment's share of GDP has surged to a level higher than at any time since World War II, and net business investment in equipment is as high a proportion of net domestic product as it has been 40 years.

It is there in the productivity growth:

- which is so rapid that unit labor costs in the United States have actually fallen over the last year. And even in 1993, the labor cost of producing a comparable level of output was almost 40 percent higher in Germany, and 30 percent higher in Japan than in the United States.

And it is there in a set of stories about the business renaissance. When I make that case, I like to think of three companies as standing for this private sector revival, although you could cite many, many other examples.

The first is General Electric, a traditional industrial company that, under pressure from financial markets, has reinvented itself, quadrupling earnings while cutting its workforce in half in just over a decade.

And if you look at Ford, if you look at what is now happening at IBM, if you look at the Fortune 100 companies in the United States and you see how they have downsized and increased productivity over the last decade, and then you look at the Fortune 100 of Europe or the Fortune 100 of Japan, you see many fewer new entrants, many fewer instances of success.

It is there in what is perhaps our best forward-looking indicator -- the fact that the U.S. stock market was worth 20 percent less than the Japanese stock market in 1989, but today is worth nearly 30 percent more.

The second company that I think stands for what is different in the United States today is MicroSoft. MicroSoft is worth 80 percent as much, in market value terms, as IBM. That says something about America's capacity for entrepreneurship. That says something about a venture capital industry that is envied around the world. That says something about why American firms take 75 percent of the world's software market, and about America's business position in the world.

I think the third reason for optimism about the United States -- and I would cite Federal Express as an example, but I could have chosen many other companies -- is that in all the important areas of post-industrial technology or services, the United States is far ahead. That's the case whether it is Federal Express in delivery, Disney in entertainment, McDonald's in fast food, or WalMart in retail.

It is because our private sector is so strong, because it has been able to compete so effectively, that American exports have grown twice as rapidly over the last eight years as those of Japan or Western Europe. It is for that reason that we can afford to have economic policies that are guided by hope, rather than governed by fear.

The Macroeconomic Foundation

Let me say a few things about the macroeconomic foundation we are setting for our companies to compete. Then I will come to the area of trade policy.

I said before that I was more optimistic about this recovery than about any expansion during my professional lifetime. That is because this is the first investment-led, low-inflation recovery that the United States has enjoyed since John Kennedy was President.

That is significant. It is significant because one clear lesson emerges from post-war economic history. No recovery has ever died of old age. Recoveries have died because they have been murdered by the Federal Reserve, with inflation control as the motive.

Inflation rises. People get properly nervous. The Fed rightly hits the brakes. The economy goes into a skid, and we experience a recession. That was the pattern in 1958. That was the pattern in 1967. That was the pattern in 1970. That was the pattern in 1974. That was the pattern in 1982. And that was the pattern in 1989.

If we are going to avoid a repeat of that pattern, it is essential that inflation be kept under control. And inflation is at its lowest level since the 1960's.

It is necessary that we expand capacity so that the demand for output can rise without giving rise to price pressures. And that is why it is so significant that investment is leading this recovery, to the point where our investment figures are more favorable than they have been in a generation.

What is responsible for this investment-led recovery?

The President's program of deficit reduction jump-started the economy by getting long-term interest rates down fast. For the first time since Harry Truman was President, the budget deficit is going to decline for three successive years.

For the first time in my memory, the United States is going to have the smallest budget deficit relative to its income of all the G-7 nations.

For the first time since the late 1970's, instead of our national debt rising faster than our GNP, our national debt will shrink as a proportion of national income, over the next few years.

Sustainable fiscal policy. Strong monetary policy. The Administration has made clear on repeated occasions that it shares the Federal Reserve's objective of sustained recovery with low inflation.

This President and this Secretary of the Treasury have consistently recognized that the Federal Reserve must act independently toward these crucial objectives.

Of course, a critical part of macroeconomic policy is understanding the importance of exchange rate policy. Secretary Bentsen made clear our exchange rate policy in early 1993, when he emphasized that exchange rates should reflect economic fundamentals, and when he rejected artificial manipulation of exchange rates. Despite a good deal of rumors to the contrary, we saw that as the right policy then, and it remains the right policy today.

We have rejected the counsel of those who would suggest that somehow the United States should be indifferent to a further decline of the dollar, or that we should welcome some competitive advantage that would result. The American economy does not need any currency-induced adrenalin. American businesses are competing more effectively by selling better products at lower costs into increasingly open markets than at any time in the past. We have no need or reason to use the dollar as a tool for trade policy.

Promoting Growth Abroad

Our private sector is unmatched. We are in a strong cyclical position. That is why we have been so concerned with promoting growth abroad and opening foreign markets.

At a London meeting in 1993, we agreed with our G-7 partners on a three-pronged global growth strategy: a reduction of the budget deficit in the United States, fiscal stimulus in Japan, and lower interest rates in Europe.

That strategy, manifested in Japanese tax cuts and interest rates reductions of several hundred basis points across Europe, is now yielding a worldwide expansion. For the first time in some years, we are seeing all the major regions of the world growing together. And that works importantly to our advantage, because that means an increasingly strong market for U.S. products. The U.S. current account deficit will soon begin to shrink as foreign appetites for our goods increase.

Opening Foreign Markets

Of course, if you take a long-run view of the world and do not think about the current business cycle expansion -- if you step back and ask, how is history going to regard this period? -- the really significant thing is not the current business cycle or expansion. It is the fact that this was the 20-year period of human history in which 3 billion people living in the developing world got on a rapid escalator toward modernity.

It is estimated that by the year 2010 there will be 600 million people in India, China and Indonesia with a standard of living that is equal to Spain's average. That is a tremendous change, underway in today's world. It is a change that reflects the successful export of one of the things the United States has been trying to export for a generation -- a philosophy about open markets. And it is a huge potential commercial advantage for the United States.

Think about American relations with Latin America. Think about American relations with the developing countries of Asia. Think about Americans relations with Europe. And then think about European relationships with Latin America, or Latin American relationships with the developing countries of Asia. And it is clear that the United States sits at the hub of the world economic system.

That economic system is changing more rapidly than ever before. New technologies, new ideas, new products, new ways of selling things are everywhere. If we are to realize the full potential of change, we have to make sure that we can prosper by selling -- not just at home -- but around the world.

That is why the administration has made trade such a priority. I call our strategy export activism. It is not the reactive protectionist strategy of the past that seeks to erect walls, to benefit industries that are able to squawk loudly. Nor is it the turn the other cheek, *laissez-faire* policy that some of my friends in the economics profession would recommend.

Instead, it is a strategy based on a simple premise: more trade leads to more prosperity.

For 50 years, the United States has had the most open markets of any major country. Whether the question is restrictions on manufactured goods, subsidies to agriculture, regulatory inhibitions on banks -- we have been the freest and most open economy. It has been too long. That openness may have been right in 1954, or in 1964, or 1974. But it's not right in 1994.

Other countries' barriers have to come down, so that American firms can compete on a fair and level playing field.

That has been the heart of the administration's trade policy. Look at what happened with NAFTA. Mexican trade barriers came down 5 times as much as ours. The resulting increase in our exports has already created between 100,000 to 200,000 new American jobs. And exports to Mexico were up in the first half of this year by 17 percent, despite the fact that Mexico suffered a serious recession.

But adoption of the NAFTA had perhaps an even more important result. Mexico as a society passed through a difficult period earlier this year, with the Colosio assassination. But political and social stability was maintained, the work of building Mexico's economy continued. I believe that much of the credit for that relative stability, for Mexico's passage through that rocky period, can be attributed to NAFTA.

GATT

There are votes that test nations. The vote on the League of Nations after WWI was such a vote. The Congress of the United States voted wrong. That is one of the reasons why the twenty-five years from 1920 to 1940 are such a dark period in human history, culminating in the Second World War.

The vote on the Marshall Plan after World War II was such a vote that tested our nation. That vote went the other way. We saw a Europe in which war became an impossibility. We saw the 25 most rapid years of growth in the history of humankind.

Now, after the Cold War, Congress will soon find itself voting on GATT. It will be voting on an agreement supported by President Reagan and President Bush, and concluded by President Clinton. It will be voting on an agreement that will provide the largest tax cut in the history of humankind, some $750 billion for the entire planet. It will be voting on an agreement that will bring down barriers to manufactured goods by a full 1/3 -- that for the first time will extend the discipline of international competition to areas where the United States has a huge advantage -- intellectual property, agriculture, and services, which accounts for $180 billion in exports, and 70 percents of U.S. jobs. Congress will be voting on an agreement that will bring whole new regions of the globe into the world trading system, setting an example of liberalism, prosperity, and integration for vast new populations.

Whether or not we vote GATT up or down will likely be the most important decision this Congress makes, and perhaps the most important decision taken by any Congress in decades. With it, we will give a major impetus to trade liberalization, a major impetus to American firms selling abroad, a major impetus to those countries that are trying to develop.

Without it, the United States will have turned its back on the future.

And make no mistake. A GATT delayed could well be a GATT destroyed.

Even without GATT's important political and strategic ramifications, a vote for the Uruguay Round accord is about the closest decision imaginable to a free lunch. The agreement will add some $100 to $200 billion yearly to U.S. income within 10 years. That's $1,700 per family of four, an estimated $16 billion for Californians alone.

It will add anywhere from 300,000 to 700,000 new jobs to our economy, based on conservative estimates.

And it will help us close our budget deficit, providing some $3 in new federal revenues for every $1 in revenue lost.

A vote for GATT is a vote for what has always been strongest in American culture, our ability to compete, to face new challenges squarely. It is a vote that will declare that we are a nation of hope, rather than fear.

We are confronting the many barriers to trade in Japan and in China. We are going to pursue free trade in the hemisphere at the Summit of the Americas Conference, and in Asia through APEC. And I think it is fair to say that whether it is direct presidential involvement in sales of aircraft to Saudi Arabia, or Secretary Brown's tireless efforts to ensure a U.S. presence in emerging markets, this administration has worked harder to promote the interests of business abroad than any previous administration.

Put all of this together. A private sector that is the most dynamic in the world. A strong macroeconomic foundation. A commitment to internationalism that exploits America's unique economic position in the world. I think it is fair to say that if the 20th century was the American century, then economically, the 21st will be as well.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
November 29, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury will auction approximately $8,000 million of 20-day Treasury cash management bills to be issued December 2, 1994.

Competitive and noncompetitive tenders will be received at all Federal Reserve Banks and Branches. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D. C.

Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

LB-1249

HIGHLIGHTS OF TREASURY OFFERING
OF 20-DAY CASH MANAGEMENT BILL

November 29, 1994

Offering Amount . . . . $8,000 million

Description of Offering:

Term and type of security .	20-day Cash Management Bill
CUSIP number	912794 P5 7
Auction date	November 30, 1994
Issue date	December 2, 1994
Maturity date	December 22, 1994
Original issue date	June 23, 1994
Currently outstanding . . .	$51,654 million
Minimum bid amount	$1,000,000
Multiples	$1,000,000
Minimum to hold amount . .	$10,000
Multiples to hold	$1,000

Submission of Bids:

Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
	(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
	(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . .	Prior to 12:00 noon Eastern Standard time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
November 29, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $27,200 million, to be issued December 8, 1994. This offering will provide about $2,100 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $25,088 million.

Federal Reserve Banks hold $6,569 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $1,769 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED DECEMBER 8, 1994

November 29, 1994

Offering Amount	$13,600 million	$13,600 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 Q8 0	912794 S5 4
Auction date	December 5, 1994	December 5, 1994
Issue date	December 8, 1994	December 8, 1994
Maturity date	March 9, 1995	June 8, 1995
Original issue date	March 10, 1994	December 8, 1994
Currently outstanding	$28,805 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . . . Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 29, 1994

Contact: Hamilton Dix
(202) 622-2960

BENTSEN AND WILLARD SCOTT TO SPEAK AT WORLD AIDS DAY PROGRAM

Treasury Secretary Lloyd Bentsen and Willard Scott of NBC's "Today" show will speak at the Treasury Department's observance of World AIDS Day at 11 a.m., Thursday, December 1 in the Cash Room at Treasury.

Also joining Secretary Bentsen will be Deputy Assistant Secretary for Administration Alex Rodriguez and keynote speaker Lynn McCombs of the Metro D.C. Teens AIDS Network.

An AIDS Walk around the White House will take place at 1 p.m. beginning at the moat entrance of the Treasury building.

One of two sections of the AIDS quilt dedicated to Federal employees who have died of AIDS related complications will be on display in the north lobby of the main Treasury building Thursday from 8 a.m until 5:30 p.m.

Media without Treasury, White House, State, Defense or Congressional credentials wishing to attend should contact the Office of Public Affairs at (202) 622-2960. This information may be faxed to (202) 622-1999.

-30-

LB-1251

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 29, 1994

Contact: Michelle Smith
(202) 622-2960

BENTSEN, KANTOR TO JOIN SEVERAL SENATORS IN SUPPORT FOR GATT

Treasury Secretary Lloyd Bentsen will join United States Trade Representative Mickey Kantor and several United States Senators as they show their support for Senate passage of the General Agreement on Tariffs and Trade (GATT) at a press briefing tomorrow afternoon.

The briefing will be at 3 p.m. tomorrow, Wednesday, November 30 in room SC-5 in the Capitol.

-30-

LB-1252

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 29, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
HOUSE VOTE ON GATT

The House has taken the first step toward creating hundreds of thousands of new, better-paying jobs for Americans. We are now on the verge of enacting the most significant trade deal in global history. The Senate must take the final step and demonstrate to the world our leadership and our commitment to free trade.

-30-

LB-1253

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 30, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
GATT NOW BREAKFAST

This is it. The end of the road. Tomorrow the Senate will take the most important trade vote in this country in 60 years.

We won a great, bipartisan boost from the House yesterday. I think the message is finally sinking in up here on the Hill that this is a good deal. But we cannot sit back and say that just because we think we can win that we're going to win. It isn't a slam dunk and I'm going to be working this every step of the way. I hope you will too.

I feel a bit like the coach in the locker room at half time. We did well in the first half, but the game isn't over. It's going to go right down to the wire.

I've been around Washington for more than a week or two, and one of the things I've learned is you have to say something over and over and over before it sinks in here. You may be familiar with some of what I'm about to say, but bear with me. I'm going to say it for the 42nd time so you have a bit more ammunition to take out there and fight with.

Sixty years ago this nation retreated behind the protectionist wall of Smoot-Hawley. A great deal of the world followed suit. We had a depression, a World War, we had to do the Marshall plan. Much of what followed Smoot-Hawley is directly traceable to that protectionist streak.

I'm not for a minute predicting a recession if GATT fails, but we will be giving up a great deal, a great deal -- particularly in terms of global economic leadership.

Tomorrow we have to cross a procedural hurdle. We only need a majority to pass GATT, but we must have 60 votes to waive the Senate's rules on the financing of GATT. That's the real test here. I'm not worried about the financing, it will bring in enough to pay for itself and help reduce the deficit.

LB-1254 (MORE)

I'm concerned there's room there for someone to try to have it both ways -- say they're all for GATT and everything it can bring, but that they just couldn't see waiving the rules. Let me tell you, no one gets a pass on this one. They're either for GATT or they're not. No in between. No weaving. No dodging. No ducking.

You know, we've come a long way since Smoot-Hawley. Our tariffs used to be up in the 60 percent range, and now they're down around 4 percent, more or less. It used to be that one job in 30 was related to trade. These days that figure is more like one in 13. As our economy matures, trade is the approach we need to sustain growth.

The Uruguay Round will make a critical contribution to continuing the growth we're seeing. Our economists tell me that it will add 500,000 jobs to the economy. They tell me that a decade from now we'll have $150 billion more activity in our economy than now.

This agreement is going to bring down the tariffs that make it hard for us to compete. The taxes American products and services face when we're competing in world markets will come down by well over one-third. Some of those taxes are being lifted entirely.

That means greater opportunities and greater competitiveness for American businesses. We have the most competitive, innovative and productive private sector in the world. And look at the markets out there for us -- Asia, the fastest growing region of the world. Latin America, second fastest. Why would we want to turn our back on that opportunity?

This agreement has critical benefits across the spectrum for our economy. And one of the important advances is in the area of intellectual property rights.

We're doing more than just bringing down tariffs with GATT. We're seeing to it that entrepreneurs in our economy who come up with good ideas don't get ripped off. The estimates are that American businesses lose something on the order of $60 billion each year because of counterfeiting. My picture was in the paper the week before last holding up a bootleg Bruce Springsteen CD to illustrate that point.

The intellectual property right protections take on even more importance in light of something I saw the other day -- that in 1995, the computer software market worldwide will exceed the market for computer hardware. And we have 75 percent of the software market.

There are several other points I want to make quickly today about the Uruguay Round.

First, this is the largest tax cut in history, and I can't imagine saying no to a tax cut like this. Worldwide this agreement will save business and consumers nearly $750 billion -- that's how much of a reduction in the burden of tariffs there will be for producers and consumers.

Second, think what would happen when we went out to sell overseas without this agreement. Our tariffs average 4 percent, and the tariff's that are coming down abroad are up there in some cases at 70 percent, 80 percent. Our corporations could be looking at a situation where your competitors have low tariffs when they go for export business, but our firms run smack into those higher tariffs.

All that would do is lose us business, maybe cost us jobs, cost us income we might otherwise have earned.

Third, it was Congress that said back in 1988 that it wanted a better way to resolve trade disputes, and we have that now with this agreement. We pushed for it, and it's in here.

Fourth, we get rid of the free riders with GATT. Those are the fellows who don't sign on to reducing their tariffs but they're delighted to take advantage of MFN status here in our markets. We pushed for that in GATT.

And finally, what kind of a signal would it send to the rest of the world if the country of free trade turned its back on the most significant trade agreement ever negotiated? What does it say if we reject a deal negotiated under two Republican and one Democratic president over a span of seven years? Almost everyone's waiting on us to show our leadership on this one.

Let me ask another question: If we fail, how long will it take before another agreement is reached? Seven years? Ten years? How long? How much will we give up in terms of lost potential, slowed development, curtailed job creation? I can tell you that waiting just six months costs us $70 billion in lost production over a decade.

We have a big vote tomorrow. The private sector has done a good job of spreading the word about the benefits of GATT. The GATT Now organization has done an excellent job. But we cannot sit back, quit now and just assume GATT's going to pass. I don't want to wake up Friday morning and say, "If I'd only talked to one more senator we could have won it."

The Senate tomorrow has a singular opportunity to show its leadership. It can take a bold step that will benefit not just our nation, but all 124 countries which have signed the Uruguay Round. The Senate tomorrow can vote to open markets for American businesses. And it can vote to give American workers better jobs and higher incomes. This is the most important vote of the year for this Congress.

There are votes that test nations, and this is one of them. The Senate must vote yes on the budget waiver, and it must vote yes to GATT.

Thank you.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
November 30, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN GATT PRESS CONFERENCE ON CAPITOL HILL

I want to thank the senators for their support. It's a smart choice. With their help we're going to put this trade deal into effect.

With the House vote yesterday, and these announcements today, I think momentum is swinging our way. It's still a tough fight, and we're going to press it right down to the time they start calling the roll. But I'm confident we can succeed.

There's a great deal at stake here -- hundreds of thousands of jobs for American workers and $150 billion a year in increased economic activity in this country. Those jobs and the extra economic activity will strengthen and sustain the economic growth that's been taking place.

What's also at stake here, among other things, is American leadership. We're the country of free traders. We've pushed this GATT agreement to completion through two Republican Presidents and a Democratic President. Thirty-three countries have had the foresight to adopt the agreement already. Over 90 countries are watching to see if we stay a world leader and step up and enact this legislation.

We have the lowest tariffs around, and we're going to bring down the tariffs abroad by well over a third. This will make a whale of a difference when we go out with our products and compete in the world. And that will have a huge impact here at home as it creates jobs and begins to raise incomes for Americans.

We're also talking about a tremendous global tax cut, nearly $750 billion. That's how much less in a tariff burden there will be for producers and consumer all over the world. This deal is business friendly and consumer friendly.

LB-1255 (MORE)

So we're glad to have the help of these senators in convincing the rest of the Senate to do what the House has done -- approve this trade agreement. Trade is truly a bipartisan issue. There are no party labels in what we send overseas. It doesn't say "made by a Democrat" or "made by a Republican." It says "Made in the USA, by Americans." And with GATT, we're going to see a great many more labels like that.

-30-

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

November 30, 1994

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of October 1994.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $106.9 billion on October 31, 1994, posting a decrease of $2,421.5 million from the level on September 30, 1994. This net change was the result of a decrease in holdings of agency debt of $2,197.9 million, in holdings of agency assets of $261.3 million, and an increase in holdings of agency-guaranteed loans of $37.6 million. FFB made 17 disbursements during the month of October. FFB also received 22 prepayments in October.

Attached to this release are tables presenting FFB October loan activity and FFB holdings as of October 31, 1994.

LB-1256

FEDERAL FINANCING BANK
OCTOBER 1994 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
RESOLUTION TRUST CORPORATION				
Note 24 /Advance #1	10/3	$26,519,121,475.46	1/3/95	4.959% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Foley Square Office Bldg.	10/5	$7,620,825.00	12/11/95	6.318% S/A
HCFA Services	10/5	$78,117.00	6/30/95	5.979% S/A
Foley Square Courthouse	10/17	$8,088,093.00	12/11/95	6.246% S/A
GSA Refinancings	10/21	$2,167,107.70	9/27/04	7.561% S/A
Memphis IRS Service Cent.	10/21	$9,474,623.03	1/3/95	5.259% S/A
HCFA Headquarters	10/25	$6,040,600.00	6/30/95	6.082% S/A
Foley Square Office Bldg.	10/27	$6,496,998.00	12/11/95	6.460% S/A
Oakland Office Building	10/27	$289,414.00	9/5/23	8.215% S/A
Atlanta CDC Office Bldg.	10/31	$441,847.00	9/1/95	6.178% S/A
GSA/PADC				
ICTC Building	10/18	$7,488,645.96	11/2/26	8.008% S/A
ICTC Building	10/24	$519,457.00	11/2/26	8.164% S/A
ICTC Building	10/31	$300,000.00	11/2/26	8.140% S/A
RURAL UTILITIES SERVICE				
Head Lakes Electric #372	10/3	$200,000.00	12/31/96	6.776% Qtr.
Guam Telephone Auth. #371	10/20	$1,110,000.00	12/31/14	7.887% Qtr.
Sho-Me Power #382	10/26	$1,291,000.00	12/31/96	6.995% Qtr.
Brazos Electric #332	10/27	$2,564,000.00	12/31/96	7.020% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.

FEDERAL FINANCING BANK
(in millions)

Program	October 31, 1994	September 30, 1994	Net Change 10/1/94-10/31/94	FY '94 Net Change 10/1/94-10/31/94
Agency Debt:				
Department of Transportation	$ 664.7	$ 664.7	$ 0.0	$ 0.0
Export-Import Bank	3,926.4	3,926.4	0.0	0.0
Resolution Trust Corporation	25,721.2	26,519.1	-797.9	-797.9
Tennessee Valley Authority	3,200.0	3,400.0	-200.0	-200.0
U.S. Postal Service	7,773.1	8,973.1	-1,200.0	-1,200.0
sub-total*	41,285.4	43,483.3	-2,197.9	-2,197.9
Agency Assets:				
FmHA-ACIF	6,063.0	6,063.0	0.0	0.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	24,131.0	24,391.0	-260.0	-260.0
DHHS-Health Maintenance Org.	25.3	25.3	0.0	0.0
DHHS-Medical Facilities	34.5	35.8	-1.2	-1.2
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	1.0	1.0	0.0	0.0
sub-total*	38,528.7	38,790.0	-261.3	-261.3
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,778.9	3,785.4	-6.5	-6.5
DHUD-Community Dev. Block Grant	106.4	109.9	-3.5	-3.5
DHUD-Public Housing Notes	1,746.5	1,746.5	0.0	0.0
General Services Administration +	2,079.0	2,029.6	49.4	49.4
DOI-Virgin Islands	21.9	21.9	0.0	0.0
DON-Ship Lease Financing	1,479.6	1,479.6	0.0	0.0
Rural Utilities Service	17,321.8	17,316.6	5.2	5.2
SBA-Small Business Investment Cos.	53.8	56.6	-2.8	-2.8
SBA-State/Local Development Cos.	518.9	523.0	-4.1	-4.1
DOT-Section 511	14.6	14.6	0.0	0.0
sub-total*	27,121.4	27,083.8	37.6	37.6
grand-total*	$106,935.6	$109,357.1	$-2,421.5	$-2,421.5

*figures may not total due to rounding
+does not include capitalized interest

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 30, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 20-DAY BILLS

Tenders for $8,005 million of 20-day bills to be issued December 2, 1994 and to mature December 22, 1994 were accepted today (CUSIP: 912794P57).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.43%	5.53%	99.698
High	5.47%	5.56%	99.696
Average	5.45%	5.55%	99.697

Tenders at the high discount rate were allotted 17%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$35,651,000	$8,005,000
Type		
Competitive	$35,650,000	$8,004,000
Noncompetitive	1,000	1,000
Subtotal, Public	$35,651,000	$8,005,000
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$35,651,000	$8,005,000

LB-1257

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 1, 1994

CONTACT: Scott Dykema
(202) 622-2960

U.S.-ISRAELI TAX TREATY TO TAKE EFFECT THIS YEAR

The Treasury Department announced today that an income tax treaty with Israel will take effect at the end of the year.

The United States and Israel exchanged instruments of ratification late November 30, bringing the treaty into force on December 30. New withholding tax rates under the treaty apply to amounts paid beginning February 1, 1995. For other purposes, the treaty covers taxable years beginning January 1, 1995.

The treaty was signed in 1975 but wasn't approved at the time. The treaty and amending protocols signed in 1980 and 1993 were given final approval by the U.S. Senate September 23, 1994.

-30-

LB-1258

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 1, 1994

REMARKS OF TREASURER MARY ELLEN WITHROW
WORLD AIDS DAY CEREMONY

This is World AIDS Day, and we're here to underscore the seriousness of HIV and of AIDS.

There is a terrible human price that is paid because of this disease. We see reminders of it all around us -- the quilt here today, for instance. What that quilt tells us is that AIDS touches families -- not just individuals -- families ... parents, children, aunts, uncles, cousins -- families, not just individuals. There are also names on the quilt of members of our work family -- the family of federal employees.

The theme of today's activities is AIDS and families -- protecting and caring for the ones you love -- and I want to talk about that in just a few minutes.

But first, I want to step back and look at the big picture. AIDS is more than a disease that tragically touches the lives of our families, AIDS is a tragedy as far as economies are concerned. Larry talked about the global picture, and I want to talk about the impact here at home.

In our country, an estimated 1 million to 1.5 million people are HIV-positive. There are over 400,000 diagnosed cases of AIDS. There have been over 240,000 deaths because of AIDS. It is the number one killer of women of child-bearing age in nine major U.S. cities. Overall, AIDS is the 8th leading cause of death in this country. It is the leading killer of American men in the 22-44 age group, and the fourth leading killer of women in that age group.

Those last statistics point to the economic impact of AIDS in the United States. The 22-44 age group represents the period when Americans are in their most productive years. This year there are estimates that we will spend well over $13 billion treating AIDS, and it could exceed $15 billion next year. With that kind of money you could run the entire Treasury Department -- from the Customs Service to the IRS -- and have plenty left over to cover a few other government operations.

There are estimates that the drain on our economy by the year 2000 from AIDS could surpass $100 billion.

Clearly, when you look at the big picture -- either from a public health standpoint or from the economic perspective -- this is a very serious matter.

Now, there is something we can do nationally that can make a difference for those with AIDS and their families.

Many of you worked long and hard this year trying to get health care reform enacted. It didn't happen. However, the cause has been advanced. I believe that sometime soon we'll be seeing some advances -- perhaps not all at one time, perhaps bit by bit.

There's an aspect of our system that affects a great many families, including those in which a family member has AIDS or is HIV positive -- that's refusing insurance to people who have pre-existing conditions.

I believe -- and I know Secretary Bentsen feels this way -- that Congress in the coming year should look at this particular reform. Congress should think about it not just because it can benefit the HIV community, but because it will help every family in this country where there's a fear about losing health coverage.

Finally, there's something else everyone in this room can do, and that's become involved in the AIDS education process. Right now, AIDS is a fatal disease. Research will change that some day. But for now, that's a fact. Ten years ago, science didn't fully understand this disease, but now the methods of transmission are well-known.

The best way to beat AIDS is by education -- prevention through education. It's easy now to find literature on AIDS. We even have brochures on the table outside the Treasury clinic in the basement, and I believe we have some materials to hand out to everyone this morning.

While every individual has the responsibility to learn about AIDS, parents have a special responsibility to teach their children. Growing up can be a confusing time -- all the changes taking place, all the pressures. Every child needs to learn that they must think before they act. Every child needs to learn there are consequences to inappropriate behavior. And there is no one better equipped to teach a child about AIDS than a parent.

So this year, as we focus on the family and AIDS, I would urge each of you to educate your children about AIDS, its causes and prevention. The cost of failure is immense, and the reward for success is life.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 1, 1994

REMARKS OF TREASURY UNDERSECRETARY LAWRENCE SUMMERS TREASURY WORLD AIDS DAY CEREMONY

We have a great number of events here at Treasury, and I think it's particularly important that we have ones such as this one on AIDS. Ultimately, the information we share here could save lives, and there's nothing more important than that.

I know Secretary Bentsen wanted very much to be with us today. However, we're going right down to the wire on the GATT trade treaty, so Mrs. Withrow and I are pinch hitting for him while he works to get the treaty through. I can assure you, Secretary Bentsen shares our concerns about AIDS and is very supportive of Treasury's educational efforts.

By the way, in honor of our master of ceremonies this morning, I'm going to forecast sunny skies for GATT.

The theme for this World AIDS Day is the family, and I don't think there's a family in the world that hasn't been touched by AIDS, or knows someone who has. The statisticians tell us that one adult in every 250 across the world has the HIV virus.

We all have our own ways for looking at issues. If you're involved in domestic policy you look at it from the domestic angle, how it affects our health care system or our economy. In a few minutes, Mrs. Withrow is going to talk about that perspective.

If you're in international policy as I am, you would tend to look at it from the standpoint of what AIDS means around the world.

Right now, today, the World Health Organization estimates there are 17 million people around the world who are HIV-positive. That's roughly the combined populations of New Zealand and Australia. And the estimates are that by the year 2000 -- just six years from now -- there could be anywhere between 30 million and 100 million people with the HIV virus.

Right now, today, there are 1.5 million infants who are H-I-V positive. These are kids born without a chance.

I have to travel a great deal, and when I'm overseas talking with my counterparts, or reading the economic literature, it's easy to see what an impact AIDS is having.

Let me give you some examples. In Africa, Uganda is trying desperately to turn its economy around. That's hard to do when one person in ten has HIV.

The government in Thailand is beginning to report shortages of skilled labor. In Zambia, one in five workers in the copper industry has H-I-V. Copper is big business for Zambia.

The statistics go on. Four of every five new cases are going to be in the developing world.

The implications are staggering. The World Bank, at the urging of the United States, is beginning to emphasize the importance of AIDS as a threat to economic development. As you can tell from the figures I mentioned, we're already starting to see how AIDS can effect local economies.

There are estimates that AIDS will cost the global economy half a trillion dollars by the end of the decade. That's nearly 1.5 percent of the combined gross domestic product of all nations.

The impact is very real, not just in other countries, but also here at home. Yes, it's becoming an economic problem. But at the heart of it, HIV and AIDS is a human problem. We have to fight it with everything we have -- with research dollars, with care and compassion for those who have contracted the virus, and with education.

That's why we're here today -- to fight AIDS with education, and to acknowledge that every family, whether it's our family at home, the family of a friend, or our family in the work place, is affected and needs our support.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 1, 1994

REGULATIONS TO HELP CASINOS FIGHT MONEY LAUNDERING, BENTSEN SAYS

Treasury Secretary Lloyd Bentsen said regulations taking effect Thursday, December 1, will give casinos new tools to counter money laundering.

"Our goal is to shape effective counter-money laundering policies while reducing unnecessary regulatory burden," Bentsen said. "We want to enable financial institutions, including casinos, to be more effective and responsive in taking steps to prevent and detect money laundering, and in supporting swift enforcement actions."

The regulations come under the Bank Secrecy Act, or BSA, which is at the core of Treasury's program to combat financial crimes including money laundering and tax evasion. It is administered by Treasury's Financial Crimes Enforcement Network, known as FinCEN.

The most important provisions of the newly effective regulations include:

* a requirement that casinos establish and maintain written BSA compliance programs that emphasize the use of automated systems, the need for independent audits of compliance, and the training of casino employees; and

* enhanced requirements for customer identification with the opening of a deposit or credit account at a casino.

Although the regulations go into effect on December 1, there will be a six-month period for casinos to put the new procedures in place. The regulations were originally issued in March 1993 and were scheduled to become effective in September 1993. Their effective date was extended until December 1994 while Treasury determined how best to implement the measures. The final product reflects comments by state regulators and representatives of the casino industry.

As part of its effort to reduce regulatory burden, Treasury has withdrawn some provisions of the regulations which could have imposed significant costs on casinos and required significant changes in gaming procedures, without clear off-setting compliance benefits. Under the reduction efforts, Treasury has:

* eliminated a provision from the original regulations which would have required casinos to record and verify the identification of any customer whose transactions in currency on a gaming day reached $3,000 (and to track those transactions at $500 intervals);

* withdrawn a provision that casinos obtain missing customer information when a customer's multiple transactions in aggregate, exceed $10,000 in currency;

* eliminated a provision requiring casinos to maintain a chronological record identifying all transactions occurring at the cashier's window; and

* withdrawn a requirement that casinos maintain a list of customers who are known by aliases.

"We believe that the 1993 Regulations can be safely altered in light of our intention to issue regulations in the near future requiring financial institutions, including casinos, to report suspicious transactions and establish counter-money laundering measures including, 'know your customer' policies and programs," said Ronald K. Noble, Treasury's Under Secretary for Enforcement. "With this in mind, the modifications to the 1993 regulations should not reduce the value of information that casinos are required to maintain or report, or more importantly, reduce the level of BSA compliance by casinos."

Today's actions are the first of several steps Treasury will take within the next year to apply its new counter-money laundering programs to casinos and other non-bank financial institutions. Thus, for example, the details of the required compliance program include terms that anticipate Treasury's adopting of suspicious transaction reporting requirements applicable to casinos, among others.

In addition, FinCEN anticipates publishing in the near future a notice of rulemaking that would propose making certain Indian gaming establishments subject to appropriate provisions of the BSA and, as a related matter, would propose exempting many small casinos from reporting and recordkeeping rules designed for larger establishments.

Although casinos in Nevada have been exempted from compliance with the reporting and recordkeeping requirements contained in the BSA regulations since 1985, the exemption requires Nevada to maintain a state casino regulatory system which "substantially meets the reporting and recordkeeping requirements" of the BSA regulations, including those that became effective on December 1.

-30-

Contacts: Chris Peacock/Treasury
(202) 622-2960

Joyce McDonald/FinCEN
(703) 905-3770

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 1, 1994

Contact: Michelle Smith
202-622-2960

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
PASSAGE OF GATT

The Senate has given the American economy what it needs -- additional encouragement to keep growing and creating jobs. This Congress's final act was a bipartisan one that will pay billions upon billions of dollars in benefits to our economy for years to come. The value of cooperation is clear. This administration and the new Congress, working together in a cooperative and nonpartisan way, can continue to take the steps that will further strengthen our recovery and improve living standards for Americans.

-30-

LB-1262

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 2, 1994

Contact: Michelle Smith
(202) 622-2960

BENTSEN RELEASES NATIONAL TREATMENT STUDY

Treasury Secretary Lloyd Bentsen on Friday submitted to Congress the 1994 Report on Foreign Treatment of U.S. Financial Institutions.

The Report, submitted every four years by Treasury, examines the degree of national treatment and market access afforded U.S. banks and securities firms in 41 markets. It also describes U.S. Government efforts to remove barriers to trade in financial services and reviews the presence and treatment of foreign financial services firms in the United States.

The Report shows that extensive multilateral and bilateral negotiations have brought significant improvements in the terms on which U.S. firms compete in financial markets abroad. However, the Report also notes that many significant denials of market access and equality of competitive opportunity remain.

"While many countries have begun to recognize the economic benefits that come from liberalization of the financial sector, national treatment is still the exception rather than the rule in too many important markets," Secretary Bentsen said.

Among the improvements, the Report cites the conclusion and entry into force of the North American Free Trade Agreement, which opens the Mexican market to the establishment of U.S. banks, securities firms and other types of financial intermediaries for the first time in over 50 years.

Bilateral negotiations with Japan, China, Korea and Taiwan have yielded progress in a number of key areas. And, as part of the recently completed Uruguay Round, a new General Agreement on Trade in Services (GATS) was adopted which establishes a framework of multilateral disciplines which can be applied to trade in financial services.

Despite these improvements, U.S. financial institutions face significant problems competing in many important financial markets. The report highlights the specific barriers to entry and operating constraints in the financial sector.

"U.S. financial institutions are world class competitors," Secretary Bentsen stated. "They will succeed where they are given the opportunity to compete, and we are determined to ensure that they have that opportunity in the key markets around the globe."

Secretary Bentsen outlined a three part strategy encouraging further financial liberalization.

First, we are working hard in the Uruguay Round to open financial markets on a multilateral basis. "But unless other commercially important countries are prepared to commit to open their markets to U.S. financial institutions, the United States will not be prepared to accept an MFN obligation in financial services in the WTO, " Secretary Bentsen said.

Second, and as a complement to the multilateral negotiations, we are continuing a number of intensive bilateral negotiations in key markets. Secretary Bentsen said, "Achieving a satisfactory outcome in the Japan Framework Talks on financial services will be particularly important to create the momentum necessary to achieve a multilateral agreement in the GATS." U.S. policy is that the results achieved in these negotiations should be extended to all countries on a MFN basis.

And, finally, the United States is engaged on a variety of other fronts to encourage the development and integration of capital markets around the world, through the technical assistance and loan programs offered by the multilateral financial institutions and efforts to encourage cooperation among financial regulators.

The report also reviews the developments in the U.S. financial market that affect foreign financial institutions, and reaffirms U.S. policy of affording national treatment to foreign financial institutions.

"We want to continue to keep our markets open to foreign financial institutions. They play an important role in financing investment in the United States, and they help keep our financial markets the most competitive and innovative in the world," Secretary Bentsen said. "But we also need to ensure that foreign countries provide the same degree of access to our firms in their markets."

The Report's Executive Summary is attached. The full Report will be available through the Department of the Treasury and the Comptroller of the Currency in mid-December.

-30-

EXECUTIVE SUMMARY

Current conditions are quite different than they were four years ago when the 1990 National Treatment Study was completed. International trade in financial services has taken on much greater significance. Intensive multilateral and bilateral negotiations have led to significant improvements in the terms on which U.S. firms compete in offering financial services abroad. An historic North American Free Trade Agreement (NAFTA), including important commitments on financial services, was concluded and has entered into effect. The European Union's single market program in financial services is being implemented and expanded geographically. Bilateral negotiations on financial services with Japan have continued in the context of the U.S.-Japan Framework for a New Economic Partnership with the objective of achieving a comprehensive agreement that can contribute to the successful conclusion of the General Agreement on Trade in Services (GATS) negotiations. Uruguay Round negotiations on financial services, although not concluded, have produced interim commitments that could give U.S. firms more secure access, and in some respects better access, to some foreign markets than they had before. The principal negotiating objective of the United States in the extended negotiations on financial services is to achieve substantially full market access and national treatment in commercially important countries.

There also have been several major developments in U.S. financial legislation and regulation. In the banking area, the Foreign Bank Supervision Enhancement Act of 1991 (FBSEA) strengthened U.S. bank regulators' authority to regulate and supervise the activities of foreign banks in the United States. Among other measures, the statute includes a prudential provision that all foreign bank applicants seeking to establish branches and agencies must be subject to comprehensive consolidated supervision by their home country authorities. In September 1994, the Congress enacted, and President Clinton signed into law, the Interstate Banking and Branching Efficiency Act of 1994, a major step forward that should facilitate greater geographic diversification in the U.S. banking system. The act provides domestic and foreign banks with nationwide banking opportunities.

In other financial services, U.S. regulators have taken a number of steps to simplify access to U.S. securities markets by foreign firms and issuers, without compromising investor protection. The Securities and Exchange Commission (SEC) has modified and simplified certain disclosure requirements that facilitate access to U.S. capital markets, including accepting, for the first time, cash flow statements prepared in accordance with international accounting standards. A total of 305 new foreign corporate issuers have entered the U.S. markets since January 1990, including companies from Germany, China, Chile, Venezuela, and Brazil. In addition, under Rule 144A, introduced in April 1990, resales of certain restricted securities have been exempted from SEC registration requirements; nearly half of the 514 issuers or guarantors under this rule have been foreign. Also, since 1992, the SEC has eased restrictions on foreign advisers to provide further incentives for foreign advisers to provide services to U.S. clients. The Commodity Futures Trading Commission (CFTC) has implemented measures to facilitate 24-hour trading of U.S. and foreign exchange-traded products on approved electronic trade management instruments by exempting from CFTC regulations foreign firms that are subject to "comparable" regulatory schemes by home country authorities.

These developments in the U.S. market preserved national treatment for foreign financial institutions. Where new opportunities were created, they were extended on an equal basis to foreign and domestic institutions. Where new prudential standards were established, they have been applied on a national treatment basis.

During this period, both houses of Congress passed bills designed to reinforce the administration's efforts to encourage further liberalization of foreign financial markets. Both the proposed Fair Trade in Financial Services (FTFS) Act, which passed the Senate in March 1994, and the more narrow National Treatment in Banking Act, which passed the House in September 1994, would have provided discretionary authority to limit the opportunities afforded in the United States to financial institutions from countries that deny national treatment and market access to U.S. financial institutions. Neither bill became law.

Foreign financial institutions continue to maintain a large and diverse presence in the United States. As of June 30, 1994, 288 foreign banks from 60 countries operated 580 agencies and branches, 91 banking subsidiaries, 12 Edge corporations, and six New York State Investment Companies. Foreign banks' U.S. affiliates' share of total U.S. banking assets was 21.0 percent, including 32.7 percent of business loans. SEC staff has identified the number of foreign persons that have equity interests of 25 percent or more in registered broker-dealers to be approximately 173, out of a total of about 8,000 registered broker-dealers in the United States. In 1993, foreign-owned broker-dealers lead- managed 149 bond issues in the United States totalling $35.1 billion, and 33 equity issues totalling $2.2 billion. In addition, there are roughly 312 foreign investment advisers (up from approximately 200 in 1990) registered in the United States and 127 foreign firms that are permitted to engage in commodity futures and options brokerage activities.

IMPROVEMENTS IN NATIONAL TREATMENT ABROAD SINCE THE 1990 REPORT

In a number of foreign markets, progress has been made since the 1990 National Treatment Study to expand the opportunities afforded to foreign financial institutions. National laws and regulatory practices have been amended as countries recognized the importance of foreign participation in creating deeper more efficient capital markets. The general embrace throughout most of the emerging markets of economic reform and liberalization provided impetus to financial deregulation and liberalization. In many important instances, these changes were a direct consequence of negotiations or discussions between U.S. and foreign officials.

Significant developments since the last study include the following:

(1) The financial services chapter of the NAFTA entered into force, providing market access and national treatment for U.S. financial institutions in Mexico and Canada. The agreement also establishes a formal consultative group and a dispute settlement mechanism. For the first time in over 50 years, U.S. banks, securities firms and other types of financial intermediaries will be allowed to establish and operate in Mexico, subject to limits on market share during a transition period that ends January 1, 2000.

(2) The European Union has provided access to the single market in financial services on a reciprocal national treatment basis. The Second Banking Directive, which gives universal banking powers throughout the member states to locally incorporated subsidiaries, went into effect on January 1, 1993. The Investment Services Directive, which will expand the range of securities activities that locally incorporated subsidiaries may provide throughout the area, will go into effect on January 1, 1996. Early indications are that U.S. banks and securities firms established in the area are planning to take full advantage of the expanded business opportunities offered by the single market.

Direct branches of foreign financial services firms will continue to be subject to the regulation of individual member states. In some of these countries, branches of U.S. banks are subject to operating restrictions based on local capital that do not apply to branches of EU banks. Bilateral negotiations between U.S. regulators and their German counterparts resulted in substantial alleviation of local capital requirements for U.S. bank branches in Germany.

(3) Bilateral negotiations between the U.S. Treasury and financial authorities in Japan, China, Korea, and Taiwan have yielded substantive progress in a number of key areas.

In Japan, foreign investment trust management companies were permitted in 1990 to establish for the first time. Also in 1990, limited access was given to investment advisers, including U.S. investment advisers, to manage a small portion of private pension fund monies. (The percentage of eligible private pension fund money was expanded in October 1994.) The range of securities products that securities firms may now underwrite and sell in Japan has been expanded slightly. In addition, the long process of deregulating deposit interest rates, begun in the late 1970s, was completed in October 1994. Other improvements include expanded swap opportunities for securities firms, the addition of new derivatives products and bank licenses for securities firms.

In China, the number of permissible locations for foreign branch banking has been expanded to some extent and the Chinese authorities have committed to further liberalization. In addition, foreign banks may now buy and sell foreign exchange on behalf of foreign-invested joint ventures. Foreign financial firms also may participate in underwriting offshore securities issued by Chinese residents, and, for the first time, foreign securities firms may now establish representative offices in China. In addition, foreign securities firms may now provide brokerage services for a certain class of Chinese securities.

In Korea, progress was made to improve foreign banks' cost of funding. The Finance Ministry raised the limits on local currency funding that can be obtained through the issuance of certificates of deposit and agreed not to reduce swap lines without first consulting with foreign banks. Less restrictive rules also were adopted in the treatment of local capital for the purpose of establishing bank lending limits. Certain restrictions on foreign investment in Korean securities were eased; a further liberalization has been announced for 1995. Since 1992, foreign securities firms have been permitted to establish branch offices in Korea. In March 1992, the Ministry of Finance announced that Korea would formulate a three-stage "Blueprint" for comprehensive financial sector liberalization. Implementation of these measures is underway. In early 1994, Korea established an unofficial subcommittee to study and make recommendations on reform of the foreign exchange system. An announcement is expected by the Ministry of Finance before the end of 1994.

In June 1994, Taiwan partially lifted the ban on foreign investment in local banks. Soon afterward, Taiwan announced the easing of certain criteria for foreign bank branch entry, the immediate elimination of geographical and numerical restrictions on bank branching, and a reduction of the waiting period between establishment of an initial branch and additional branches from five years to two years. In addition, the ceiling on foreign banks' acceptance of local currency deposits was eliminated. (Previously, the limit on lending in local currency for a single customer had been relaxed for banks with capital above certain levels.) In addition, foreign securities firms may now establish subsidiaries or branches that can provide the same services as domestic securities firms. And restrictions on aggregate securities purchases by foreign institutional investors have been partially eased.

(4) As part of the recently completed Uruguay Round, a new General Agreement on Trade in Services (GATS) was adopted, establishing a framework of multilateral disciplines that can be applied to trade in financial services. These disciplines include market access, national treatment, and most-favored-nation (MFN) obligations. The United States conducted an intensive series of negotiations during the Uruguay Round with some 40 countries plus the European Union, which represented its 12 member states. The negotiations were aimed at securing binding commitments to the obligations of the GATS with few significant limitations. Sixty-one of the over 100 parties to the agreement made commitments under the GATS in the financial services area. Countries with developed and relatively open financial markets generally agreed to extend national treatment and market access in the financial services area. A limited number of other countries took modest steps toward that standard. Many others insisted on retaining severe limitations on market access and national treatment.

The following are illustrative of some of the more significant steps toward financial liberalization made since the GATS negotiations began. Argentina has eliminated legal impediments to foreign financial services firms establishing and operating in its market. Australia now allows branches of foreign banks to establish for wholesale banking business. Hong Kong recently eased limits on the number of offices that foreign banks can open for "backroom" operations. India has liberalized, to some extent, entry for foreign bank branches; Pakistan recently allowed one U.S. bank to open new branches. The Philippines has opened itself to the establishment of new foreign banks for the first time since 1948 and allowed the establishment of universal banks. Venezuela has implemented legislation at the beginning of 1994 significantly expanding foreign banks' ability to enter that market. In many cases, however. these positive steps, some of which are very recent, remain to be incorporated in the countries GATS commitments.

(5) Finally, financial services markets that hardly existed four years ago in several Eastern European countries have undergone significant development in which a role is being played by foreign financial services providers.

CONTINUING PROBLEM AREAS

Despite these improvements, significant denials of market access, national treatment and equality of competitive opportunity remain. This section describes a number of the more important impediments that remain in the banking and securities sectors.

Banking

In many areas of the world, resistance to the entry/establishment of foreign banks continues.

- Brazil's Constitution prohibits new entry of foreign banks and imposes a freeze on increases in foreign participation in the ownership of existing institutions.
- A number of other countries have formal moratoria on the issuance of new domestic (onshore) banking licenses. Often, this applies to both domestic and foreign banks, but the effect may fall disproportionately on the latter. Currently, these countries include Chile, the Czech Republic, Malaysia, Singapore, and Thailand.
- Some countries still prohibit entry via direct branches. Both Canada and Mexico maintain such a prohibition, an issue open to future negotiation under NAFTA.
- Others discourage branches, either *jure* or *de facto*, including Colombia, Hungary, Indonesia, Poland, Russia, and South Africa.
- In addition to prohibiting *de novo* foreign bank entry, Malaysia requires previously established foreign bank branches to convert into subsidiaries.

- Indonesia allows entry only in joint venture form, which precludes 100 percent foreign ownership. In addition, in order to establish these entities are subject to higher capital requirements than domestic counterparts.

- In some markets branches of foreign banks are allowed to enter, but then are subject to limitations on the number of additional branches, or are confined to a limited geographic area. Generally, the limits include off-site ATMs. Such restrictions are found in China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

- Narrow forms of reciprocity are applied by a number of countries. For example, in approving branch applications, India takes into account the number of Indian banks established in the applicant's home country.

- Certain countries prohibit foreign banks from participating in local currency business. This includes China, and in Russia a moratorium was imposed until January 1, 1996, on all foreign bank operations with Russian residents unless the bank was already servicing residents before the decree was issued.

- Some countries place global ceilings on foreign banks' share of total banking system assets. This list currently includes Canada, although U.S. and Mexican banks are exempted from the limits. (Canada will eliminate the ceiling effective on or before the date of establishment of the World Trade Organization.)

- A number of countries impose investment screening regimes that permit new establishment or expansion of operation to be refused at the discretion of the reviewing agency, with no or with overly broad criteria for refusal. These provisions are a matter of concern even when not used against U.S. firms. (Screening applies in the securities sector as well.)

After establishment, direct branches of foreign banks often face impediments to operation resulting from host country rules on capital. Limits on activities such as lending and foreign exchange positions may be tied to locally held capital rather than the parent company's capital. Because this requirement necessitates the expense of holding a large amount of capital locally, it in large measure vitiates the advantage of operating as a branch rather than as a subsidiary.

- In a number of European Union current and prospective member countries, local capital requirements still apply to branches of non-EU banks, but not to branches of banks of EU member countries.

- Other countries, including Brazil, Korea, and Turkey apply burdensome capital requirements to foreign banks' operations.

In some markets, a high degree of concentration in the banking industry and official tolerance of restrictive practices by private banks work to the disadvantage of foreign banks.

- In Singapore, and Malaysia, foreign banks are not able to gain access to the ATM networks of local banks, and are prohibited from establishing their own networks.

Lack of transparency in the development and implementation of laws and regulations is still a serious problem in a number of countries.

Securities

In many securities markets, restrictions on entry/establishment continue to exist.

- In Brazil, the same constitutional prohibition on new entry and freeze on foreign participation that exists in the banking sector also exists in the securities sector.

- South Africa prohibits entry of foreign securities firms in any form other than unlicensed "nameplate" operations.

- In Malaysia and in Turkey no new brokerage licenses are being issued.

- China permits only representative offices as a general matter; however, one joint venture investment bank with U.S. participation was approved in October 1994.

- Some countries prohibit wholly foreign-owned securities subsidiaries. These include Korea, Malaysia, and Pakistan.

- In the Philippines, foreign firms can establish wholly-owned brokerages, but they can hold only minority stakes in firms with broader securities powers.

- In a number of cases, limits on foreign participation are especially tight for firms involved in mutual fund or pension fund management. This is so in Korea and Taiwan.

The establishment of foreign securities firms also can be impeded by discriminatory capital requirements.

- In Indonesia, joint ventures, the only means by which foreigners currently can enter the market, are subject to discriminatory capital requirements.

Various limitations may be placed on market share after establishment.

- In Japan, access by investment advisers to manage public and private pension funds is severely limited, even though other private financial institutions face no such legal obstacles.

Membership on stock exchanges may be necessary for full participation in securities markets. Access to membership on local stock exchanges may be unavailable or available only on an unfavorable basis, based on reciprocity, or subject to numerical limitation.

- Examples of this include Malaysia, Singapore, and Thailand.

Exchange controls and overall restrictions on foreign investment can have an important effect on the ability of U.S. firms to provide financial services. Limits may be placed on foreign access to securities listed on local stock exchanges, including ceilings on the percentage of foreign ownership, prohibition of purchases by foreign individuals, and ceilings on purchases by foreign institutional investors.

- Such restrictions exist in China, India, Indonesia, Korea, Taiwan, and Thailand.

Limitations on domestic capital market activities or cross-border capital flows, while generally applicable, may have a disproportionate impact on U.S. securities firms that are well-positioned to introduce foreign residents to U.S. financial services and products.

- In Japan, restrictive regulation on the issuance of corporate securities can limit underwriting opportunities for foreign securities firms. The Securities Exchange Law, and the manner in which it is administered, severely limit the scope of opportunity for foreign securities firms to introduce innovative new financial instruments.

- Japan also retains broad administrative measures on capital account transactions that have the effect of impeding market access for certain types of financial products.

FUTURE LIBERALIZATION — A THREE-PRONGED STRATEGY

The problems identified in this summary and described in greater detail throughout the study present major challenges for U.S. financial institutions. These challenges are particularly acute in the emerging markets. Although many countries have begun to recognize the economic benefits that come from liberalization of the financial sector, national treatment is still the exception rather than the rule in too many important markets.

The efforts of the United States to encourage further liberalization are concentrated on three areas. First, the United States is continuing its effort in the GATS to negotiate commitments that open financial markets and provide national treatment in those markets on an MFN basis. Second, this multilateral effort is reinforced by bilateral efforts in markets where the United States has particularly important interests. Third, the United States has undertaken a number of other initiatives to promote capital market development and integration in emerging financial markets and to help build the regulatory infrastructure that must complement the liberalization process.

GATS

The extended negotiations on financial services in the GATS will continue through the first six months after the World Trade Organization is established. The United States will continue negotiations with commercially important developed and developing countries, including those discussed in this report. In these negotiations, the United States seeks binding commitments to reduce or eliminate barriers to national treatment and market access, within a clearly specified and reasonable period of time. Our objective is to achieve substantially full market access and national treatment for U.S. financial institutions in a broad range of commercially important developed and developing countries. This remains the condition for the United States to accept an MFN obligation on financial services under the GATS.

Intensive Bilateral Discussions

The Treasury Department has also been engaged for a number of years in bilateral financial market discussions with Japan, China, Korea, and Taiwan. These bilateral negotiations have been intensified in the context of the Uruguay Round, providing helpful impetus to the multilateral process. United States policy is that the results achieved in these negotiations should be extended to all countries on an MFN basis.

Other Initiatives

The United States also is engaged in a variety of other initiatives to encourage change that will lead to more developed and integrated financial markets around the world.

- In the World Bank and the regional development banks, the U.S. has promoted the development of investment and financial sector loans that encourage liberalization of barriers to foreign entry and participation.

- In the International Monetary Fund (IMF), the U.S. is supporting an effort to extend the discipline that now exists on exchange restrictions on current account transactions to the restrictions applied to capital account transactions.

- In the Organization for Economic Cooperation and Development (OECD), the United States strongly supported a major expansion of liberalization obligations covering financial services activities.

- In the regional context, the U.S. has promoted cooperative efforts by regulatory agencies to help develop the regulatory infrastructure necessary for further capital market deregulation and integration.

  — The U.S. is working with Latin American countries through the Summit of Americas to promote financial market development, capital market liberalization, and enhanced financial regulatory cooperation.

  — The first meeting of finance ministers from the Asia Pacific Economic Cooperation (APEC) forum was held in March 1994. At that meeting, the ministers agreed on the need to broaden and deepen local capital markets and to better mobilize domestic savings. They also discussed several issues of common concern as APEC members seek to develop their financial markets and to attract foreign capital.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

December 1, 1994

The Honorable Al Gore
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

Pursuant to the Financial Reports Act of 1988 (Pub. L. 100-418, sec. 3601 et seq.; 22 U.S.C. 5351 et seq.), I am pleased to submit the "1994 Report on Foreign Treatment of U.S. Financial Institutions." This Report updates and expands upon the National Treatment Studies completed by the U.S. Treasury in 1979, 1984, 1986, and 1990. The 1994 Report examines the degree of national treatment and market access afforded U.S. financial institutions in thirty banking and thirty-two securities markets, and under the Financial Services Directives of the European Union. The Report also describes U.S. Government efforts to remove barriers to trade in financial services and reviews the presence and treatment of foreign financial services firms in the United States.

Intensive multilateral and bilateral negotiations have led to significant improvements since the last report in the terms on which U.S. firms compete in offering financial services abroad. The North American Free Trade Agreement (NAFTA), which includes important commitments on financial services, has entered into effect. The European Union's single market in financial services is being implemented on the basis of reciprocal national treatment. Bilateral negotiations with Japan, China, Korea and Taiwan have yielded progress in a number of key areas. Uruguay Round negotiations on financial services have produced interim commitments that could give U.S. firms more secure access, and in some respects better access, to some foreign markets.

Despite these improvements, lack of national treatment and lack of equality of competitive opportunity is still too prevalent in too many important markets, and in a number of commercially-important markets, the rule rather than the exception. This Report describes those problems in detail. The United States is continuing its efforts in the GATS to negotiate commitments that open financial markets and provide national treatment in those markets on an MFN basis. Bilateral negotiations with Japan, China, Korea and Taiwan have been intensified in the context of the Uruguay Round, providing helpful impetus to the multilateral process.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 1, 1994

SECRETARY OF THE TREASURY

The Honorable Thomas S. Foley
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Pursuant to the Financial Reports Act of 1988 (Pub. L. 100-418, sec. 3601 et seq.; 22 U.S.C. 5351 et seq.), I am pleased to submit the "1994 Report on Foreign Treatment of U.S. Financial Institutions." This Report updates and expands upon the National Treatment Studies completed by the U.S. Treasury in 1979, 1984, 1986, and 1990. The 1994 Report examines the degree of national treatment and market access afforded U.S. financial institutions in thirty banking and thirty-two securities markets, and under the Financial Services Directives of the European Union. The Report also describes U.S. Government efforts to remove barriers to trade in financial services and reviews the presence and treatment of foreign financial services firms in the United States.

Intensive multilateral and bilateral negotiations have led to significant improvements since the last report in the terms on which U.S. firms compete in offering financial services abroad. The North American Free Trade Agreement (NAFTA), which includes important commitments on financial services, has entered into effect. The European Union's single market in financial services is being implemented on the basis of reciprocal national treatment. Bilateral negotiations with Japan, China, Korea and Taiwan have yielded progress in a number of key areas. Uruguay Round negotiations on financial services have produced interim commitments that could give U.S. firms more secure access, and in some respects better access, to some foreign markets.

Despite these improvements, lack of national treatment and lack of equality of competitive opportunity is still too prevalent in too many important markets, and in a number of commercially-important markets, the rule rather than the exception. This Report describes those problems in detail. The United States is continuing its efforts in the GATS to negotiate commitments that open financial markets and provide national treatment in those markets on an MFN basis. Bilateral negotiations with Japan, China, Korea and Taiwan have been intensified in the context of the Uruguay Round, providing helpful impetus to the multilateral process.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

12/2/94

EXECUTIVE SUMMARY

Current conditions are quite different than they were four years ago when the 1990 National Treatment Study was completed. International trade in financial services has taken on much greater significance. Intensive multilateral and bilateral negotiations have led to significant improvements in the terms on which U.S. firms compete in offering financial services abroad. An historic North American Free Trade Agreement (NAFTA), including important commitments on financial services, was concluded and has entered into effect. The European Union's single market program in financial services is being implemented and expanded geographically. Bilateral negotiations on financial services with Japan have continued in the context of the U.S.-Japan Framework for a New Economic Partnership with the objective of achieving a comprehensive agreement that can contribute to the successful conclusion of the General Agreement on Trade in Services (GATS) negotiations. Uruguay Round negotiations on financial services, although not concluded, have produced interim commitments that could give U.S. firms more secure access, and in some respects better access, to some foreign markets than they had before. The principal negotiating objective of the United States in the extended negotiations on financial services is to achieve substantially full market access and national treatment in commercially important countries.

There also have been several major developments in U.S. financial legislation and regulation. In the banking area, the Foreign Bank Supervision Enhancement Act of 1991 (FBSEA) strengthened U.S. bank regulators' authority to regulate and supervise the activities of foreign banks in the United States. Among other measures, the statute includes a prudential provision that all foreign bank applicants seeking to establish branches and agencies must be subject to comprehensive consolidated supervision by their home country authorities. In September 1994, the Congress enacted, and President Clinton signed into law, the Interstate Banking and Branching Efficiency Act of 1994, a major step forward that should facilitate greater geographic diversification in the U.S. banking system. The act provides domestic and foreign banks with nationwide banking opportunities.

In other financial services, U.S. regulators have taken a number of steps to simplify access to U.S. securities markets by foreign firms and issuers, without compromising investor protection. The Securities and Exchange Commission (SEC) has modified and simplified certain disclosure requirements that facilitate access to U.S. capital markets, including accepting, for the first time, cash flow statements prepared in accordance with international accounting standards. A total of 305 new foreign corporate issuers have entered the U.S. markets since January 1990, including companies from Germany, China, Chile, Venezuela, and Brazil. In addition, under Rule 144A, introduced in April 1990, resales of certain restricted securities have been exempted from SEC registration requirements; nearly half of the 514 issuers or guarantors under this rule have been foreign. Also, since 1992, the SEC has eased restrictions on foreign advisers to provide further incentives for foreign advisers to provide services to U.S. clients. The Commodity Futures Trading Commission (CFTC) has implemented measures to facilitate 24-hour trading of U.S. and foreign exchange-traded products on approved electronic trade management instruments by exempting from CFTC regulations foreign firms that are subject to "comparable" regulatory schemes by home country authorities.

These developments in the U.S. market preserved national treatment for foreign financial institutions. Where new opportunities were created, they were extended on an equal basis to foreign and domestic institutions. Where new prudential standards were established, they have been applied on a national treatment basis.

During this period, both houses of Congress passed bills designed to reinforce the administration's efforts to encourage further liberalization of foreign financial markets. Both the proposed Fair Trade in Financial Services (FTFS) Act, which passed the Senate in March 1994, and the more narrow National Treatment in Banking Act, which passed the House in September 1994, would have provided discretionary authority to limit the opportunities afforded in the United States to financial institutions from countries that deny national treatment and market access to U.S. financial institutions. Neither bill became law.

Foreign financial institutions continue to maintain a large and diverse presence in the United States. As of June 30, 1994, 288 foreign banks from 60 countries operated 580 agencies and branches, 91 banking subsidiaries, 12 Edge corporations, and six New York State Investment Companies. Foreign banks' U.S. affiliates' share of total U.S. banking assets was 21.0 percent, including 32.7 percent of business loans. SEC staff has identified the number of foreign persons that have equity interests of 25 percent or more in registered broker-dealers to be approximately 173, out of a total of about 8,000 registered broker-dealers in the United States. In 1993, foreign-owned broker-dealers lead- managed 149 bond issues in the United States totalling $35.1 billion, and 33 equity issues totalling $2.2 billion. In addition, there are roughly 312 foreign investment advisers (up from approximately 200 in 1990) registered in the United States and 127 foreign firms that are permitted to engage in commodity futures and options brokerage activities.

IMPROVEMENTS IN NATIONAL TREATMENT ABROAD SINCE THE 1990 REPORT

In a number of foreign markets, progress has been made since the 1990 National Treatment Study to expand the opportunities afforded to foreign financial institutions. National laws and regulatory practices have been amended as countries recognized the importance of foreign participation in creating deeper more efficient capital markets. The general embrace throughout most of the emerging markets of economic reform and liberalization provided impetus to financial deregulation and liberalization. In many important instances, these changes were a direct consequence of negotiations or discussions between U.S. and foreign officials.

Significant developments since the last study include the following:

(1) The financial services chapter of the NAFTA entered into force, providing market access and national treatment for U.S. financial institutions in Mexico and Canada. The agreement also establishes a formal consultative group and a dispute settlement mechanism. For the first time in over 50 years, U.S. banks, securities firms and other types of financial intermediaries will be allowed to establish and operate in Mexico, subject to limits on market share during a transition period that ends January 1, 2000.

(2) The European Union has provided access to the single market in financial services on a reciprocal national treatment basis. The Second Banking Directive, which gives universal banking powers throughout the member states to locally incorporated subsidiaries, went into effect on January 1, 1993. The Investment Services Directive, which will expand the range of securities activities that locally incorporated subsidiaries may provide throughout the area, will go into effect on January 1, 1996. Early indications are that U.S. banks and securities firms established in the area are planning to take full advantage of the expanded business opportunities offered by the single market.

Direct branches of foreign financial services firms will continue to be subject to the regulation of individual member states. In some of these countries, branches of U.S. banks are subject to operating restrictions based on local capital that do not apply to branches of EU banks. Bilateral negotiations between U.S. regulators and their German counterparts resulted in substantial alleviation of local capital requirements for U.S. bank branches in Germany.

(3) Bilateral negotiations between the U.S. Treasury and financial authorities in Japan, China, Korea, and Taiwan have yielded substantive progress in a number of key areas.

In Japan, foreign investment trust management companies were permitted in 1990 to establish for the first time. Also in 1990, limited access was given to investment advisers, including U.S. investment advisers, to manage a small portion of private pension fund monies. (The percentage of eligible private pension fund money was expanded in October 1994.) The range of securities products that securities firms may now underwrite and sell in Japan has been expanded slightly. In addition, the long process of deregulating deposit interest rates, begun in the late 1970s, was completed in October 1994. Other improvements include expanded swap opportunities for securities firms, the addition of new derivatives products and bank licenses for securities firms.

In China, the number of permissible locations for foreign branch banking has been expanded to some extent and the Chinese authorities have committed to further liberalization. In addition, foreign banks may now buy and sell foreign exchange on behalf of foreign-invested joint ventures. Foreign financial firms also may participate in underwriting offshore securities issued by Chinese residents, and, for the first time, foreign securities firms may now establish representative offices in China. In addition, foreign securities firms may now provide brokerage services for a certain class of Chinese securities.

In Korea, progress was made to improve foreign banks' cost of funding. The Finance Ministry raised the limits on local currency funding that can be obtained through the issuance of certificates of deposit and agreed not to reduce swap lines without first consulting with foreign banks. Less restrictive rules also were adopted in the treatment of local capital for the purpose of establishing bank lending limits. Certain restrictions on foreign investment in Korean securities were eased; a further liberalization has been announced for 1995. Since 1992, foreign securities firms have been permitted to establish branch offices in Korea. In March 1992, the Ministry of Finance announced that Korea would formulate a three-stage "Blueprint" for comprehensive financial sector liberalization. Implementation of these measures is underway. In early 1994, Korea established an unofficial subcommittee to study and make recommendations on reform of the foreign exchange system. An announcement is expected by the Ministry of Finance before the end of 1994.

In June 1994, Taiwan partially lifted the ban on foreign investment in local banks. Soon afterward, Taiwan announced the easing of certain criteria for foreign bank branch entry, the immediate elimination of geographical and numerical restrictions on bank branching, and a reduction of the waiting period between establishment of an initial branch and additional branches from five years to two years. In addition, the ceiling on foreign banks' acceptance of local currency deposits was eliminated. (Previously, the limit on lending in local currency for a single customer had been relaxed for banks with capital above certain levels.) In addition, foreign securities firms may now establish subsidiaries or branches that can provide the same services as domestic securities firms. And restrictions on aggregate securities purchases by foreign institutional investors have been partially eased.

(4) As part of the recently completed Uruguay Round, a new General Agreement on Trade in Services (GATS) was adopted, establishing a framework of multilateral disciplines that can be applied to trade in financial services. These disciplines include market access, national treatment, and most-favored-nation (MFN) obligations. The United States conducted an intensive series of negotiations during the Uruguay Round with some 40 countries plus the European Union, which represented its 12 member states. The negotiations were aimed at securing binding commitments to the obligations of the GATS with few significant limitations. Sixty-one of the over 100 parties to the agreement made commitments under the GATS in the financial services area. Countries with developed and relatively open financial markets generally agreed to extend national treatment and market access in the financial services area. A limited number of other countries took modest steps toward that standard. Many others insisted on retaining severe limitations on market access and national treatment.

The following are illustrative of some of the more significant steps toward financial liberalization made since the GATS negotiations began. Argentina has eliminated legal impediments to foreign financial services firms establishing and operating in its market. Australia now allows branches of foreign banks to establish for wholesale banking business. Hong Kong recently eased limits on the number of offices that foreign banks can open for "backroom" operations. India has liberalized, to some extent, entry for foreign bank branches; Pakistan recently allowed one U.S. bank to open new branches. The Philippines has opened itself to the establishment of new foreign banks for the first time since 1948 and allowed the establishment of universal banks. Venezuela has implemented legislation at the beginning of 1994 significantly expanding foreign banks' ability to enter that market. In many cases, however, these positive steps, some of which are very recent, remain to be incorporated in the countries' GATS commitments.

(5) Finally, financial services markets that hardly existed four years ago in several Eastern European countries have undergone significant development in which a role is being played by foreign financial services providers.

CONTINUING PROBLEM AREAS

Despite these improvements, significant denials of market access, national treatment and equality of competitive opportunity remain. This section describes a number of the more important impediments that remain in the banking and securities sectors.

Banking

In many areas of the world, resistance to the entry/establishment of foreign banks continues.

- Brazil's Constitution prohibits new entry of foreign banks and imposes a freeze on increases in foreign participation in the ownership of existing institutions.
- A number of other countries have formal moratoria on the issuance of new domestic (onshore) banking licenses. Often, this applies to both domestic and foreign banks, but the effect may fall disproportionately on the latter. Currently, these countries include Chile, the Czech Republic, Malaysia, Singapore, and Thailand.
- Some countries still prohibit entry via direct branches. Both Canada and Mexico maintain such a prohibition, an issue open to future negotiation under NAFTA.
- Others discourage branches, either *jure* or *de facto*, including Colombia, Hungary, Indonesia, Poland, Russia, and South Africa.
- In addition to prohibiting *de novo* foreign bank entry, Malaysia requires previously established foreign bank branches to convert into subsidiaries.

- Indonesia allows entry only in joint venture form, which precludes 100 percent foreign ownership. In addition, in order to establish these entities are subject to higher capital requirements than domestic counterparts.

- In some markets branches of foreign banks are allowed to enter, but then are subject to limitations on the number of additional branches, or are confined to a limited geographic area. Generally, the limits include off-site ATMs. Such restrictions are found in China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

- Narrow forms of reciprocity are applied by a number of countries. For example, in approving branch applications, India takes into account the number of Indian banks established in the applicant's home country.

- Certain countries prohibit foreign banks from participating in local currency business. This includes China, and in Russia a moratorium was imposed until January 1, 1996, on all foreign bank operations with Russian residents unless the bank was already servicing residents before the decree was issued.

- Some countries place global ceilings on foreign banks' share of total banking system assets. This list currently includes Canada, although U.S. and Mexican banks are exempted from the limits. (Canada will eliminate the ceiling effective on or before the date of establishment of the World Trade Organization.)

- A number of countries impose investment screening regimes that permit new establishment or expansion of operation to be refused at the discretion of the reviewing agency, with no or with overly broad criteria for refusal. These provisions are a matter of concern even when not used against U.S. firms. (Screening applies in the securities sector as well.)

After establishment, direct branches of foreign banks often face impediments to operation resulting from host country rules on capital. Limits on activities such as lending and foreign exchange positions may be tied to locally held capital rather than the parent company's capital. Because this requirement necessitates the expense of holding a large amount of capital locally, it in large measure vitiates the advantage of operating as a branch rather than as a subsidiary.

- In a number of European Union current and prospective member countries, local capital requirements still apply to branches of non-EU banks, but not to branches of banks of EU member countries.

- Other countries, including Brazil, Korea, and Turkey apply burdensome capital requirements to foreign banks' operations.

In some markets, a high degree of concentration in the banking industry and official tolerance of restrictive practices by private banks work to the disadvantage of foreign banks.

- In Singapore, and Malaysia, foreign banks are not able to gain access to the ATM networks of local banks, and are prohibited from establishing their own networks.

Lack of transparency in the development and implementation of laws and regulations is still a serious problem in a number of countries.

Securities

In many securities markets, restrictions on entry/establishment continue to exist.

- In Brazil, the same constitutional prohibition on new entry and freeze on foreign participation that exists in the banking sector also exists in the securities sector.
- South Africa prohibits entry of foreign securities firms in any form other than unlicensed "nameplate" operations.
- In Malaysia and in Turkey no new brokerage licenses are being issued.
- China permits only representative offices as a general matter; however, one joint venture investment bank with U.S. participation was approved in October 1994.
- Some countries prohibit wholly foreign-owned securities subsidiaries. These include Korea, Malaysia, and Pakistan.
- In the Philippines, foreign firms can establish wholly-owned brokerages, but they can hold only minority stakes in firms with broader securities powers.
- In a number of cases, limits on foreign participation are especially tight for firms involved in mutual fund or pension fund management. This is so in Korea and Taiwan.

The establishment of foreign securities firms also can be impeded by discriminatory capital requirements.

- In Indonesia, joint ventures, the only means by which foreigners currently can enter the market, are subject to discriminatory capital requirements.

Various limitations may be placed on market share after establishment.

- In Japan, access by investment advisers to manage public and private pension funds is severely limited, even though other private financial institutions face no such legal obstacles.

Membership on stock exchanges may be necessary for full participation in securities markets. Access to membership on local stock exchanges may be unavailable or available only on an unfavorable basis, based on reciprocity, or subject to numerical limitation.

- Examples of this include Malaysia, Singapore, and Thailand.

Exchange controls and overall restrictions on foreign investment can have an important effect on the ability of U.S. firms to provide financial services. Limits may be placed on foreign access to securities listed on local stock exchanges, including ceilings on the percentage of foreign ownership, prohibition of purchases by foreign individuals, and ceilings on purchases by foreign institutional investors.

- Such restrictions exist in China, India, Indonesia, Korea, Taiwan, and Thailand.

Limitations on domestic capital market activities or cross-border capital flows, while generally applicable, may have a disproportionate impact on U.S. securities firms that are well-positioned to introduce foreign residents to U.S. financial services and products.

- In Japan, restrictive regulation on the issuance of corporate securities can limit underwriting opportunities for foreign securities firms. The Securities Exchange Law, and the manner in which it is administered, severely limit the scope of opportunity for foreign securities firms to introduce innovative new financial instruments.

- Japan also retains broad administrative measures on capital account transactions that have the effect of impeding market access for certain types of financial products.

FUTURE LIBERALIZATION — A THREE-PRONGED STRATEGY

The problems identified in this summary and described in greater detail throughout the study present major challenges for U.S. financial institutions. These challenges are particularly acute in the emerging markets. Although many countries have begun to recognize the economic benefits that come from liberalization of the financial sector, national treatment is still the exception rather than the rule in too many important markets.

The efforts of the United States to encourage further liberalization are concentrated on three areas. First, the United States is continuing its effort in the GATS to negotiate commitments that open financial markets and provide national treatment in those markets on an MFN basis. Second, this multilateral effort is reinforced by bilateral efforts in markets where the United States has particularly important interests. Third, the United States has undertaken a number of other initiatives to promote capital market development and integration in emerging financial markets and to help build the regulatory infrastructure that must complement the liberalization process.

GATS

The extended negotiations on financial services in the GATS will continue through the first six months after the World Trade Organization is established. The United States will continue negotiations with commercially important developed and developing countries, including those discussed in this report. In these negotiations, the United States seeks binding commitments to reduce or eliminate barriers to national treatment and market access, within a clearly specified and reasonable period of time. Our objective is to achieve substantially full market access and national treatment for U.S. financial institutions in a broad range of commercially important developed and developing countries. This remains the condition for the United States to accept an MFN obligation on financial services under the GATS.

Intensive Bilateral Discussions

The Treasury Department has also been engaged for a number of years in bilateral financial market discussions with Japan, China, Korea, and Taiwan. These bilateral negotiations have been intensified in the context of the Uruguay Round, providing helpful impetus to the multilateral process. United States policy is that the results achieved in these negotiations should be extended to all countries on an MFN basis.

Other Initiatives

The United States also is engaged in a variety of other initiatives to encourage change that will lead to more developed and integrated financial markets around the world.

- In the World Bank and the regional development banks, the U.S. has promoted the development of investment and financial sector loans that encourage liberalization of barriers to foreign entry and participation.

- In the International Monetary Fund (IMF), the U.S. is supporting an effort to extend the discipline that now exists on exchange restrictions on current account transactions to the restrictions applied to capital account transactions.

- In the Organization for Economic Cooperation and Development (OECD), the United States strongly supported a major expansion of liberalization obligations covering financial services activities.

- In the regional context, the U.S. has promoted cooperative efforts by regulatory agencies to help develop the regulatory infrastructure necessary for further capital market deregulation and integration.

  — The U.S. is working with Latin American countries through the Summit of Americas to promote financial market development, capital market liberalization, and enhanced financial regulatory cooperation.

  — The first meeting of finance ministers from the Asia Pacific Economic Cooperation (APEC) forum was held in March 1994. At that meeting, the ministers agreed on the need to broaden and deepen local capital markets and to better mobilize domestic savings. They also discussed several issues of common concern as APEC members seek to develop their financial markets and to attract foreign capital.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
December 2, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $17,000 million of 52-week Treasury bills to be issued December 15, 1994. This offering will provide about $750 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $16,238 million. In addition to the maturing 52-week bills, there are $24,299 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $10,708 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $3,028 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $572 million of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

LB-1264

**HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS
TO BE ISSUED DECEMBER 15, 1994**

December 2, 1994

Offering Amount	$17,000 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 T6 1
Auction date	December 8, 1994
Issue date	December 15, 1994
Maturity date	December 14, 1995
Original issue date	December 15, 1994
Maturing amount.	$16,238 million
Minimum bid amount	$10,000
Multiples	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids.
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position are $2 billion or greater. (3) Net long position must be reported one half-hour prior to the closing time for receipt of competitive bids.
Maximum Recognized Bid at a Single Yield . . .	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders . .	Prior to 12:00 noon Eastern Standard time on auction day.
Competitive tenders	Prior to 1:00 p.m. Eastern Standard time on auction day.
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve bank on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 2, 1994

IS SYSTEMIC RISK DEAD?

Richard S. Carnell, Assistant Secretary of the Treasury for Financial Institutions

Office of the Comptroller of the Currency Conference on Banking, Financial Markets and Systemic Risk

Concern over systemic risk raises important issues about the adequacy of our existing framework for supervising depository institutions. In short, is systemic risk dead? And if not, why not?

In the course of this century, Congress has enacted the Federal Reserve Act, the Banking Acts of 1933 and 1935, the Financial Institutions Supervision Act of 1966, the International Lending Supervision Act of 1983, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). If, with such a broad array of regulatory measures in hand, we have still not eradicated systemic risk,[1] is there something fundamentally flawed in our approach to the problem? I know that many of the academics here would answer the last question with a resounding "Yes!", but I will postpone my own response until later in the discussion. As for whether systemic risk is dead, I would have to answer in the negative. But its survival does not necessarily indicate massive shortcomings in the existing regulatory framework or even a need for additional tools. But it does suggest that our future success in keeping systemic risk to tolerable levels will depend on how well we use the supervisory tools we already have.

To illustrate the point, consider a familiar analogy. In the mid-1980s and again this past year, some critics of the prevailing monetary policy asked, "Is inflation dead?" The critics implied that inflation was indeed dead and that the Federal Reserve could therefore safely turn its attention to stimulating the economy. Whatever one's judgment about current monetary policy, there is a very real sense in which inflation never dies. The inflation rate remains subject to unexpected supply shocks, such as those OPEC imparted in the 1970s. More broadly, because in the long run the money supply strongly influences the general level of prices, inflation will remain dormant only while money growth remains subdued. It is like a blaze that is never finally extinguished, requiring constant vigilance to prevent it from rekindling. Furthermore, because monetary policy actions affect the inflation rate only after a substantial lag (variously estimated at between 18 months and three years), one cannot prevent inflation by acting only after the inflation rate actually begins to accelerate.

Similarly, systemic risk, although currently under control, remains a latent threat awaiting only an unexpected shock or a gross policy error to show its ugly face. That it rarely manifests itself twice in exactly the same form compounds the challenge of controlling it.

As for the adequacy of our basic regulatory framework for containing systemic risk, there are at least two possible conclusions. One is that the existing framework provides the necessary policy tools to keep systemic risk at an acceptably low level, albeit with no guarantee that we will always use those tools appropriately. The other is that the regulatory framework is fundamentally flawed, and it is just a matter of time until bitter experience demonstrates the need for a massive revision of legislation currently on the books to deal with systemic risk.

I would argue that, at least as concerns the banking system during the remainder of this decade, the former conclusion is closer to the mark than the latter. That is to say, we have the tools necessary to limit systemic risk, and are likely to use them appropriately. I base this judgment on a step-by-step evaluation of the tools we have, how they have been used in the past, and what the prospects are for their use in the future.

Certainly, the Federal Reserve Act put in place the key policy tool for containing a banking crisis. By creating a central bank with lender of last resort responsibilities, Congress intended to assure that healthy, well-managed banks with good assets could always obtain liquidity in time of crisis. Toward that end, Congress gave the Federal Reserve System wide latitude in determining what could serve as acceptable collateral for loans from the discount windows of the regional Federal Reserve banks. This lending capability, combined with the Fed's later development of open market operations, should have sufficed to contain all but the most severe cases of systemic risk associated with exogenous shocks.

The new system failed its first real test, in the 1930s. Yet that failure is now widely understood to have resulted not from any basic deficiency in the arsenal of policy tools available to combat the crisis, but from failure to use those tools effectively. As Friedman and Schwartz have documented at great length, the Fed ignored lessons about appropriate central bank behavior known since the time of Walter Bagehot, and stood aside as the nation's banking system collapsed.

For those who weren't satisfied with having a lender of last resort to combat systemic risk, the Banking Act of 1933 included a second major response to such risk: federal deposit insurance. If runs were a key channel for transmitting adverse effects from poorly managed, failing banks to otherwise healthy banks -- a notion that recent research has called into question -- then deposit insurance should play an important role in confining the effects of failures to the institutions immediately involved.

From 1934 through the early 1980s, deposit insurance received credit for dramatically stabilizing the banking system. Bank failures declined to the minuscule rate of fewer than ten per year, almost all involving small banks that failed through fraud or malfeasance. More recently, scholars have emphasized that the weakest banks had virtually all closed by 1933, and that the economy strengthened greatly with the onset of World War II. But whatever the reason, runs -- a familiar feature of earlier banking crises -- essentially disappeared.

During the 1980s, bank failures accelerated sharply, marked first by defaults on farm loans and later by losses on commercial real estate. This might seem to belie the adequacy of the tools available to regulators. But once again, the fault lay less in the tools than in how they were used. Regulators seemingly forgot hard-won lessons -- known to bankers and regulators alike -- about the perverse incentives of deposit insurance and the dangers of capital forbearance. Thrift regulators allowed institutions to operate for a decade or longer after becoming book-value insolvent -- a national disgrace, and one which greatly exacerbated the losses those institutions caused to the taxpayers. Although banking regulators did not carry forbearance that far, they received just criticism for the inequity of treating some institutions as "too big to fail," and for such lapses as permitting banks to increase their commercial real estate exposure just as other lenders were leaving the market.

Why, then, do I believe that the existing array of supervisory and regulatory tools should prove adequate to deal with systemic risk? First of all, despite major shortcomings in supervisory policy, the banking and thrift crises of the 1980s never threatened such a breakdown of the system as occurred in the 1930s. On the contrary, the payment system functioned without interruption, runs remained basically nonexistent, and credit remained generally available, albeit with some painful tightening in some regions and economic sectors.

Second, the Fed's prompt reaction to the stock market crash of 1987, when it took extraordinary measures to assure that liquidity was available to the market, suggests that the central bank has learned its lessons well since the 1930s. It also deserves good marks for gradually withdrawing the excess liquidity after the crash had run its course.

Third, and just as importantly, 1991 saw two crucial additions to the tools available to regulators for dealing with banking crises: *the instructions for using the other tools, together with an improved set of incentives*. These came in the form of FDICIA's prompt corrective action and least-cost resolution provisions. Prompt corrective action requires regulators to impose increasingly stringent restrictions and requirements on an institution as its capital declines below required levels -- with the goal of resolving the institution's problems at no loss or minimal loss to the deposit insurance fund. Least-cost resolution curtails too-big-to-fail policies by generally requiring the FDIC to resolve failed or failing institutions using the method least costly to the deposit insurance fund.[2] Exceptions can be made only if necessary to avoid "serious adverse effects on economic conditions or financial stability," and then only if proposed by two-thirds majorities of both the Federal Reserve Board and the FDIC's Board of Directors and approved by the Secretary of the Treasury. The legislative history indicates that Congress intended this exception "for those rare instances in which the failure of an institution could threaten the entire financial system."

Prompt corrective action codified supervisory principles regulators had known for decades, but which they had a tendency to discard under pressure. By tying mandatory supervisory intervention -- including resolution -- to an institution's capital position, FDICIA limited regulators' discretion to prolong and ultimately increase the agony associated with depository institution failures. And in so doing, it helped counteract the old incentives to practice forbearance and overextend the federal safety net.

The initial results of prompt corrective action and least-cost resolution are positive. With capital deficiencies now carrying clear and fairly predictable consequences, banks and thrifts have corrected those deficiencies -- so much so that today an undercapitalized institution is a lonely outlier. Fewer institutions are getting into trouble, and those that ultimately fail are imposing even smaller losses on the FDIC. And one no longer hears all that loose talk about not needing to concern oneself with an institution's credit quality because the institution was too big to fail. The potential for problems at sick institutions to spread to healthy institutions -- insofar as it existed -- is further reduced.

But that is not cause for complacency. We need to remain vigilant against the natural tendency to forget the lessons of a crisis once the crisis subsides. If institutions have federal deposit insurance, they should also have real capital. And we should not let an institution be walled off from market discipline by the perception that it is too big to fail.

I question whether any institution is really too big to fail, especially if we understand "failure" as being broader than liquidation. As we all know, some very large banks have failed in an economic sense. Of course, "too big to fail" refers not to the economic concept of failure, strictly defined, but to the regulatory recognition of that failure. Just as there is a difference between a student failing a course and the professor recognizing that failure by giving the student an "F," there is an equally sharp distinction between the failure of a bank and its recognition and resolution. Thus, even though some banks are too big to liquidate without unduly disrupting the financial system, regulators' adherence to a clearly stated rule in reorganizing banks, wiping out existing stockholders' claims, and giving haircuts to uninsured creditors will serve the economic functions of failure.

In concluding, I would like to return to the question posed earlier as to whether our regulatory framework, as presently constituted, is fundamentally flawed. My judgment that it should prove adequate to deal with systemic risk is an evaluation of only one dimension of performance. If alternative ways can be devised to achieve that same end that also enhance the financial system's competitiveness, efficiency, progressiveness, and responsiveness to social goals, we should certainly explore them. A variety of suggestions for substituting market discipline for formal government supervision come to mind in this context. But that is a question that goes far beyond the scope of my comments today.

-30-

1. Systemic risk is the risk of a sudden, unexpected, and widespread collapse of confidence in the financial system, with potentially large effects on the real economy.

2. For a detailed discussion of the incentive effects intended in FDICIA, see Carnell, "A Partial Antidote to Perverse Incentives: The FDIC Improvement Act of 1991," *Annual Review of Banking Law*, vol 12 (1993), pp. 317-71.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 5, 1994

CONTACT: Scott Dykema
(202) 622-2960

REMARKS OF ASSISTANT SECRETARY FOR TAX POLICY LESLIE B. SAMUELS ON THE PENSION BENEFIT GUARANTY CORPORATION (PBGC) PROVISIONS OF THE GATT

As a member of the PBGC Board, Secretary Bentsen is pleased that the GATT legislation included important provisions that will improve the retirement security of millions of Americans and ensure the future financial strength of the PBGC.

Since Secretary Reich formed an interagency task force in early 1993, the Treasury has been a very active participant in developing the Administration's legislative proposals. I am pleased that the final product achieves the major goals that we set out to accomplish at the beginning of the process.

- Employers will now be required to fund their pension plans responsibly.

- PBGC premiums will be more directly related to the financial risk presented by the plans that are insured.

- Impediments to plan funding will be removed.

- The rights of workers to know the status of their plans and to obtain their benefits will be expanded.

- And last, but certainly not least, the PBGC deficit will soon be eliminated.

When this process started, no one gave us much chance of success, certainly not this year. But, as we developed the financing package for the GATT, the Treasury Department recognized that there was an opportunity to further the funding of this historic trade bill, while also enhancing the retirement security of American workers. In the end, each proposal will, in its own way, make a significant and lasting contribution to the economic security of all Americans.

-30-

LB-1266

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
December 5, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
NATIONAL PRESS CLUB
WASHINGTON D.C.

I've thought about this speech -- a lot. I want to talk mostly about the Summit of Americas, but I know what's on your mind: budgets, Congress, and contracts.

In the next two years, Democrats won't run a campaign of obstruction. You always have a responsibility to your party, but country has to come first.

We want to work with Republicans. I hope they're successful in reforming Congress and in giving items like the line-item veto to the President. I never knew anything that man created that couldn't be made better, and they can make it better.

But those who've been here a while know we've learned some lessons -- one, in particular. There's no sense in repeating mistakes on the budget. I voted for the '81 tax bill that created the budget problem. That bill was complete with overly optimistic assumptions, and it ended in a bidding war to see who could please the public more -- the President or Congress.

If we didn't have to pay the interest on the increase of the debt between 1981 and '92, we'd have balanced the budget last year and had a $50 billion surplus this fiscal year. We've come too far in cutting the budget deficit to let the next Congress turn back and start cooking the books.

I think Americans will remember this last session as the Congress that turned the economy around. Part of that is what it did on the budget, but a big part is what it did to liberalize trade, to create opportunities for Americans to sell around the world.

GATT will be a tremendous boost to global trade. It will be over five NAFTAs for us. And think what NAFTA has accomplished in just one year. It's boosted trade 20 percent between the U.S. and Mexico. It did what we advertised. It's created 130,000 jobs here.

LB-1267

CEOs always tell me: "Mr. Secretary, we can build great products, but Washington has to set policies that help open up markets in other countries." Under the President's leadership, this Congress did that. We did it with bi-partisan support, by working together, by cooperating.

By the way, free trade agreements have to help all partners, or you don't do them. NAFTA has helped Mexico and Canada, as well as us.

I work with finance ministers the way I work with Congress. When I have an idea or an issue to discuss -- I pick up the phone. I call Theo Waigel in Germany or Kenneth Clarke in Britain. I talked to Pedro Aspe in Mexico often, and I look forward to the same relationship with his successor, Jaime Serra Puche.

Five days from now, the President will host 33 other heads of state from this hemisphere. They'll get to know one another. They'll make plans. They'll build relationships -- just like we should do in Washington.

I'll tell you something. The leaders wouldn't be coming here, if the United States didn't show some leadership.

Make a list of the 10 things that this country does well. I'd put on the list that we have good relationships with other nations. That when we said we'd open our markets, we did. Or when, for half a century, we've had tools that could destroy the world, we haven't used them.

The President didn't send soldiers into Haiti to grab territory. We did it to protect democracy and freely-elected governments. I don't think anyone would tell you that democracies would be spreading, and markets opening, and free elections held if it hadn't been for our example.

The last time the leaders of this hemisphere came together was 1967. Lyndon Johnson was President. And 10 of today's democracies were under non-democratic rule. Only one country -- only Cuba -- has not turned democratic.

What a feeling it will be for the President to walk into a room in Miami, and greet 33 of his colleagues, all freely-elected. What a feeling.

Let me tell you a difference between the leaders of '67 and those of '94. One word -- self-confidence. Several of them and many of their cabinet members were educated at American schools and went home preaching free markets.

The discussions will be very much a two-way street. These leaders are not afraid to get in a room and discuss opportunities. It won't be: what can we get from the U.S.? It'll be: what can we do together?

Look at Argentina. Who thought a Peronista would lead his country to privatize companies, and open markets, and lower tariffs? And who thought in Argentina that this would be politically popular?

Look at Chile. Since 1984, they've had uninterrupted growth. Investment there is at a rate similar to the Asian Tigers. They're ready for a free trade agreement with the United States. President Clinton committed to that and watch what happens in Miami. I'll tell you what -- if we don't work with our hemispheric neighbors to build free trade in the Americas, they'll find more European and Japanese partners.

Look at Brazil. They elected as their president Fernando Henrique Cardoso, their former finance minister. Usually finance ministers are the first out the door, but they elected him by a strong margin because he stabilized Brazil's economy. He brought inflation down when no one thought it could be done and that no one cared. And it was phenomenally popular.

Look at Mexico. I was born and reared on that border. I watched election after election, where leaders would win by running against the Colossus of the North. Now they look at the U.S. as an opportunity for trade.

When I came to the Senate, in 1971, the first trip I took was to Mexico. I went with Mike Mansfield to talk about increasing trade between our countries. That year, we exported $1 billion in products to Mexico every 10 weeks. Now, we export a billion every week.

Since 1971, the Latin American countries have more than doubled their GDP. They've cut their illiteracy rate in half. They've cut their poverty rates -- although it is still way too high. Wealth in this part of the world is still too concentrated; not everyone is sharing the fruits of growth -- yet. But that's the kind of changes going on.

Largely because of Canada and Mexico, this hemisphere is our most important export market. Of our export growth over the past year, 60 percent has been here.

We're selling $200 billion in American products to our neighbors in this hemisphere. That's more than we sell to Europe or Asia. Four million Americans pick up a pay check everyday, because of our neighbors.

Focusing specifically on Latin America, it may not be our biggest market, but it's the only region in the world where we enjoy a substantial trade surplus. Four years in a row, Latin America has seen economic growth. Mountains of debt have been worked down to a manageable size in all but a few countries. Government deficits are down. Inflation is under control almost everywhere. States are privatizing and reducing regulations.

Capital is going into Latin America, not coming out. In the last 12 years, the total value traded on the seven largest Latin stock markets increased from under $10 billion to around $200 billion today.

Investment is way up. At first the money came from the Latins, bringing home the money they sent out a dozen years ago. Then American investors saw it as an opportunity. Now the world does.

This is a very different Latin America, isn't it? When Lyndon Johnson went to the '67 summit, the big question was: "How much aid will the U.S. provide?" One finance minister after another has told me: Lloyd -- we don't want aid. We want trade.

They share the same belief we do -- that the private sector is the engine of growth. They want the same thing we want -- economic growth with low inflation. And we share a culture -- we're lucky to have the Latin culture as part of our own heritage.

In Miami, we'll look to shape the hemisphere for the future. Last week, we held consultations with the delegations. We've been working on the agenda for months, and it's coming together nicely. Many ideas are not ours -- they are what others have in mind. It will be a forward looking meeting.

At the top of the agenda will be economic issues: How can we integrate the hemisphere economically?

How can we make it easier to communicate and travel across borders? How do we cut costs of doing business? How do we free up flows of capital? How do we facilitate investment? How do you finance the infrastructure projects, because we'll need to build bridges and ports and telecommunication lines.

And the most important question of all -- what I've been talking about all day -- is trade. There are 23 trade agreements between countries in this hemisphere. We'll look at how to make it even freer trade.

Beyond trade, we'll discuss how to make democracies work better. Everyone needs to re-invent government. We'll share ideas, for instance, on how to fight the drug trade, how to fight corruption, and how to fight money laundering.

I don't want to come out of this with just economies winning. I want to come out with crooks losing. Money laundering is a $300 billion illegal business worldwide, and we need to fight it -- together.

I'm very interested in this one. Many of the Finance Ministers are, too. I'm hosting a meeting with them in Miami. You'll see concrete progress.

The leaders also will discuss making democracies endure. They'll talk about producing healthier and more educated citizens, eradicating poverty, and protecting environmental resources.

We won't create a million new bureaucracies. That's the last thing we need. For the most part, if we have a new initiative, we'll rely on what's out there now.

An example is the Inter-American Development Bank. They have a proven record for advancing growth in Latin America and the Caribbean, and we want to see more of that. They already have capital to support development in the hemisphere. We'll ask them to focus on areas needing the most work -- on the kinds of things the private sector can't do alone.

I really believe that the most meaningful thing coming out of the summit won't be what happens in Miami.

It will be what happens after Miami -- to see if we continue our cooperation; and to see if we start right away, or if we drag our feet. I think you'll have a pretty clear picture of what to look for. You can watch to see the follow through.

Let me end on this. Voters in democracies -- whether here or elsewhere -- show up at the polls every few years. They want government to work.

They want government doing what government does best: to enforce the laws; to protect the environment; to make sure children are educated; and to create a framework in which the private sector, and people, can prosper.

This summit will let leaders share ideas on how we can all do a better job of governing. I'm optimistic heading into Miami. I'm optimistic of what we'll accomplish in the years beyond.

-30-

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 5, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,609 million of 13-week bills to be issued December 8, 1994 and to mature March 9, 1995 were accepted today (CUSIP: 912794Q80).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.78%	5.95%	98.539
High	5.85%	6.02%	98.521
Average	5.83%	6.00%	98.526

$4,110,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 13%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$40,844,224	$13,609,224
Type		
Competitive	$35,710,914	$8,475,914
Noncompetitive	1,604,071	1,604,071
Subtotal, Public	$37,314,985	$10,079,985
Federal Reserve	3,168,655	3,168,655
Foreign Official Institutions	360,584	360,584
TOTALS	$40,844,224	$13,609,224

An additional $165,216 thousand of bills will be issued to foreign official institutions for new cash.

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 5, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,631 million of 26-week bills to be issued December 8, 1994 and to mature June 8, 1995 were accepted today (CUSIP: 912794S54).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	6.31%	6.61%	96.810
High	6.33%	6.63%	96.800
Average	6.33%	6.63%	96.800

$45,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 97%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$47,532,142	$13,630,971
Type		
Competitive	$41,542,065	$7,640,894
Noncompetitive	1,401,761	1,401,761
Subtotal, Public	$42,943,826	$9,042,655
Federal Reserve	3,400,000	3,400,000
Foreign Official Institutions	1,188,316	1,188,316
TOTALS	$47,532,142	$13,630,971

An additional $544,684 thousand of bills will be issued to foreign official institutions for new cash.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 6 , 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN

I have submitted my resignation as Secretary of the Treasury effective December 22. After a career in public service I want to go back to Texas, to my roots, and return to the private sector.

Before becoming Treasury Secretary, I had decided to leave the Senate this year and return home and to the private sector while I still had a spring in my step. In September I informed the President of my desire to leave, and told him I would remain until after the elections and the completion of our agenda for the year.

I want to thank President Clinton for the opportunity to serve as Treasury Secretary. I also want to thank the dedicated professionals at the Treasury Department for the job they have done and the support they have provided.

Throughout my tenure, President Clinton has afforded me unprecedented access. It was invaluable in accomplishing our goals. In the post-Cold War world, President Clinton recognized that economic security is a critical underpinning for national security, and he made Treasury a regular participant in the Summit process.

I know my successor will have the same access and ability to affect economic policy that I enjoyed. And let me say just a few words about Bob. The President asked me who I thought would make a good Treasury Secretary, and the first name I had for him was Bob Rubin. He is a man of honor and integrity. He has a broad knowledge of our problems and programs, and he has the ability to sit down with Congress and work things out. It was an excellent choice, Mr. President.

Few nations offer their citizens so many opportunities to serve and succeed in both the private and public sectors. Our economic and political system gives those with day-to-day, hands-on experience in the free market the unique opportunity to enter government service and apply that knowledge on a national scale. It likewise allows them to turn around and take the experience of governing back to the private sector, the force that drives our economy. That is what I am doing.

LB-1270

(MORE)

In a very real sense, I have lived the American Dream: from being raised during the Depression on a Texas farm, to serving in both houses of Congress, having a business career, and both running for the second-highest job in the country and serving in the Cabinet.

There are any number of ways in which one can help others: teaching, preaching, healing and more. But I have found that in no other endeavor can one affect as many lives -- hopefully for the better -- than by public service. It has been a privilege and an honor to work for my country both as a civilian and as a soldier. It reflects how strongly I believe in the American system.

I have worked to make a difference over the years -- from increased retirement security for our elderly to greater access to health care for lower-income women and children. We advanced the health care debate this year substantially, and I am confident legislation improving our system ultimately will result.

It's been a great time to be Treasury Secretary. And it's a great time to be bowing out as Treasury Secretary. I couldn't leave with the economic flag flying any higher. We have the best numbers we've had in 30 years. I believe history will show that we have made the economic future of our children and grandchildren more secure by the politically difficult actions we have taken.

With this President's leadership, we did what so many people said we couldn't do -- we cut $87 billion off the budget deficit in just two years. We've seen more than 5 million jobs added to the economy. Inflation is low. Businesses are investing at record rates. We've shrunk the federal government. We're growing faster than our trading partners. We opened up markets with NAFTA and the GATT. We've encouraged economic and political change around the world. And maybe the greatest achievement is that with prosperity we've also had peace.

I want to thank all of you in the press. I've enjoyed our relationship. I've tried to make myself available and talk straight with you. I always said -- ask me enough times when I'd be out of here, and one day you'd get it right. I may even be in touch with some of you, because when you go into business it doesn't hurt to have friends in the media.

And finally, I want to thank B.A., the best partner any man could have over these past 51 years. Together, we'll return soon to Texas, the private sector, our family, our friends, and our roots.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

As prepared for delivery

Integration and Democracy Across the Hemisphere
Remarks by
Lawrence H. Summers
Under Secretary for International Affairs
Customs, Trade, and Finance Symposium
Miami, Florida
December 6, 1994

Introduction

Thank you very much. I'm delighted to be here.

This is a tremendously exciting period in Florida. It's exciting, because this week leaders of all the democratic countries in the hemisphere will meet in Miami for the first time in three decades, at the Summit of the Americas. It's exciting, because they'll be thinking about ways to consolidate and continue the monumental economic and political transformation which has taken hold of Latin America in such a brief span of time. And it's exciting, because Florida stands on the geographic and financial edge of that mushrooming

LB-1271

new region, poised to take advantage of a $13 trillion hemispheric market -- nations hungry for trade, investment, and growth.

Think about how different our region looks today, compared to how it looked only 5 years ago. Who would have dreamt that economies only a decade ago wrestling with capital flight would today be thinking about what to do with the mammoth flows of capital racing to get in -- some $170 billion in net foreign investment, over the first three years of the decade.

Who would have thought that nations ruled for centuries by feudal families and junta would today feel a shortage of finance experts, judges, and constitutional scholars.

And who would have imagined that nations which for decades sealed themselves in, rejecting economic and commercial progress, would today be opening themselves up, tearing down barriers, paving the way for U.S. investment and trade.

I've seen it myself, in Buenos Aires, where shoppers throng down streets on which one used to be able to track the exchange rate by how fast shoe-shine boys raised their prices. And in Mexico, where clusters of new factories and businesses hug the U.S.-Mexican border.

That's the way the picture looks today. That's the remarkable new set of opportunities that have opened up for all of you. And those are the opportunities which the Summit of the Americas this week, and continued U.S. initiatives in Latin America in the months ahead, will ensure remain open to you as expansion to our South continues.

A Hemispheric Community

If I had to sum up the vast changes which have occurred in such a short time span in our hemisphere, I'd say that nations which were once tied by the bonds of dependency now form a community linked by interdependency, with all the opportunities and responsibilities that entails.

We have become a community of democracies, sharing a belief that liberty and human rights offer the best chance of providing prosperity for all. Where 20 years ago less than half the population to our south could be said to live in freedom, now 90 percent can. Mexico, Brazil, Uruguay -- every season brings new elections to remind us of democracy's victory.

Across the continent, a new generation of leaders, educated in the virtues of democracy and civic society, are assuming power.

We have become a community of prosperity, agreed upon the twin pillars that support economic expansion in our societies -- sound macroeconomic policies on the one hand, and market-led growth on the other.

One sees that in the new emphasis on fiscal and monetary restraint -- Mexico and Argentina both meeting the low-inflation, low-public deficit economic criteria laid down at Maastricht for European Monetary Union -- a test which most European countries themselves fail.

One sees that in the success nations have had in bringing inflation down -- from a 400 percent average for the region in the 1980s to a 12 percent average, and the election of governments pledged to holding prices down, in Brazil and elsewhere.

One sees that because from Canada to Mexico, from Peru to Trinidad and Tobago, governments are selling public sector firms -- over 2,000 so far -- to staunch the hemorrhaging of government budgets, to inject the adrenalin of competition into their economies, and to unchain the shackles that once bound private initiative and drive.

We have become a community of trading partners. Countries which for years thought they could go it alone -- by keeping tariffs high, excluding foreign investments, and making everything they needed themselves -- now realize that prosperity arrives when borders are thrown open, exposing economies to the bracing winds of competition commerce.

There are by my count 23 trade agreements in our hemisphere. Look at Mercosur, which on January 1 will link 200 million Brazilians, Argentineans, Paraguayans and Uruguayans in free trade. And tariffs blocking outside goods will come down too, to an average 14 percent from near 35 percent in Brazil's case. The five member Andean Group created a free trade zone two years ago. The Central American Common Market has cut tariffs from averages of 50 percent to the 5 to 20 range.

That's why Latin intra-regional trade has nearly quadrupled over just 10 years, to $26 billion. It's why GM's Brazilian subsidiary just built a $100 million plant in Argentina to build pickups trucks for Brazil. It's why Argentina and Chile now share a gas pipeline, and Venezuelan bonds now are issued on Colombian financial markets.

Of course, NAFTA has been the single most important shot in the arm our economy has seen in years, creating more than 100,000 jobs so far. And our exports to Mexico were up 17 percent in the first half of this year, nearly three times faster than to the rest of the world, despite the fact that Mexico suffered a serious recession. In fact, Mexico recently passed Japan as the second largest consumer of our products, with Canada, our number one customer, raising its imports by 10 percent. From the 3000 percent jump in Ford's vehicle exports, to Toyota racing to build plants for the new North American market, NAFTA speaks volumes about what hemispheric integration can accomplish.

In short, the nations of the hemisphere have become a community joined by a common purpose -- to consolidate the work of democratization, to further our goals of market-led growth, and to work together to improve the governmental institutions on which social progress and prosperity depend.

Summit of the Americas

That is why President Clinton called the Summit of the Americas, to foster these common economic, political, and social goals. And it is essential to the United States that Summit, and the initiatives which it sets in motion, succeed.

It is essential for economic reasons, because those who have taken the high macroeconomic road are being rewarded -- Peru, enjoying the world's fastest growing economy for much of this year, Argentina, whose 35 percent growth over the decade was the third fastest in the world, just behind China and Thailand. And I could go on -- growth near 23 percent in Chile over the decade, 15 percent in Colombia.

The United States has a tremendous stake in ensuring that that economic expansion, and our participation in it, continue. The western hemisphere will develop into a $13 trillion market in less than 10 years. And it is already our fastest growing market for exports, providing a full 60 percent of our export growth over the past year. We sell nearly $200 billion to our hemispheric neighbors -- more than we sell to Europe, including Russia, and more than we sell to Asia. In fact, Venezuela buys more than Russia, and Ecuador more than Hungary and Poland combined.

Latin America already has 30 energy and infrastructure mega-projects scheduled for the 1990s, at a cost of $140 billion. Brazil alone will spend $4 billion on environmental goods and services we specialize in, over the next four years.

All told, Latin America will be a better customer for our exports than Western Europe, by the end of the century. United States economic security will never be sure unless our region remains dynamic, growing, and integrated.

Success is essential for strategic reasons as well -- to anchor stability in our hemisphere. NAFTA has taught us that free trade's implications are far more than commercial. Mexican society passed through a difficult period earlier this year, with the Colosio assassination. But political and social stability was maintained, and the work of building Mexico's economy continued. I believe that much of the credit for Mexico's passage through that rocky period can be attributed to NAFTA. And that lesson, about trade's ability to anchor economic and social reform, holds out great promise for the rest of the region.

And success is essential for moral reasons. Integration and trade-led growth are the only means to offer prosperity to all the hemisphere's people. And that will cement social stability, ensuring that nations do not slide back into the civil warfare and oppression from which they so recently escaped.

I'd like to spend my last few minutes discussing the specific items which will be on the agenda at the Summit. They fall into two broad categories -- on the one hand, proposals to further trade and integration, and on the other, efforts to improve the role of governments, as they perform the functions which underpin democracy and social progress.

An Agenda for Trade

Hemisphere-wide integration must be a central goal for the United States and our other neighbors. By some estimates, free trade across the hemisphere could triple U.S. exports to $290 billion in the region, and add some 4 to 6 million jobs to our economy by the year 2003. The vast majority of these would be high-skill, high-wage positions.

That's too great a boon to pass up. That's too large a bounty to squander.

Latin American and Caribbean tariff barriers remain about 5 times higher than in the United States. Those barriers must come down, to give our companies unlimited access to those markets, and help businesses and consumers in both directions.

Moreover, we must ensure that the regional free-trade zones now under construction -- though helpful in the short run -- do not permanently fragment the hemispheric market.

I am confident that the assembled leaders will be able to agree on specific proposals for bringing down tariffs and other barriers to trade, to move our hemisphere towards full-fledged integration in the decades ahead.

Unbuckling tariffs isn't the only form integration must take. Customs practices and regulations must be harmonized, to make it easier to do business across borders. Laws and procedures must become transparent and manageable. Remaining barriers to investment and capital flows must be removed.

I think we'll see important new initiatives announced at the Summit on these items as well. The leaders will discuss ways to cooperate in strengthening Latin American securities markets, freeing up restrictions on capital flows, and coordinating transborder telecommunications and infrastructure.

Together, these initiatives will vastly speed up the process of attaining an integrated hemispheric market. And they will lock in the steps towards macroeconomic reform and liberalization already taken, ensuring that we remain on the path towards economic progress.

Effective Democracy

There is a second set of items on the Summit agenda, centered on the need to ensure that governments are democratic in substance, as well as in form. We must reinvent our hemisphere's governments. Government by the people must be government for the people. Effective government, responsive to its citizens' needs, is the substance of democracy.

Better government does not mean more government. Rather, it calls for governments to strengthen their capacities to perform the essential functions needed for economic and social progress.

There are several components to better governance. First, better governance means creating and bolstering the kinds of legal and regulatory infrastructures without which businesses cannot function, and citizens' needs cannot met. Responsive and efficient governments, with a well-trained cadre of professionals, are essential in every arena, from supervising banks to immunizing children. The private sector cannot flourish in an environment without consistent laws and tax structures, and without well-trained civil servants to run them. Civil society cannot prosper without strong enforcement of legitimate laws.

The leaders at the Summit will draft programs to bolster these governmental structures, through cooperation where that can help, or by redirecting domestic priorities where that is appropriate. The Organization of American States and the international financial institutions, including the Inter-American Development Bank, will be asked to refocus their efforts, through programs to train civil servants and aid in the creation of regulatory and legal regimes. The gathered leaders will also reach agreement on initiatives to curb corruption, to combat money laundering, and to battle the drug trade -- all of which corrode the new market-based, democratic societies under construction to our south.

There is a second task that governments must accomplish. They must ensure that the benefits of prosperity reach all segments of the population, through investments in people.

Prosperity that is not inclusive cannot be enduring. Democracy cannot hold if prosperity does not come with it.

True, the proportion of poor across Latin America has fallen from 39 percent to nearly 30 percent over the past two decades. True, the number of illiterate adults has dropped from near 30 to 15 percent, the infant mortality rate from 82 to 44. But that's 30 percent too many poor, and 15 percent too many who can't read, and far too many infants who die prematurely.

Latin America continues to be the region with the world's most skewed income distribution. Mexico's wealthiest fifth of the population enjoy 27 times more wealth than Mexico's poorest. In Argentina, the ratio is 16. That compares with averages of only 5 to 10 across developing Asia.

These aren't just numbers. The hundreds of thousands of children who live on Latin American streets, the squadrons of troops which patrol Rio's ghettos, testify to the ways poverty can ravage even dynamic societies.

Poverty threatens the continuation of social and economic progress. And it's a sign that a nation has failed to invest in its greatest resource -- its people. Investments in primary education rather than university education, in primary and maternal health care rather than expensive hospitals for the upper crust -- these are the investments which offer the highest returns. For when the lion's share of educational resources go to support a minority of university students, or the lion's share of health resources go to support tertiary care in urban hospitals, efficiency suffers. And the evident reinforcement of inequality through government action undermines the civic trust that is a precondition for democracy.

The leaders at the Summit will agree on a set of priorities and programs for investments in their people -- through basic education, primary and maternal health, and essential social services. That will consolidate the transformation of Latin American society. And it will give our hemisphere the human resources needed for continued growth over the next century.

Governments have a third function in Latin America -- to support the institutions of civil society which were held back by years of poverty and dictatorship. United States democracy is built on rotary clubs, political groups, community organizations -- all avenues for civic participation. Non-governmental organizations, community groups, grassroots organizations in Latin America must be strengthened if they are to form a new basis there for social cohesion. Such cohesion, and institutions which foster it, serve to underpin democracy. Without such cohesion, societies cannot remain stable and productive.

The leaders at the Summit will set some clear goals to ensure that Latin America develops these forms of social and institutional capital, so that democratic society can prosper. They will consider initiatives to help indigenous peoples, women, and other excluded groups participate in government and civic life. They will look at ways of using the Organization of American States more effectively to bolster democracy and human rights, to support electoral systems, and aid in the redesign of judicial and legislative systems. Initiatives will be announced to foster greater participation for community and grass roots organizations. Finally, programs for preserving and passing on our hemisphere's many cultural traditions will be discussed.

Conclusion

The nations represented at the Summit form a community united by a common purpose. That community will be stronger coming out of the Summit. It will grow stronger as the processes set in motion at the Summit take hold.

We will become a more prosperous community -- as the consolidation of macroeconomic reforms continues, as the last vestiges of restrictions on the private sector are removed, and as the work of opening our economies, and integrating them with one another, continues.

And we will be a community not with more government, but with better government -- as the strengthening of institutional and regulatory frameworks proceeds, as nations continue to consolidate the institutions which undergird democratic society, and as investments in our region's people are improved.

I began my remarks by talking about the changes in thinking that catalyzed our hemisphere's transformation over the past decade. Of all the changes in thinking, I think the most important has been the realization that integration is not just a thing that government's do. It's something that people do. Countries are no longer defined by governments. They're defined by businesses, industries, communities, and individuals -- all united by common concerns.

The true test of whether we succeed in our effort to integrate our hemisphere won't be the words said in Miami. It will be the actions all of us -- in the private and public sectors -- take in the years ahead.

The 20th century has been described as the American century. I am confident that with a new generation of leaders dedicated to democracy, a new generation of leaders dedicated to market-economies, and a new generation of leaders dedicated to integration, the 21st century will be a century for all the Americas. Thank you.

DEPARTMENT OF THE TREASURY
TREASURY NEWS
OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
December 6, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $27,200 million, to be issued December 15, 1994. This offering will provide about $2,900 million of new cash for the Treasury, as the maturing 13-week and 26-week bills are outstanding in the amount of $24,299 million. In addition to the maturing 13-week and 26-week bills, there are $16,238 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $10,708 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $3,149 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $2,577 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED DECEMBER 15, 1994

December 6, 1994

Offering Amount	$13,600 million	$13,600 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 Q9 8	912794 S6 2
Auction date	December 12, 1994	December 12, 1994
Issue date	December 15, 1994	December 15, 1994
Maturity date	March 16, 1995	June 15, 1995
Original issue date	September 15, 1994	December 15, 1994
Currently outstanding	$11,957 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids.

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . . . Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR RELEASE AT 3:00 PM
December 6, 1994

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR NOVEMBER 1994

Treasury's Bureau of the Public Debt announced activity figures for the month of November 1994, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$811,130,552
Held in Unstripped Form	$585,788,909
Held in Stripped Form	$225,341,643
Reconstituted in November	$9,485,212

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form."

Information about "Holdings of Treasury Securities in Stripped Form" is now available on the Department of Commerce's Economic Bulletin Board (EBB). The EBB, which can be accessed using personal computers, is an inexpensive service provided by the Department of Commerce. For more information concerning this service call 202-482-1986.

o0o

PA-168

(LB-1273)

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, NOVEMBER 30, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Principal Amount Outstanding: Portion Held in Unstripped Form	Principal Amount Outstanding: Portion Held in Stripped Form	Reconstituted This Month#1
11-1/4% Note A-1995.....	.....2/15/95......	6,933,861	5,697,061	1,236,800	14,400
11-1/4% Note B-1995.....	.....5/15/95......	7,127,086	4,423,886	2,703,200	7,200
10-1/2% Note C-1995.....	.....8/15/95......	7,955,901	5,037,101	2,918,800	22,400
9-1/2% Note D-1995......	.....11/15/95.....	7,318,550	3,422,550	3,896,000	25,600
8-7/8% Note A-1996......	.....2/15/96......	8,446,058	6,721,258	1,724,800	-0-
7-3/8% Note C-1996......	.....5/15/96......	20,085,643	18,122,443	1,963,200	52,800
7-1/4% Note D-1996......	.....11/15/96.....	20,258,810	17,746,810	2,512,000	51,200
8-1/2% Note A-1997......	.....5/15/97......	9,921,237	8,818,437	1,102,800	47,200
8-5/8% Note B-1997......	.....8/15/97......	9,362,836	7,838,036	1,524,800	12,800
8-7/8% Note C-1997......	.....11/15/97.....	9,808,329	7,357,129	2,451,200	16,000
8-1/8% Note A-1998......	.....2/15/98......	9,159,068	7,995,548	1,163,520	-0-
9% Note B-1998..........	.....5/15/98......	9,165,387	6,756,187	2,409,200	25,000
9-1/4% Note C-1998......	.....8/15/98......	11,342,646	8,881,846	2,460,800	119,200
8-7/8% Note D-1998......	.....11/15/98.....	9,902,875	6,971,675	2,931,200	49,600
8-7/8% Note A-1999......	.....2/15/99......	9,719,623	8,121,223	1,598,400	134,400
9-1/8% Note B-1999......	.....5/15/99......	10,047,103	6,722,303	3,324,800	81,600
8% Note C-1999..........	.....8/15/99......	10,163,644	8,109,744	2,053,900	55,000
7-7/8% Note D-1999......	.....11/15/99.....	10,773,960	7,802,760	2,971,200	174,400
8-1/2% Note A-2000......	.....2/15/00......	10,673,033	8,884,633	1,788,400	10,000
8-7/8% Note B-2000......	.....5/15/00......	10,496,230	6,163,430	4,332,800	14,400
8-3/4% Note C-2000......	.....8/15/00......	11,080,646	7,942,566	3,138,080	79,680
8-1/2% Note D-2000......	.....11/15/00.....	11,519,682	8,729,282	2,790,400	126,400
7-3/4% Note A-2001......	.....2/15/01......	11,312,802	9,315,202	1,997,600	72,000
8% Note B-2001..........	.....5/15/01......	12,398,083	9,923,033	2,475,050	-0-
7-7/8% Note C-2001......	.....8/15/01......	12,339,185	10,347,185	1,992,000	144,000
7-1/2% Note D-2001......	.....11/15/01.....	24,226,102	23,228,022	998,080	125,520
7-1/2% Note A-2002......	.....5/15/02......	11,714,397	10,898,477	815,920	-0-
6-3/8% Note B-2002......	.....8/15/02......	23,859,015	23,457,415	401,600	-0-
6-1/4% Note A-2003......	.....2/15/03......	23,562,691	23,534,851	27,840	512
5-3/4% Note B-2003......	.....8/15/03......	28,011,028	27,855,828	155,200	-0-
5-7/8% Note A-2004......	.....2/15/04......	12,955,077	12,955,077	-0-	-0-
7-1/4% Note B-2004......	.....5/15/04......	14,440,372	14,440,372	-0-	-0-
7-1/4% Note C-2004......	.....8/15/04......	13,346,467	13,346,467	-0-	-0-
7-7/8% Note D-2004......	.....11/15/04.....	14,373,778	14,373,778	-0-	-0-
11-5/8% Bond 2004.......	........do........	8,301,806	5,069,806	3,232,000	352,000
12% Bond 2005...........	.....5/15/05......	4,260,758	2,803,008	1,457,750	48,000
10-3/4% Bond 2005.......	.....8/15/05......	9,269,713	8,280,913	988,800	22,400
9-3/8% Bond 2006........	.....2/15/06......	4,755,916	4,755,276	640	-0-
11-3/4% Bond 2009-14....	.....11/15/14.....	6,005,584	1,667,184	4,338,400	348,800
11-1/4% Bond 2015.......	.....2/15/15......	12,667,799	5,238,839	7,428,960	401,440
10-5/8% Bond 2015.......	.....8/15/15......	7,149,916	1,721,436	5,428,480	187,520
9-7/8% Bond 2015........	.....11/15/15.....	6,899,859	2,530,259	4,369,600	134,400
9-1/4% Bond 2016........	.....2/15/16......	7,266,854	6,062,854	1,204,000	108,000
7-1/4% Bond 2016........	.....5/15/16......	18,823,551	18,145,151	678,400	42,400

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, NOVEMBER 30, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Principal Amount Outstanding: Portion Held in Unstripped Form	Principal Amount Outstanding: Portion Held in Stripped Form	Reconstituted This Month#1
7-1/2% Bond 2016........	.....11/15/16.....	18,864,448	17,882,448	982,000	-0-
8-3/4% Bond 2017........	.....5/15/17......	18,194,169	7,293,209	10,900,960	743,520
8-7/8% Bond 2017........	.....8/15/17......	14,016,858	7,223,258	6,793,600	571,200
9-1/8% Bond 2018........	.....5/15/18......	8,708,639	1,577,439	7,131,200	291,200
9% Bond 2018............	.....11/15/18.....	9,032,870	2,026,270	7,006,600	142,200
8-7/8% Bond 2019........	.....2/15/19......	19,250,798	4,794,798	14,456,000	648,000
8-1/8% Bond 2019........	.....8/15/19......	20,213,832	16,849,352	3,364,480	449,920
8-1/2% Bond 2020........	.....2/15/20......	10,228,868	4,795,668	5,433,200	408,400
8-3/4% Bond 2020........	.....5/15/20......	10,158,883	3,651,523	6,507,360	316,320
8-3/4% Bond 2020........	.....8/15/20......	21,418,606	4,703,086	16,715,520	660,640
7-7/8% Bond 2021........	.....2/15/21......	11,113,373	9,521,373	1,592,000	224,000
8-1/8% Bond 2021........	.....5/15/21......	11,958,888	4,265,768	7,693,120	172,160
8-1/8% Bond 2021........	.....8/15/21......	12,163,482	4,704,282	7,459,200	313,280
8% Bond 2021............	.....11/15/21.....	32,798,394	7,163,219	25,635,175	1,054,100
7-1/4% Bond 2022........	.....8/15/22......	10,352,790	8,330,390	2,022,400	98,400
7-5/8% Bond 2022........	.....11/15/22.....	10,699,626	4,184,426	6,515,200	80,000
7-1/8% Bond 2023........	.....2/15/23......	18,374,361	14,513,561	3,860,800	152,000
6-1/4% Bond 2023........	.....8/15/23......	22,909,044	22,622,836	286,208	53,600
7-1/2% Bond 2024........	.....11/15/24.....	11,469,662	11,469,662	-0-	-0-
Total.................	....	811,130,552	585,788,909	225,341,643	9,485,212

#1Effective May 1, 1987, securities held in stripped form were eligible for reconstitution to their unstripped form.

Note: On the 4th workday of each month Table VI will be available after 3:00 pm eastern time on the Commerce Department's Economic Bulletin Board (EBB). The telephone number for more information about EBB is (202) 482-1986. The balances in this table are subject to audit and subsequent adjustments.

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 8, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $17,000 million of 52-week bills to be issued December 15, 1994 and to mature December 14, 1995 were accepted today (CUSIP: 912794T61).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	6.72%	7.18%	93.205
High	6.76%	7.23%	93.165
Average	6.75%	7.22%	93.175

$10,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 63%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$41,926,816	$17,000,426
Type		
Competitive	$36,206,040	$11,279,650
Noncompetitive	1,195,776	1,195,776
Subtotal, Public	$37,401,816	$12,475,426
Federal Reserve	4,200,000	4,200,000
Foreign Official Institutions	325,000	325,000
TOTALS	$41,926,816	$17,000,426

LB-1274

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
December 9, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
COUNCIL ON STRATEGIC AND INTERNATIONAL STUDIES
MIAMI BEACH, FLORIDA

I was in the neighborhood, so Bob Mosbacher invited me to drop by. I thought it might be good for me, too, because I'm going into the private sector, and it doesn't hurt to hob nob with CEOS.

This will be a great summit. 34 democratic leaders are here. That's 10 more than the last hemispheric summit, in 1967.

This is a very different Latin America. Back then the big question was: "How much aid will the U.S. provide?" One finance minister after another has told me: Lloyd -- we don't want aid. We want trade.

This is not the same Latin America of 10 years ago, either. Mountains of debt have been worked down to a manageable size in all but a few countries. Government deficits are down. Inflation is under control almost everywhere. States are privatizing and reducing regulations.

Everyone shares the same beliefs -- that the private sector is the engine of growth and that economic growth must come with low inflation.

This afternoon, I'll be meeting with the Finance Ministers. We'll be discussing capital formation -- the opening up of capital markets. We'll also discuss money laundering, a $300 billion annual drain on the world economy. We want to come out of this with economies winning and crooks losing.

LB-1275

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 8, 1994

Contact: Peter Hollenbach
(202) 219-3302

NOVEMBER SAVINGS BONDS SALES TOTAL $677 MILLION

Savings Bonds sales for November totaled $677 million, pushing the value of U.S. Savings Bonds held by Americans to $179.9 billion, up 5 percent over a year ago.

Series EE Savings Bonds issued on or after March 1, 1993, and held five years or longer, earn the market-based interest rate if it averages more than the guaranteed minimum of 4 percent. If redeemed during the first five years, bonds earn 4 percent. Bonds issued before March 1993 retain their existing guaranteed minimum rates until they enter a new extended maturity period. The current semiannual market-based rate effective Nov. 1, 1994, through April 30, 1995, is 5.92 percent.

Interest earnings on Savings Bonds are exempt from State and local income taxes, and Federal income taxes on the interest earnings can be deferred.

Current rate information can be obtained by calling the Savings Bonds Marketing Office's toll-free number, 1-800-4US-BOND.

-more-

PA-169

(LB-1276)

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 9, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN

I'm glad that the U.S. Treasury Department and Haiti are signing today the papers that will set the stage for clearing Haiti's arrears with the international financial institutions. Almost $85 million of past due payments will be cleared.

This will unlock about $250 million in new lending to support Haiti's economic recovery and development. By Christmas, the World Bank will lend $20 million to Haiti.

I'm particularly proud of this agreement, because it was an international partnership of 10 countries that made it possible. The United States and Haiti led the effort, but we also had the support of European, Asian, and Latin American countries.

The U.S. military has done an excellent job in bringing democracy to Haiti. Finance Minister Rey, you have been a loyal supporter of the democratic movement, and our efforts today will allow Haiti to move on the road to economic recovery.

-30-

LB-1277

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
December 10, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
SUMMIT OF THE AMERICAS, CABINET BREAKFAST
MIAMI, FLORIDA

Well, 12 days and I'll be back in the private sector.

One thing I've noticed in the last week: everybody is asking questions requiring me to look back. What are you most proud of? What do I want as my legacy?

Forget it -- I don't look back. I look ahead. A business friend of mine once said when you leave an organization, it doesn't matter what you leave behind, what's important is what you had a hand in starting.

I'm proud that we had a hand in starting America's economic turnaround. We've created 5 million jobs, kept inflation low, and we did what they said we couldn't -- cut $87 billion off the budget deficit in two years. I'm proud that we started downsizing government. We have 71,000 fewer government employees than we did 22 months ago.

And I'm very enthused about what we're starting today -- and what it will mean for trade in this hemisphere.

We started in the '80s with the Canadian Free Trade Agreement -- we helped push that through when I was Finance Chairman. Then we expanded it to NAFTA. It was tough, because some unions sincerely believed it would cost this country jobs. We understood their concerns -- they had seen plants close because imports came in. And it wasn't two-way trade. We couldn't ship our products out because their markets were protected.

NAFTA is different because we are opening new markets. The auto industry will export about 60,000 American-made cars this year to Mexico. Now the big complaint you hear from Detroit is: too much overtime.

Today, we're taking the big jump. The President will be meeting with the other leaders to discuss creating a free trade zone throughout the hemisphere.

LB-1278

Secretary Christopher, Secretary Brown, and I had a hand in starting this trade agreement, but it's the private sector -- it's you -- who will make it work or not.

We're selling $200 billion in American products in this hemisphere. That's more than we sell to Europe or Asia. Think of what those numbers could be 10 years from now because of what we're starting in Miami.

But it's up to you. We're opening the doors. But you have to do the selling. I sure hope you take advantage of what makes your selling job easier. The fact that we're multicultural -- that we have a strong Latin culture. The Japanese have the advantage in Asia. We have it here.

Latin America may not be our biggest market, but it's the only region in the world where we enjoy a substantial trade surplus. If things are open, we can compete with anyone. The Japanese car companies have 19 percent of the Latin American market. The American car companies have 27 percent.

This is not the same Latin America of 10 years ago. Government deficits are down. Inflation is under control almost everywhere. States are privatizing and reducing regulations.

In the '80s people were turned off to Latin America because of the debt problem. I had a meeting with the finance ministers yesterday. We didn't focus on debt. We focused on investing. What a difference.

We talked about capital formation and how to encourage the opening up of capital markets. They wanted to know what they needed to do to attract investments.

I told them that there are a lot of emerging countries around the world looking for capital: Asian countries, Eastern European countries, and Russia. The finance minister from Nicaragua compared his country to Eastern Europe. They went from war to peace, from authoritarian regime to democracy, and from central planning to a market economy.

We agreed that we need laws that have continuity and stability. And I can announce today that we will set up a Committee on Hemisphere Financial Issues. Treasury officials from the various countries will meet and create a process for encouraging the development and integration of capital markets.

We also talked about money laundering. It's a $300 billion problem, worldwide. Half is drug money, and half is from arms trafficking, tax evasion, and crimes like that. We need to form a partnership, because if one country has a weak program, the launderers will find it and put their money there.

We talked about what a serious threat this is to free-market economies. I wish you could have heard the finance minister of Haiti yesterday, pleading to put in tighter international controls so criminals don't corrupt their financial system. Or you should have heard the ministers from Barbados and St. Kitts and Nevis talk about the dangers of money laundering. We're going to follow-up on this one.

Let me end with this. Over the years, I've talked and many people have talked about the 20th Century as the American Century. People say that the 21st Century will belong to Asia. Or to Japan. Or to China. Or to Europe.

Don't put us down.

I see the growth potential in this hemisphere. I see the able leaders those democracies have produced. I see you -- the most competitive businesses in the world. And I say, if we show leadership, the next century can be the Americas Century.

Legacies? Well, I do have one wish. We all should have it. Having our names attached to having helped start the 21st Century as the Americas Century.

-30-

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 7, 1994

Contact: Peter Hollenbach
(202) 219-3302

**TRW CHAIRMAN JOSEPH T. GORMAN HEADS
1995 U.S. SAVINGS BONDS VOLUNTEER COMMITTEE**

Joseph T. Gorman, Chairman and Chief Executive Officer, TRW Inc., has been named chairperson of the 1995 U.S. Savings Bonds Volunteer Committee. The appointment, by Secretary of the Treasury Lloyd Bentsen, took effect today at the Committee's annual Washington meeting. Mr. Gorman succeeds 1994 national chairperson William Ferguson, Chairman and CEO of NYNEX Corporation, New York.

Mr. Gorman will lead the 1995 savings bond campaign through a committee of top business and government executives representing leading American industries and major metropolitan areas. The committee leads the national volunteer effort in support of the U.S. Savings Bond Program. More than 7.2 million individuals buy bonds through the payroll savings plan.

Mr. Gorman became Chairman and Chief Executive Officer of Cleveland-based TRW in December 1988, after serving as president and chief operating officer since January 1985. He has been a director of the company since 1984. Mr. Gorman joined TRW in 1968 as a member of the company's legal department.

Mr. Gorman is a member or director of several international, business and economic groups. He is chairman of the Business Roundtable's Education Task Force and the Defense Industry Initiative Steering Committee. He is the immediate past chairman of the U.S. - Japan Business Council and the U.S. government's Industry Policy Advisory Committee. Mr. Gorman is one of three U.S. appointees to the Japan Import Board and was previously the vice chairman of the U.S. - Canada Automotive Select Panel. He is a director of The Procter & Gamble Company and the Aluminum Company of America and is a member of the advisory board of BP America Inc.

He has held several leadership positions in Ohio and the Cleveland area, including service as the 1994 Cleveland Geographic Chairman of the U.S. Savings Bonds Volunteer Committee.

A list of members of the 1995 U.S. Savings Bonds Volunteer Committee is attached.

oOo

PA-167

(LB-1279)

1995 U.S. SAVINGS BONDS VOLUNTEER COMMITTEE

National Chairperson

Joseph T. Gorman
Chairman and CEO
TRW Inc.
Cleveland, OH

INDUSTRY CHAIRPERSONS

ADVERTISING/PUBLIC RELATIONS

John J. Dooner, Jr.
President and COO
McCann-Erickson Worldwide

AEROSPACE

Dr. Edward C. Stone
Director
Jet Propulsion Laboratory

AIR TRANSPORTATION

Ronald W. Allen
Chairman and CEO
Delta Air Lines, Inc.

BANKING

J. Terrance Murray
Chairman, President & CEO
Fleet Financial Group

COMPUTERS & BUSINESS EQUIPMENT

James A. Unruh
Chairman and CEO
UNISYS Corporation

COUNTY GOVERNMENT

The Honorable Gary Locke
County Executive
King County
Seattle, WA

ELECTRICAL EQUIPMENT

Edmund M. Carpenter
Chairman and CEO
General Signal Corporation

ELECTRONICS

Dr. Barry M. Horowitz
President and CEO
The MITRE Corporation

ENTERTAINMENT

Sherry Lansing
Chairman - Motion Pictures
Paramount Pictures Corporation

GLASS AND BUILDING MANUFACTURING

Jerry E. Dempsey
Chief Executive Officer
PPG Industries Inc.

HEALTH SERVICES

Lois J. Moore
President and CEO
Harris County Hospital District

HIGHER EDUCATION

Dr. Blenda J. Wilson
President
California State University, Northridge

INDUSTRIAL MANUFACTURING

Duane D. Fitzgerald
President and CEO
Bath Iron Works

PACKAGING AND FOREST PRODUCTS

Marvin A. Pomerantz
Chairman and CEO
Gaylord Container Corporation

PETROLEUM, COAL & REFINING

Joseph C. Farrell
Chairman and CEO
The Pittston Company

PUBLIC TRANSPORTATION

Alan F. Kiepper
President
New York City Transit Authority

RAILROADS

John W. Snow
President and CEO
CSX Corporation

RETAIL FOODS

John F. Schwegmann
Chief Executive Officer
Schwegmann Giant Super Markets

RETAIL MERCHANDISING

Alan G. Hassenfeld
Chairman and CEO
Hasbro Inc.

SCHOOLS

Dr. J. Howard Hinesley
Superintendent of Schools
Pinellas County Board of Education

STATE GOVERNMENT

The Honorable
Ann M. Richards
Governor of Texas

STEEL

Herbert Elish
Chairman, President and CEO
Weirton Steel Corporation

TELECOMMUNICATION

William T. Esrey
Chairman and CEO
Sprint Corporation

UTILITIES

Frederick W. Buckman
President and CEO
PacificCorp

GEOGRAPHIC CHAIRPERSON

ATLANTA

F. Duane Ackerman
President and CEO
BellSouth Telecommunications

BOSTON

Donald B. Reed
President and CEO
NYNEX-New England

CHICAGO

Donald C. Trauscht
Chairman and CEO
Borg-Warner Security Corporation

CINCINNATI

Daniel J. Meyer
Chairman and CEO
Cincinnati Milacron, Inc.

COLUMBUS

James H. Gilmour
Executive Vice President
and COO
National City Bank, Columbus

DALLAS

John L. Adams
Chairman and CEO
Texas Commerce Bank

DENVER

James W. McAnally
President
Martin Marietta Astronautics

DETROIT

James E. Wilkes
President
Ameritech - Michigan

HOUSTON

Philip J. Carroll
President and CEO
Shell Oil Company

LOS ANGELES

Michael R. Bowlin
President and CEO
ARCO

MILWAUKEE

Richard A. Abdoo
Chairman, President and CEO
Wisconsin Energy Corporation

MINNEAPOLIS-ST. PAUL

Andrew P. Czajkowski
President and CEO
Blue Cross/Blue Shield of
Minnesota

NEW JERSEY

James R. Leva
Chairman and CEO
General Public Utilities
Corporation

NEW YORK

Harry P. Kamen
Chairman and CEO
Metropolitan Life Insurance
Company

PHILADELPHIA

Joseph F. Paquette, Jr.
Chairman and CEO
PECO Energy Co.

PHOENIX

Edward T. Hurd
President, Industrial Controls
Honeywell Inc.

PITTSBURGH

Edward V. Randall
President and CEO
PNC Bank NA Pittsburgh

ST. LOUIS

John F. McDonnell
Chief Executive Officer
McDonnell Douglas Corporation

SEATTLE

John V. Rindlaub
Chairman and CEO
Seafirst Bank

WASHINGTON, DC

Barbara Davis Blum
President and CEO
Adams National Bank

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 12, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,655 million of 13-week bills to be issued December 15, 1994 and to mature March 16, 1995 were accepted today (CUSIP: 912794Q98).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.75%	5.91%	98.547
High	5.76%	5.93%	98.544
Average	5.76%	5.93%	98.544

$3,000,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 92%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$48,063,334	$13,654,730
Type		
Competitive	$42,811,435	$8,402,831
Noncompetitive	1,572,374	1,572,374
Subtotal, Public	$44,383,809	$9,975,205
Federal Reserve	3,158,380	3,158,380
Foreign Official Institutions	521,145	521,145
TOTALS	$48,063,334	$13,654,730

An additional $192,855 thousand of bills will be issued to foreign official institutions for new cash.

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 12, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,654 million of 26-week bills to be issued December 15, 1994 and to mature June 15, 1995 were accepted today (CUSIP: 912794S62).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	6.31%	6.61%	96.810
High	6.32%	6.62%	96.805
Average	6.32%	6.62%	96.805

Tenders at the high discount rate were allotted 86%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$51,101,003	$13,653,563
Type		
Competitive	$44,735,170	$7,287,730
Noncompetitive	1,372,753	1,372,753
Subtotal, Public	$46,107,923	$8,660,483
Federal Reserve	3,350,000	3,350,000
Foreign Official Institutions	1,643,080	1,643,080
TOTALS	$51,101,003	$13,653,563

An additional $607,645 thousand of bills will be issued to foreign official institutions for new cash.

LB-1281

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
December 13, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,000 million, to be issued December 22, 1994. This offering will result in a paydown for the Treasury of about $33,650 million, as the maturing bills total $59,659 million, (including the 66-day cash management bills issued October 17, 1994, in the amount of $15,040 million, the 37-day cash management bills issued November 15, 1994, in the amount of $12,009 million, and the 20-day cash management bills issued December 2, 1994, in the amount of $8,005 million).

Federal Reserve Banks hold $6,509 million of the five maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $6,833 million of the five maturing issues as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

LB-1282

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED DECEMBER 22, 1994

December 13, 1994

Offering Amount	$13,000 million	$13,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 R2 2	912794 S7 0
Auction date	December 19, 1994	December 19, 1994
Issue date	December 22, 1994	December 22, 1994
Maturity date	March 23, 1995	June 22, 1995
Original issue date	September 22, 1994	December 22, 1994
Currently outstanding	$11,777 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

The Government Purchase Card

"... we pledge to: significantly expand the use of purchase cards over levels existing in January 1993, with a target increase of at least 100% by October 1, 1994..."

September 1994

Reinventing the Federal Government

We will invent a government that puts people first, by–

- Putting Customers First
- Cutting Red Tape
- Empowering Employees to Get Results
- Cutting Back to Basics

Bill Clinton   Al Gore

PREFACE

Last October, Dr. Steven Kelman, the Administrator of OMB's Office of Federal Procurement Policy, asked Senior Agency Procurement Executives to voluntarily sign a pledge to promote one of the first National Performance Review's procurement recommendations: to provide managers with the ability to authorize employees who have a bona fide need to buy small dollar items directly using a purchase card.

Signing pledges was new to Procurement Executives; there was nothing like this in the Federal Acquisition Regulation. Nevertheless, ten of them agreed that, in one year, they would increase purchase card usage by 100% over January 1993 usage.

The year is up. While the final tabulation will not be available until mid-October, by the end of the tenth month, July, they had increased purchase card usage by 119%, making 82,000 purchases per month worth almost $19,000,000. While meeting the pledge is gratifying in itself, the real merit here is in the success stories heard from those program managers and their employees who have been entrusted to buy what they need, when they need it, to do their jobs. Since starting this project, the ten agencies have made 750,000 purchases faster, better and at less cost with the card. Plus, they report virtually no waste or abuse.

The following report documents the work of the Departments of Commerce, Energy, Health and Human Services, Interior, State, Transportation, Treasury, Office of Personnel Management and Federal Emergency Management Agency in meeting this pledge. It documents what they found, what they did and what they recommend as next steps.

Procurement Executives from the above named agencies have concurred in this report.

CONTENTS

APPENDICES

EXECUTIVE SUMMARY

The National Performance Review identified Government procurement reform as one way of achieving a Government that works better and costs less. Increasing use of the Government Purchase Card was identified as a component of procurement reform.

Through the efforts of the Procurement Executives from the Departments of Commerce, Energy, Health and Human Services, Interior, State, Transportation and Treasury, the Office of Personnel Management, the Federal Emergency Management Agency and the Commissioner, Information Resources Management Service at the General Services Administration, use of the Government Purchase Card has increased dramatically. The Government Purchase Card is a success story, yet there are still many opportunities to expand its use. This report will detail how actual experience using the Government Purchase Card has demonstrated the following advantages:

- o Expedited "on the spot" purchasing rather than paperwork languishing "in the system" for two to six weeks.

- o Empowering the end users to buy what they need to do their jobs rather than relying on a purchasing agent for items costing less than $2,500.

- o Administrative savings of $53.77 per transaction when compared with traditional Government purchasing and payment methods.

- o Improved accountability.

Ten Executive Branch agencies pledged, through their Procurement Executives, and, at GSA, their Commissioner, IRMS, to increase purchase card usage and the number of cardholders by 100% by October 1994. In July, we reported to the Administrator of the Office of Federal Procurement Policy (OFPP) that the pledge had been fully honored three months early. As of July 1994, these 10 agencies were making 81,895 buys worth $20,182,358 per month; <u>119</u>% more than the January 1993 benchmark.

This report demonstrates how the pledge was honored. Initially, Procurement Executives from Commerce, Transportation, Energy, HHS, Interior, State and Treasury formed a Purchase Card Council. OFPP and Financial Management Services (FMS) also participated in this council. Membership grew as other agencies either signed the pledge or expressed interest in learning more. Members of this council:

- o successfully challenged administrative and regulatory barriers to card use,

- o shared "best practices" in implementation and training,

- o promoted card use at conferences, and

- o publicized the benefits of the card by publishing an informal newsletter.

We firmly believe that the Government Purchase Card still offers many untapped opportunities to streamline procurement and cut costs. Although great progress has been made since we signed the pledge, we have included a listing of additional actions which we recommend to further implement the program throughout the Federal Government.

Taking the Pledge

The National Performance Review (NPR) established a goal to create a Government that works better and costs less. Government-wide procurement reform was identified as one avenue to accomplish this objective. One of the principal NPR procurement reform recommendations was to expand the use of the Government purchase card for buying small dollar items to achieve a more responsive, efficient and streamlined mechanism for small purchasing. The purchase card is a VISA credit card that the Government uses to buy small dollar supplies and services.

The effort to increase the use of the purchase card focused on actions under $2,500. This threshold was chosen for several reasons: first, the current threshold for competition is $2,500 -- program personnel can buy without obtaining competitive quotes as long as the price they are quoted is fair and reasonable; purchases under $2,500 are generally less complex and do not require extensive procurement knowledge; and items are often available off-the-shelf for immediate delivery.

Government-wide small purchase statistics for fiscal year 1993 indicate that out of 19,262,130 actions worth $22 billion approximately 10 million of the actions totalling approximately $4 billion are under $2,500.

Making the purchase card available, with appropriate training, to more individuals outside of procurement offices will greatly assist in moving the procurement process from red tape to results by enabling program offices to obtain their requirements on a timely and cost effective basis without burdensome paperwork, layers of approvals and wasted time going through the procurement office for each purchase.

To help reach the goal to expand usage of the purchase card, the Procurement Executive for the Department of the Treasury spearheaded a project to demonstrate endorsement of this reform initiative by signing a pledge to increase purchase card usage by 100% by October 1994. The pledge was made to Dr. Steven Kelman, Administrator of the Office of Federal Procurement Policy (OFPP). A copy of the pledge is attached as Appendix A. It was the first pledge of the procurement reinvention agenda and set the baseline and served as a model for other pledges to follow.

Initially, Procurement Executives from the Departments of Commerce, Interior, Health and Human Services, State, Transportation and Treasury signed the pledge. The Commissioner, Information Resources Management Service, General Services Administration (GSA) also signed. A short time later, the Department of Energy, the Federal Emergency Management Agency and the Office of Personnel Management demonstrated support of this innovative effort by also signing this pledge.

On July 21, 1994, the Treasury Procurement Executive reported to Dr. Kelman that the pledge had been met, three months ahead of schedule. As of July 1994, sales had increased by 119%. The ten pledge agencies are making over 1 million purchases a year using the Government purchase card. A summary chart showing growth of the purchase card program at the ten agencies that signed the pledge is shown as Appendix B.

In addition to increasing sales, members also pledged to place the card into the hands of appropriately trained line managers and other non-procurement personnel; identify and eliminate internal impediments to the maximum beneficial use of the purchase card and actively promote and support legislation to eliminate statutory impediments; and, finally, cooperate with each other and OFPP to share experiences relevant to the expanded use of the purchase card.

Purchase Card Council

Soon after the pledge was signed, the Treasury Procurement Executive established the Purchase Card Council. The Council's mission was to help agencies meet the pledge. Initially, the Council consisted of representatives from the pledge agencies. OFPP and Treasury's Financial Management Service (FMS) were also represented on the Council and served as advisors. Representatives from the Agriculture Research Service of USDA and the Drug Enforcement Administration attended several meetings. Federal Prison Industries participated to see how increased card usage would affect its program. The Council was chaired by Treasury. A list of Purchase Card Council representatives is contained in Appendix D.

Publicizing the Purchase Card

The Purchase Card Council promoted the Government purchase card by publishing articles in journals and magazines, participating at small business fairs, and creating its own publication. Since by law purchases under $25,000 are reserved for small business, we (the Purchase Council) concentrated our publicizing efforts on small, disadvantaged and women-owned businesses.

CardCopy, an informal bulletin, was published by the Council to promote use of the Government purchase card by sharing information with other Government agencies that are using or considering using the card.

Treasury and the Small Business Administration co-sponsored the Procurement Opportunities Expo-94 at Andrews Air Force Base on

April 20, 1994. GSA and Treasury exhibited the Government purchase card at this conference. Over 600 small, women-owned and minority businesses visited the booth to obtain information about the card.

Another small, women-owned and minority business conference, Treasury's PARTNERSHIPS'94, held on May 4, 1994, at the Mellon Auditorium in Washington, D.C., included a GSA exhibit on the Government purchase card. Many of the $1.7 million on-the-spot purchases made at the conference were made with a Government purchase card.

To further publicize the program, honorary purchase cards were presented to Treasury Secretary Bentsen and Assistant Secretary (Management), George Muñoz. A photograph of the card being presented to Secretary Bentsen was on the cover of Inside Treasury. Dr. Kelman was presented with an honorary card at a subsequent Procurement Executives Association meeting. This card was framed and hangs in his office for all visitors to see.

Treasury, at yet another Partnership conference held August 23-24, 1994, in Los Angeles, California, made all on-the-spot purchases with the Government purchase card.

Treasury's Director for Small and Disadvantaged Business Utilization programs wrote letters to the U.S. Chamber of Commerce and National Small Business United requesting them to publish an article in their newsletters to further educate the small business community about the purchase card. National Small Business United published the article in Issue No. 94-4 of their Small Business USA newsletter. In addition, Set-Aside-Alert, a Publication of the Small Business Press and the National Association of Women Business Owners published narratives about the program.

The publicity created significant interest in the business and Government community. Hundreds of calls were received from companies wanting basic information about the program. State and local Government agencies, such as the Office of the Comptroller of the State of Texas, called and were provided helpful advice.

Industry Forum

In one of the early meetings of the Purchase Card Council, it was decided to set up an industry forum in the Washington area where Government and private industry could meet and discuss their programs. However, after three Purchase Council members attended First Bank's annual private industry user conference on the VISA Purchasing Card Program in Minneapolis, Minnesota, it was realized that private industry's program was modeled substantially after the Government's program. This is a rare instance where the Federal Government has taken the lead in developing a program which is being copied by private industry.

Cost Benefit Analysis

Participating agencies were asked to perform a detailed cost benefit analysis on small purchases of $2,500 and below, in order to compare the costs of making purchases using written purchase orders in a centralized small purchasing office versus using purchase cards in program offices where the requirement exists. A standardized methodology was developed for use by all participants, although agencies were free to tailor it to their circumstances. In addition, some agencies had already conducted cost-benefit analyses that were considered sufficiently up-to-date to be valid for the purposes of this study.

The methodology involved measuring or estimating the time required for all the various steps necessary to acquire supplies or services under $2,500 for a single purchase. For each step, applicable salary rates were computed (in this portion of the analysis, costs other than direct and indirect personnel costs were negligible) and average total costs were summarized for written purchase orders and purchase cards.

The major elements of the analysis were as follows:

- Requisition Phase. This includes defining the requirement, preparing a requisition (if applicable), obtaining funding authorization, and obtaining any necessary approvals.

- Purchase Phase. Includes steps such as administrative review of requisition, review by purchasing staff for required sources, contacting vendors, documenting the solicitation/offer, selection of vendor, and issuing the purchase order.

- Administration Phase. This phase primarily includes closing out the order.

- Receiving Phase. Actions involved in receiving, inspection and acceptance are included in this phase.

- Invoice Phase. Includes actions related to reviewing and approving the invoice before it goes to the finance office for payment.

- Finance Processing. This includes sending the purchase order, receiving report and invoice to finance; verifying the cardholder statements and following-up on late statements; and reconciling disputed items. Finance office making sure that statement are received from each cardholder; verifying that statements are signed by each cardholder and approving official; matching receiving reports with invoices; comparing statements with invoice report; reconciling list of disputed items; filling out notifications of invoice adjustment form; and, entering invoice amount onto schedule for payment.

It should be noted that, in the case of some agencies, analyses done in the past included an administrative fee as part of the cost of using the purchase card. As of March 1994, the administrative fee was eliminated from the contract. Because the fee was less than half of one percent for the last year of the contract period, its impact on any cost benefit analysis was negligible.

Also not included in the cost benefit analysis are the productivity based refunds that can be earned by the Government under the present purchase card contract. These refunds are earned for payment of the consolidated invoice sooner than 39 days after its receipt. The refund is .01% of the net sales amount for each day earlier than 39 days that the invoice is paid. Productivity based refunds (.05% of net sales) are also available if an agency elects to receive reports electronically.

The results of the cost benefit analysis show that the average cost (arithmetic mean) among the participating agencies for processing a purchase order and a purchase card buy, from identification of the requirement through closure of the sale, and payment are as follows:

Cost of Purchase Order = $94.20
Cost of Purchase Card = $40.43

☛ Potential Savings = $53.77

Although the range of costs reported by the agencies is relatively wide, a single factor such as extent of reliance on automated procedures could explain much of the variances. In addition, it is worth noting that every analysis, without exception, showed a financial advantage for the purchase card, and the average figures indicate that a cost savings of over 50% is realistic.

It should be noted that most of the savings are not in the procurement office. Savings are difficult to pinpoint since they are in the multiple offices that identify, process and pay for requirements under $2,500. While some of the savings will be in the procurement process, savings will be achieved in the finance office as well as the many offices that approve requisitions, purchase orders or invoices on their tedious journey from the official who needs the services or supplies to the providers of the services or supplies.

Moving Purchases to Program Offices

An analysis was made of the number of purchases under $2,500 currently made by purchase orders prepared in the procurement office which could be moved out of the procurement office and purchased by the program or operations office having the need, thus eliminating procurement administrative lead time ranging from 10 to 45 days. The analysis showed that, for fiscal year 1995, agencies can move 30% of purchase order awards under $2,500 out of the procurement offices and into program areas utilizing the purchase card. This means that in fiscal year 1995, among the participating agencies, at least 150,000 purchases could be moved out of procurement offices into program offices. These figures do not include the Department of Defense or non-participating civilian agencies.

For fiscal years 1996 and 1997, the analysis of purchase orders projected a 10% decline in their use each year, therefore increasing up to 50% in three years the number of transactions that will be conducted by program personnel. We see no reason that this conclusion should not be applied Government-wide.

As part of the analysis, the participating agencies reviewed the number of purchases that a purchasing agent made under $2,500 in one fiscal year. This analysis showed that on average, a purchasing agent performed between 650 and 700 actions per year. With 30% of procurement actions being moved out of the procurement offices in fiscal year 1995, and 10% per year in fiscal years 1996 and 1997, substantial administrative and personnel savings will be achieved.

As stated above, using the purchase card instead of issuing a purchase order the government saves, on average, $53.77 per transaction. With the 150,000 purchases identified to be made using the purchase card outside the procurement office, an administrative savings of $8 million could be realized in fiscal year 1995.

The Departments of Commerce and Transportation have been using the purchase card program since its inception, and have come much closer to maximizing its potential than other agencies that started using the program recently. These two agencies may therefore not realize the same growth in the program and savings as some of the newer user agencies.

Full implementation of the purchase card program will shift work out of the purchasing office and thereby allow resources to be redeployed to work on other matters. Contract administration, a function that has traditionally taken a back seat to contract placement, is an area that needs greater attention. It is in this phase of the contract cycle that the Government is most vulnerable to waste and abuse.

Successes of the Purchase Card

The positive impact of the Government purchase card on the purchasing system can be demonstrated both with statistics and individual experiences. As we have shown in a previous section of this report, the use of the purchase card can reduce the administrative costs and time involved in making a purchase. It streamlines procurement procedures, cuts down on the use of imprest funds while providing greater accountability, and it expedites payments to vendors.

An employee of the Department of the Treasury offers the following observations on administrative cost savings and streamlining obtained through the use of the card:

> "Every one of our Purchase Card transactions has been positive. I can honestly say that from the onset of the purchase card, procurement of goods and services has been hassle free. Prior to the card, we were required to prepare an SF 148 (Requisition for Supplies/Services), submit it to procurement, wait for two months for a purchase order, wait another month for delivery, and the poor vendor had to wait yet another month for payment. Now we receive the goods in a matter of days from the time the order is placed and the vendor is paid in a timely manner. The purchase card is a wonderful resource."

Treasury also pinpoints the advantages of the purchase card over the imprest fund:

> "Certification of purchase card statements is less time consuming than the preparation, review and submission of imprest fund replenishment packages. Purchases can be made telephonically rather than in person. Accounting activity is more accurate since the commitment is established at the time of the purchase, whereas imprest fund activity is not charged until the monthly accountability is performed."

The Department of Energy success with the purchase card was evident when the August 17, 1994, report showed that 4,412 purchase card transactions were conducted. Using the interagency council cost figures, that equates to a saving of $237,233.24 for this one month alone. During fiscal year 1993, Energy processed 36,136 purchase orders. If all could be handled by the purchase card, the potential savings would be $1,943,032.72. They also authorized use of the card for two management and operating contractors. The contractors operate government-owned facilities and the title to the equipment and products they purchase vests in the Government. Their Procurement Executive notes that "It is a pleasure to observe the expansion of a program which will decrease administrative expenses and delays."

The Department of Commerce reports that the purchase card program is not only a success in the United States but overseas as well. They had initiated, at the request of the International Trade Administration, U.S. and Foreign Commercial Service (US&FCS), an overseas pilot purchase card program on October 23, 1992. This pilot involved four countries: England, Belgium, Venezuela, and Canada. One cardholder was identified in each of these countries. The pilot revealed that the purchase card is ideally suited for the foreign service. It is cost effective, uses the daily exchange rates without any additional conversion fees and has helped to reduce procurement fees associated with using purchase orders overseas. The overseas program is no longer a pilot but an established permanent program similar to their stateside program. There are now 96 cardholders, including 3 in China, in 45 countries.

An employee at the Department of State reports:

> "Hearing how other agencies grappled with and solved issues that were cropping up during the expansion of their program really helped us develop the persistence and perspective to keep pushing. We were able to take advantage of the information exchange opportunities offered through the Purchase Card Council, and we adopted many of the "best practices" that other agencies had found to be tried and true. The results are clear: State's domestic program, implemented through its Office of Acquisition, has taken off and is currently growing incrementally."

The Department of Interior, in its efforts to make the purchase card a success, hosted four workshops on program changes in the purchase card program for hundreds of current and future cardholders. These workshops were opportunities to answer questions and address concerns. Interior also formed a purchase card working group to coordinate efforts among their bureaus. The team completed a review of the Interior purchase card program. The working group's aim is to achieve a balance between streamlining the process and ensuring that cardholders are fully trained and that effective management controls are in place to minimize the potential for misuse.

The Federal Emergency Management Agency (FEMA) has relied on the purchase card in the recovery process during presidentially declared disasters. FEMA uses the card in the procurement office as well as in program offices. Over 80% of cards issued by FEMA have been issued to non-procurement personnel. Many of the employees have responsibility for on-site disaster recovery. Several emergency response teams within FEMA have been identified and individuals have been designated as cardholders. Also, individuals within FEMA's Mobile Response Support units, which are located in various regions of the United States, have been designated as cardholders and have successfully utilized the card in several disaster situations.

Perhaps nothing speaks about success as directly as the words of those who have experienced the benefits of using the card. We include some of their stories in Appendix C.

Purchase Card Barriers and Solutions

This section of the report cites some common purchase card barriers that procurement offices, purchase cardholders and program offices perceive as roadblocks in implementing the purchase card to its fullest potential. The Purchase Card Council, through its many meetings and discussions over the past several months has offered its own solutions to some of these barriers which are indicated below. However, many others will require review and disposition by other appropriate authorities such as OFPP and the Office of Federal Financial Management (OFFA), the General Services Administration (GSA), the Federal Acquisition Regulation (FAR) Secretariat; or legislation may be needed to remove or amend current laws and regulations which affect expansion of the Government-wide purchase card program. The current Acquisition Reform Bill addresses some of these issues.

Several agencies represented on the Purchase Card Council have established their own internal purchase card working groups, workshops, pilot programs, courses and training materials to market the program's value and to address internal barriers unique to their respective organizations. In addition, some of these agencies have interfaced with private industry to learn about their program(s) and how they compare with the current Government program.

The following is a listing compiled from information obtained from the participating agencies on the Purchase Card Council of purchase card barriers, solutions currently available to agencies and recommended solutions for other barriers requiring higher government intervention:

1. **Barrier:** Lack of Federal Acquisition Regulation (FAR) coverage for using the purchase card.

Solution: Recommend FAR Secretariat add strong FAR coverage which addresses and encourages the use of the Government-wide purchase card program without additional paperwork such as an accompanying purchase order. Since much focus is on promoting greater use of the purchase card for small purchases, this is another way to emphasize its use and further market the card as the preferred purchasing method. It also would cut down on paperwork in agencies, especially the Department of Defense which requires a purchase order to accompany each purchase card transaction.

Several Agencies prefer that there not be FAR coverage for use of purchase cards for the following reasons:

They are getting along fine without it and think they are better off not having coverage they do not need. They should be able to establish their internal procedures as just that -- internal procedures -- without needing a regulation.

They wish to retain maximum flexibility on use of the card and are concerned that to add FAR coverage will open the door for impediments now or later. An analogy is FAR coverage of task order contracts. The Government has been using task order contracts without impediment for a long time. Raising the issue of FAR coverage only opens the door to unwanted restrictions.

Action: FAR Council

2. **Barrier:** Program office personnel do not want to accept a purchase card.

Solution: Make the program attractive to them. Agency procedures should be simple, direct and unencumbered by unnecessary regulations and paperwork. The Purchase Card Council recommends that each agency establish a policy to promote use of the card in program offices for purchases under $2,500, and give purchasing offices the option to reject certain classes of requisitions. For example, the U.S. Customs Service is currently directing all purchases under $2,500 be made with purchase cards. Also, FEMA has initiated policy to have all purchases under $2,500, and at least 50% of purchases under $25,000, be made with the card.

Action: Senior Procurement Executives

3. **Barrier:** Approving Official review of monthly cardholder statements where the cardholder is a warranted contracting officers.

Solution: This is not required in the contract. Agencies may address this issue in their own internal procedures.

Action: Senior Procurement Executives

4. **Barrier:** Disputes process is too cumbersome.

Solution: Include disputes process in agency procedures and in cardholder and approving official training sessions; review disputes procedure to make sure it is simple and uncomplicated. Industry practices mirror personal use of a credit card. If possible, simplify to be in line with industry practices. Have GSA and purchase card contractor review the disputes procedures in the contract and streamline, if possible.

Action: Senior Procurement Executives

5. **Barrier:** Vendors are reluctant to accept the purchase card; vendors increase quote when purchase card is used.

Solution: Increase vendor awareness of the Purchase Card Program by publishing articles about the program and the advantages of the purchase card. Treasury's Director for the Small Disadvantaged Business Program identified several organizations such as the National Small Business United, the National Federation of Independent Business and the US Chamber of Commerce as good sources to publish articles. Treasury published articles in most of these organizations' newsletters. In accordance with VISA procedures, vendors cannot increase prices after they are told that the purchase will be charged to the credit card. Include in agency regulations and training awareness of this practice. Notify VISA if any vendor charges additional monies for using the purchase card.

Action: GSA Contracting Officer/Purchase card contractor/VISA.

6. **Barrier:** Vendors charging sales tax; not refunding sales tax.

Solution: Publicize purchase card; include language that Government is tax exempt; approach VISA to send out mailing to its customers about the Government's tax exempt status; educate cardholders about Government tax exempt status; during training provide cardholders with tips on how to avoid sales tax. Include in procedures a limit up to which cardholders can pay the tax (generally up to $10.00). Look for vendors that will honor the Government's tax exempt status.

Action: Agency Purchase Card Coordinators/GSA Contracting Officer.

7. **Barrier:** Single purchase dollar limitation of $2,500; office

monthly dollar limitation of $10,000.

Solution: Single purchase limitations are within agency discretion up to the small purchase dollar limit. Office limits are set by agency/bureau and may be raised or lowered depending on the need.

Although some agencies believe that the single purchase dollar limit of program personnel (who are not warranted contracting officers) should be kept at $2,500 or below, the mindset of restricting nonprocurement cardholders to this limit is slowly changing. This is evidenced by the DOC which currently allows their Heads of Contracting Offices (HCOs) to raise a nonprocurement cardholder's single purchase dollar limit above $2,500 at their discretion. Also, this past March, DOC established a pilot purchase card program for four selected offices (nonprocurement), the purpose of which is to increase their purchasing authority up to $25,000 when the identified cardholders have received the proper training. These offices were specifically identified by DOC's Deputy Secretary to receive an increase in their purchasing authority. The success of this pilot program will determine whether it will be expanded to other offices throughout DOC.

Treasury and the Office of Personnel Management have similar programs. Treasury has increased authority to $10,000 in selected cases.

Interior has increased the single purchase dollar limits for services for emergency crews. It is an invaluable tool in emergency situations resulting from hurricanes, severe flooding, fire fighting and search and rescue operations where the use of purchase orders or cash advances are not practical. They have also increased authority for special situations such as supporting the Convention for International Trade of Endangered Species to be held in Fort Lauderdale, Florida in November 1994.

FEMA has increased single purchase authority to $5,000 for program personnel in several cases. In addition, increased authority has been granted on a-case-by-case basis and is currently being considered by FEMA for wider dissemination. FEMA allows monthly limits to be suggested by program offices based on their particular needs and budgets.

Transportation has a pilot program in the personnel offices of its Operating Administrations which increased their delegation of procurement authority to $25,000. The delegation is for supplies and services relating to training requirements.

Action: Senior Procurement Executives

8. **Barrier:** Purchase cards can only be used by the individual whose name is on the card.

Solution: VISA regulations prohibit issuing purchase cards to other than individuals. Recommend that the GSA contracting officer discuss this issue with VISA.

Action: GSA Contracting Officer

9. **Barrier:** Non-procurement personnel are reluctant to use the purchase card because of all the regulations they must comply with.

Solution: At the time of this report, there is no complete solution to this problem. However, it is anticipated that when the pending procurement reform legislation is signed into law, it will eliminate many of these problems. We believe that as a result of the emphasis cited by the NPR to reduce red tape and remove layers of regulations, and by agencies changing their procedures, there will be some relief. Many mandatory sources for supply and services are aware of the NPR and are looking for ways to improve their policies and procedures. For example, GSA is eliminating mandatory use of supply schedules and converting the contract type from requirements contract to indefinite-delivery indefinite-quantity contracts. They are replacing mandatory multiple award, single award and international federal supply schedules as they expire. In the meantime procurement offices at each agency must be prepared to assist and educate program offices in these areas until changes are realized through congressional legislation.

Action: Senior Procurement Executives

10. **Barrier:** Some agencies are not issuing cards to temporary employees.

Solution: Several agencies have issued cards to temporary employees tying the expiration of the card to the length of the appointment or project. For example, FEMA has issued purchase cards to temporary employees and has encountered no problems. DOC recently amended its guidelines to include issuing cards to temporary employees, although their contracting offices may impose limitations.

Action: Senior Procurement Executives

11. **Barrier:** Requirement to use the Federal Supply Schedules.

Solution: See solution to Item 9.

Action: GSA

12. **Barrier:** Some GSA Federal Supply Schedule vendors do not accept the purchase card.

Solution: Solicitations issued by GSA for schedule contracts for supplies (other than telecommunication and telephone equipment) and services (other than teleprocessing services) include the GSA clause "Acceptance of Government Commercial Credit Card," dated December 1989, as a method of payment. Acceptance of the card is not mandatory. The Purchase Card Council suggests that GSA include mandatory acceptance of the purchase card as an ordering instrument in all of their federal supply schedule contracts.

Action: GSA

13. **Barrier:** Some offices still require a requisition, i.e. Budget/Accounting.

Solution: This needs to be addressed on an agency-by-agency basis. Treasury and Interior have issued department-wide policy stating that a requisition is not needed when the card is used outside of the procurement office. Transportation has also issued policy which does not require a requisition for credit card purchases.

Action: Senior Procurement Executives

14. **Barrier:** Resistance from functional areas. Need proof that purchase cards will save money.

Solution: The Purchase Card Council, in its efforts to show that using the purchase card saves time and money, completed a joint cost benefit analysis which compared the cost of using a purchase order to a government purchase card. This analysis takes into account the time it takes procurement and finance to process an action. Cost for each method of procurement was averaged out from data collected from nine civilian federal agencies, (HHS, GSA, Commerce, State, Treasury, Transportation, Interior, FEMA and OPM). The final analysis establishes a cost of $94.20 for a processing a purchase order and $40.43 for using a purchase card.

Action: Senior Procurement Executives

15. **Barrier:** The Treasury Financial Manual (TFM) requires a cost benefit analysis prior to using the purchase card for transactions over $2,000.

Solution: The Financial Management Service, with assistance from the Purchase Card Council, revised the TFM and the requirement to conduct a cost benefit analysis for purchases over

$2,000 was eliminated.

Action: Completed

16. **Barrier:** There are too many "source constraints" such as having to use the National Industries for the Blind (NIB), the National Industries for the Severely Handicapped (NISH), "UNICOR" (trade name for Federal Prison Industries (FPI), Inc.) and the Government Printing Office (GPO), etc. to make it efficient to expand distributing cards to non-procurement cardholders.

Solution: The proposed procurement reform legislation will not eliminate NIB/NISH or FPI as required sources. Cardholder training can make these requirements less confusing. The Committee for the Blind and Severely Handicapped is available to assist in purchase card training at any agency. They also provide a video about their program. In addition, non-procurement personnel need to be made aware of the GSA Customer Supply Centers. The Centers are located across the country and sell many of the mandatory supply items from NIB/NISH and FPI. Once an account is established with a Supply Center, the purchase card can be used to order.

Printing and related services must be obtained with very few exceptions exclusively through the U.S. Government Printing Office (GPO). Printing and related services costing $1,000 or less may be obtained from other sources only if a waiver is provided by GPO. Cardholders who require these services must follow their own agency's internal policies and procedures.

Action: Senior Procurement Executives

17. **Barrier:** Many agencies impose more restrictions than are in the contract.

Solution: The GSA contract identifies three limitations on the use of the purchase card. These are cash advances, rental or lease of land or buildings and telecommunications (telephone) services. Telephone equipment may be purchased, unless restricted by an agency. Agencies must comply with the rules of the contract, however, additional limitations hamper the full potential use of the card. Agencies should review their procedures and remove unnecessary limitations.

Action: Senior Procurement Executives

18. **Barrier:** Many offices are restricting non-procurement cardholders from buying controlled property with the purchase card.

Solution: This barrier is similar to the one identified in

Item 17. The Purchase Card Council emphasizes that overly restrictive purchase card limitations should be reviewed and deleted from an agency's internal procedures. As an example, DOC recently reviewed its purchase card guidance and deleted several agency imposed limitations. When cardholders purchase accountable property such as televisions, video cameras, personal computers, etc., they are required to complete applicable agency forms and forward them to the property Office. We recommend close coordination with property management offices in the decision of what restrictions can be eliminated and how the accountable property is reported.

Action: Senior Procurement Executives

19. **Barrier:** FEMA attempted to use the purchase card to pay utility bills. The card was not accepted because the purchase showed up as a cash advance. According to the GSA purchase card contract, cash advances are not permitted.

Solution: Recommended that FEMA discuss this issue with the GSA Contracting Officer to determine if anything can be done to facilitate use of the card to pay utility bills.

Action: FEMA/GSA contracting officer.

20. **Barrier:** Some offices require financial disclosure statements from cardholders.

Solution: Currently, individual agencies are obtaining legal opinions from their Office of General Counsel. This should be addressed by GAO on a Government-wide basis.

Action: GAO

21. **Barrier:** The purchase card is used only in procurement offices, not program/operating offices.

Solution: Savings associated with the use of the purchase card result from elimination of paperwork and handling, such as the elimination of having to prepare a requisition and go through the approval process. Departmental or agency policy should mandate, whenever possible, use of the card outside of procurement offices to realize the maximum savings associated with its use.

Action: Departmental management

22. **Barrier:** Lack of management support for the program.

Solution: Issue policy at the highest level of the Department/Agency in support of the program. Give it the proper management attention and oversight.

Action: Departmental/agency administrative management

23. **Barrier:** Inability to collect small/minority/women-owned business statistics.

Solution: VISA is working on establishing a database that would capture the business size and socio-economic status of businesses. The database is scheduled for completion in calendar year 1995. We suggest that the GSA contracting officer stay in close contact with VISA to bring this project to conclusion.

Action: GSA contracting officer/VISA

24. **Barrier:** Difficulty in getting user friendly electronic reports from the purchase card contractor.

Solution: Have the GSA contracting officer work with the contractor to resolve this issue. Make user friendly electronically transmitted reports a higher priority in the next contract.

Action: GSA

25. **Barrier:** Account reconciliation can be a problem in many finance offices.

Solution: 1) Review agency procedures to assure that cardholders give vendors time to make credit adjustments before filing paperwork which will compound the problem.

2) The Director, Modernization of Administrative Processes (MAP), U.S. Department of Agriculture (USDA) is implementing a Business Process Redesign (BPR) initiative focused on the use of credit cards for making small purchases. The purchase card account reconciliation process will be a major part of the BPR review. As part of the review, USDA will document the current process and benchmark best-in-business processes in the federal and private sector. A set of alternatives will be developed. USDA will select appropriate actions to improve the process for purchasing via the credit card. Results of the BPR review will be shared with other interested federal agencies, and OFFA/OMB for possible Government-wide use.

3) Interior had requested an opinion from GAO for a decision on the availability of fast pay procedures for credit card purchases in order to simplify the reconciliation process. GAO in turn posed the question to Treasury's Financial Management Service. Interior's request resulted in the decision to include in the Treasury Financial Manual revised regulations allowing payment of

the consolidated invoice on time even if all cardholder statements have not been received. This should eliminate discrepancies compounded by late payment of the invoice.

4) Transportation has issued policy concerning the use of default object class codes which make the credit card reconciliation process easier. They allow cardholders to default to one object class code when paying the VISA invoice.

Action: Senior Procurement Executives/USDA

26. **Barrier:** Having too many different types of credit cards.

Solution: Under the current system the Government uses at least three different credit cards: gasoline credit card, travel credit card and the purchase card. All three cards are managed by GSA. We suggest that GSA review these three programs and if possible, combine into one.

Action: GSA

Unfinished Business

In this final section of the report, we offer the following list of actions and suggestions which are beyond the scope of the Purchase Card Council members. We firmly believe that these actions will further promote the use of the Government Purchase Card, and therefore cut administrative expenses and achieve other NPR goals and objectives.

1. The Federal Acquisition Regulation does not provide guidance regarding use of Government Purchase Card. The FAR Council should include the Government Purchase Card in its rewrite of the FAR, under acknowledged simplified purchase procedures.

2. The Treasury Financial Manual prescribes payment regulations and includes guidance regarding the use of the Purchase Card. If the credit card will be considered both a payment tool and a procurement instrument, coverage should be contained in the FAR and the TFM (see FAR, above). Otherwise, it should be deleted from the FAR if it's considered a payment tool; or, deleted from the TFM if it's only considered a procurement instrument. FMS' position is that the purchase card is a payment mechanism first and a procurement mechanism second. An official there states: "The card is an alternative to paying a vendor via cash, check, debit card, third party draft, or other payment instrument. The card is a cash management disbursement tool which we regulate under authority of the Cash Management Improvement Act of 1990, and the Cash Management Improvement Act Amendments of 1992. Specifically, Treasury, FMS has issued regulations at 31 CFR 206 which require that all agencies

disburse funds via the mechanism which Treasury, FMS, deems most cost-effective. This includes use of the purchase card."

3. Standardized education of program office personnel would strengthen the accountability of Government Purchase Card use and compliance with purchasing regulations. We recommend that Federal Acquisition Institute (FAI) develop competency based training criteria and that they be applied Government-wide, with best practices of the decentralized training programs adopted.

4. It is fair to challenge the status quo. GSA has played a pivotal role in promoting use of the card and in establishing a sound contractual relationship with the contractor. Nevertheless, it is incumbent upon us to ask questions and seek answers for the future. Is the current system of having one centralized contract to serve the entire Government the optimum system? Could agencies obtain better business arrangements or enhanced service by competing contracts on a decentralized basis? Should an agency other than GSA negotiate the contract? Financial Management Service has the expertise to negotiate contracts with financial institutions taking into consideration the cost of funds and overall costs to the federal government. They are the leader in dealing with financial institutions. Could they negotiate a contract that is more favorable to the Government? Could one card be used for purchasing, travel, gasoline, cash, etc.?

5. The GSA contract stipulates that cards be issued to individuals. Government offices frequently are organized in such a way that several individuals within the office may have a legitimate need to make purchases for the office and accountability may be strong enough to support several users of one card. Would it not decrease administrative costs if several authorized users were permitted in controlled circumstances to utilize a single office card? We recommend that this be analyzed and that the contract specifications be changed to permit this if indeed it is found to be more useful and result in further net savings.

While we recommend that the above be looked at, we must also note that not all pledge agencies favor this approach. In addition, FMS opposes use of a generic card. They cite two reasons: 1) VISA and MasterCard bylaws prohibit the issuance of a card which does not contain the name of a person. The Government should not expect the associations to change their bylaws for our program because this rule is meant to keep fraud at a minimum which in turn keeps the interchange fees charged to merchants at a lower level; and, 2) the Government loses accountability, and therefore is subject to more fraud, when a specific person's name does not appear on the card.

6. Federal Supply Schedules and GSA Supply Catalogs continue to be a mandatory source for Government purchases. We recommend making them non-mandatory for purchases under $2,500 to promote purchase card use.

Next Steps

1. Turn over responsibility for full, meaningful implementation to the Federal Procurement Council.

2. Purchase Card Council members could become a resource to the Federal Procurement Council.

3. Over the last ten months the Purchase Card Council members have gained expert knowledge about the purchase card program, and how to make it work. They are a very knowledgeable and a capable resource and should be called upon individually or as a group to address, in whatever detail is necessary, the findings and recommendations contained in this report. For example, they could prepare the first draft of the proposed FAR language or they could participate with the Administrator, OFPP in high level meetings with GSA, SBA, NIB/NISH, etc., where their input would be valuable.

APPENDIX A:

PLEDGE

The Vice President and the National Performance Review (NPR) have established a goal of moving from red tape to results to create a government that works better and costs less. One of the NPR recommendations to reinvent Federal procurement is to expand the use of purchase cards in buying relatively small dollar value items. Purchase cards offer the potential of a more efficient, streamlined mechanism to pay for small purchases. They also provide a cost effective payment mechanism, with possible savings ranging form $30 to over $200 per small purchase transaction as opposed to the use of conventional payment methods. Given the volume of small purchases, millions of dollars in transaction costs can be saved each year by effective use of the purchase cards.

We, the undersigned members of the Procurement Executives Association are committed to the accomplishment of the NPR recommendation both to improve our procurement systems as well as to reduce the costs of the Government to the United States taxpayer. Accordingly, we pledge to:

- Significantly expand the use of purchase cards over levels existing in January 1993, with a target increase of at least 100% by October 1, 1994, for those agencies which have not yet made maximum effective use of the card.
- Significantly increase the number of purchase card holders over levels existing in January 1993, with a target increase in users of at least 100% by October 1, 1994, for those agencies which have not made maximum appropriate distribution of the card.
- Place the purchase card into the hands of appropriately trained line managers and other non-procurement personnel for the accomplishment of transactions under $2,500.
- Identify and eliminate internal impediments to the maximum beneficial use of the purchase card and actively promote and support legislation to eliminate statutory impediments.
- Cooperate with each other and the Office of Federal Procurement Policy to share experiences relevant to the expanded use of the purchase card.

In October 1994 we will meet to assess our performance against these objectives.

Shirl G. Kinney
Shirl Kinney
Department of Commerce

Linda M. Higgins
Linda Higgins
Department of Transportation

Robert Welch
Department of Treasury

Lloyd W. Pratsch
Lloyd Pratsch
Department of State

Paul Denett
Paul Denett
Department of the Interior

Terrence J. Tychan
Terrance Tychan
Department of Health and Human Services

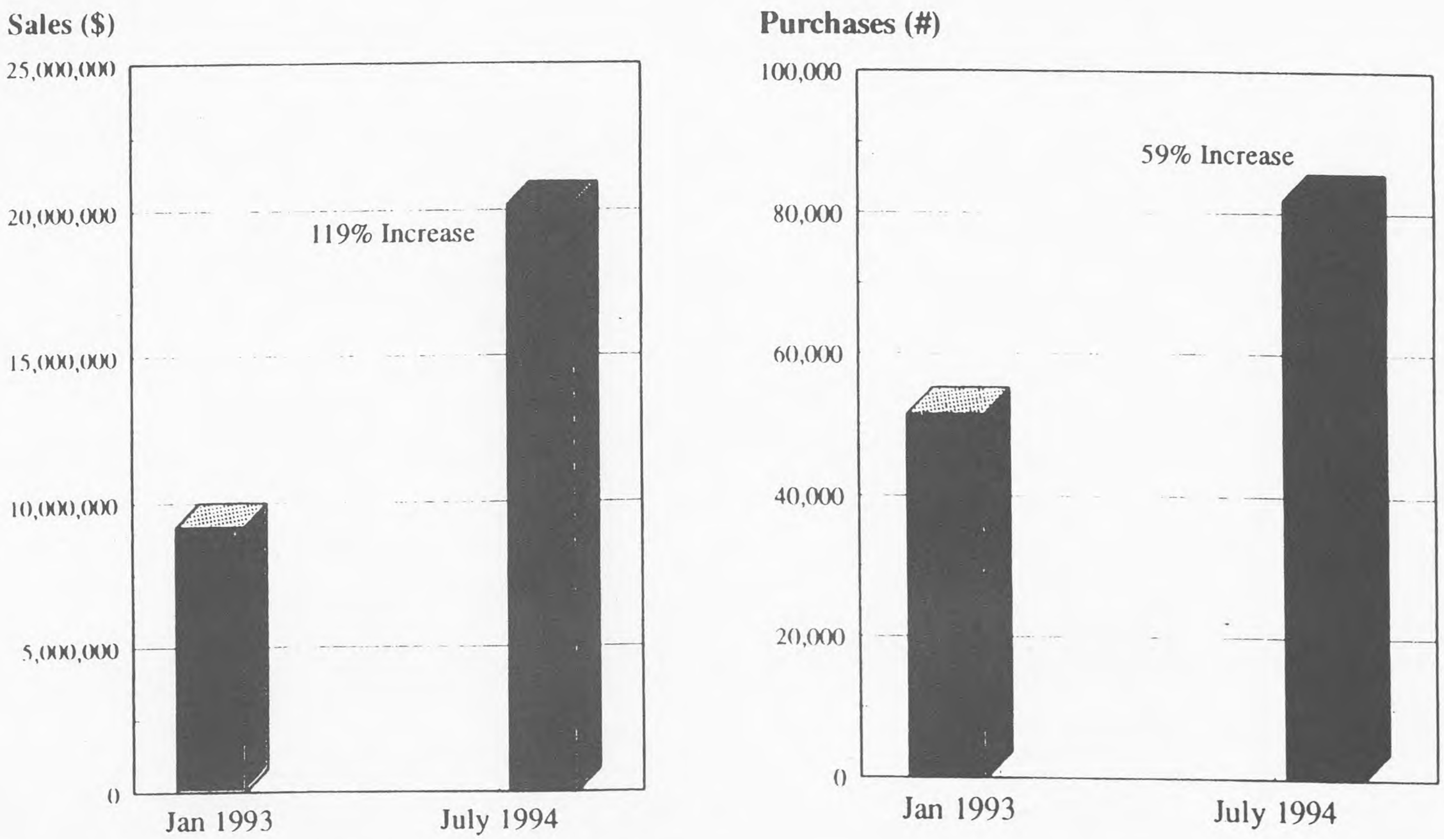
FOR
General Services Administration

Richard Hopf
Department of Energy

Robert Boyer
Robert Boyer
Federal Emergency Management Association

Patricia W. Lattimore
Patricia Lattimore
Office of Personnel Management

Purchase Card Growth
in Agencies* that signed the Pledge



*Departments of Commerce, Interior, State, Treasury, Transportation, Health & Human Services, Energy, General Services Administration, FEMA, and Office of Personnel Management

APPENDIX B:

APPENDIX C:

CARDHOLDER SUCCESS STORIES

The Department of the Treasury reports that the card can save both time and money by permitting a cardholder to seize the opportunity for a timely purchase:

> "While attempting to expeditiously purchase privacy panels for the Miami Aviation Branch Facility, I received quotes for an approximate cost of $4,000. I located a liquidator who had overstocked brand new panels who was willing to sell them for $2,450, including delivery and installation - provided the transaction was executed swiftly, because he sold on a 'first come, first served' basis. I coordinated the purchase with Regional Procurement, and I was able to purchase the panels with the purchase card. I saved approximately $2,000 and at least two months processing time. This is a true success story."

Treasury also reports:

> "While on an enforcement operation in Miami, the Savannah Laboratory had trouble with its mobile van. We used our purchase card to repair the van. It was Good Friday and not many repair places were open. Thanks to the purchase card, we were able to find a company that accepted the VISA purchase card, and we were quoted a reasonable price. It's good to know when we are on mobile operations throughout the country, we can rely on the card."

The Department of Commerce reports:

> "The NOAA National Weather Service had requirements to hire day laborers to clean up construction sites at different locations and the vendor would not accept a purchase order. The laborers were hired on an hourly basis, so estimates were used with the understanding that the vendor would only invoice for actual hours worked. Because of time constraints the Government Purchase Card was the most logical and advantageous method for the Government to use. Requirements were received on Friday afternoon. A telephone call was placed to the vendor that same day to have laborers on site the following Monday morning."

> "We were working a project for National Oceans Survey to support the Antarctica Program. A request came in for an emergency generator that had to be ordered and shipped by

March 25 to accompany persons flying out to Antarctica. An order was placed on March 24, and the generator was delivered March 25. We used the VISA IMPAC card, eliminating paperwork associated with a purchase order."

The Department of Health and Human Services (HHS) has had its share of successes with the purchase card. Here are just a few of HHS' stories:

"When the President gave the go-ahead on February 17, 1994 to inaugurate the White House Conference on Aging (WHCOA), it was necessary to establish an office from scratch in just a few weeks in leased space that was not close to HHS headquarters. Purchase cards were obtained in less than one week from Rocky Mountain Bank, enabling the WHCOA offices to be up and running quickly, with a full complement of office supplies and necessary equipment."

"The HHS Office of the Assistant Secretary for Personnel Administration was acquiring a new generation of more powerful personal computers (PC). When the installation was almost complete, it was realized that the PC's had been ordered without the "LAN chips" that would permit them to operate on the local area network. The machines that were critical to meeting payroll deadlines were quickly identified and the necessary LAN chips were procured and installed within a few days, using the purchase card (the remainder of the missing chips were procured through more ordinary channels)."

"As part of the reasonable accommodation for handicapped employees, HHS provides a braille printer to a blind personnel management specialist. Although most braille printers use paper in a 11x11 inch size, this employee preferred a more standard 8-1/2x11 inch paper, a size which is rather unusual and harder to stock. During his preparation for a speech on quality management, the paper ran out and immediate re-stocking was made using the administrative office purchase card. By relying on the purchase card for quick action, this employee's productivity was maintained at the usual high level."

From the Department of Interior's Bureau of Land Management:

"Wild Horse and Burro personnel from our New Mexico office were called in to investigate an alleged mistreated, neglected group of horses in Central Texas. The animals required immediate feed and veterinary services for their survival. One of our people had a card, which was used to obtain the services."

"A Government vehicle breaks down on late Friday afternoon. The employee, doing a range survey, is stranded in a remote off-road area, 50 miles from the nearest town. Using his radio, he contacts his office, who reaches a garage who will tow the vehicle, and the employee out of the area before dark. The garage wants immediate payment. Fortunately, the employee has a VISA card."

"A survey group was in the field obtaining geodetic data. The batteries of the satellite receiving units would not hold their charge. The crew chief decided to use his purchase card to buy cigarette lighter plug-ins for the vehicle, using the cars, so that the receivers could be plugged into the vehicle battery system. This saved several days of down time of the crew."

"An Anchorage, Alaska, employee went out to an isolated area to work. His boat motor failed. He needed immediate repairs. He found a source, but the vendor would not accept an SF-44, which he carried with him. He called the Anchorage office for help. The purchasing agent talked to the vendor, who gladly accepted the purchasing agent's VISA card as payment. The employee, previously reluctant to acquire the card, now has applied for it."

Purchase cards help the State Department at the Summit:

"The Department of State participated significantly in organizing, making logistical arrangements for, and conducting the "Asian Pacific Economic Conference" (APEC), in Seattle, Washington. Heads of State from many nations attended, including President Clinton. The Government Purchase Card was invaluable in providing a streamlined purchasing technique for related expenses such as the rental of barges and aircraft. Without the card, we would have lost many opportunities to make the arrangements we needed to make immediately and on the spot. We intend to use the card for making logistical arrangements for an upcoming Summit of the Americas."

Hurricanes, floods and earthquakes didn't stop the Department of Transportation from fulfilling their mission.

"After Hurricane Andrew hit, the President sent the Secretary of Transportation to Florida to survey the damage and assist in emergency efforts. Through a coordinated effort between the card-issuing bank and Transportation, purchase cards were issued within 18 hours to the Secretary and others. This unique situation is yet another example that illustrates the results of the successful partnership between the Government and the purchase card."

Here is an example on how the purchase card has helped FEMA deal with disaster situations:

"As soon as FEMA was put on alert regarding the southeastern floods that occurred this summer, its Office of Public Affairs shipped several pieces of video and production equipment to the Disaster Field Office (DFO). This equipment was to be used in coordination with FEMA's Mobile Emergency Response System units to perform satellite up-links and nationwide live broadcasts of the ongoing emergency situation and recovery efforts. Technicians were unable to utilize the equipment as there were some parts missing. The necessary equipment, short microphones, and audio mixers, were shipped from FEMA headquarters in Washington, D.C. to the DFO in Atlanta, Georgia via Delta Airlines. The equipment was received within hours at the Atlanta International Airport. Normally, such services are paid for by purchase orders, taking days to process. In this case, the freight charges were paid on-the-spot with the purchase card and as a result, the live satellite broadcast aired as scheduled without delay."

APPENDIX D:

PURCHASE CARD COUNCIL

NAME	DEPARTMENT	PHONE & FAX NUMBER	
Annelie Kuhn	Treasury	202-622-0203	202-622-2273
Martha Lanigan	Treasury	202-622-0194	202-622-2273
Lynn Hudson	State	703-516-1680	703-875-6155
Kevin Mooney	Transportation	202-366-4975	202-366-7510
Enrique Aveleyra	Transportation	202-366-6115	202-366-7174
Mary Lou Benzel	GSA	703-305-6658	703-305-5094
Gary Garner	Treasury	202-874-6751	202-874-7321
Mike Colvin	HHS	202-690-7887	202-690-8772
Joseph Zimmer	OFPP	202-395-6167	202-395-5105
Nellie Cassels	Commerce	202-482-4167	202-482-1711
Gayle Fischetti	Interior	202-208-6705	202-208-6301
Leslie Brown	FEMA	202-646-4589	202-646-3695
Vivian Bethea	OPM	202-606-2240	202-606-1464
Richard Langston	Energy	202-586-8247	202-586-0545
Cleopatra Cherry	Justice/DEA	202-307-1360	202-307-7818
Tom Pospichal	Justice/FPI	202-508-8438	202-628-1597
April Nordeen	Agriculture/ARS	301-344-2878	301-344-0333

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
December 14, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $28,250 MILLION

The Treasury will auction $17,250 million of 2-year notes and $11,000 million of 5-year notes to refund $24,387 million of publicly-held securities maturing December 31, 1994, and to raise about $3,875 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $2,430 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $1,899 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

LB-1283

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED JANUARY 3, 1995

December 14, 1994

Offering Amount	$17,250 million	$11,000 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AP-1996	V-1999
CUSIP number	912827 S3 7	912827 S4 5
Auction date	December 21, 1994	December 22, 1994
Issue date	January 3, 1995	January 3, 1995
Dated date	January 3, 1995	January 3, 1995
Maturity date	December 31, 1996	December 31, 1999
Interest rate	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield	Determined at auction	Determined at auction
Interest payment dates	June 30 and December 31	June 30 and December 31
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids	Accepted in full up to $5,000,000 at the highest accepted yield
Competitive bids	(1) Must be expressed as a yield with two decimals, e.g., 7.10% (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater. (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders	Prior to 12:00 noon Eastern Standard time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Standard time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

12-15-94

CONTINGENT PAYMENT DEBT BRIEFING MATERIALS

Issue: How do we tax debt obligations that have contingent interest or principal payments?

The following are examples of instruments covered by the proposed regulations:

Ex. Bond issues for $1,000 and promises to pay $1,000 plus the increase, if any, in the value of a commodity, in three years.

Ex. Bond pays current interest. At maturity, the principal is linked to the value of stocks or commodities.

"Structured notes" is the term used by the financial community for these instruments (although the term includes some instruments that would not be subject to the proposed regulations).

Why is this important:

The proposed regulations address an area of major uncertainty in the tax law. The tax bar and representatives of issuers and investors have urged the Treasury and IRS to make guidance in this area a priority. The uncertainty in this area has created opportunities for some taxpayers to structure transactions to avoid taxes. In addition the uncertainty prevented those who wanted results that are consistent with the economics from getting those results. The proposed regulations give the needed guidance in this area by providing tax rules that match the economics. This will discourage abusive transactions and provide reasonable results for legitimate transactions.

Short summary:

The proposed regulations provide tax results that follow the economics of the instruments. The result is that issuers will have deductions and holders will have inclusions of interest over the life of the instrument based on a rate determined by the pricing of the instrument. When the contingent payments are made, adjustments to income correct these deductions or inclusions. Special rules will allow taxpayers that hedge a debt instrument to integrate the hedge and the debt instrument and treat them as a single instrument that is taxed according to its economics.

Prospective effective date:

These regulations are proposed regulations that apply only to instruments issued after the regulations are finalized. The integration rules are similarly effective only after they are finalized, and taxpayers may not begin integrating hedges with debt instruments until that time. We have withdrawn the prior proposed regulations, which provided for inaccurate accruals.

Subject to stylistic revisions by the Federal Register

[4830-01-u]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[FI-59-91]

RIN 1545-AQ86

Debt Instruments with Original Issue Discount; Contingent Payments

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and notice of public hearing.

SUMMARY: This document contains proposed regulations relating to the tax treatment of debt instruments that provide for one or more contingent payments. This document also contains proposed regulations that provide for the integration of a contingent payment or variable rate debt instrument with a related hedge and proposed amendments to the final original issue discount regulations that were published in the **Federal Register** on February 2, 1994. The proposed regulations in this document would provide needed guidance to holders and issuers of contingent payment debt instruments. This document also provides a notice of a public hearing on the proposed regulations.

DATES: Written comments must be received by Thursday, March 16, 1995. Requests to appear and outlines of topics to be discussed at the public hearing scheduled for Thursday, March 16, 1995, at 10 a.m. must be received by Thursday, February 23, 1995.

ADDRESSES: Send submissions to: CC:DOM:CORP:T:R (FI-59-91), room 5228, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. In the alternative, submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to:

CC:DOM:CORP:T:R (FI-59-91), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW, Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the regulations (other than §1.1275-6), Andrew C. Kittler, (202) 622-3940, or William E. Blanchard, (202) 622-3950; concerning §1.1275-6, Michael S. Novey, (202) 622-3900; concerning submissions and the hearing, Michael Slaughter, (202) 622-7190 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collections of information contained in this notice of proposed rulemaking have been submitted to the Office of Management and Budget for review in accordance with the Paperwork Reduction Act (44 U.S.C. 3504(h)). Comments on the collections of information should be sent to the **Office of Management and Budget**, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503, with copies to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, PC:FP, Washington, DC 20224.

The collections of information are in §§1.1275-3(b)(1)(i), 1.1275-4(b)(4)(iv), and 1.1275-6(f). This information is required by the IRS to determine the amount of income, deductions, gain, or loss attributable to a contingent payment debt instrument. This information will be used for audit and examination purposes. The likely respondents and recordkeepers are businesses and other organizations.

Estimated total annual reporting and recordkeeping burden: 95,000 hours.

The estimated annual burden per respondent/recordkeeper varies from .3 to .5 hours, depending on individual circumstances, with an estimated average of .475 hours.

Estimated number of respondents/recordkeepers: 200,000.

Estimated annual frequency of responses: 1.

Background

Section 1275(d) of the Internal Revenue Code of 1986 (Code) grants the Secretary the authority to prescribe regulations under the original issue discount (OID) provisions of the Code, including regulations relating to debt instruments that provide for contingent payments. On April 8, 1986, the IRS published in the **Federal Register** a notice of proposed rulemaking (51 FR 12022) relating to debt instruments with OID. Section 1.1275-4 of the 1986 proposed regulations provided rules for contingent payment debt instruments. On February 28, 1991, the IRS published in the **Federal Register** a proposed amendment to §1.1275-4 (56 FR 8308), which would have bifurcated certain contingent payment debt instruments into their component parts (§1.1275-4(g)).

On December 22, 1992, the IRS published in the **Federal Register** a notice of proposed rulemaking that substantially revised the 1986 proposed regulations (57 FR 60750), and on February 4, 1994, the IRS published in the **Federal Register** final OID regulations (59 FR 4799). However, neither the 1992 proposed regulations nor the final OID regulations contained rules for contingent payment debt instruments under §1.1275-4.

The IRS received numerous written comments on §1.1275-4, as originally proposed in 1986 and as amended in 1991. In addition, on

November 17, 1986, the IRS held a public hearing to discuss the 1986 proposed regulations, including §1.1275-4.

Commentators criticized §1.1275-4 of the 1986 proposed regulations because the regulations ignored the economics of many contingent payment debt instruments. In particular, commentators believed that the 1986 proposed regulations did not reflect the reasonable expectations of the parties because the regulations used a "wait and see" approach to the accrual of interest determined by reference to contingencies. The commentators noted that, with respect to certain contingent payment debt instruments, the 1986 proposed regulations resulted in a significant backloading of interest.

Commentators also criticized the 1991 proposed amendment to §1.1275-4. Commentators argued that there is rarely a unique set of components into which a contingent payment debt instrument can be bifurcated. In addition, commentators questioned whether it is appropriate to bifurcate a contingent payment debt instrument because it is often unclear how the contingent components should be taxed.

Some commentators suggested that it is preferable to determine interest accruals on a contingent payment debt instrument by assuming that the issue price of the debt instrument will bear a return at the applicable Federal rate (AFR) or some other specified rate. Other commentators suggested that it is preferable to determine interest accruals by constructing a projected payment schedule and accruing on the basis of the projections.

Explanation of Provisions

In general.

The proposed regulations in this document contain new rules for the treatment of contingent payment debt instruments (§1.1275-4). The proposed regulations provide separate rules for debt instruments that are issued for cash or publicly traded property and for debt instruments that are issued for nonpublicly traded property. The proposed regulations also provide special rules for tax-exempt obligations. Section 1.1275-4, as proposed on April 8, 1986, and amended on February 28, 1991, is superseded as of [**INSERT DATE THIS DOCUMENT IS PUBLISHED IN THE FEDERAL REGISTER**].

The proposed regulations provide a rule to determine the imputed principal amount of a contingent payment debt instrument issued for nonpublicly traded property. The proposed regulations also provide rules for the integration of certain debt instruments with related hedges (§1.1275-6). In addition, the proposed regulations amend the rules for variable rate debt instruments in §1.1275-5 of the final OID regulations. Finally, the proposed regulations make conforming changes to certain provisions of the final OID regulations, such as the regulations under section 483.

Section 1.1275-4 Contingent payment debt instruments.

A. Applicability.

Section 1.1275-4 of the proposed regulations generally applies to any debt instrument that provides for one or more contingent payments. The proposed regulations, however, do not apply to a debt instrument that has an issue price determined under section 1273(b)(4), a variable rate debt instrument, a debt instrument subject to §1.1272-1(c) (certain debt instruments that provide for alternative payment schedules), a debt instrument subject to section 1272(a)(6) (REMIC interests and certain other debt instruments that are subject to prepayment), or, except as provided in section 988, a debt instrument subject to section 988 (a debt instrument that provides for payments denominated in, or determined by reference to, a nonfunctional currency). The IRS and Treasury request comments on whether other types of debt instruments should be excluded from the rules of §1.1275-4, such as certain prepayable obligations included in a pool.

Section 1.1275-4 of the proposed regulations applies only to a contingent payment debt instrument that constitutes a debt instrument for federal income tax purposes. No inference is intended under the proposed regulations as to whether a particular instrument constitutes a debt instrument for federal income tax purposes.

Although the proposed regulations do not define the term contingent payment, the proposed regulations treat certain payments as not being contingent. For example, if a payment is subject to either a remote or incidental contingency, the payment is not a contingent payment. A contingency is remote if there is either a remote likelihood that the contingency will occur or a remote likelihood that the contingency will not occur. A contingency is incidental if the potential amount of the payment under any reasonably expected market conditions is insignificant relative to the total expected payments on the debt instrument. Under the proposed regulations, a debt instrument does not provide for contingent payments merely because it is convertible into stock of the issuer or a related party. However, if a debt instrument is convertible into stock of an unrelated party, the debt instrument is a contingent payment debt instrument.

B. The noncontingent bond method.

The noncontingent bond method applies to a contingent payment debt instrument that has an issue price determined under §1.1273-2 or §1.1274-2(b)(3). For example, the noncontingent bond method generally applies to a contingent payment debt instrument issued for money or publicly traded property.

Under the noncontingent bond method, a projected payment schedule is determined for a debt instrument, and interest accrues on the debt instrument based on this schedule. The projected payment schedule for a debt instrument consists of all noncontingent payments and a projected amount for each contingent payment. If the actual amount of a contingent payment differs from the projected amount of the payment, appropriate adjustments are taken into account to reflect this difference.

Although the actual amount of a contingent payment is not fixed or determinable when a contingent payment debt instrument is issued, the noncontingent bond method, in effect, treats the projected amounts of contingent payments like fixed payments and requires interest accruals based on the projected amounts. The IRS and Treasury believe that this method is consistent with Congress' intent under the OID provisions to require a current accrual of interest on a debt instrument.

While other methods suggested by commentators also require a current accrual of interest, the noncontingent bond method requires interest accruals based on a rate that is implicit in the debt instrument and provides a means of determining whether payments are appropriately treated as interest or principal. The IRS and Treasury believe that the noncontingent bond method is the most appropriate method for achieving this purpose. For example, methods that require accrual at a fixed rate for all debt instruments often will over-accrue or under-accrue interest on a particular debt instrument. In addition, the methods may not always provide an appropriate measure of the interest and principal components of a payment. Because of the inaccuracies under these methods, the IRS and Treasury rejected these methods.

1. Projected payment schedule.

The projected payment schedule for a contingent payment debt instrument is determined as of the debt instrument's issue date. Except in the case of a contingent payment that is fixed more than 6 months before it is due, the projected payment schedule remains fixed throughout the term of the debt instrument and any income, deductions, gain, or loss attributable to the debt instrument are based on the schedule.

The projected payment schedule for a debt instrument consists of all noncontingent payments and a projected amount for each contingent payment. The proposed regulations provide rules for determining the projected amount of each contingent payment included in a projected payment schedule. Under the proposed regulations, contingent payments are either quotable contingent payments or nonquotable contingent payments.

A quotable contingent payment is a contingent payment that is substantially similar to a property right for which forward price quotes are readily available. In general, the projected amount of a quotable contingent payment is the forward price of the property right. If a contingent payment is substantially similar to an option and forward price quotes are not readily available for the option, the projected amount of the payment is the spot price of the option on the issue date, if readily available, compounded at the AFR from the issue date to the date the payment is due.

Under the proposed regulations, a property right includes a right, an obligation, or a combination of rights or obligations. For example, options and forward contracts are property rights. More complicated contingent payments are constructed from combinations of rights and obligations.

A contingent payment is substantially similar to a property right if, under reasonably expected market conditions, the value and timing of the amount to be paid or received pursuant to the property right are expected to be substantially the same as the value and timing of the contingent payment. It is irrelevant for purposes of testing substantial similarity whether the property right must be settled in cash or in property or whether the credit rating of the issuer is different from the party giving the price quote. It is also irrelevant whether a property right is available in the same denomination as the measure of the contingent payments.

Quotes for the substantially similar property right are readily available if they are readily available from brokers, traders, or dealers during specified time periods. Although price quotes for over-the-counter property rights often are not widely disseminated because the rights may be privately tailored for a particular transaction, quotes for over-the-counter property rights generally will be treated as readily available if customers could obtain quotes from brokers, traders, or dealers.

Commentators have stated that any method requiring taxpayers to create payment schedules using expected values would be difficult to apply. They have said that there is too much variation in the expected values of the property rights embedded in contingent payment debt instruments to allow for the creation of payment schedules that are not susceptible to abuse or to challenge upon examination on the basis of hindsight.

The noncontingent bond method, however, generally sets the projected amounts of market-based contingent payments by using forward prices for the embedded property rights rather than expected values. It is the understanding of the IRS and Treasury that forward prices are available for almost all of the market-based property rights embedded in contingent payment debt instruments. For example, these property rights generally may be obtained on a separate basis for hedging purposes. Moreover, the IRS and Treasury understand that dealers and certain information services provide daily quotations of the prices of contingent payment debt instruments held by regulated investment companies to allow the companies to determine their net asset values. To do this, the price of the separate elements of the contingent payment debt instruments, including the embedded property rights, must be determined. Thus, the IRS and Treasury believe that, in general, it will not be difficult for issuers of contingent payment debt instruments to obtain forward price quotes for the property rights embedded in the debt instruments.

The proposed regulations include a number of provisions designed to address other concerns with the pricing requirement. First, the pricing requirement only applies if quotes are readily available. Therefore, when it is not feasible to obtain a quote, pricing is not required.

Second, the IRS and Treasury understand that the price a broker or dealer develops for any property right embedded in a contingent payment debt instrument when pricing the debt instrument as a whole will not necessarily translate into a forward price for the property right determined on a separate basis. For example, the price of the property right embedded in a contingent payment debt instrument may include charges for financial intermediation that would not be imposed if the property right were purchased separately. Thus, the rules that apply to an issuer who must set a projected payment schedule allow substantial flexibility.

Further, the IRS and Treasury recognize that quotes for thinly traded property rights may vary and that the bid-ask spread may be substantial. The proposed regulations, therefore, provide that a taxpayer may use any reasonable quote to determine the projected amount of a payment. The proposed regulations also provide that the taxpayer may use bid price, ask price, or midpoint price quotes to determine the projected amounts of quotable contingent payments. However, the taxpayer must make this determination on a consistent basis. For example, a taxpayer cannot use ask prices to determine the projected amounts for some contingent payments on a debt instrument and bid prices to determine the projected amounts for other contingent payments on the instrument. Finally, if a contingent payment is equivalent to more than one combination of property rights, taxpayers may use any reasonable combination. However, it is not reasonable to construct a combination of property rights that contains property rights for which forward price quotes are unavailable if there are other possible combinations that consist only of property rights for which forward price quotes are readily available.

A nonquotable contingent payment is any contingent payment that is not a quotable contingent payment. For example, contingent payments based on oil production or the issuer's gross receipts are generally nonquotable contingent payments.

The projected amount of a nonquotable contingent payment is generally based on the projected yield of the contingent payment debt instrument. The projected yield is a reasonable rate for the debt instrument that, as of the issue date, reflects general market conditions, the credit quality of the issuer, and the terms and conditions of the debt instrument. For this purpose, the proposed regulations provide that a reasonable rate is not less than the AFR or the yield on the debt instrument determined without regard to the nonquotable contingent payments. In many cases, a reasonable rate will substantially exceed the AFR. Once the projected yield is determined, the projected amount of each nonquotable contingent payment is determined so that the projected payment schedule reflects the projected yield. The projected amount of each payment, however, must reasonably reflect the relative expected values of the nonquotable contingent payments.

The proposed regulations provide simplifying rules to determine the projected payment schedule of a contingent payment debt instrument that would be a variable rate debt instrument except that it provides for a single quotable contingent payment at maturity or does not guarantee a sufficient return of stated principal. Under the proposed regulations, the projected amounts of the variable interest payments are determined using the rules of §1.1275-5(e), rather than the general rules for quotable contingent payments. For example, if the contingent payment debt instrument provides for stated interest at a single qualified floating rate and a quotable contingent payment at maturity, the projected amounts of the interest payments are based on the value of the rate as of the instrument's issue date and the projected amount of the contingent payment is determined under the rules for quotable contingent payments.

The proposed regulations require the issuer to construct the projected payment schedule. If an issuer fails to produce a projected payment schedule as required, the issuer will be treated as failing to meet the recordkeeping requirements under section 6001 necessary to support the deduction of interest. To avoid potential audit disputes about the projected amount of a contingent payment, the proposed regulations provide that the issuer's projected payment schedule will be respected unless the schedule is unreasonable. A projected payment schedule generally will be considered unreasonable if it is set with a purpose to accelerate or defer interest accruals. In determining whether a projected payment schedule is unreasonable, consideration will be given to whether the interest on a contingent payment debt instrument determined under the schedule has a significant effect on the issuer's or the holder's U.S. tax liability. For example, a projected payment schedule prepared by an issuer that is a non-U.S. taxpayer will be given special scrutiny because no schedule would have an effect on the issuer's U.S. tax liability.

The proposed regulations provide that all holders of a contingent payment debt instrument are bound by the issuer's projected payment schedule and that an issuer must provide the schedule to the holders. A holder may vary from the projected payment schedule provided by the issuer only if the projected payment schedule is unreasonable. If an issuer does not create a projected payment schedule as required or the issuer's schedule is unreasonable, a holder must apply the projected payment schedule rules to determine a reasonable projected payment schedule. If a holder is not using the issuer's projected payment schedule, the holder must explicitly disclose this fact on its timely filed federal income tax return and must explain why it is not using the issuer's schedule.

Because the proposed regulations allow considerable flexibility, taxpayers may attempt to create uneconomic accruals by intentionally overstating or understating the projected amounts of the contingent payments. Taxpayers must use actual prices in setting the payment schedule and are given flexibility only within the range of reasonable prices. For example, the prices of an issuer's or a holder's hedges may be used to determine reasonableness. Under the rules of section 6001, taxpayers must maintain adequate contemporaneous records to support the projected payment schedule. In addition, the rules of §1.1275-2T(g) (the OID anti-abuse rule) apply to transactions subject to the proposed regulations, including transactions in which the taxpayer attempts to create payment schedules that cause uneconomic accruals. Attempts to overstate or understate the amounts of the projected payments will give rise to adjustments of tax liability, and, if appropriate, penalties.

2. Adjustments.

Under the noncontingent bond method, if the actual amount of a contingent payment differs from the projected amount of the payment, the difference results in either a positive or negative adjustment that must be taken into account by the taxpayer. The purpose of the adjustments is to correct the interest accruals that have occurred to date on the debt instrument. Therefore, the adjustments generally increase or decrease the amount of interest on a contingent payment debt instrument.

If the actual amount of a contingent payment is greater than the projected amount of the payment, the difference is a positive adjustment. If the projected amount of a contingent payment is greater than the actual amount of the payment, the difference is a negative adjustment. Positive and negative adjustments for a taxable year are netted for each taxable year.

A net positive adjustment for a taxable year is treated by the taxpayer as additional interest for the year. A net negative adjustment for a taxable year is taken into account as follows.

First, a net negative adjustment for a taxable year offsets the interest that accrued on the debt instrument for the year based on the projected payment schedule.

Second, if the net negative adjustment exceeds the amount of interest that accrued on the debt instrument for the taxable year, the excess is treated as an ordinary loss by the holder or as ordinary income by the issuer. However, the amount treated as ordinary loss by the holder is limited to the amount by which the holder's total prior interest inclusions on the debt instrument (including all net positive adjustments) exceed the total net negative adjustments on the debt instrument previously treated as ordinary loss by the holder. Similarly, the amount treated as ordinary income by the issuer is limited to the amount by which the issuer's total prior interest deductions on the debt instrument (including all net positive adjustments) exceed the total net negative adjustments on the debt instrument previously treated as ordinary income by the issuer.

Third, because a negative adjustment adjusts interest accruals, if the net negative adjustment exceeds the sum of the amount of interest that accrued on the debt instrument for the taxable year and the amount treated as ordinary loss (or income) for the taxable year, the excess is treated as a negative adjustment that occurs on the first day of the succeeding taxable year. As a result, the excess offsets interest accruals on the debt instrument in future taxable years.

Fourth, any unused net negative adjustment reduces the amount realized by the holder on the sale, exchange, or retirement of a contingent payment debt instrument. Similarly, any unused net negative adjustment is taken into account by the issuer on retirement of a contingent payment debt instrument as income from the discharge of indebtedness. The IRS and Treasury request comments on whether the regulations should provide specific rules governing the treatment of net negative adjustments determined on the occurrence of other events.

The IRS and Treasury chose this method for taking adjustments into account because it provided a relatively simple method for adjusting the yield. However, the method may produce inappropriate results, for example, if there are large adjustments in the early years of a debt instrument. Other methods, such as a method that spreads adjustments over the term of the debt instrument, would produce more accurate results but would be more complex. The IRS and Treasury request comments on whether another method should be used for taking adjustments into account.

3. Adjusted issue price, basis, and retirement.

Under the noncontingent bond method, the adjusted issue price of a contingent payment debt instrument, adjustments to the holder's basis in the debt instrument, and the amount of any contingent payment treated as made on the scheduled retirement of the debt instrument are determined using the projected payment schedule rather than actual contingent payments. This rule is appropriate because positive or negative adjustments are used to take into account the difference between actual amounts and projected amounts of contingent payments. This difference would be counted twice if adjusted issue price, adjusted basis, and the amount deemed paid on retirement were based on the actual amounts of contingent payments rather than the projected amounts.

4. <u>Character on sale, exchange, or retirement</u>.

Under the noncontingent bond method, any gain recognized by a holder on the sale, exchange, or retirement of a contingent payment debt instrument is treated as interest income. Similarly, any loss recognized by a holder on the sale, exchange, or retirement of a contingent payment debt instrument is treated as ordinary loss to the extent of the holder's prior interest inclusions (reduced by prior ordinary losses attributable to net negative adjustments) on the instrument. Although this rule is inconsistent with the treatment of noncontingent debt instruments, the rule is necessary because of the treatment of net positive and net negative adjustments. The rule prevents a taxpayer who sells a contingent payment debt instrument immediately before a positive adjustment occurs from converting the interest income from the adjustment into capital gain or from converting the amount by which a negative adjustment would reduce interest income into capital loss. Consistent with the rule's purpose, the rule does not apply to a sale, exchange, or retirement that occurs when there are no outstanding contingent payments due on a debt instrument.

5. Other special rules.

Although most contingent payment debt instruments can be dealt with under the above provisions, the proposed regulations provide additional rules for certain other circumstances. For example, the proposed regulations provide rules for a holder whose basis in a contingent payment debt instrument is different from the debt instrument's adjusted issue price (e.g., a secondary market purchaser of the debt instrument). Under the proposed regulations, the holder continues to accrue interest and determine adjustments based on the original projected payment schedule. The holder, however, must allocate the difference between basis and adjusted issue price to the accruals or projected payments on the debt instrument over the remaining term of the debt instrument. Amounts allocated to a taxable year are recovered as if they were positive or negative adjustments, as appropriate.

The proposed regulations require only a reasonable, rather than an exact, allocation of the difference between basis and adjusted issue price. For example, if almost all of the difference is attributable to changes in the expected value of a contingent payment, the holder may allocate the difference to the contingent payment. Similarly, a taxpayer may allocate a portion of the difference to accruals if the taxpayer determines that the portion is attributable to changes in interest rates. A taxpayer may make this determination by comparing rates on similar debt instruments, by looking to changes in standard interest rate indices that have occurred since the date the contingent payment debt instrument was issued, or by other appropriate means. The proposed regulations require the holder's allocation to be reasonable based on all the facts and circumstances.

In the case of a contingent payment debt instrument that is exchange listed property (within the meaning of §1.1273-2(f)(2)), the proposed regulations provide a safe harbor that allows holders to account for the difference between the debt instrument's adjusted issue price and the holder's basis under the same rules that apply to acquisition premium on a noncontingent debt instrument under section 1272(a)(7) and §1.1272-2.

The IRS and Treasury recognize that the method provided in the proposed regulations for allocating the difference between basis and adjusted issue price may be difficult to apply because the difference may be attributable to both changes in interest rates and in the expected values of the contingent payments. Other methods for making the allocation were considered in drafting the proposed regulations, but were not adopted because they were not believed to be sufficiently accurate. The IRS and Treasury believe that contingent payment debt instruments (other than exchange listed debt instruments) rarely trade in the secondary market and, therefore, the need to make the allocation will occur only infrequently. The IRS and Treasury request comments on this issue.

The proposed regulations also provide rules for a debt instrument that has a contingent payment that is fixed more than 6 months before the payment is due. Under the proposed regulations, an adjustment is made on the date the payment is fixed, and the amount of the adjustment is equal to the difference between the present value of the fixed amount and the present value of the projected amount of the contingent payment. The adjusted issue price is modified to reflect the adjustment and the projected payment schedule is changed to reflect the fixed payment. The IRS and Treasury are concerned about whether this method may produce inappropriate accelerations of income or deductions and request comments on whether other methods, such as a method that spreads the income or deductions, are more appropriate.

In addition, the proposed regulations provide rules for debt instruments that have both payments that are contingent as to time and payments that are contingent as to amount. If a taxpayer has an option to put or call the debt instrument, to exchange the debt instrument for other property, or to extend the maturity date of the debt instrument, the projected payment schedule is determined by using the principles of §1.1272-1(c)(5). Under the proposed regulations, if an option to put, call, or exchange the debt instrument is assumed to be exercised under the principles of §1.1272-1(c)(5), it is generally reasonable to assume that the option is exercised immediately before it expires. If the option is exercised at an earlier time, the exercise is treated as a sale or exchange of the debt instrument.

The proposed regulations reserve on other types of timing contingencies. The IRS and Treasury request comments on the appropriate treatment of other types of timing contingencies.

C. <u>Method for debt instruments not subject to the noncontingent bond method</u>.

The proposed regulations provide a method for contingent payment debt instruments not subject to the noncontingent bond method. In general, the method applies to a debt instrument that has an issue price determined under §1.1274-2 (e.g., a nonpublicly traded debt instrument issued in a sale or exchange of nonpublicly traded property). The method in the proposed regulations is generally similar to the rules prescribed in §1.1275-4(c) of the 1986 proposed regulations.

Under the proposed regulations, the payments on a contingent payment debt instrument (the overall debt instrument) are divided into two components: (1) a noncontingent component consisting of all noncontingent payments and the projected amounts of any quotable contingent payments, and (2) a contingent component consisting of all nonquotable contingent payments.

The noncontingent component is treated as a separate debt instrument and is taxed under the general OID rules (including the noncontingent bond method if the separate debt instrument provides for quotable contingent payments). However, no interest payments on the separate debt instrument are qualified stated interest payments and the de minimis rules do not apply to the separate debt instrument. The issue price of the separate debt instrument is the issue price of the overall debt instrument. See the discussion below for the determination of the stated principal amount and the imputed principal amount of the overall debt instrument for purposes of section 1274.

In general, a nonquotable contingent payment is not taken into account until the payment is made. When a nonquotable contingent payment (other than a contingent payment accompanied by a payment of adequate stated interest) is made, a portion of the payment is treated as principal, based on the amount determined by discounting the payment at the AFR from the payment date to the issue date, and the remainder is treated as interest. Special rules are provided if a nonquotable contingent payment becomes fixed more than 6 months before it is due.

D. Tax-exempt obligations.

The proposed regulations provide special rules for tax-exempt obligations. The IRS and Treasury believe that, given the limited exclusion provided in section 103, it is generally inappropriate to treat payments on a property right embedded in a tax-exempt obligation as interest on an obligation of a State or political subdivision (i.e., as tax-exempt interest). Therefore, while the noncontingent bond method generally applies to tax-exempt contingent payment obligations, all positive adjustments are treated as taxable gain from the sale or exchange of the obligation rather than as interest. Negative adjustments are treated as reducing tax-exempt interest, and, therefore, are generally not taken into account as deductible losses. If negative adjustments on a tax-exempt obligation exceed the total tax-exempt interest a holder receives or accrues on a tax-exempt obligation, the excess is treated as loss from the sale or exchange of the obligation. This rule is similar to the rule that applies to exchange gains and losses on tax-exempt obligations under §1.988-3(c)(2). In addition, the proposed regulations provide that the projected yield determined for a tax-exempt obligation may not exceed the greater of the yield on the obligation determined without regard to contingent payments and the tax-exempt AFR that applies to the obligation. If the projected payment schedule results in a higher yield, projected payments must be reduced appropriately.

E. Cross border transactions.

The IRS and Treasury are concerned about various issues relating to the treatment of foreign holders of contingent payment debt instruments. For example, the IRS and Treasury are concerned about the possibility for tax avoidance that may arise when a contingent payment debt instrument is structured with payments that approximate the yield on an equity security. The IRS and Treasury invite comments on this issue and other issues concerning the proper taxation of foreign holders of contingent payment debt instruments issued by U.S. persons or U.S. holders of contingent payment debt instruments issued by foreign persons.

Section 1.1274-2 Imputed principal amount.

In general, the issue price of a debt instrument subject to section 1274 is determined by reference to the instrument's imputed principal amount. The 1992 proposed regulations under section 1274 provided that, in the case of a contingent payment debt instrument, the imputed principal amount of the debt instrument was the present value of the fixed payments plus the fair market value of the contingent payments. A number of commentators objected to the rule, especially because of the difficulty in valuing the contingent payments typically provided for in debt instruments subject to section 1274. Other commentators objected to the rule's effect on the buyer's basis in the property acquired and the seller's amount realized on the sale or exchange. In response to these comments, the final OID regulations reserved on the issue to allow further study and to coordinate the issue with the regulations relating to contingent payment debt instruments.

Under the proposed regulations, the imputed principal amount of a contingent payment debt instrument subject to section 1274 is the sum of the present values of the fixed payments and the present values of the projected amounts of any quotable contingent payments. Consistent with the treatment of the fixed payments and any quotable contingent payments as a separate debt instrument under §1.1275-4 of the proposed regulations, nonquotable contingent payments are not taken into account to determine the stated principal amount or the imputed principal amount of a contingent payment debt instrument. This rule is generally consistent with the 1986 proposed regulations under section 1274.

The proposed regulations also provide that the imputed principal amount of a variable rate debt instrument that provides for payments at a single objective rate is determined by assuming that the payments on the debt instrument are the same as the payments on the equivalent fixed rate debt instrument determined under §1.1275-5(e).

The IRS and Treasury request comments on the effect of the proposed regulations on other provisions of the Code, including section 108(e)(11), which measures the amount of discharge of indebtedness income in a debt-for-debt exchange by the issue price of the newly issued debt instrument.

Conforming amendments to section 483.

The proposed regulations provide rules under section 483 for the treatment of contingent payments under a contract for the sale or exchange of property (§1.483-4). In general, the rules are the same as the rules for a debt instrument subject to section 1274, except that a taxpayer takes interest into account under its own method of accounting.

Section 1.1275-5 Variable rate debt instruments.

In response to comments, the proposed regulations include changes to the final regulations under §1.1275-5 regarding the treatment of variable rate debt instruments. The proposed regulations redefine an objective rate as a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information. The rate, however, must not be based on information that is within the control of the issuer (or a related party) or that is, in general, unique to the circumstances of the issuer (or a related party), such as dividends, profits, or the value of the issuer's stock. The new definition of objective rate is broader than the definition in the final regulations and includes, for example, a rate based on changes in a general inflation index.

The proposed regulations also make it clear that a variable rate debt instrument may not provide for any contingent payments other than certain variable rates of interest. Finally, the proposed regulations clarify the treatment of a variable rate debt instrument under §1.1275-5(e)(2). In general, a variable rate debt instrument described in §1.1275-5(e)(2) is treated like a fixed payment debt instrument for purposes of OID and qualified stated interest accruals. The changes to §1.1275-5(e)(2) clarify the final

OID regulations and, therefore, are proposed to be effective for debt instruments issued on or after April 4, 1994.

Because of the special rules for tax-exempt contingent payment obligations in the proposed regulations, the IRS and Treasury request comments on the definition of an objective rate for tax-exempt obligations under §1.1275-5(c)(5).

Section 1.1275-6 Integration.

Many commentators suggested that the integration of contingent payment debt instruments with associated hedges provides the best method of taxing contingent payment debt instruments that are hedged. The proposed regulations respond to this suggestion by providing for the integration of contingent or variable rate debt instruments with certain financial instruments (§1.1275-6). The integration rules are issued under the authority of section 1275(d), and until the proposed regulations under §1.1275-6 are finalized, the integration rules are not a permissible means of determining the character and timing of income, deductions, gains, and losses.

The rules in the proposed regulations are modeled after the integration rules of section 988(d) and §1.988-5(a). The rules in the proposed regulations, however, have been modified to reflect the different policy concerns underlying the rules for taking currency gain or loss into account and for taking interest income or deductions into account. The IRS and Treasury intend to make conforming changes to §1.988-5(a) and request comments on the extent to which §1.988-5(a) should be modified to conform to the proposed regulations.

The integration rules apply to qualifying debt instruments, which are defined as contingent payment debt instruments, variable rate debt instruments, and the synthetic debt instruments that are the result of integration under the proposed regulations. Thus, the integration rules do not apply to fixed rate debt instruments.

For a financial instrument to qualify as a hedge under the proposed regulations (a §1.1275-6 hedge), the combined cash flows of the qualifying debt instrument and the financial instrument must permit the calculation of a yield to maturity or must be the same as the cash flows on a variable rate debt instrument that pays interest at a qualified floating rate or rates. Thus, the proposed regulations generally require a perfect hedge. Section 1.1275-6 hedges, however, are not limited to hedging transactions as defined in §1.1221-2(b). For example, a §1.1275-6 hedge need not reduce risk from all of the operations of a business. A debt instrument held by a taxpayer cannot be a §1.1275-6 hedge of a debt instrument issued by the taxpayer and a debt instrument issued by a taxpayer cannot be a §1.1275-6 hedge of a debt instrument held by the taxpayer. Physical assets, such as inventory, generally will not be treated as §1.1275-6 hedges because they do not provide the predictable cash flows necessary to create a perfect hedge. A supply or sales contract, however, may qualify as a §1.1275-6 hedge. Stock does not qualify as a §1.1275-6 hedge.

To qualify as an integrated transaction, the taxpayer must issue or acquire a qualifying debt instrument, enter into a §1.1275-6 hedge, and meet six requirements. First, the taxpayer must satisfy the identification requirements of the proposed regulations, such as by entering a description of the qualifying debt instrument and the §1.1275-6 hedge in its books and records. Second, the §1.1275-6 hedge must not be with a related party (other than a member of the same consolidated group making the separate-entity election under §1.1221-2(d)). Third, the same taxpayer must enter into the qualifying debt instrument and the §1.1275-6 hedge. Fourth, if the taxpayer is a foreign person engaged in a U.S. trade or business who issues or acquires the qualifying debt instrument or enters into the §1.1275-6 hedge through the trade or business, all items of income and expense associated with the debt instrument or hedge (other than interest expense that is subject to §1.882-5) must be effectively connected with the U.S. trade or business. Fifth, the qualifying debt instrument, any other debt instrument that is part of the same issue as the qualifying debt instrument, or the §1.1275-6 hedge cannot have been part of an integrated transaction that was previously legged out of by the taxpayer. Finally, the §1.1275-6 hedge must be entered into by the taxpayer on or after the date the taxpayer issues or acquires the qualifying debt instrument. If the taxpayer meets these requirements, the qualifying debt instrument and the §1.1275-6 hedge are integrated and the resulting synthetic debt instrument is taxed accordingly.

The Commissioner may require integration if a qualifying debt instrument and a financial instrument have, in substance, the same combined cash flows as a fixed or variable rate debt instrument. Therefore, even if the taxpayer fails one or more of the requirements for integration, the Commissioner may integrate a qualifying debt instrument and a financial instrument. For example, if the taxpayer fails to meet the identification requirements, or enters into a hedge with a related party, the Commissioner may integrate the transaction. The Commissioner also may integrate a transaction even if the hedge is not perfect. Thus, taxpayers may not avoid integration by altering the hedge so that there is a small amount of basis risk or the payments under the hedge do not fully match the payments on the qualifying debt instrument. The Commissioner will not integrate a debt instrument with an imperfect hedge, however, if the taxpayer retains substantial risk.

The proposed regulations provide rules for legging into and legging out of an integrated transaction. Legging into an integrated transaction generally means entering into the hedge after the qualifying debt instrument is issued or acquired by the taxpayer. If a taxpayer legs into an integrated transaction, the qualifying debt instrument is subject to the separate transaction rules up to the leg-in date, except that the day before the leg-in date is treated as the end of an accrual period for purposes of computing OID and interest accruals on the qualifying debt instrument.

After the taxpayer legs in, the qualifying debt instrument and the §1.1275-6 hedge are integrated. Built-in gain or loss on the qualifying debt instrument is not treated as realized on the leg-in date (contrary to the rule for currency gain or loss in §1.988-5(a)(6)(i)). Because the built-in gain or loss will be reflected in the accruals on the synthetic debt instrument, the built-in gain or loss on the leg-in date will be recognized over the term of the synthetic debt instrument.

This approach allows taxpayers to alter the timing of income or deductions on a qualifying debt instrument. For example, a taxpayer expecting a large positive adjustment on a contingent payment debt instrument before the maturity date can spread the adjustment over the remaining term of the debt instrument by legging into an integrated transaction. Other approaches to legging in, however, create similar opportunities. For example, an approach that would mark a qualifying debt instrument to market and defer any built-in gain or loss would present even greater opportunities for deferral. Requiring mark-to-market gain or loss to be taken into account immediately would provide opportunities for acceleration. The IRS and Treasury believe that taking the built-in gain or loss into account over the term of the qualifying debt instrument produces the most reasonable result. To prevent abuse, however, the proposed regulations include a special rule providing that if a taxpayer legs into an integrated transaction with a principal purpose of deferring or accelerating income, the Commissioner may treat the qualifying debt instrument as sold or otherwise terminated and reacquired or reissued on the leg-in date or may refuse to allow integration.

Legging out of an integrated transaction generally means disposing of or otherwise terminating the §1.1275-6 hedge or the qualifying debt instrument. If the Commissioner has integrated a qualifying debt instrument and a financial instrument, the taxpayer is treated as legging out only if the taxpayer ceases to meet the requirements for Commissioner integration. If a taxpayer legs out, the synthetic debt instrument is treated as sold or otherwise disposed of for its fair market value and any income, deduction, gain, or loss is taken into account immediately. The component the taxpayer retains (either the §1.1275-6 hedge or the qualifying debt instrument) is treated as immediately reacquired for, or entered into at, its fair market value on the leg-out date. In order to prevent taxpayers from inappropriately generating tax losses by legging into and immediately legging out of an integrated transaction, the proposed regulations contain a wash sale rule that disallows losses if the taxpayer legs out within 30 days of legging into an integrated transaction.

If a qualifying debt instrument and a §1.1275-6 hedge are integrated, the instruments are no longer subject to the rules that govern each instrument separately, except as specifically provided in the regulations or by publication in the Internal Revenue Bulletin. Instead, the instruments are subject to the rules that would govern the synthetic debt instrument. For example, the qualifying debt instrument and §1.1275-6 hedge are not treated as part of a straddle under section 1092, but the interest on the synthetic debt instrument may be subject to the interest capitalization rules of section 263(g).

The issue price of the synthetic debt instrument is the adjusted issue price of the qualifying debt instrument. The issue date of the synthetic debt instrument is the date the §1.1275-6 hedge is acquired. The term of the synthetic debt instrument is the period from the issue date of the synthetic debt instrument to the maturity date of the qualifying debt instrument. If the synthetic debt instrument is a borrowing, its stated redemption price at maturity is the sum of all amounts paid or to be paid on the qualifying debt instrument and on the §1.1275-6 hedge, reduced by all amounts received or to be received on the hedge and any amounts that would be qualified stated interest on the synthetic debt instrument. If the synthetic debt instrument is a loan, its stated redemption price at maturity is the sum of all amounts received or to be received on the qualifying debt instrument and the §1.1275-6 hedge, reduced by all amounts paid or to be paid on the hedge and any amounts that would be qualified stated interest on the synthetic debt instrument.

The rules for determining the stated redemption price at maturity are designed to cover situations where payments on the hedge move inversely to the payments on the qualifying debt instrument. For example, if a holder of a qualifying debt instrument purchases an option to hedge the debt instrument, the amount paid by the holder must be taken into account as an adjustment to the instrument's stated redemption price at maturity.

Separate transaction treatment is required for certain limited purposes. For example, the rules of sections 871(a), 881, 1441, and 1442 must be applied on a separate transaction basis. Similarly, any information reporting rules for the qualifying debt instrument continue to apply as if the qualifying debt instrument and the §1.1275-6 hedge were not part of an integrated transaction. The IRS and Treasury request comments on whether the regulations should specifically provide separate transaction treatment for other purposes. The IRS and Treasury also request comments on whether rules similar to §1.6045-1(d)(6)(iii) of the proposed regulations (regarding broker reporting of an integrated transaction under

§1.988-5) should be adopted for an integrated transaction under §1.1275-6.

The IRS and Treasury intend to propose rules coordinating §1.1275-6 with section 475. Comments are requested on this issue.

Proposed Effective Date

In general, the proposed regulations in this document are proposed to be effective for debt instruments issued on or after the date that is 60 days after the date final regulations are published in the **Federal Register**.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to these regulations, and, therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) that are submitted timely to the IRS. All comments will be available for public inspection and copying.

A public hearing has been scheduled for Thursday, March 16, 1995, at 10 a.m. in the Auditorium, Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC. Because of access restrictions, visitors will not be admitted beyond the Internal Revenue Building lobby more than 15 minutes before the hearing starts.

The rules of 26 CFR 601.601(a)(3) apply to the hearing.

Persons that wish to present oral comments at the hearing must submit their written comments and an outline of the topics to be discussed (signed original and eight (8) copies) by Thursday, February 23, 1995.

A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

Several persons from the Office of Chief Counsel and the Treasury Department participated in developing these regulations.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

Part 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding two entries in numerical order to read as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.483-4 also issued under 26 U.S.C. 483(f). * * *

Section 1.1275-6 also issued under 26 U.S.C. 1275(d). * * *

Par. 2. Section 1.483-4 is added to read as follows:

<u>§1.483-4 Contingent payments</u>.

(a) <u>In general</u>. If a contract for the sale or exchange of property subject to section 483 (the overall contract) provides for one or more contingent payments, interest under the contract is generally computed and accounted for under rules similar to those that would be applicable if the contract were a debt instrument subject to §1.1275-4(c). Consequently, all noncontingent payments and quotable contingent payments (within the meaning of §1.1275-4(b)(4)(i)) under the overall contract are treated as if made under a separate contract, and interest accruals on this separate contract are computed under rules similar to those contained in §1.1275-4(c)(3). Each nonquotable contingent payment (within the meaning of §1.1275-4(b)(4)(ii)), if any, under the overall contract is characterized as principal and interest under rules similar to those contained in §1.1275-4(c)(4). However, any interest, or amount treated as interest, on a contract subject to this section is taken into account by a taxpayer under the taxpayer's regular method of accounting (e.g., an accrual method or the cash receipts and disbursements method).

(b) <u>Examples</u>. The following examples illustrate the provisions of paragraph (a) of this section.

Example 1. Deferred payment sale with contingent interest--(i) Facts. On January 1, 1996, A sells depreciable personal property to B. As consideration for the sale, B issues to A a debt instrument with a maturity date of December 31, 2000. The debt instrument provides for a principal payment of $200,000 on the maturity date, and a payment of interest on December 31 of each year equal to a percentage of the total gross income derived from the property in that year. However, the total interest payable on the debt instrument over its entire term is limited to a maximum of $50,000. Assume that the short-term applicable Federal rate on January 1, 1996, is 4 percent, compounded annually, and the mid-term applicable Federal rate on January 1, 1996, is 5 percent, compounded annually.

(ii) Treatment of noncontingent payment as separate contract. Each contingent payment of interest is a nonquotable contingent payment (within the meaning of §1.1275-4(b)(4)(ii)). Accordingly, under paragraph (a) of this section, for purposes of applying section 483 to the debt instrument, the right to the noncontingent payment of $200,000 at maturity is treated as a separate contract. The amount of unstated interest on this separate contract is equal to $43,295, which is the amount by which the amount of this deferred payment under the contract ($200,000) exceeds the present value of the deferred payment ($156,705), calculated using the test rate of 5 percent, compounded annually (the mid-term applicable Federal rate on the date of the sale). The $200,000 payment at maturity is thus treated as consisting of a payment of interest of $43,295 and a payment of principal of $156,705. The interest is includible in A's gross income, and deductible by B, under their respective methods of accounting.

(iii) Treatment of contingent payments. Assume that the amount of the contingent payment that is paid on December 31, 1996, is $20,000. Under paragraph (a) of this section, the $20,000 payment is treated as a payment of principal of $19,231 (the present value, as of the date of sale, of the $20,000 payment, calculated using a test rate equal to 4 percent, compounded annually) and a payment of interest of $769. The $769 interest payment is includible in A's gross income, and deductible by B, in their respective taxable years in which December 31, 1996 occurs. The amount treated as principal gives B additional basis in the property on December 31, 1996. The remaining contingent payments on the debt instrument are accounted for similarly, using a test rate of 4 percent, compounded annually, for the payments made on December 31, 1997, and December 31, 1998, and a test rate of 5 percent, compounded annually, for the payments made on December 31, 1999, and December 31, 2000.

Example 2. Contingent stock payout--(i) Facts. M Corporation and N Corporation each owns one-half of the stock of O Corporation. On January 1, 1996, pursuant to a reorganization qualifying under section 368(a)(1)(B), M contracts to acquire the one-half interest of O held by N for an initial distribution on that date of 30,000 shares of M voting stock, and a non-assignable right to receive up to 10,000 additional shares of M's voting stock during the next 3 years, provided the net profits of O exceed certain amounts specified in the contract. No interest is provided for in the contract. No additional shares are received in 1996 or in 1997. In 1998, the annual earnings of O exceed the specified amount and on December 31, 1998, an additional 3,000 M voting shares are transferred to N. Assume that the fair market value of the 3,000 shares on December 31, 1998, is $300,000 and that the short-term applicable Federal rate on January 1, 1996, is 4 percent, compounded annually. Assume also that M and N are calendar year taxpayers.

(ii) Allocation of interest. Assume that the right to receive the additional shares is a nonquotable contingent payment (within the meaning of §1.1275-4(b)(4)(ii)). Section 1274 does not apply to the right to receive the additional shares because the right is not a debt instrument for federal income tax purposes. As a result, the transfer of the 3,000 M voting shares to N is a deferred payment subject to section 483 and a portion of the shares is treated as unstated interest under that section. The amount of interest allocable to the shares is an amount equal to the excess of $300,000 (the fair market value of the shares on December 31, 1998) over $266,699 (the present value of $300,000, determined by discounting the payment at the test rate of 4 percent, compounded annually, from December 31, 1998, to January 1, 1996). As a result, the amount of interest allocable to the payment of the shares is $33,301 ($300,000 - $266,699). Both M and N take the interest into account in 1998.

(c) Effective date. This section applies to sales and exchanges that occur on or after the date that is 60 days after final regulations are published in the **Federal Register**.

Par. 3. In §1.1001-1, the first sentence of paragraph (g) is amended by adding the language "(other than a debt instrument that provides for one or more contingent payments)" immediately following the language "If a debt instrument".

Par. 4. Section §1.1272-1 is amended by:

1. Removing the language "(or schedules)" in the first sentence of paragraph (c)(1) and adding the language "(or a reasonable number of schedules)" in its place.

2. Removing the language "See regulations under section 1275(d)" in the fourth sentence of paragraph (c)(1) and adding the language "See §1.1275-4" in its place.

Par. 5. Section 1.1274-2 is revised to read as follows:

<u>§1.1274-2 Issue price of debt instruments to which section 1274 applies</u>.

* * * * *

(f) * * *

(2) <u>Stated interest at an objective rate</u>. For purposes of paragraph (c) of this section, the imputed principal amount of a variable rate debt instrument (within the meaning of §1.1275-5(a)) that provides for stated interest at a single objective rate is determined by assuming that the debt instrument provides for a fixed rate that reflects the yield that is reasonably expected for the instrument. This paragraph (f)(2) is effective for debt instruments issued on or after the date that is 60 days after final regulations are published in the **Federal Register**.

(g) <u>Treatment of contingent payment debt instruments</u>. For purposes of paragraph (c) of this section, the stated principal amount of a debt instrument that provides for one or more contingent payments is the sum of the noncontingent principal payments and the projected amounts of any quotable contingent principal payments (as determined under §1.1275-4(b)(4)(i)). The imputed principal amount of the debt instrument is the sum of the present value of each noncontingent payment and the present value of the projected amount of each quotable contingent payment. For additional rules relating to a debt instrument that provides for one or more contingent payments, see §1.1275-4. This paragraph (g) is effective for debt instruments issued on or after the date that is 60 days after final regulations are published in the **Federal Register**.

* * * * *

Par. 6. In §1.1275-3, paragraph (b)(1)(i) is revised to read as follows:

<u>§1.1275-3 OID information reporting requirements</u>.

* * * * *

(b) * * * (1) * * *

(i) Set forth on the face of the debt instrument the issue price, the amount of OID, the issue date, the yield to maturity, and, in the case of a debt instrument subject to the rules of §1.1275-4(b), the projected payment schedule; or

* * * * *

Par. 7. Section 1.1275-4 is added to read as follows:

<u>§1.1275-4 Contingent payment debt instruments</u>.

(a) <u>Applicability</u>--(1) <u>In general</u>. Except as provided in paragraph (a)(2) of this section, this section applies to any debt instrument that provides for one or more contingent payments. In general, paragraph (b) of this section applies to a contingent payment debt instrument that is issued for money or publicly traded property and paragraph (c) of this section applies to a contingent payment debt instrument that is issued for nonpublicly traded property. Paragraph (d) of this section provides special rules for tax-exempt obligations. If a taxpayer holds (or issues) a contingent payment debt instrument that the taxpayer hedges, see §1.1275-6 for the treatment of the debt instrument and the hedge by the taxpayer.

(2) <u>Exceptions</u>. This section does not apply to--

(i) A debt instrument that has an issue price determined under section 1273(b)(4);

(ii) A variable rate debt instrument (as defined in §1.1275-5);

(iii) A debt instrument subject to §1.1272-1(c) (a debt instrument that provides for an alternative payment schedule (or schedules) applicable upon the occurrence of a contingency (or contingencies));

(iv) A debt instrument subject to section 988 (except as provided in section 988 and the regulations thereunder); or

(v) A debt instrument to which section 1272(a)(6) applies (certain interests in or mortgages held by a REMIC, and certain other debt instruments with payments subject to acceleration).

(3) Insolvency and default. A payment is not contingent merely because of the possibility of impairment by insolvency, default, or similar circumstances.

(4) Convertible debt instruments. A debt instrument does not provide for contingent payments merely because it provides for a right to convert the debt instrument into the stock of the issuer, into the stock or debt of a related party (within the meaning of section 267(b) or 707(b)(1)), or into cash or other property in an amount equal to the approximate value of such stock or debt.

(5) Remote and incidental contingencies. A payment on a debt instrument is not a contingent payment if, as of the issue date, the contingency is either remote or incidental. A contingency is remote if there is either a remote likelihood that the contingency will occur or a remote likelihood that the contingency will not occur. A contingency is incidental if the potential amount of the payment under any reasonably expected market conditions is insignificant relative to the total expected payments on the debt instrument.

(b) <u>Noncontingent bond method</u>--(1) <u>Applicability</u>. The noncontingent bond method described in paragraph (b) of this section applies to a contingent payment debt instrument that has an issue price determined under §1.1273-2 (e.g., a contingent payment debt instrument that is issued for money or publicly traded property). The noncontingent bond method also applies to a contingent payment debt instrument that has an issue price determined under §1.1274-2(b)(3) (a contingent payment debt instrument issued in a potentially abusive situation).

(2) <u>In general</u>. Under the noncontingent bond method, interest on a debt instrument must be taken into account whether or not the amount of any payment is fixed or determinable in the taxable year. The amount of interest that is taken into account for each accrual period is determined by constructing a projected payment schedule for the debt instrument and applying rules similar to those for accruing OID on a noncontingent debt instrument. The projected payment schedule is determined as of the issue date and is based on forward prices, if readily available, or on the projected pattern of expected payments and a projected yield. If the actual amount of a contingent payment is not equal to the projected amount, appropriate adjustments are made to reflect the difference.

(3) <u>Description of method</u>. The following steps describe how to compute the amount of income, deductions, gain, and loss under the noncontingent bond method.

(i) <u>Step one: Determine a projected payment schedule</u>. Determine the projected payment schedule for the debt instrume of the debt instrument's issue date under the rules of paragraph (b)(4) of this section.

(ii) Step two: Determine the projected yield. Based on the issue price of the debt instrument and the projected payment schedule, determine the projected yield of the debt instrument in the manner described in §1.1272-1(b)(1)(i).

(iii) Step three: Determine the daily portions of interest. Determine the daily portions of interest on the debt instrument for a taxable year as follows. The amount of interest that accrues in each accrual period is the product of the projected yield of the debt instrument (properly adjusted for the length of the accrual period) and the debt instrument's adjusted issue price at the beginning of the accrual period. See paragraph (b)(7)(ii) of this section for rules for determining the adjusted issue price of the debt instrument. The daily portions of interest are determined by allocating to each day in the accrual period the ratable portion of the interest that accrues in the accrual period. Except as modified by paragraph (b)(3)(iv) of this section, the daily portions of interest are includible in income by a holder for each day in the holder's taxable year on which the holder held the debt instrument, and are deductible by the issuer for each day during the issuer's taxable year on which the issuer was primarily liable on the debt instrument.

(iv) Step four: Adjust the amount of income or deductions for differences between projected and actual contingent payments. Make appropriate adjustments to the amount of income or deductions attributable to the debt instrument in a taxable year for any differences between projected and actual contingent payments. See paragraph (b)(6) of this section to determine the amount of an adjustment and the treatment of the adjustment.

(4) Method of determining projected payment schedule. This paragraph (b)(4) provides rules for determining the projected payment schedule for a debt instrument. The projected payment schedule includes each noncontingent payment and the projected amount of each contingent payment. The schedule is determined as of the issue date and remains fixed throughout the term of the debt instrument (except under special rules that apply to a payment that is fixed more than 6 months before it is due under paragraph (b)(9)(ii) of this section). Under the rules of section 6001, taxpayers must maintain adequate contemporaneous records to support the projected payment schedule.

(i) Quotable contingent payments--(A) In general. If a right to a contingent payment is substantially similar to a property right for which forward price quotes are readily available (a quotable contingent payment), the projected amount of the contingent payment is equal to the forward price of the property right. The forward price of a property right is an amount one party would agree, as of the issue date, to pay an unrelated party for the property right on the settlement date (e.g., the date payments under the property right are to be made). For purposes of paragraph (b)(4) of this section, a property right includes a right, an obligation, or a combination of rights or obligations.

(B) Quotes readily available. For purposes of paragraph (b)(4)(i) of this section, quotes are readily available for a property right if, at any time during the 60-day period ending 30 days after the issue date, one or more quotations for a price on the property right are readily available from brokers, traders, or dealers.

(C) Substantially similar. A right to a contingent payment is substantially similar to a property right if, under reasonably expected market conditions, the value and timing of the amount to be paid or received pursuant to the property right (whether in the form of a cash payment or the delivery of property) are expected to be substantially the same as the value and timing of the contingent payment.

(D) Special rule for contingent payments substantially similar to options. A right to a contingent payment that is substantially similar to an option or combination of options, and that is not otherwise a quotable contingent payment, is treated as a quotable contingent payment if spot price quotations for the option or options are readily available. The projected amount of the contingent payment is the spot price of the option or options on the issue date compounded at the applicable Federal rate for the debt instrument (within the meaning of §1.1274-4(b)) from the issue date to the date the payment is due.

(E) Reasonable determination of projected amounts. The projected amounts of quotable contingent payments may be determined based on either the bid, ask, or midpoint price quotes of the substantially similar property rights, provided the determination is reasonable and is made on a consistent basis. If price quotations vary among different quotation sources, any reasonable quotation may be used. If a right to a contingent payment is substantially similar to more than one combination of property rights for which forward price quotes are readily available (or options for which spot prices are readily available), any reasonable combination may be used.

(ii) Quotes not readily available. If a debt instrument provides for one or more contingent payments that are not described in paragraph (b)(4)(i) of this section (nonquotable contingent payments), the projected amount of each contingent payment on the debt instrument is determined as follows. First, determine the projected amount of each quotable contingent payment under paragraph (b)(4)(i) of this section. Second, determine the projected yield of the debt instrument. The projected yield is a reasonable rate for the debt instrument. A reasonable rate is a rate that, as of the issue date, reflects general market conditions, the credit quality of the issuer, and the terms and conditions of the debt instrument (e.g., the existence of collateral securing the debt instrument or the uncertainty inherent in the contingent payments). A reasonable rate is never less than, and may substantially exceed, the applicable Federal rate for the debt instrument (within the meaning of §1.1274-4(b)), and may not be less than the yield on the debt instrument based on the projected payment schedule set without regard to the nonquotable contingent payments. Third, select a projected amount for each nonquotable contingent payment so that the projected payment schedule results in the projected yield and reasonably reflects the relative expected values of the nonquotable contingent payments.

(iii) Debt instruments similar to variable rate debt instruments. Notwithstanding paragraphs (b)(4)(i) and (ii) of this section, the projected payment schedules for certain debt instruments similar to variable rate debt instruments are determined as follows:

(A) Single quotable contingent payment at maturity. If a debt instrument would qualify as a variable rate debt instrument under §1.1275-5 except that it provides for a single quotable contingent payment at maturity, the projected payment schedule is determined as follows. First, construct the equivalent fixed rate debt instrument for the debt instrument under the principles of §1.1275-5(e), disregarding the contingent payment at maturity. Second, determine the projected amount of the contingent payment at maturity in accordance with paragraph (b)(4)(i) of this section. Third, set the projected payment schedule by combining the payment schedule for the equivalent fixed rate debt instrument with the projected amount of the contingent payment.

(B) Principal not fully guaranteed. If a debt instrument would qualify as a variable rate debt instrument under §1.1275-5 except that it does not meet the principal payment requirement of §1.1275-5(a)(2), the projected payment schedule is determined by constructing the equivalent fixed rate debt instrument for the debt instrument under the principles of §1.1275-5(e).

(iv) Issuer/holder consistency. The projected payment schedule used by the issuer to compute interest accruals and adjustments determines the interest accruals and adjustments of the holder. The issuer must provide the projected payment schedule to the holder in a manner consistent with the issuer disclosure rules of §1.1275-2(e). If the issuer does not create a projected payment schedule for a debt instrument or the payment schedule set by the issuer is unreasonable, the holder of the debt instrument must set the projected payment schedule under the rules of paragraph (b)(4) of this section. A holder that sets its own projected payment schedule must explicitly disclose this fact and the reason why the holder set its own schedule (e.g., why the projected payment schedule prepared by the issuer is unreasonable). Unless otherwise prescribed by the Commissioner, the disclosure must be made on a statement attached to the holder's timely filed federal income tax return for the taxable year that includes the acquisition date of the debt instrument.

(v) Issuer's determination respected. The issuer's determination of the projected payment schedule will be respected unless the schedule is unreasonable. A projected payment schedule will generally be considered unreasonable if the schedule is set with a purpose to accelerate or defer interest accruals on the debt instrument. In determining whether a projected payment schedule is unreasonable, consideration will be given to whether the interest on the debt instrument determined under the projected payment schedule has a significant effect on the issuer's or holder's U.S. tax liability.

(vi) Examples. The following examples illustrate the provisions of paragraph (b)(4) of this section. In each example, assume that the debt instrument described is a debt instrument for federal income tax purposes. No inference is intended, however, as to whether the debt instrument constitutes a debt instrument for federal income tax purposes.

Example 1. Contingent payment substantially similar to an option--(i) Facts. On January 1, 1996, W corporation issues for $1,000,000 a debt instrument that matures on December 31, 2000. The debt instrument has a stated principal amount of $1,000,000, payable at maturity. The debt instrument also provides for a payment at maturity equal to $10,000 times the increase, if any, in the value of a nationally known composite index of stocks from January 1, 1996, to the maturity date.

(ii) Projected payment schedule. Under paragraph (b)(4) of this section, the projected payment schedule for the debt instrument consists of the $1,000,000 payment at maturity plus the projected amount of the contingent payment at maturity. The right to the contingent payment is substantially similar to a long call option on the index that is exercisable only on December 31, 2000. Thus, if quotes for the forward price of the option are readily available, the projected amount of the contingent payment is the forward price of the option. If quotes for the forward price are not readily available and quotes for the spot price of the option are readily available, the projected amount of the contingent payment is the option's spot price on the issue date compounded at the applicable Federal rate for the debt instrument from the issue date to the maturity date.

Example 2. Contingent payment substantially similar to a forward contract--(i) Facts. On January 1, 1996, X corporation issues for $1,000,000 a debt instrument that matures on December 31, 2005. The debt instrument provides for annual payments of interest at the rate of 6 percent and for a payment at maturity equal to $1,000,000, plus the excess, if any, of the price of 1,000 units of a commodity on the maturity date over $350,000, or less the excess, if any, of $350,000 over the price of 1,000 units of the commodity on the maturity date.

(ii) Projected payment schedule. Under paragraph (b)(4) of this section, the projected payment schedule for the debt instrument consists of ten annual payments of $60,000 and a projected amount for the contingent payment at maturity. The right to the contingent payment is substantially similar to a right to a payment of $1,000,000 combined with a forward contract for the purchase of 1,000 units of the commodity for $350,000 on December 31, 2005. Assume forward price quotes to purchase the commodity on December 31, 2005, are readily available on the issue date.

(A) Assume that on the issue date the forward price to purchase 1,000 units of the commodity on December 31, 2005, is $350,000. The projected amount of the contingent payment is $1,000,000, consisting of the $1,000,000 base amount and no additional amount to be received or paid under the forward contract. Although the amount to be received or paid under the forward contract is projected to be zero, the contingency is not incidental (within the meaning of paragraph (a)(5) of this section) because the potential amount to be received or paid based on the forward contract is not insignificant relative to the total expected payments on the debt instrument under any reasonably expected market conditions.

(B) Assume, alternatively, that on the issue date the forward price to purchase 1,000 units of the commodity on December 31, 2005, is \$370,000. The projected amount of the contingent payment is \$1,020,000, consisting of the \$1,000,000 base amount plus the excess \$20,000 of the forward price of the commodity over the purchase price of the commodity under the forward contract.

(C) Assume, alternatively, that on the issue date the forward price to purchase 1,000 units of the commodity on December 31, 2005, is \$330,000. The projected amount of the contingent payment is \$980,000, consisting of the \$1,000,000 base amount minus the excess \$20,000 of the purchase price of the commodity under the forward contract over the forward price of the commodity.

Example 3. Contingent payment substantially similar to a combination of rights--(i) Facts. Assume the same facts as in Example 2 of this paragraph (b)(4)(vi), except that the debt instrument also provides for a cap and a floor on the contingent payment at maturity, so that the payment may not exceed \$1,300,000 and may not be less than \$700,000.

(ii) Projected payment schedule. Under paragraph (b)(4) of this section, the projected payment schedule for the debt instrument consists of ten annual payments of \$60,000 and a projected amount for the contingent payment at maturity. The right to the contingent payment is substantially similar to a right to a payment of \$1,000,000 combined with a forward contract for the purchase of 1,000 units of the commodity for \$350,000 on December 31, 2005, and two options on 1,000 units of the commodity that are exercisable only on December 31, 2005: one a long put option with an exercise price of \$50,000, and the other a short call option with an exercise price of \$650,000. The projected amount of the contingent payment is determined by combining the forward prices of these property rights.

Example 4. Nonquotable contingent payments--(i) Facts. On January 1, 1996, Y issues for \$1,000,000 a debt instrument that matures on December 31, 1999. The debt instrument has a stated principal amount of \$1,000,000, payable at maturity, and provides for payments on December 31 of each year of \$20,000 plus 5 percent of Y's gross receipts, if any, for the year. Assume that a reasonable rate for the debt instrument (within the meaning of paragraph (b)(4)(ii) of this section) is 7.5 percent, compounded annually.

(ii) Projected yield. The debt instrument provides for nonquotable contingent payments. Under paragraph (b)(4)(ii) of this section, the projected yield is 7.5 percent, compounded annually.

(iii) Projected payment schedule. Assume that Y anticipates that it will have no gross receipts in 1996, but that it will have gross receipts in later years, and those gross receipts will grow each year for the next three years. Based on its business projections, Y believes that it is not unreasonable to expect that its gross receipts in 1998 and each year thereafter will grow by between 6 percent and 13 percent over the prior year. Thus, Y must take these expectations into account in establishing a projected payment schedule for the debt instrument that results in a yield of 7.5 percent, compounded annually. Accordingly, Y could reasonably set the following projected payment schedule for the debt instrument:

Date	Noncontingent payment	Contingent payment
12/31/1996	$ 20,000	$ 0
12/31/1997	20,000	70,000
12/31/1998	20,000	75,600
12/31/1999	1,020,000	83,850

Example 5. Debt instrument that provides for a variable rate of interest and a single quotable contingent payment at maturity--(i) Facts. On January 1, 1996, W corporation issues for $1,000,000 a debt instrument that matures on December 31, 2000. The debt instrument has a stated principal amount of $1,000,000, payable at maturity. The debt instrument also provides for semiannual payments of interest and a payment at maturity equal to $5,000 times the increase, if any, in the value of a nationally known composite index of stocks from January 1, 1996, to the maturity date. The rate of interest on the debt instrument is the value of 6-month LIBOR on the payment date. On the issue date, the value of 6-month LIBOR is 4 percent, compounded semiannually. Assume that the payment at maturity based on the index is a quotable contingent payment.

(ii) Projected payment schedule. Because the debt instrument would qualify as a variable rate debt instrument under §1.1275-5 except that it provides for a single quotable contingent payment at maturity, paragraph (b)(4)(iii) of this section applies to the debt instrument. Under paragraph (b)(4)(iii)(A) of this section, the projected payment schedule is determined by first constructing the equivalent fixed rate debt instrument for the debt instrument. Under §1.1275-5(e), the equivalent fixed rate debt instrument is a 5-year debt instrument that provides for semiannual payments of interest at 4 percent, compounded semiannually. Next, the projected amount of the contingent payment is determined in accordance with paragraph (b)(4)(i) of this section. The right to the contingent payment based on the stock index is substantially similar to a long call option on the index that is exercisable only on December 31, 2000. Thus, the projected amount of the contingent payment is the forward price of the option, assuming quotes for the forward price of the option are readily available. Finally, the projected payment schedule is determined, consisting of 10 semiannual payments of interest at 4 percent and a payment at maturity equal to $1,000,000 plus the forward price of the option on the index.

(5) Qualified stated interest. No amounts payable on a debt instrument to which paragraph (b) of this section applies constitute qualified stated interest within the meaning of §1.1273-1(c).

(6) Adjustments under the noncontingent bond method. This paragraph (b)(6) provides rules for the treatment of positive and negative adjustments under the noncontingent bond method.

(i) Determination of positive and negative adjustments. If the amount of a contingent payment is more than the projected amount of the contingent payment, the difference is a positive adjustment on the date of the payment. If the amount of a contingent payment is less than the projected amount of the contingent payment, the difference is a negative adjustment on the date of the projected payment.

(ii) Treatment of net positive adjustment. The amount, if any, by which total positive adjustments on a debt instrument in a taxable year exceed the total negative adjustments on the debt instrument in the taxable year is a net positive adjustment. A net positive adjustment is treated as additional interest for the taxable year.

(iii) Treatment of net negative adjustment. The amount, if any, by which total negative adjustments on a debt instrument in a taxable year exceed the total positive adjustments on the debt instrument in the taxable year is a net negative adjustment. A taxpayer's net negative adjustment on a debt instrument for a taxable year is treated as follows:

(A) Reduction of interest accruals. A net negative adjustment first reduces interest for the taxable year that the taxpayer would otherwise account for on the debt instrument under paragraph (b)(3)(iii) of this section.

(B) Ordinary income or loss. If the net negative adjustment exceeds the interest for the taxable year that the taxpayer would otherwise account for on the debt instrument under paragraph (b)(3)(iii) of this section, the excess is treated as ordinary loss by a holder and ordinary income by an issuer. However, the amount treated as ordinary loss by a holder is limited to the amount by which the holder's total interest inclusions on the debt instrument exceed the total amount of the holder's net negative adjustments treated as ordinary loss on the debt instrument in prior taxable years. The amount treated as ordinary income by an issuer is limited to the amount by which the issuer's total interest deductions on the debt instrument exceed the total amount of the issuer's net negative adjustments treated as ordinary income on the debt instrument in prior taxable years.

(C) Carryforward. If the net negative adjustment exceeds the sum of the amounts treated by the taxpayer as a reduction of interest and as ordinary income or loss (as the case may be) on the debt instrument for the taxable year, the excess is a negative adjustment carryforward for the taxable year.

(1) In general. Except as provided in paragraph (b)(6)(iii)(C)(2) of this section, a negative adjustment carryforward on a debt instrument for a taxable year is treated as a negative adjustment on the debt instrument on the first day of the succeeding taxable year.

(2) <u>In year of sale, exchange, or retirement</u>. Any negative adjustment carryforward on a debt instrument for a taxable year in which the debt instrument is sold, exchanged, or retired reduces the amount realized by the holder on the sale, exchange, or retirement. Any negative adjustment carryforward for a taxable year in which the debt instrument is retired is taken into account by the issuer as income from the discharge of indebtedness under section 61(a)(12).

(iv) <u>Cross references</u>. If a holder has a basis in a debt instrument that is different than the debt instrument's adjusted issue price, the holder may have additional positive or negative adjustments under paragraph (b)(9)(i) of this section. If the amount of a contingent payment is fixed more than 6 months before the date it is due, the amount and timing of the adjustment are determined under paragraph (b)(9)(ii) of this section. If all the remaining contingent payments on a debt instrument become fixed substantially contemporaneously, the timing of the adjustment is determined under paragraph (b)(9)(v) of this section.

(v) <u>Examples</u>. The following examples illustrate the provisions of paragraph (b)(6) of this section. In each example, assume that the debt instrument described is a debt instrument for federal income tax purposes. No inference is intended, however, as to whether the debt instrument constitutes a debt instrument for federal income tax purposes.

<u>Example 1</u>. <u>Net negative adjustment</u>--(i) <u>Facts</u>. On June 13, 1996, Z, a calendar year taxpayer, purchases a debt instrument at original issue for $1,044. Assume that the debt instrument is subject to paragraph (b) of this section. The projected payment schedule provides for projected payments of $100 on December 31, 1996, and $1,100 on December 31, 1997. Based on the projected payment schedule, Z's total daily portions of interest would be $56 for 1996 and $100 for 1997.

(ii) Adjustment in 1996. Assume that the payment actually made on December 31, 1996, is $25, rather than the projected $100. Under paragraph (b)(6)(i) of this section, Z has a negative adjustment of $75 on December 31, 1996, attributable to the difference between the amount of the actual payment and the amount of the projected payment. Because Z has no positive adjustments for 1996, Z has a net negative adjustment of $75 on the debt instrument for 1996. This net negative adjustment reduces to zero the $56 total daily portions of interest Z would otherwise include in income in 1996. Accordingly, Z has no interest income on the debt instrument for 1996. Because Z has no interest inclusions on the debt instrument for prior taxable years, the remaining $19 of the net negative adjustment is a negative adjustment carryforward for 1996 that results in a negative adjustment of $19 on January 1, 1997.

(iii) Adjustments in 1997. Assume that the payment actually made on December 31, 1997, is $1,150, rather than the projected $1,100. Under paragraph (b)(6)(i) of this section, Z has a positive adjustment of $50 on December 31, 1997, attributable to the difference between the amount of the actual payment and the amount of the projected payment. Because Z also has a negative adjustment of $19 on January 1, 1997, Z has a net positive adjustment of $31 on the debt instrument for 1997 (the excess of the $50 positive adjustment over the $19 negative adjustment). Therefore, Z has $131 of interest income on the debt instrument for 1997 (the net positive adjustment plus the $100 total daily portions of interest that are taken into account by Z in that year).

Example 2. Net negative adjustment at maturity--(i) Facts. Assume the same facts as in Example 1 of this paragraph (b)(6)(v), except that the payment actually made on December 31, 1997, is $1,010, rather than the projected $1,100.

(ii) Adjustments in 1997. Under paragraph (b)(6)(i) of this section, Z has a negative adjustment of $90 on December 31, 1997, attributable to the difference between the amount of the actual payment and the amount of the projected payment. In addition, Z has a negative adjustment of $19 on January 1, 1997. Because Z has no positive adjustments in 1997, Z has a net negative adjustment of $109 for 1997. This net negative adjustment reduces to zero the $100 total daily portions of interest Z would otherwise include in income for 1997. Therefore, Z has no interest income on the debt instrument for 1997. Because Z has no interest inclusions on the debt instrument for prior taxable years, the remaining $9 of the net negative adjustment constitutes a negative adjustment carryforward for 1997 that reduces the amount realized by Z on retirement of the debt instrument.

(7) Adjusted issue price, adjusted basis, and retirement--(i) In general. Paragraph (b)(7) of this section provides rules under the noncontingent bond method to determine the adjusted issue price

of a debt instrument, the holder's basis in a debt instrument, and the amount of any contingent payment made on a scheduled retirement. Paragraph (b)(7) of this section also provides rules for an unscheduled retirement. In general, because any difference between the actual amount of a contingent payment and the projected amount of the payment is taken into account as an adjustment to income or deduction, the projected payments are treated as the actual payments for purposes of making adjustments to issue price and basis and determining the amount of any contingent payment made on a scheduled retirement. Except as provided in paragraph (b)(7)(iv) of this section, positive and negative adjustments are not taken into account for purposes of paragraph (b)(7) of this section.

(ii) Definition of adjusted issue price. The adjusted issue price of a debt instrument is equal to the debt instrument's issue price, increased by the interest previously accrued on the debt instrument under paragraph (b)(3)(iii) of this section (determined without regard to any adjustments taken into account under paragraph (b)(3)(iv) of this section), and decreased by the amount of any noncontingent payment and the projected amount of any contingent payment previously made on the debt instrument. See paragraph (b)(9)(ii) of this section for special rules that apply when a contingent payment is fixed more than 6 months before it is due.

(iii) Adjustments to basis. A holder's basis in a debt instrument is increased by the interest previously accrued by the holder on the debt instrument under paragraph (b)(3)(iii) of this section (determined without regard to any adjustments taken into account under paragraph (b)(3)(iv) of this section), and decreased by the amount of any noncontingent payment and the projected amount of any contingent payment previously made on the debt instrument to the holder. See paragraphs (b)(9)(i) and (ii) of this section for special rules that apply when basis is different than adjusted issue price or a contingent payment is fixed more than 6 months before it is due.

(iv) Amount realized on a scheduled retirement. For purposes of determining the amount realized by a holder and the repurchase price paid by the issuer on the scheduled retirement of a debt instrument, a holder is treated as receiving, and the issuer is treated as paying, the projected amount of any contingent payment due at maturity. The amount realized on a scheduled retirement of a debt instrument and the issuer's repurchase price on the retirement, however, may be reduced under paragraph (b)(6)(iii)(C)(2) of this section (regarding the treatment of negative adjustment carryforwards determined in the taxable year of the retirement).

(v) Unscheduled retirements. An unscheduled retirement of a debt instrument (or the receipt of a pro-rata prepayment that is treated as a retirement of a portion of a debt instrument under §1.1275-2(f)) is treated as a sale or exchange of the debt instrument (or a pro rata portion of the debt instrument) by the holder to the issuer for the amount paid by the issuer to the holder.

(vi) Examples. The following examples illustrate the provisions of paragraph (b)(7) of this section. In each example, assume that the debt instrument described is a debt instrument for federal income tax purposes. No inference is intended, however, as to whether the debt instrument constitutes a debt instrument for federal income tax purposes.

Example 1. Adjusted issue price, adjusted basis, and retirement--(i) Facts. Assume the same facts as in Example 1 of paragraph (b)(6)(v) of this section.

(ii) Adjustment to issue price and basis. Based on the projected payment schedule, Z's total daily portions of interest on the debt instrument would be $56 for 1996. Therefore, the adjusted issue price of the debt instrument and Z's adjusted basis in the debt instrument are increased by this amount ($56), despite the fact that, under paragraph (b)(6)(iii) of this section, Z has a net negative adjustment for 1996 of $75 that reduces to zero the $56 total daily portions of interest otherwise accounted for by Z in that year. In addition, the adjusted issue price of the debt instrument and Z's adjusted basis in the debt instrument are decreased on December 31, 1996, by the projected amount of the payment on that date ($100). Thus, on January 1, 1997, Z's adjusted basis in the debt instrument and the adjusted issue price of the debt instrument are $1,000.

(iii) Retirement. Based on the projected payment schedule, Z's adjusted basis in the debt instrument immediately before the payment at maturity is $1,100. Even though Z receives $1,150 at maturity, for purposes of determining the amount realized by Z on retirement of the debt instrument, Z is treated as receiving the projected amount of the contingent payment on December 31, 1997. Therefore, Z is treated as receiving $1,100 on December 31, 1997. Because Z's adjusted basis in the debt instrument immediately before its retirement is $1,100, Z recognizes no gain or loss on the retirement. Z, however, does include $131 as interest income on the debt instrument in 1997. See Example 1 of paragraph (b)(6)(v) of this section.

Example 2. Negative adjustment carryforward for year of sale--(i) Facts. Assume the same facts as in Example 1 of paragraph (b)(6)(v) of this section, except that Z sells the debt instrument on January 1, 1997, for $1,075.

(ii) Gain on sale. On the date the debt instrument is sold, Z's adjusted basis in the debt instrument is $1,000. Because Z has a negative adjustment on the debt instrument on January 1, 1997, of $19 under paragraph (b)(6)(iii)(C)(1) of this section, and has no positive adjustments on the debt instrument in 1997, Z has a net negative adjustment for 1997 of $19. Because Z has included no interest on the debt instrument in income in 1997 or previous years, the entire $19 net negative adjustment constitutes a negative adjustment carryforward for the taxable year of the sale. Under paragraph (b)(6)(iii)(C)(2) of this section, the $19 negative adjustment carryforward reduces the amount realized by Z on the sale of the debt instrument from $1,075 to $1,056. Thus, Z has a gain on the sale of $56.

Example 3. Negative adjustment carryforward for year of retirement--(i) Facts. Assume the same facts as in Example 1 of paragraph (b)(6)(v) of this section, except that the payment actually made on December 31, 1997, is $1,010, rather than the projected $1,100. Thus, Z will have a $9 negative adjustment carryforward for 1997, the year of retirement. See Example 2 of paragraph (b)(6)(v) of this section.

(ii) Loss on retirement. Immediately before the payment at maturity, Z's adjusted basis in the debt instrument is $1,100. Under paragraph (b)(7)(iv) of this section, Z is treated as receiving the projected amount of the contingent payment, or $1,100, as the payment at maturity. Under paragraph (b)(6)(iii)(C)(2) of this section, however, this amount is reduced by any negative adjustment carryforward determined for the taxable year of retirement to calculate the amount Z realizes on retirement of the debt instrument. Thus, Z has a loss of $9 on the retirement of the debt instrument, equal to the amount by which Z's adjusted basis in the debt instrument ($1,100) exceeds the amount Z realizes on the retirement of the debt instrument ($1,100 minus the $9 negative adjustment carryforward).

(8) Character on sale, exchange, or retirement--(i) Gain. Any gain recognized by a holder on the sale, exchange, or retirement of a debt instrument is interest income.

(ii) Loss. Any loss recognized by a holder on the sale, exchange, or retirement of the debt instrument is ordinary loss to the extent that the holder's total interest inclusions on the debt instrument exceed the total net negative adjustments on the debt instrument the holder took into account as ordinary loss. Any additional loss is treated as loss from the sale, exchange, or retirement of the debt instrument.

(iii) Special rule if there are no remaining contingent payments on the debt instrument. Notwithstanding paragraphs (b)(8)(i) and (ii) of this section, if, at the time of the sale, exchange, or retirement of the debt instrument, there are no remaining contingent payments due on the debt instrument, any gain or loss recognized by the holder on the debt instrument is gain or loss from the sale, exchange, or retirement of the debt instrument.

(iv) Fixed but deferred payments. For purposes of paragraph (b)(8) of this section, a contingent payment that is fixed within the 6-month period ending on the due date of the payment is treated as a contingent payment even after the payment is fixed. See paragraph (b)(9)(ii) of this section, under which a contingent payment that is fixed more than 6 months before it is due is not treated as a contingent payment after it is fixed.

(v) Examples. The following examples illustrate the provisions of paragraph (b)(8) of this section. In each example, assume that the debt instrument described is a debt instrument for federal income tax purposes. No inference is intended, however, as to whether the debt instrument constitutes a debt instrument for federal income tax purposes.

Example 1. Gain on sale--(i) Facts. On January 1, 1997, D, a calendar year taxpayer, sells a debt instrument that is subject to paragraph (b) of this section for $1,350. On that date, D has an adjusted basis in the debt instrument of $1,200. In addition, D has a negative adjustment carryforward of $50 for 1996 that results in a negative adjustment of $50 on January 1, 1997, under paragraph (b)(6)(iii)(C)(1) of this section. D has no positive adjustments on the debt instrument on January 1, 1997.

(ii) Character of gain. Under paragraph (b)(6) of this section, the $50 negative adjustment on January 1, 1997, results in a negative adjustment carryforward for 1997, the taxable year of the sale of the debt instrument. Under paragraph (b)(6)(iii)(C)(2) of this section, the negative adjustment carryforward reduces the amount realized by D on the sale of the debt instrument from $1,350 to $1,300. As a result, D realizes a $100 gain on the sale of the debt instrument, equal to the $1,300 amount realized minus D's $1,200 adjusted basis in the debt instrument. Under paragraph (b)(8)(i) of this section, the gain is interest income to D.

Example 2. Ordinary loss on sale--(i) Facts. On January 1, 1996, E, a calendar year taxpayer, purchases a debt instrument at original issue for $1,000. The debt instrument is a capital asset in the hands of E. The debt instrument provides for a payment of

$1,000 at maturity on December 31, 2001, and for quotable contingent payments on December 31, 1997, 1999, and 2001. The projected payment schedule provides for projected payments of $275 on December 31, 1997, $200 on December 31, 1999, and $1,127 on December 31, 2001. Thus, the projected yield on the debt instrument is 10 percent, compounded annually. Based on the projected payment schedule, the total daily portions of interest would be $100 for 1996, $110 for 1997, and $93.50 for 1998.

(ii) Adjustment for 1997. Assume that the payment actually made on December 31, 1997, is $150, rather than the projected $275. Under paragraph (b)(6)(i) of this section, E has a negative adjustment of $125 on December 31, 1997. Because E has no positive adjustments for 1997, E has a net negative adjustment of $125 on the debt instrument for 1997. This net negative adjustment reduces to zero the $110 total daily portions of interest E would otherwise include in income in 1997. Accordingly, E has no interest income on the debt instrument for 1997. Because E had $100 of interest inclusions for 1996, the remaining $15 of the net negative adjustment is an ordinary loss to E for 1997.

(iii) Determination of amount and character of loss on sale. Assume that E sells the debt instrument for $950 on December 31, 1998. On that date, E has an adjusted basis in the debt instrument of $1,028.50 ($1,000 original basis, plus total daily portions of $100 for 1996, $110 for 1997, and $93.50 for 1998, minus the $275 projected amount of the December 31, 1997 payment). As a result, E realizes a $78.50 loss on the sale of the debt instrument (the difference between the sales price and E's adjusted basis in the debt instrument). The total amount of E's interest inclusions on the debt instrument as of December 31, 1998 ($100 in 1996 and $93.50 in 1998) exceeds the total amount of net negative adjustments on the debt instrument E treated as ordinary loss as of that date ($15 in 1997) by more than $78.50. Therefore, under paragraph (b)(8)(ii) of this section, the $78.50 loss on the debt instrument is treated as an ordinary loss by E.

Example 3. Loss on sale of a debt instrument--(i) Facts. Assume the same facts as in Example 2 of this paragraph (b)(8)(v), except that the payment actually made on December 31, 1997, is $0, rather than the projected $275.

(ii) Adjustment for 1997. Under paragraph (b)(6)(i) of this section, E has a negative adjustment of $275 on December 31, 1997. Because E has no positive adjustments for 1997, E has a net negative adjustment of $275 on the debt instrument for 1997. This net negative adjustment reduces to zero the $110 total daily portions of interest E would otherwise include in income in 1997. Accordingly, E has no interest income on the debt instrument for 1997. Because E had $100 of interest inclusions for 1996, $100 of the remaining $165 net negative adjustment is treated by E as an ordinary loss for 1997. The remaining $65 of the net negative adjustment is a negative adjustment carryforward for 1997 that results in a negative adjustment of $65 on January 1, 1998.

(iii) Determination of amount and character of loss on sale. Assume that E sells the debt instrument for $900 on January 1, 1998. On that date, E has an adjusted basis in the debt instrument of $935 ($1,000 original basis, plus total daily portions of $100 for 1996 and $110 for 1997, minus the $275 projected amount of the December 31, 1997 payment). Because E has no other adjustments for 1998, and E's interest inclusions on the debt instrument in prior taxable years do not exceed the total net negative adjustments E treated as ordinary loss in those years, the $65 negative adjustment on January 1, 1998, results in a negative adjustment carryforward of $65 for 1998. Under paragraph (b)(6)(iii)(C)(2) of this section, the $65 negative adjustment carryforward reduces the amount E realizes on the sale of the debt instrument from $900 to $835. As a result, E realizes a $100 loss on the sale of the debt instrument (the difference between the amount realized and E's adjusted basis in the debt instrument). Because E's total interest inclusions on the debt instrument do not exceed the total net negative adjustments E treated as ordinary loss on the debt instrument, E's loss on the sale of the debt instrument is treated as a capital loss.

(9) Operating rules. The rules of paragraph (b)(9) of this section apply in the special circumstances described below, notwithstanding any other rule of paragraph (b) of this section.

(i) Basis different than adjusted issue price. This paragraph (b)(9)(i) provides rules for a holder whose basis in a debt instrument is different than the adjusted issue price of the debt instrument (e.g., a subsequent holder that purchases the debt instrument for more or less than the instrument's adjusted issue price).

(A) General rule. A holder whose basis in a debt instrument is different than the adjusted issue price of the debt instrument accrues interest under paragraph (b)(3)(iii) of this section and makes adjustments under paragraph (b)(3)(iv) of this section based on the projected payment schedule determined as of the issue date of the debt instrument. However, upon acquiring the debt instrument, the holder must reasonably allocate any difference between the adjusted issue price and the basis to daily portions of interest or projected payments over the remaining term of the debt instrument. Allocations are taken into account under paragraphs (b)(9)(i)(B) and (C) of this section.

(B) Basis greater than adjusted issue price. If a holder's basis in a debt instrument exceeds the debt instrument's adjusted issue price, the amount allocated to a daily portion of interest or to a projected payment is treated as a negative adjustment on the date the daily portion accrues or the payment is made. The holder's adjusted basis in the debt instrument is reduced by the amount the holder treats as a negative adjustment under this paragraph (b)(9)(i)(B).

(C) Basis less than adjusted issue price. If a holder's basis in a debt instrument is less than the debt instrument's adjusted issue price, the amount allocated to a daily portion of interest or to a projected payment is treated as a positive adjustment on the date the daily portion accrues or the payment is made. The holder's adjusted basis in the debt instrument is increased by the amount the holder treats as a positive adjustment under this paragraph (b)(9)(i)(C).

(D) Premium and discount rules do not apply. The rules for accruing premium and discount in sections 171, 1272(a)(7), 1276, and 1281 do not apply. Other rules of those sections continue to apply to the extent relevant.

(E) Safe harbor for exchange listed debt instruments. If a contingent payment debt instrument is exchange listed property (within the meaning of §1.1273-2(f)(2)), it is reasonable for a holder of the debt instrument to allocate any difference between the holder's basis and the adjusted issue price of the debt instrument pro-rata to daily portions of interest (as determined under paragraph (b)(3)(iii) of this section) over the remaining term of the debt instrument.

(F) Examples. The following examples illustrate the provisions of paragraph (b)(9)(i) of this section. In each example, assume that the debt instrument described is a debt instrument for federal income tax purposes. No inference is intended, however, as to whether the debt instrument constitutes a debt instrument for federal income tax purposes. In addition, assume that each debt instrument is not exchange listed property.

Example 1. Basis greater than adjusted issue price--(i) Facts. On July 1, 1997, Z purchases for $1,405 a debt instrument that matures on December 31, 1998, and promises to pay on the maturity date $1,000 plus the increase, if any, in the price of a specified amount of a commodity from the issue date to the maturity date. The debt instrument was originally issued on January 1, 1996, for an issue price of $1,000. Z is a calendar year taxpayer. The projected payment schedule for the debt instrument (determined as of the issue date) provides for a single payment at maturity of $1,350. Thus, the debt instrument has a projected yield of 10.25 percent, compounded semiannually. At the time of the purchase, the debt instrument has an adjusted issue price of $1,162, assuming semiannual accrual periods ending on December 31 and June 30 of each year. The increase in the value of the debt instrument over its adjusted issue price is due to an increase in the expected amount of the contingent payment and not to a decrease in market interest rates.

(ii) Allocation of the difference between basis and adjusted issue price. Z's basis in the debt instrument on July 1, 1997, is $1,405. Under paragraph (b)(9)(i)(B) of this section, Z allocates the $243 difference between basis ($1,405) and adjusted issue price ($1,162) to the contingent payment at maturity. Z's allocation of the difference between basis and adjusted issue price is reasonable because the increase in the value of the debt instrument over its adjusted issue price is due to an increase in the expected amount of the contingent payment.

(iii) Treatment of debt instrument for 1997. Based on the projected payment schedule, $60 of interest accrues on the debt instrument from July 1, 1997 to December 31, 1997 (the product of the debt instrument's adjusted issue price on July 1, 1997 ($1,162) and the projected yield properly adjusted for the length of the accrual period (10.25 percent/2)). Z has no net negative or positive adjustments for 1997. Thus, Z includes in income $60 of total daily portions of interest for 1997. On December 31, 1997, Z's adjusted basis in the debt instrument is $1,465 ($1,405 original basis, plus total daily portions of $60 for 1997).

(iv) Effect of allocation to contingent payment at maturity. Assume that the payment actually made on December 31, 1998, is $1,400, rather than the projected $1,350. Under paragraph (b)(6)(i) of this section, Z has a positive adjustment of $50 on December 31, 1998. Under paragraph (b)(9)(i)(B) of this section, Z has a negative adjustment of $243 on December 31, 1998. As a result, Z has a net negative adjustment of $193 for 1998. This net negative adjustment reduces to zero the $128 total daily portions of interest Z would otherwise include in income in 1998. Accordingly, Z has no interest income on the debt instrument for 1998. Because Z had $60 of interest inclusions for 1997, $60 of the remaining $65 net negative adjustment is treated by Z as an ordinary loss for 1998. The remaining $5 of the net negative adjustment is a negative adjustment carryforward for 1998 that reduces the amount realized by Z on the retirement of the debt instrument from $1,350 to $1,345.

(v) Loss at maturity. On December 31, 1998, Z's basis in the debt instrument is $1,350 ($1,405 original basis, plus total daily portions of $60 for 1997 and $128 for 1998, minus the negative adjustment of $243). As a result, Z realizes a loss of $5 on the retirement of the debt instrument (the difference between the amount realized ($1,345) and Z's adjusted basis in the debt instrument ($1,350)). Under paragraph (b)(8)(ii) of this section, the $5 loss is treated as loss from the retirement of the debt instrument. Consequently, Z realizes a total loss of $65 on the debt instrument for 1998 (a $60 ordinary loss and a $5 loss on the retirement of the debt instrument).

Example 2. Basis less than adjusted issue price--(i) Facts. On January 1, 1998, Y purchases for $910 a debt instrument that pays 7 percent interest semiannually on June 30 and December 31 of each year, and that promises to pay on December 31, 2000, $1,000 plus or minus $10 times the positive or negative difference, if any, between a specified amount and the value of an index on December 31, 2000. However, the payment on December 31, 2000, may not be less than $650. The debt instrument was originally issued on January 1, 1996, for an issue price of $1,000. Y is a calendar year taxpayer. The projected payment schedule for the debt instrument provides for semiannual payments of $35 and a contingent payment at maturity of $1,175. On January 1, 1998, the debt instrument has an adjusted issue price of $1,060, assuming semiannual accrual periods ending on December 31 and June 30 of each year. Since the time the debt instrument was issued, market rates of interest on similar debt instruments have increased from approximately 10 percent to approximately 13 percent. In addition, because of a decrease in the relevant index, the expected value of the contingent payment has declined by about 9 percent.

(ii) Allocation of the difference between basis and adjusted issue price. Y's basis in the debt instrument on January 1, 1998, is $910. Under paragraph (b)(9)(i)(B) of this section, Y must allocate the $150 difference between basis ($910) and adjusted issue price ($1,060) to daily portions of interest or to projected payments. These amounts will be positive adjustments taken into account at the time the daily portions accrue or the payments are made.

(A) Based on forward prices on January 1, 1998, Y determines that approximately $105 of the difference between basis and adjusted issue price is allocable to the contingent payment. Y allocates the remaining $45 to daily portions of interest on a pro-rata basis. This allocation is reasonable.

(B) Assume alternatively that, based on yields of comparable debt instruments and its purchase price for the debt instrument, Y determines that approximately $49 of the difference between basis and adjusted issue price is allocable to daily portions of interest as follows: $13.32 to the daily portions of interest for the taxable year ending December 31, 1998; $16.15 to the daily portions of interest for the taxable year ending December 31, 1999; and $19.53 to the daily portions of interest for the taxable year ending December 31, 2000. Y allocates the remaining $101 to the contingent payment at maturity. This allocation is reasonable.

Example 3. Secondary holder sells debt instrument--(i) Facts. Assume the same facts as in Example 2 of this paragraph (b)(9)(i)(F) and that Y allocates $49 to daily portions of interest and $101 to the contingent payment at maturity, on the same basis as in paragraph (ii)(B) of Example 2 of this paragraph (b)(9)(i)(F). In 1998, Y has a total of $104.68 of daily portions of interest, receives two semiannual payments of $35, and has a positive adjustment of $13.32 from the allocation. Thus, Y has $118 of interest income on the debt instrument for 1998 ($104.68 of interest and a $13.32 net positive adjustment). On December 31, 1998, Y has an adjusted basis of $958 in the debt instrument ($910 original basis, plus $104.68 total daily portions for 1998 and the $13.32 positive adjustment, minus $70 interest payments for 1998), and the debt instrument has an adjusted issue price of $1,094.68 ($1,060 adjusted issue price on January 1, 1998, plus $104.68 total daily portions for 1998, minus $70 interest payments for 1998).

(ii) Sale of debt instrument. Assume that Y sells the debt instrument for $950 on January 15, 1999. In 1999, Y has total daily portions of interest on the debt instrument (using a semiannual accrual period ending June 30) of $4.47 and positive adjustments allocable to the total daily portions of interest in 1999 of $0.64. Therefore, Y has $5.11 of interest income on the debt instrument for 1999. On January 15, 1999, Y has an adjusted basis in the debt instrument of $963.11. As a result, Y realizes a $13.11 loss on the sale of the debt instrument. Under paragraph (b)(8)(ii) of this section, the loss is an ordinary loss.

(ii) Fixed but deferred contingent payments. This paragraph (b)(9)(ii) provides rules for computing interest accruals and adjustments under paragraph (b)(3) of this section when the amount of a contingent payment becomes fixed more than 6 months before the payment is due. For purposes of the preceding sentence, a payment is treated as a fixed payment if all remaining contingencies with respect to the payment are remote or incidental.

(A) Determining adjustments. The amount of the adjustment attributable to the payment is equal to the difference between the present value of the amount that is fixed and the present value of the projected amount of the contingent payment. The present value of each amount is determined by discounting the amount from the date the payment is due to the date the payment becomes fixed, using a discount rate equal to the projected yield on the debt instrument. The adjustment is treated as a positive or negative adjustment, as appropriate, on the date the contingent payment becomes fixed. See paragraph (b)(9)(v) of this section to determine the timing of the adjustment if all remaining contingent payments on the debt instrument become fixed substantially contemporaneously.

(B) Payment schedule. For purposes of paragraph (b) of this section, the contingent payment is no longer treated as a contingent payment after the date the amount of the payment becomes fixed. On the date the contingent payment becomes fixed, the projected payment schedule for the debt instrument is modified prospectively to reflect the fixed amount of the payment. Therefore, no adjustment is made under paragraph (b)(3)(iv) of this section when the contingent payment is actually made.

(C) Accrual period. Notwithstanding the determination under §1.1272-1(b)(1)(ii) of accrual periods for the debt instrument, an accrual period ends on the day the contingent payment becomes fixed, and a new accrual period begins on the day after the day the contingent payment becomes fixed.

(D) Basis and adjusted issue price. The amount of any positive adjustment on a debt instrument determined under paragraph (b)(9)(ii)(A) of this section increases the adjusted issue price of the instrument and the holder's adjusted basis in the instrument. The amount of any negative adjustment on a debt instrument determined under paragraph (b)(9)(ii)(A) of this section decreases the adjusted issue price of the instrument and the holder's adjusted basis in the instrument.

(E) Special rule for certain contingent interest payments. Notwithstanding paragraphs (b)(9)(ii)(A), (B), (C), and (D) of this section, this paragraph (b)(9)(ii)(E) applies to contingent stated interest payments that are adjusted to compensate for contingencies regarding the reasonableness of the debt instrument's stated rate of interest. For example, this paragraph (b)(9)(ii)(E) applies to a debt instrument that provides for an increase in the stated rate of interest if the credit quality of the issuer or liquidity of the debt instrument deteriorates. Contingent stated interest payments of this type are recognized over the period to which they relate in a reasonable manner.

(F) Example. The following example illustrates the provisions of paragraph (b)(9)(ii) of this section. In this example, assume that the debt instrument described is a debt instrument for federal income tax purposes. No inference is intended, however, as to whether the debt instrument constitutes a debt instrument for federal income tax purposes.

Example. Fixed but deferred payments--(i) Facts. On January 1, 1996, B, a calendar year taxpayer, purchases a debt instrument at original issue for $1,000. The debt instrument matures on December 31, 2001, and provides for a payment of $1,000 at maturity. In addition, on December 31, 1998, and December 31, 2001, the debt instrument provides for payments equal to the excess of the average daily value of an index for the 6-month period ending on September 30 of the preceding year over a specified amount. The two contingent payments are substantially similar to options on the index. Assume that the two contingent payments are quotable contingent payments, and that, on the issue date, the forward price of the option that is exercisable on December 31, 1998, is $250 and the forward price of the option that is exercisable on December 31, 2001, is $440. Assume that B uses annual accrual periods.

(ii) Interest accrual for 1996. Under paragraph (b)(4) of this section, the debt instrument's projected payment schedule consists of a payment of $250 on December 31, 1998, and a payment of $1,440 on December 31, 2001. Thus, the debt instrument's projected yield is 10 percent, compounded annually. B includes a total of $100 of daily portions of interest in income in 1996. B's adjusted basis in the debt instrument and the debt instrument's adjusted issue price on December 31, 1996, is $1,100.

(iii) Interest accrual for 1997--(A) Adjustment. Based on the projected payment schedule, B would include $110 of total daily portions of interest in income in 1997. However, assume that on September 30, 1997, the payment due on December 31, 1998, fixes at $300, rather than the projected $250. Thus, on September 30, 1997, B has an adjustment equal to the difference between the present value of the $300 fixed amount and the present value of the $250 projected amount of the contingent payment. The present values of the two payments are determined by discounting each payment from the date the payment is due (December 31, 1998) to the date the payment becomes fixed (September 30, 1997), using a discount rate equal to 10 percent, compounded annually. The present value of the fixed payment is $266.30 and the present value of the projected amount of the contingent payment is $221.91. Thus, on September 30, 1997, B has a positive adjustment of $44.39 ($266.30 - $221.91).

(B) Effect of adjustment. Under paragraph (b)(9)(ii)(C) of this section, B's accrual period ends on September 30, 1997. The daily portions of interest on the debt instrument for the period from January 1, 1997 to September 30, 1997 total $81.49. The adjusted issue price of the debt instrument and B's adjusted basis in the debt instrument are thus increased over this period by $125.88 (the sum of the daily portions of interest of $81.49 and the positive adjustment of $44.39 made at the end of the period) to

$1,225.88. For purposes of all future accrual periods, including the new accrual period from October 1, 1997, to December 31, 1997, the debt instrument's projected payment schedule is modified to reflect a fixed payment of $300 on December 31, 1998. Based on the new adjusted issue price of the debt instrument and the new projected payment schedule, the projected yield on the debt instrument does not change.

(C) Interest accrual for 1997. Based on the modified projected payment schedule, $29.55 of interest accrues during the accrual period that ends on December 31, 1997. Because B has no other adjustments during 1997, the $44.39 positive adjustment on September 30, 1997, results in a net positive adjustment for 1997, which is additional interest for that year. Thus, B includes $155.43 ($81.49 + $29.55 + $44.39) of interest in income in 1997. B's adjusted basis in the debt instrument and the debt instrument's adjusted issue price on December 31, 1997, is $1,255.43 ($1.225.88 from the end of the prior accrual period plus $29.55 total daily portions for the current accrual period).

(iv) Interest accrual for 1998. In 1998, B has no adjustments and, based on the modified projected payment schedule, includes $125.54 total daily portions of interest in income (rather than $121 as under the original projected payment schedule). On December 31, 1998, B's adjusted basis in the debt instrument and the adjusted issue price of the debt instrument are increased by the $125.54 total daily portions of interest included in income under the modified projected payment schedule, and reduced by $300, the amount of the fixed payment on December 31, 1998, that is reflected on the modified projected payment schedule.

(iii) Timing contingencies. This paragraph (b)(9)(iii) provides rules for debt instruments that have both payments that are contingent as to time and payments that are contingent as to amount.

(A) Treatment of certain options. If a taxpayer has an option to put or call the debt instrument, to exchange the debt instrument for other property, or to extend the maturity date of the debt instrument, the projected payment schedule is determined by using the principles of §1.1272-1(c)(5). If an option to put, call, or exchange the debt instrument is assumed to be exercised under the principles of §1.1272-1(c)(5), it is generally reasonable to assume that the option is exercised immediately before it expires. If the option is exercised at an earlier time, the exercise is treated as a sale or exchange of the debt instrument.

(B) Other timing contingencies. [Reserved]

(iv) Allocation of deductions. For purposes of §1.861-8, any amount treated as an ordinary loss under paragraph (b)(6)(iii)(B) or (b)(8)(ii) of this section is considered a deduction that is definitely related to the class of gross income to which interest on the relevant debt instrument belongs. Any other deduction or loss relating to the debt instrument will be subject to the general rules of §1.861-8.

(v) Special rule when all contingent payments become fixed. Notwithstanding any other provision of this section, if all the remaining contingent payments on a debt instrument become fixed substantially contemporaneously, any positive or negative adjustment on the instrument is spread over the remaining term of the instrument in a reasonable manner. For purposes of the preceding sentence, a payment is treated as a fixed payment if all remaining contingencies with respect to the payment are remote or incidental.

(c) Method for debt instruments not subject to the noncontingent bond method--(1) Applicability. Paragraph (c) of this section applies to a contingent payment debt instrument that has an issue price determined under §1.1274-2 (other than a debt instrument issued in a potentially abusive situation). For example, paragraph (c) of this section generally applies to a contingent payment debt instrument that is issued for nonpublicly traded property.

(2) Separation into components. In the case of a debt instrument subject to paragraph (c) of this section (the overall

debt instrument), the noncontingent payments and any quotable contingent payments (as defined in paragraph (b)(4)(i) of this section) are subject to the rules in paragraph (c)(3) of this section, and the nonquotable contingent payments (as defined in paragraph (b)(4)(ii) of this section) are accounted for separately under the rules in paragraph (c)(4) of this section.

(3) Treatment of noncontingent and quotable contingent payments. The noncontingent payments and any quotable contingent payments are treated as a separate debt instrument. The issue price of the separate debt instrument is the issue price of the overall debt instrument, determined under §1.1274-2. No interest payments on the separate debt instrument are qualified stated interest payments (within the meaning of §1.1273-1(c)) and the de minimis rules of section 1273(a)(3) and §1.1273-1(d) do not apply to the separate debt instrument. If the separate debt instrument provides for a quotable contingent payment, the rules of paragraph (b) of this section apply to the instrument, notwithstanding paragraph (b)(1) of this section.

(4) Treatment of nonquotable contingent payments--(i) In general. Except as provided in paragraph (c)(4)(iii) of this section, the portion of a nonquotable contingent payment treated as interest under paragraph (c)(4)(ii)(B) of this section is includible in gross income by the holder and deductible from gross income by the issuer in their respective taxable years in which the amount of the payment becomes fixed.

(ii) Recharacterization of certain nonquotable contingent payments--(A) Amount treated as principal. In general, a nonquotable contingent payment is treated as a payment of principal in an amount equal to the present value of the payment, determined by discounting the payment at the test rate from the date that the amount of the payment becomes fixed to the issue date. However, a nonquotable contingent payment accompanied by a payment of adequate stated interest is treated entirely as a payment of principal.

(B) Amount treated as interest. If the total amount of a nonquotable contingent payment exceeds the amount of the payment treated as principal under paragraph (c)(4)(ii)(A) of this section, the excess is treated as a payment of interest.

(C) Test rate. The test rate used for purposes of paragraph (c)(4)(ii)(A) of this section is the rate that would be the test rate for the overall debt instrument under §1.1274-4 if the term of the overall debt instrument began on the issue date of the overall debt instrument and ended on the date the contingent payment is fixed.

(iii) Certain delayed contingent payments--(A) Deemed issuance of separate debt instrument. If a nonquotable contingent payment becomes fixed more than 6 months before the payment is due, the issuer and holder are treated as if the issuer had issued a separate debt instrument on the date the amount of the payment becomes fixed, maturing on the date that the payment is due. This separate debt instrument is treated as a debt instrument to which section 1274 applies. The stated principal amount of this separate debt instrument is the amount of the payment that becomes fixed. An amount equal to the issue price of this debt instrument is characterized as interest or principal under the rules of paragraph (c)(4)(ii) of this section and accounted for under paragraph (c)(4)(i) of this section, as if this amount had been paid by the issuer to the holder on the date that the amount of the payment becomes fixed. To determine the issue price of the separate debt instrument, all payments under the separate debt instrument are discounted at the test rate from the maturity date of the separate debt instrument to the date that the amount of the payment becomes fixed. The amount of a contingent payment is treated as fixed even if, once fixed, the payment is payable in the future together with interest that is subject to further contingencies.

(B) Test rate. In applying section 1274 to a separate debt instrument described in paragraph (c)(4)(iii)(A) of this section, the test rate for the separate debt instrument is the rate that would be the test rate for the overall debt instrument under §1.1274-4 if the term of the overall debt instrument began on the issue date of the overall debt instrument and ended on the date the contingent payment is due.

(5) Gain on sale, exchange, or retirement. Any gain recognized by a holder on the sale, exchange, or retirement of a debt instrument subject to paragraph (c) of this section is interest income. The preceding sentence does not apply, however, if, at the time of the sale, exchange, or retirement, there are no remaining contingent payments on the debt instrument. For purposes of the preceding sentence, if a contingent payment becomes fixed more than 6 months before it is due, it is no longer treated as a contingent payment after the date it is fixed.

(6) Examples. The following examples illustrate the provisions of paragraph (c) of this section. In each example, assume that the instrument described is a debt instrument for federal income tax purposes. No inference is intended, however, as to whether the debt instrument constitutes a debt instrument for federal income tax purposes.

Example 1. Nonquotable contingent interest payments--(i) Facts. A owns Blackacre, unencumbered depreciable real estate. On January 1, 1996, A sells Blackacre to B. As consideration for the sale, B makes a downpayment of $1,000,000 and issues to A a debt instrument that matures on December 31, 2000. The debt instrument provides for a payment of principal at maturity of $5,000,000 and a contingent payment of interest on December 31 of each year equal to a fixed percentage of the gross rents B receives from Blackacre in that year. Assume that the contingent interest payments are nonquotable contingent payments and that the debt instrument is not issued in a potentially abusive situation. Assume also that on January 1, 1996, the short-term applicable Federal rate is 5 percent, compounded annually, and the mid-term applicable Federal rate is 6 percent, compounded annually.

(ii) Determination of issue price. Under §1.1274-2(g), the stated principal amount of the debt instrument is $5,000,000. The imputed principal amount of the debt instrument is $3,736,291, which is the present value, as of the issue date, of the $5,000,000 noncontingent payment due at maturity, calculated using a discount rate equal to the mid-term applicable Federal rate. Therefore, under §1.1274-2(c), the issue price of the debt instrument is $3,736,291. Under §1.1012-1(g), B's basis in Blackacre on January 1, 1996, is $4,736,291 ($1,000,000 down payment plus the $3,736,291 issue price of the debt instrument).

(iii) Noncontingent payment treated as separate debt instrument. Under paragraph (c)(3) of this section, the right to the noncontingent payment of principal at maturity is treated as a separate debt instrument. The issue price of this separate debt instrument is $3,736,291 (the issue price of the overall debt instrument). The separate debt instrument has a stated redemption price at maturity of $5,000,000 and, therefore, OID of $1,263,709.

(iv) Treatment of contingent payments. Assume that the amount of contingent interest that is fixed and payable on December 31, 1996, is $200,000. Under paragraph (c)(4)(ii)(A) of this section, this payment is treated as consisting of a payment of principal of $190,476, which is the present value of the payment, determined by discounting the payment at the test rate of 5 percent, compounded annually, from the date the payment becomes fixed to the issue date. Under paragraph (c)(4)(ii)(B) of this section, the remainder of the

$200,000 payment, $9,524, is treated as interest. The additional amount treated as principal gives B additional basis in Blackacre on December 31, 1996. The portion of the payment treated as interest is includible in gross income by A and deductible by B in their respective taxable years in which December 31, 1996 occurs. The remaining contingent payments on the debt instrument are accounted for similarly, using a test rate of 5 percent, compounded annually, for the contingent payments due on December 31, 1997, and December 31, 1998, and a test rate of 6 percent, compounded annually, for the contingent payments due on December 31, 1999, and December 31, 2000.

Example 2. Fixed but deferred payment--(i) Facts. The facts are the same as in Example 1 of this paragraph (c)(6), except that the contingent payment of interest that is fixed on December 31, 1996, is not payable until December 31, 2000, the maturity date.

(ii) Determination of issue price. The determination of the issue price of the debt instrument, and B's initial basis in Blackacre, is made in a manner the same as that described in paragraph (ii) of Example 1 of this paragraph (c)(6). Accordingly, the issue price of the debt instrument is $3,736,291.

(iii) Treatment of noncontingent payment. The right to the noncontingent payment of principal is treated as a separate debt instrument in a manner the same as that described in paragraph (iii) of Example 1 of this paragraph (c)(6).

(iv) Treatment of contingent payments. Assume that the amount of the payment that becomes fixed on December 31, 1996, is $200,000. Because this amount is not payable until December 31, 2000 (the maturity date), under paragraph (c)(4)(iii) of this section, a separate debt instrument to which section 1274 applies is treated as issued by B on December 31, 1996 (the date the payment is fixed). The maturity date of this separate debt instrument is December 31, 2000 (the date on which the payment is due). The stated principal amount of this separate debt instrument is $200,000, the amount of the payment that becomes fixed. The imputed principal amount of the separate debt instrument is $158,419, which is the present value, as of December 31, 1996, of the $200,000 payment, computed using a discount rate equal to the test rate of the overall debt instrument (6 percent, compounded annually). An amount equal to the issue price of the separate debt instrument is treated as an amount paid on December 31, 1996, and characterized as interest and principal under the rules of paragraph (c)(4)(ii) of this section. The amount of the deemed payment characterized as principal is equal to $150,875, which is the present value, as of January 1, 1996 (the issue date of the overall debt instrument) of the deemed payment, computed using a discount rate of 5 percent, compounded annually. The amount of the deemed payment characterized as interest is $7,544 ($158,419 - $150,875) which is includible in gross income by A and deductible by B in their respective taxable years in which December 31, 1996 occurs. The contingent payments made on December 31, 1997, December 31, 1998, December 31, 1999, and December 31, 2000, are treated in a manner the same as that described in paragraph (iv) of Example 1 of this paragraph (c)(6).

(d) Rules for tax-exempt obligations--(1) Applicability. This paragraph (d) provides rules for tax-exempt obligations (as defined in section 1275(a)(3)) subject to this section.

(2) Noncontingent bond method generally applicable--(i) In general. Except as modified by this paragraph (d), the rules of paragraph (b) of this section apply to tax-exempt obligations.

(ii) Daily portions. The daily portions of interest determined under paragraph (b)(3)(iii) of this section are not included in gross income by the holder.

(iii) Modification to projected payment schedule. The yield on a tax-exempt obligation may not exceed the greater of the yield on the obligation determined without regard to the contingent payments, and the tax-exempt applicable Federal rate, as determined for purposes of section 1288(b)(1), that applies to the obligation. If the projected yield determined under paragraph (b)(2)(ii) of this section exceeds the yield determined under the preceding sentence, appropriate adjustments must be made to the projected payment schedule to create a projected yield that meets this requirement.

(iv) Positive adjustments. Positive adjustments on a tax-exempt obligation are taken into account under this paragraph (d)(2)(iv) rather than under paragraph (b)(6) of this section. A positive adjustment on a tax-exempt obligation is treated as taxable gain to the holder from the sale or exchange of the obligation in the taxable year of the adjustment.

(v) <u>Negative adjustments</u>. Negative adjustments on a tax-exempt obligation are taken into account under this paragraph (d)(2)(v) rather than under paragraph (b)(6) of this section.

(A) <u>Reduction of interest accruals</u>. Total negative adjustments for a taxable year first reduce the tax-exempt interest the holder would otherwise account for on the tax-exempt obligation for the taxable year under paragraph (b)(3)(iii) of this section.

(B) <u>Reduction of other tax-exempt interest for taxable year</u>. If the total negative adjustments on the tax-exempt obligation for a taxable year exceed the tax-exempt interest for the taxable year that the holder would otherwise account for on the tax-exempt obligation under paragraph (b)(3)(iii) of this section, the excess is treated as a reduction of the holder's other tax-exempt interest income for the taxable year. However, the amount treated as a reduction is limited to the amount by which the total tax-exempt interest the holder accounted for on the tax-exempt obligation in prior taxable years exceeds the amount of the holder's total negative adjustments on the tax-exempt obligation that reduced other tax-exempt interest under this paragraph (d)(2)(v)(B) in prior taxable years.

(C) <u>Carryforward of negative adjustment</u>. If the total negative adjustments on the tax-exempt obligation for a taxable year exceed the sum of the amounts treated as a reduction of tax-exempt interest under paragraphs (d)(2)(v)(A) and (B) of this section, the excess is a negative adjustment carryforward for the taxable year.

(<u>1</u>) <u>In general</u>. Except as provided in paragraph (d)(2)(v)(C)(<u>2</u>) of this section, a negative adjustment carryforward on a tax-exempt obligation for a taxable year is treated as a negative adjustment on the tax-exempt obligation on the first day of the succeeding taxable year.

(2) In year of sale, exchange, or retirement. Any negative adjustment carryforward on a tax-exempt obligation for a taxable year in which the debt instrument is sold, exchanged, or retired reduces the amount realized by the holder on the sale, exchange, or retirement.

(vi) Gains. Notwithstanding paragraph (b)(8) of this section, any gain recognized on the sale, exchange, or retirement of a tax-exempt obligation is gain from the sale or exchange of the obligation.

(vii) Losses--(A) Reduction of tax-exempt interest income. Notwithstanding paragraph (b)(8) of this section, any loss recognized on the sale, exchange, or retirement of a tax-exempt obligation is treated as a reduction of the holder's tax-exempt interest income for the taxable year of the sale, exchange, or retirement. However, the amount treated as a reduction of tax-exempt interest income by the holder is limited to the amount by which the holder's total tax-exempt interest on the obligation exceeds the holder's total negative adjustments on the obligation that were treated as reductions of tax-exempt interest income under paragraph (d)(2)(v)(B) of this section. If the amount that would reduce tax-exempt interest income measured under the preceding sentence exceeds the holder's total tax-exempt interest income for the taxable year, the excess is carried forward to reduce the holder's tax-exempt interest income in subsequent taxable years.

(B) Treatment of excess losses. If the loss recognized by a holder on the sale, exchange, or retirement of a tax-exempt obligation exceeds the amount measured under paragraph (d)(2)(vii)(A) of this section, the excess is treated as loss from the sale or exchange of the tax-exempt obligation.

(e) Timing of income and deductions from notional principal contracts. For the rules governing the timing of income and deductions with respect to notional principal contracts characterized as including a loan, see §1.446-3.

(f) Effective date. This section is effective for debt instruments issued on or after the date that is 60 days after final regulations are published in the **Federal Register**.

Par. 8. Section 1.1275-5 is amended by:

1. Revising paragraph (a)(1).

2. Adding the word "only" immediately following the parenthetical in the introductory language of paragraph (a)(3)(i).

3. Removing the language "less than 1 year" in the first sentence of paragraph (a)(3)(ii) and adding the language "1 year or less" in its place.

4. Adding paragraph (a)(5).

5. Revising paragraph (c)(1).

6. Revising paragraph (d) and adding Example 10.

7. Revising paragraph (e)(2).

8. Revising paragraph (e)(3)(v).

The revisions and additions read as follows:

<u>§1.1275-5 Variable rate debt instruments</u>.

(a) <u>Applicability</u>--(1) <u>In general</u>. This section provides rules for variable rate debt instruments. A variable rate debt instrument is a debt instrument that meets the conditions described in paragraphs (a)(2), (3), (4), and (5) of this section. If a debt instrument that provides for a variable rate of interest does not qualify as a variable rate debt instrument, the debt instrument is a contingent payment debt instrument. See §1.1275-4 for the treatment of a contingent payment debt instrument. If a taxpayer holds (or issues) a variable rate debt instrument that the taxpayer hedges, see §1.1275-6 for the treatment of the debt instrument and the hedge by the taxpayer.

* * * * *

(5) <u>No contingent principal payments</u>. The debt instrument must not provide for any principal payments that are contingent (within the meaning of §1.1275-4(a)).

* * * * *

(c) <u>Objective rate</u>--(1) <u>In general</u>--(i) <u>Debt instruments issued on or after the date that is 60 days after final regulations are published in the **Federal Register**</u>--(A) <u>In general</u>. Except as provided in paragraph (c)(1)(i)(B) of this section, for debt instruments issued on or after the date that is 60 days after final regulations are published in the **Federal Register**, an objective rate is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information. For example, an objective rate generally includes a rate that is based on one or more qualified floating rates or on the yield of actively traded personal property (within the meaning of section 1092(d)(1)).

(B) Exception. For purposes of paragraph (c)(1)(i)(A) of this section, an objective rate does not include a rate based on information that is within the control of the issuer (or a related party within the meaning of section 267(b) or 707(b)(1)) or that is unique to the circumstances of the issuer (or a related party within the meaning of section 267(b) or 707(b)(1)), such as dividends, profits, or the value of the issuer's stock. However, a rate does not fail to be an objective rate merely because it is based on the credit quality of the issuer.

(ii) Debt instruments issued after April 3, 1994, and before the date that is 60 days after final regulations are published in the **Federal Register**. For debt instruments issued after April 3, 1994, and before the date that is 60 days after final regulations are published in the **Federal Register**, an objective rate is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on--

(A) One or more qualified floating rates;

(B) One or more rates where each rate would be a qualified floating rate for a debt instrument denominated in a currency other than the currency in which the debt instrument is denominated;

(C) The yield or changes in the price of one or more items of personal property (other than stock or debt of the issuer or a related party within the meaning of section 267(b) or 707(b)(1)), provided each item of property is actively traded within the meaning of section 1092(d)(1) (determined without regard to section 1092(d)(3)); or

(D) A combination of rates described in paragraphs (c)(1)(ii)(A), (B), and (C) of this section.

* * * * *

(d) Examples. The following examples illustrate the rules of paragraphs (b) and (c) of this section. For purposes of these examples, assume that the debt instrument is not a tax-exempt obligation. In addition, unless otherwise provided, assume that the rate is not reasonably expected to result in a significant front-loading or back-loading of interest and that the rate is not based on objective financial or economic information that is within the control of the issuer (or a related party) or that is unique to the circumstances of the issuer (or a related party).

* * * * *

Example 4. Rate based on changes in the value of a commodity index. X issues a debt instrument that provides for annual interest payments at the end of each year at a rate equal to the percentage increase, if any, in the value of an index for the year immediately preceding the payment. The index is based on the prices of several actively traded commodities. Variations in the value of this interest rate cannot reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds. Accordingly, the rate is not a qualified floating rate. However, because the rate is based on objective financial information, the rate is an objective rate.

Example 5. Rate based on a percentage of S&P 500 Index. X issues a debt instrument that provides for annual interest payments at the end of each year based on a fixed percentage of the value of the S&P 500 Index. Variations in the value of this interest rate cannot reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds and, therefore, the rate is not a qualified floating rate. Although the rate would be an objective rate under paragraph (c)(1)(i) of this section, the rate is not an objective rate because it is reasonably expected that the average value of the rate during the first half of the instrument's term will be significantly less than the average value of the rate during the final half of the instrument's term.

Example 6. Rate based on issuer's profits. Z issues a debt instrument that provides for annual interest payments equal to 20 percent of Z's net profits earned during the year immediately preceding the payment. Variations in the value of this interest rate cannot reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds. Accordingly, the rate is not a qualified floating rate. In addition, because the stated rate is based on objective financial information that is unique to the issuer's circumstances, the rate is not an objective rate.

* * * * *

Example 10. Rate based on an inflation index. On January 1, 1996, X issues a debt instrument that provides for annual interest payments at the end of each year at a rate equal to 400 basis points (4 percent) plus the annual percentage change in a general inflation index (e.g., the Consumer Price Index, U.S. City Average, All Items, for all Urban Consumers, seasonally unadjusted). Variations in the value of this interest rate cannot reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds. Accordingly, the rate is not a qualified floating rate. However, because the rate is based on objective economic information, the rate is an objective rate.

(e) * * *

(2) Variable rate debt instrument that provides for annual payments of interest at a single variable rate. If a variable rate debt instrument provides for stated interest at a single qualified floating rate or objective rate that is unconditionally payable in cash or in property (other than debt instruments of the issuer), or that will be constructively received under section 451, at least annually--

(i) All stated interest with respect to the debt instrument is qualified stated interest;

(ii) The amount of qualified stated interest and the amount of OID, if any, that accrues during an accrual period is determined under the rules applicable to fixed rate debt instruments by assuming that the variable rate is a fixed rate equal to--

(A) In the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate; or

(B) In the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the debt instrument; and

(iii) Qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period under paragraph (e)(2)(ii) of this section.

(3) * * *

(v) Examples. The following examples illustrate the rules in paragraphs (e)(2) and (3) of this section.

* * * * *

Example 3. Adjustment to qualified stated interest for actual payment of interest--(i) Facts. On January 1, 1995, Z purchases at original issue, for $90,000, a variable rate debt instrument that matures on January 1, 1997, and has a stated principal amount of $100,000, payable at maturity. The debt instrument provides for annual payments of interest on January 1 of each year, beginning on January 1, 1996. The amount of interest payable is the value of annual LIBOR on the payment date. The value of annual LIBOR on January 1, 1995, and January 1, 1996, is 5 percent, compounded annually. The value of annual LIBOR on January 1, 1997, is 7 percent, compounded annually.

(ii) Accrual of OID and qualified stated interest. Under paragraph (e)(2) of this section, the variable rate debt instrument is treated as a 2-year debt instrument that has an issue price of $90,000, a stated principal amount of $100,000, and interest payments of $5,000 at the end of each year. The debt instrument has $10,000 of OID and the annual interest payments of $5,000 are qualified stated interest payments. Under §1.1272-1, the debt instrument has a yield of 10.82 percent, compounded annually. The amount of OID allocable to the first annual accrual period (assuming Z uses annual accrual periods) is $4,743.25 (($90,000 x .1082) - $5,000), and the amount of OID allocable to the second annual accrual period is $5,256.75 ($100,000 - $94,743.25). Under paragraph (e)(2)(iii) of this section, the $2,000 difference between the $7,000 interest payment actually made at maturity and the $5,000 interest payment assumed to be made at maturity under the equivalent fixed rate debt instrument is treated as additional qualified stated interest for the period.

* * * * *

Par. 9. Section 1.1275-6 is added to read as follows:

§1.1275-6 Integration of qualifying debt instruments.

(a) In general. This section generally provides for the integration of a qualifying debt instrument with a hedge or combination of hedges if the combined cash flows of the components are substantially equivalent to the cash flows on a fixed or variable rate debt instrument. The integrated transaction is generally subject to the rules of this section rather than the rules each component of the transaction would be subject to on a separate basis. The purpose of this section is to permit a more appropriate determination of the character and timing of income, deductions, gains, or losses than would be permitted by a separate accounting for the components. The rules of this section must be interpreted consistently with this purpose. The rules of this section affect only the taxpayer who holds (or issues) the qualifying debt instrument and enters into the hedge.

(b) Definitions--(1) Qualifying debt instrument--(i) In general. A qualifying debt instrument is a debt instrument subject to either §1.1275-4 (relating to contingent payment debt instruments) or §1.1275-5 (relating to variable rate debt instruments), or is an integrated transaction as defined in paragraph (c) of this section. However, a tax-exempt obligation, as defined in section 1275(a)(3), is not a qualifying debt instrument.

(ii) Special rule if all payments on a debt instrument are proportionally hedged. If a debt instrument is a qualifying debt instrument and all principal and interest payments under the instrument are hedged in the same proportion, then, for purposes of this section, the portion of the instrument that is hedged is treated as a qualifying debt instrument.

(2) Section 1.1275-6 hedge--(i) In general. A §1.1275-6 hedge is any financial instrument (as defined in paragraph (b)(3) of this section) such that the combined cash flows of the financial instrument and the qualifying debt instrument permit the calculation of a yield to maturity (under the principles of section 1272), or the right to the combined cash flows would qualify as a variable rate debt instrument under §1.1275-5 that pays interest at a qualified floating rate or rates (except for the requirement that the interest payments be stated as interest). A financial instrument that hedges currency risk, however, is not a §1.1275-6 hedge.

(ii) Limitation. A taxpayer cannot treat a debt instrument it issues as a §1.1275-6 hedge of a debt instrument it holds and a taxpayer cannot treat a debt instrument it holds as a §1.1275-6 hedge of a debt instrument it issues.

(3) Financial instrument. For purposes of this section, a financial instrument is a spot, forward, or futures contract, an option, a notional principal contract, a debt instrument, or a similar instrument, or combination or series of financial instruments. Stock, however, is not a financial instrument for purposes of this section.

(4) Synthetic debt instrument. The synthetic debt instrument is the hypothetical debt instrument with the same cash flows as the combined cash flows of the qualifying debt instrument and the §1.1275-6 hedge.

(c) Integrated transaction--(1) Integration by taxpayer. Except as otherwise provided in this section, a qualifying debt instrument and a §1.1275-6 hedge are an integrated transaction if all of the following requirements are satisfied--

(i) The taxpayer satisfies the identification requirements of paragraph (f) of this section on or before the date the taxpayer enters into the §1.1275-6 hedge.

(ii) None of the parties to the §1.1275-6 hedge are related within the meaning of section 267(b) or 707(b)(1) (other than parties that have made a separate-entity election under §1.1221-2(d)).

(iii) Both the qualifying debt instrument and the §1.1275-6 hedge are entered into by the same individual, partnership, trust, estate, or corporation (regardless of whether the corporation is a member of an affiliated group of corporations that files a consolidated return).

(iv) With respect to a foreign person engaged in a U.S. trade or business that issues or acquires a qualifying debt instrument or enters into a §1.1275-6 hedge through the trade or business, all items of income and expense associated with the qualifying debt instrument and the §1.1275-6 hedge (other than interest expense that is subject to §1.882-5) would have been effectively connected with the U.S. trade or business throughout the term of the synthetic debt instrument had this section not applied.

(v) The qualifying debt instrument, any other debt instrument that is part of the same issue as the qualifying debt instrument, or the §1.1275-6 hedge cannot have been part of an integrated transaction entered into by the taxpayer that has been terminated under the legging out rules of paragraph (d)(2) of this section.

(vi) The §1.1275-6 hedge is entered into on or after the date the qualifying debt instrument is issued or acquired.

(2) Integration by Commissioner. The Commissioner may treat a qualifying debt instrument and a financial instrument (whether entered into by the taxpayer or by a related party) as an integrated transaction if the combined cash flows on the qualifying debt instrument and financial instrument are substantially the same as the combined cash flows required for the financial instrument to be a §1.1275-6 hedge. The circumstances under which the Commissioner may require integration include, but are not limited to, the following:

(i) A taxpayer fails to identify a qualifying debt instrument and the §1.1275-6 hedge under paragraph (f) of this section.

(ii) A taxpayer issues or acquires a qualifying debt instrument and a related party (within the meaning of section 267(b) or 707(b)(1)) enters into the §1.1275-6 hedge.

(iii) A taxpayer issues or acquires a qualifying debt instrument and enters into the §1.1275-6 hedge with a related party (within the meaning of section 267(b) or 707(b)(1)).

(iv) The taxpayer legs out of an integrated transaction and subsequently enters into a new §1.1275-6 hedge with respect to the same qualifying debt instrument or other debt instrument that is part of the same issue.

(d) Special rules for legging into and legging out of an integrated transaction--(1) Legging into--(i) Definition. Legging into an integrated transaction under this section means that a §1.1275-6 hedge is entered into after the date the qualifying debt instrument is issued by the taxpayer or acquired by the taxpayer, and the requirements of paragraph (c)(1) of this section are satisfied on the date the §1.1275-6 hedge is entered into (the leg-in date).

(ii) Treatment. If a taxpayer legs into an integrated transaction, the taxpayer treats the qualifying debt instrument under the applicable rules for accruing interest and OID up to the leg-in date, except that the day before the leg-in date is treated as the end of an accrual period. As of the leg-in date, the qualifying debt instrument is subject to the rules of paragraph (g) of this section.

(iii) Anti-abuse rule. If a taxpayer legs into an integrated transaction with a principal purpose of deferring or accelerating income or deductions on the qualifying debt instrument, the Commissioner may--

(A) Treat the qualifying debt instrument as sold for its fair market value on the leg-in date; or

(B) Refuse to allow the taxpayer to integrate the qualifying debt instrument and the §1.1275-6 hedge.

(2) Legging out--(i) Definition--(A) Legging out if the taxpayer has integrated. If a taxpayer has integrated a qualifying debt instrument and a §1.1275-6 hedge under paragraph (c)(1) of this section, legging out means that, prior to the maturity of the synthetic debt instrument, the taxpayer disposes of or otherwise terminates all or a part of the qualifying debt instrument or §1.1275-6 hedge, the §1.1275-6 hedge ceases to meet the requirements for a §1.1275-6 hedge, or the taxpayer fails to meet any requirement of paragraph (c)(1) of this section. If the taxpayer fails to meet the requirements of paragraph (c)(1) of this section but meets the requirements of paragraph (c)(2) of this section, the Commissioner may treat the taxpayer as not legging out. A taxpayer that disposes of or terminates both the qualifying debt instrument and the §1.1275-6 hedge on the same day is considered to have disposed of or otherwise terminated the synthetic debt instrument rather than to have legged out.

(B) Legging out if the Commissioner has integrated. If the Commissioner has integrated a qualifying debt instrument and a financial instrument under paragraph (c)(2) of this section, legging out means that, prior to the maturity of the synthetic debt instrument, the requirements for Commissioner integration under paragraph (c)(2) of this section are not met or the taxpayer fails to meet the requirements for taxpayer integration under paragraph (c)(1) of this section and the Commissioner agrees to allow the taxpayer to be treated as legging out. A taxpayer that disposes of or terminates both the qualifying debt instrument and the financial instrument on the same day is considered to have disposed of or otherwise terminated the synthetic debt instrument rather than to have legged out.

(ii) Operating rules. If a taxpayer legs out (or is treated as legging out) of an integrated transaction, the following rules apply--

(A) The transaction is treated as an integrated transaction during the time the requirements of paragraph (c)(1) or (2) of this section, as appropriate, are satisfied.

(B) If the §1.1275-6 hedge is disposed of or otherwise terminated, the synthetic debt instrument is treated as sold or otherwise terminated for its fair market value on the leg-out date and, except as provided in paragraph (d)(2)(ii)(D) of this section, any income, deduction, gain, or loss is realized and recognized on the leg-out date. Appropriate adjustments are made as of the leg-out date to reflect any difference between the fair market value of the qualifying debt instrument and the adjusted issue price of the qualifying debt instrument. For example, if a qualifying debt instrument is subject to §1.1275-4, a holder must use the principles of §1.1275-4(b)(9)(i) to compute interest accruals on the instrument after the leg-out date.

(C) If the qualifying debt instrument is disposed of or otherwise terminated, the synthetic debt instrument is treated as sold for its fair market value on the leg-out date and the §1.1275-6 hedge is treated as entered into at its fair market value immediately after the taxpayer legs out.

(D) If a taxpayer legs out of an integrated transaction by disposing of or otherwise terminating a §1.1275-6 hedge within 30 days of legging into the integrated transaction, then any loss or deduction determined under paragraph (d)(2)(ii)(B) of this section is not allowed. Appropriate adjustments are made to the qualifying debt instrument to take into account any disallowed loss.

(e) Transactions part of a straddle. At the discretion of the Commissioner, a transaction may not be integrated under paragraph (c)(1) of this section if, prior to the time the integrated transaction is identified, the qualifying debt instrument is part of a straddle as defined in section 1092(c).

(f) Identification requirements--(1) Identification by taxpayer. For each integrated transaction, a taxpayer must enter and retain as part of its books and records the following information--

(i) The date the qualifying debt instrument was issued or acquired by the taxpayer and the date the §1.1275-6 hedge was entered into by the taxpayer;

(ii) A description of the qualifying debt instrument and the §1.1275-6 hedge; and

(iii) A summary of the cash flows and accruals resulting from treating the qualifying debt instrument and the §1.1275-6 hedge as an integrated transaction (i.e., the cash flows and accruals on the synthetic debt instrument).

(2) Identification by trustee on behalf of beneficiary. A trustee of a trust that enters into a synthetic debt instrument may satisfy the identification requirements described in paragraph (f)(1) of this section on behalf of a beneficiary of the trust.

(g) Taxation of integrated transactions--(1) General rule. An integrated transaction is generally treated as a single transaction by the taxpayer during the period that the transaction qualifies as an integrated transaction. Except as provided in paragraph (g)(12) of this section, while a qualifying debt instrument and a §1.1275-6 hedge are part of an integrated transaction, neither the qualifying debt instrument nor the §1.1275-6 hedge is subject to the rules that would apply on a separate basis to the debt instrument and the §1.1275-6 hedge, including sections 263(g), 475, 1092, 1256, or 1258, or §§1.446-3, 1.446-4, or 1.1221-2. The rules that would govern the treatment of the synthetic debt instrument generally govern the treatment of the integrated transaction. For example, the integrated transaction may be subject to section 263(g) or, if the synthetic debt instrument would be part of a straddle, section 1092. Generally, the synthetic debt instrument is subject to sections 163(e), 1271 through 1275, and 1286 with terms as follows.

(2) Issue date. The issue date of the synthetic debt instrument is the date the §1.1275-6 hedge is entered into by the taxpayer.

(3) Term. The term of the synthetic debt instrument is the period beginning on the issue date of the synthetic debt instrument and ending on the maturity date of the qualifying debt instrument.

(4) Issue price. The issue price of the synthetic debt instrument is the adjusted issue price of the qualifying debt instrument on the issue date of the synthetic debt instrument.

(5) Adjusted issue price. In general, the adjusted issue price of the synthetic debt instrument is determined under the principles of §1.1275-1(c).

(6) Qualified stated interest. Qualified stated interest payments on the synthetic debt instrument are payments that would be treated as qualified stated interest under the principles of §1.1273-1(c) if the payments were stated as interest.

(7) Stated redemption price at maturity--(i) Synthetic debt instruments that are borrowings. If the synthetic debt instrument is a borrowing, the instrument's stated redemption price at maturity is the sum of all amounts paid or to be paid on the qualifying debt instrument and the §1.1275-6 hedge, reduced by any amounts received or to be received on the §1.1275-6 hedge and any amounts treated as qualified stated interest on the synthetic debt instrument under paragraph (g)(6) of this section.

(ii) Synthetic debt instruments that are loans. If the synthetic debt instrument is a loan, the instrument's stated redemption price at maturity is the sum of all amounts received or to be received on the qualifying debt instrument and the §1.1275-6 hedge, reduced by any amounts paid or to be paid on the §1.1275-6 hedge and any amounts treated as qualified stated interest on the synthetic debt instrument under paragraph (g)(6) of this section.

(8) Source of interest income and allocation of expense. The source of interest income from the synthetic debt instrument is determined by reference to the source of income of the qualifying debt instrument under sections 861(a)(1) and 862(a)(1). For purposes of section 904, the character of interest from the

synthetic debt instrument is determined by reference to the character of the interest income from the qualifying debt instrument. Interest expense is allocated and apportioned under regulations under section 861 or under §1.882-5.

(9) Effectively connected income. Interest income of a foreign person resulting from a synthetic debt instrument entered into by the foreign person that satisfies the requirements of paragraph (c)(1)(iv) of this section is treated as effectively connected with a U.S. trade or business. Interest expense of a foreign person resulting from an integrated transaction entered into by the foreign person that satisfies the requirements of paragraph (c)(1)(iv) of this section is allocated and apportioned under §1.882-5.

(10) Not a short-term obligation. If the synthetic debt instrument has a term of one year or less, the synthetic debt instrument is not treated as a short-term obligation for purposes of section 1272(a)(2)(C).

(11) Special rules for integration by the Commissioner. If the Commissioner requires integration, appropriate adjustments are made to the treatment of the synthetic debt instrument, and, if necessary, the qualifying debt instrument and financial instrument. For example, the Commissioner may treat a financial instrument that is not a §1.1275-6 hedge as a §1.1275-6 hedge when applying the rules of this section. The issue date of the synthetic debt instrument is the date determined appropriate by the Commissioner to require integration.

(12) Retention of separate transaction rules for certain purposes. This paragraph (g)(12) provides for the retention of

separate transaction rules for certain purposes. In addition, the Commissioner may require use of separate transaction rules for any aspect of an integrated transaction by publication in the Internal Revenue Bulletin (see §601.601(d)(2)(ii) of this chapter).

(i) Foreign persons that enter into integrated transactions giving rise to U.S. source income not effectively connected with a U.S. trade or business. If a foreign person enters into an integrated transaction that gives rise to U.S. source interest income (determined under the source rules for the synthetic debt instrument) not effectively connected with a U.S. trade or business of the foreign person, paragraph (g) of this section does not apply for purposes of sections 871(a), 881, 1441, 1442, and 6049. These sections of the Internal Revenue Code are applied to the qualifying debt instrument and the §1.1275-6 hedge on a separate basis. For example, if a U.S. corporation issues a qualifying debt instrument and enters into a notional principal contract that is a §1.1275-6 hedge, the source of interest on the qualifying debt instrument is determined under section 861. In general, the interest constitutes U.S. source interest that is subject to withholding tax to the extent provided in sections 871, 881, 1441, and 1442. The source of payments on the notional principal contract is determined under §1.863-7 and, to the extent paid to a non-U.S. person who is not engaged in a U.S. trade or business, constitutes non-U.S. source income that is not subject to U.S. withholding tax.

(ii) Relationship between issuer and holder. Because the rules of this section affect only the taxpayer holding or issuing the qualifying debt instrument (i.e., either the issuer or a particular holder), any provisions of the Internal Revenue Code or regulations that govern the relationship between the issuer and holder of the qualifying debt instrument are applied on a separate basis. For example, taxpayers must comply with any reporting or disclosure requirements on any qualifying debt instrument as if it were not part of an integrated transaction. Thus, if required under §1.1275-4(b)(4), an issuer of a contingent payment debt instrument subject to integrated treatment must provide the projected payment schedule to holders.

(h) Examples. The following examples illustrate the provisions of this section. In each example, assume that the qualifying debt instrument is a debt instrument for federal income tax purposes. No inference is intended, however, as to whether the debt instrument constitutes a debt instrument for federal income tax purposes.

Example 1. Issuer hedge--(i) Facts. On January 1, 1997, V, a domestic corporation, issues a 5-year debt instrument for $1,000. The debt instrument provides for annual payments of interest at a rate equal to the value of 1-year LIBOR and a principal payment of $1,000 at maturity. On the same day, V enters into a 5-year interest rate swap agreement with an unrelated party. Under the swap, V pays 6 percent and receives 1-year LIBOR on a notional principal amount of $1,000. The payments on the swap are fixed and made on the same days as the payments on the debt instrument. Also on January 1, 1997, V identifies the debt instrument and the swap as an integrated transaction in accordance with the requirements of paragraph (f) of this section.

(ii) Eligibility for integration. The debt instrument is a qualifying debt instrument because it is a variable rate debt instrument. The swap is a §1.1275-6 hedge because it is a financial instrument and a yield to maturity on the combined cash flows of the swap and the debt instrument can be calculated. V has met the identification requirements, and the other requirements of paragraph (c)(1) of this section are satisfied. Therefore, the transaction is an integrated transaction under this section.

(iii) Treatment of the synthetic debt instrument. The synthetic debt instrument is a 5-year debt instrument that has an issue price of $1,000 and provides for annual interest payments of $60 and a principal payment of $1,000 at maturity. Under paragraph (g)(6) of this section, the annual interest payments on the synthetic debt instrument are treated as qualified stated interest payments. Under paragraph (g)(7)(i) of this section, the synthetic debt instrument has a stated redemption price at maturity of $1,000 (the sum of all amounts to be paid on the qualifying debt instrument and the swap, reduced by amounts to be received on the swap and the annual interest payments on the synthetic debt instrument). Therefore, the synthetic debt instrument has no OID.

Example 2. Issuer hedge with an option--(i) Facts. On January 1, 1996, W corporation issues for $1,000 a debt instrument that matures on December 31, 1998. The debt instrument has a stated principal amount of $1,000 payable at maturity. The debt instrument also provides for a payment at maturity equal to $10 times the increase, if any, in the value of a nationally known composite index of stocks from January 1, 1996, to the maturity date. On January 1, 1996, W also purchases from an unrelated party an option that pays $10 times the increase, if any, in the stock index from January 1, 1996, to December 31, 1998. W pays $250 for the option. W identifies the debt instrument and option as an integrated transaction in accordance with the requirements of paragraph (f) of this section.

(ii) Eligibility for integration. The debt instrument is a qualifying debt instrument because it is a contingent payment debt instrument. The option is a §1.1275-6 hedge because it is a financial instrument and a yield to maturity on the combined cash flows of the option and the debt instrument can be calculated. W has met the identification requirements, and the other requirements of paragraph (c)(1) of this section are satisfied. Therefore, the transaction is an integrated transaction under this section.

(iii) Treatment of the synthetic debt instrument. The synthetic debt instrument is a 3-year debt instrument with an issue price of $1,000 that provides for a payment immediately after issuance of $250 and a payment of $1,000 at maturity. The synthetic debt instrument has a stated redemption price at maturity of $1,250 and, therefore, has OID of $250. The $250 payment reduces the adjusted issue price of the synthetic debt instrument to $750 immediately after it is issued. Therefore, the OID allocable to the first accrual period is based on the $750 adjusted issue price. See §1.1272-1(b).

Example 3. Hedge with prepaid swap--(i) Facts. On January 1, 1996, H purchases for £1,000 a 5-year debt instrument that provides for semiannual payments based on 6-month pound LIBOR and a payment of the £1,000 principal at maturity. On the same day, H enters into a swap with an unrelated third party under which H receives 10 percent, in pounds, semiannually and pays 6-month pound LIBOR semiannually on a notional principal amount of £1,000. Payments on the swap are fixed and made on the same date that H receives payments on the debt instrument. H also makes a £162 prepayment on the swap. H identifies the swap and the debt instrument as an integrated transaction under paragraph (f) of this section.

(ii) Eligibility for integration. The debt instrument is a qualifying debt instrument because it is a variable rate debt instrument. The swap is a §1.1275-6 hedge because it is a financial instrument and a yield to maturity on the combined cash flows of the swap and the debt instrument can be calculated. Although the debt instrument is denominated in pounds, the swap hedges only interest rate risk, not currency risk. See §1.988-5(a) for the treatment of a debt instrument and a swap if the swap hedges currency risk.

(iii) Treatment of the synthetic debt instrument. The synthetic debt instrument is a 5-year debt instrument that has an issue price of £1,000 and provides for semiannual interest payments of £50 and a principal payment of £1,000 at maturity. Under paragraph (g)(6) of this section, the semiannual interest payments are treated as qualified stated interest payments. Under paragraph (g)(7)(ii) of this section, the synthetic debt instrument's stated redemption price at maturity is £838 (the sum of all amounts to be received on the qualifying debt instrument and the §1.1275-6 hedge, reduced by all amounts to be paid on the §1.1275-6 hedge and the semiannual interest payments on the synthetic debt instrument). Because the issue price of the synthetic debt instrument exceeds the instrument's stated redemption price at maturity, the synthetic debt instrument does not have OID. The synthetic debt instrument, however, does have £162 of amortizable bond premium. The £162 prepayment on the §1.1275-6 hedge made by H on January 1, 1996, increases the adjusted issue price of the synthetic debt instrument to £1,162 immediately after it is issued.

Example 4. Legging into an integrated transaction by a holder--(i) Facts. On January 1, 1996, X corporation purchases for $1,000,000 a debt instrument that matures on December 31, 2005. The debt instrument provides for annual payments of interest at the rate of 6 percent and for a payment at maturity equal to $1,000,000, increased by the excess, if any, of the price of 1,000 units of a commodity on December 31, 2005, over $350,000, and decreased by the excess, if any, of $350,000 over the price of 1,000 units of a commodity on that date. Assume that on the issue date the forward price of the commodity on December 31, 2005, is $370,000. The projected amount of the payment at maturity, determined under §1.1275-4(b)(4), therefore, is $1,020,000. On January 1, 1999, X enters into a cash settled forward contract with an unrelated party to sell 1,000 units of the commodity on December 31, 2005, for $450,000. Also on January 1, 1999, X identifies the transaction as an integrated transaction in accordance with the requirements of paragraph (f) of this section.

(ii) Eligibility for integration. X meets the requirements for integration as of January 1, 1999. Therefore, X legged into an integrated transaction on that date. Prior to that date, X treats the debt instrument under the applicable rules of §1.1275-4.

(iii) Treatment of the synthetic debt instrument. As of January 1, 1999, the debt instrument and the forward contract are treated as an integrated transaction. The issue price of the synthetic debt instrument is equal to the adjusted issue price of the qualifying debt instrument on the leg-in date, $1,004,804 (assuming one year accrual periods). The term of the synthetic debt instrument is from January 1, 1999 to December 31, 2005. The synthetic debt instrument provides for annual interest payments of $60,000 and a principal payment at maturity of $1,100,000 ($1,000,000 + $450,000 - $350,000). Under paragraph (g)(6) of this section, the annual interest payments are treated as qualified stated interest payments. Under paragraph (g)(7)(ii) of this section, the synthetic debt instrument's stated redemption price at maturity is $1,100,000 (the sum of all amounts to be received on the qualifying debt instrument and the §1.1275-6 hedge, reduced by all amounts to be paid on the §1.1275-6 hedge and the annual interest payments on the synthetic debt instrument).

Example 5. Abusive leg-in--(i) Facts. On January 1, 1996, Y corporation purchases for $1,000,000 a debt instrument that matures on December 31, 2000. The debt instrument provides for annual payments of interest at the rate of 6 percent, a payment on December 31, 1998 of the increase, if any, in the price of a commodity from January 1, 1996 to December 31, 1998, and a payment at maturity of $1,000,000 and the increase, if any, in the price of the commodity from December 31, 1998 to maturity. Because the debt instrument is a contingent payment debt instrument subject to §1.1275-4, Y accrues interest based on the projected payment schedule.

(ii) Leg-in. By December 1998, the price of the commodity has substantially increased and Y expects a positive adjustment on December 31, 1998. On December 20, 1998, Y enters into an agreement to exchange the two commodity based payments on the debt instrument for two payments on the same dates of $100,000 each. Y identifies the transaction as an integrated transaction in accordance with the requirements of paragraph (f) of this section. Y disposes of the hedge on January 15, 1999.

(iii) Treatment. The legging into an integrated transaction has the effect of deferring the positive adjustment from 1998 to 1999. Because Y legged into the integrated transaction with a principal purpose to defer the positive adjustment, the Commissioner may treat the debt instrument as sold for its fair market value on the leg-in date, December 20, 1998, or refuse to allow integration.

Example 6. Integration of offsetting debt instruments--(i) Facts. On January 1, 1996, Z issues two 10-year debt instruments. The first, Issue 1, has an issue price of $1,000, pays interest annually at 6 percent, and, at maturity, pays $1,000, increased by $1 times the increase, if any, in the value of the S&P 100 Index over the term of the instrument and reduced by $1 times the decrease, if any, in the value of the S&P 100 Index over the term of the instrument. However, the amount paid at maturity may not be less than $500 or more than $1,500. The second, Issue 2, has an issue price of $1,000, pays interest annually at 8 percent, and, at maturity, pays $1,000, reduced by $1 times the increase, if any, in the value of the S&P 100 Index over the term of the instrument and increased by $1 times the decrease, if any, in the value of the S&P 100 Index over the term of the instrument. The amount paid at maturity may not be less than $500 or more than $1,500. As of January 1, 1996, Z identifies Issue 1 as the qualifying debt instrument, Issue 2 as a §1.1275-6 hedge, and otherwise meets the identification requirements of paragraph (f) of this section.

(ii) Eligibility for integration. Both Issue 1 and Issue 2 are qualifying debt instruments. Z has met the identification requirements by identifying Issue 1 as the qualifying debt instrument and Issue 2 as the §1.1275-6 hedge. The other requirements of paragraph (c)(1) of this section are satisfied. Therefore, the transaction is an integrated transaction under this section.

(iii) Treatment of the synthetic debt instrument. The synthetic debt instrument has an issue price of $1,000, provides for a payment at maturity of $2,000, and, in addition, provides for annual payments of $140, which are treated as qualified stated interest payments under paragraph (g)(6) of this section. The synthetic debt instrument has a stated redemption price at maturity of $1,000 (equal to $2,000 to be paid on the qualifying debt instrument and §1.1275-6 hedge, reduced by the $1,000 received on the §1.1275-6 hedge). As a result, the synthetic debt instrument has no OID. The payment of $1,000 received by Z on the §1.1275-6 hedge on January 1, 1996, increases the synthetic debt instrument's adjusted issue price to $2,000 immediately after it is issued.

(i) [Reserved]

(j) Effective date. This section is effective for qualifying debt instruments issued on or after the date that is 60 days after final regulations are published in the **Federal Register**.

a payment at maturity of $2,000, and, in addition, provides for annual payments of $140, which are treated as qualified stated interest payments under paragraph (g)(6) of this section. The synthetic debt instrument has a stated redemption price at maturity of $1,000 (equal to $2,000 to be paid on the qualifying debt instrument and §1.1275-6 hedge, reduced by the $1,000 received on the §1.1275-6 hedge). As a result, the synthetic debt instrument has no OID. Under paragraph (g)(5) of this section, the payment of $1,000 received by Z on the §1.1275-6 hedge on January 1, 1996, increases the synthetic debt instrument's adjusted issue price to $2,000 immediately after it is issued.

(i) [Reserved]

(j) Effective date. This section is effective for integrated transactions entered into on or after the date that is 60 days after final regulations are published in the **Federal Register**.

Margaret Milner Richardson

Commissioner of Internal Revenue

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
December 16, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
WHITE HOUSE PRESS BRIEFING ROOM

I spent my tenure as Treasury Secretary with the goal of reducing the deficit. We cut it by $87 billion. We're not about to go spend that money.

This proposal -- first and foremost -- is paid for. If it weren't paid for, I wouldn't be up here talking about it. That's how strongly I feel about deficit reduction.

If I were you, I'd make sure to ask the question of all the other proposals: are they paid for? Some of them aren't paid for. Some increase the deficit.

Two years ago, the President had the right priority when he started with deficit reduction. Because we're ahead of schedule on our progress, because we're downsizing the government, he's ready to fulfill his promise of a middle-income tax cut. He's ready to let the taxpayers benefit from what we've accomplished.

What you heard last night are proposals that have long been ideas of Democrats.

IRAs -- I worked on IRAs from day one as a Senator. We passed it in 1974; in 1976 we expanded it to non-working spouses; in 1981 we increased the amount that could be contributed to $2,000; and we tried other things through the years. Look at the President's proposal -- and it's very similar to H.R. 11, the Bentsen-Roth bill that passed in 1992 with a majority of Democrats and Republicans supporting it in the Senate. But it was vetoed by President Bush.

Or take tax credits for children. Vice President Gore and I proposed such things in 1992, and President Bush vetoed that one.

(more)

LB-1284

On the education proposals -- let me show you a chart. Look at the drag college education is on families. In 1980, it cost families 11 percent of their annual income to pay a child's tuition at a four-year public college or 26 percent at a private college. In 1992, it increased to 15 percent at public; 40 percent at private schools. Middle-income families can't afford that.

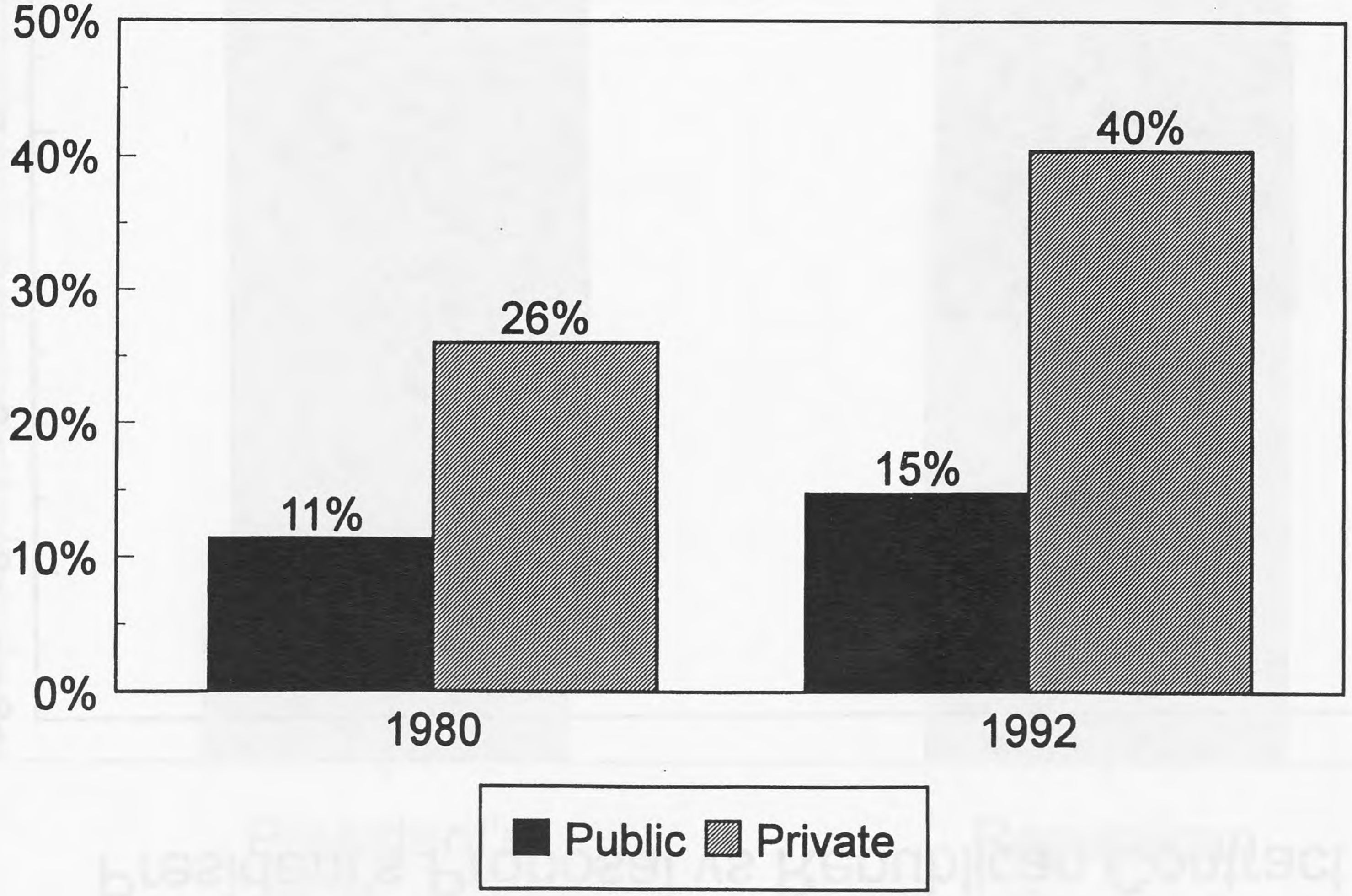
You've heard me say this, but I want to repeat it. In 1981, we passed a tax bill that was complete with overly optimistic assumptions. It ended in a bidding war -- a great big competition to see who could cut taxes more -- the President or Congress?

If we didn't have to pay the interest on the increase of the debt between 1981 and 1992, we'd have balanced the budget last year and had a $50 billion surplus this fiscal year.

We surely should have learned our lesson by now. We've come too far in cutting the budget deficit to let the next Congress turn back and start cooking the books. The President wants to make things fair -- without cooking the books. That's the way to do it.

-30-

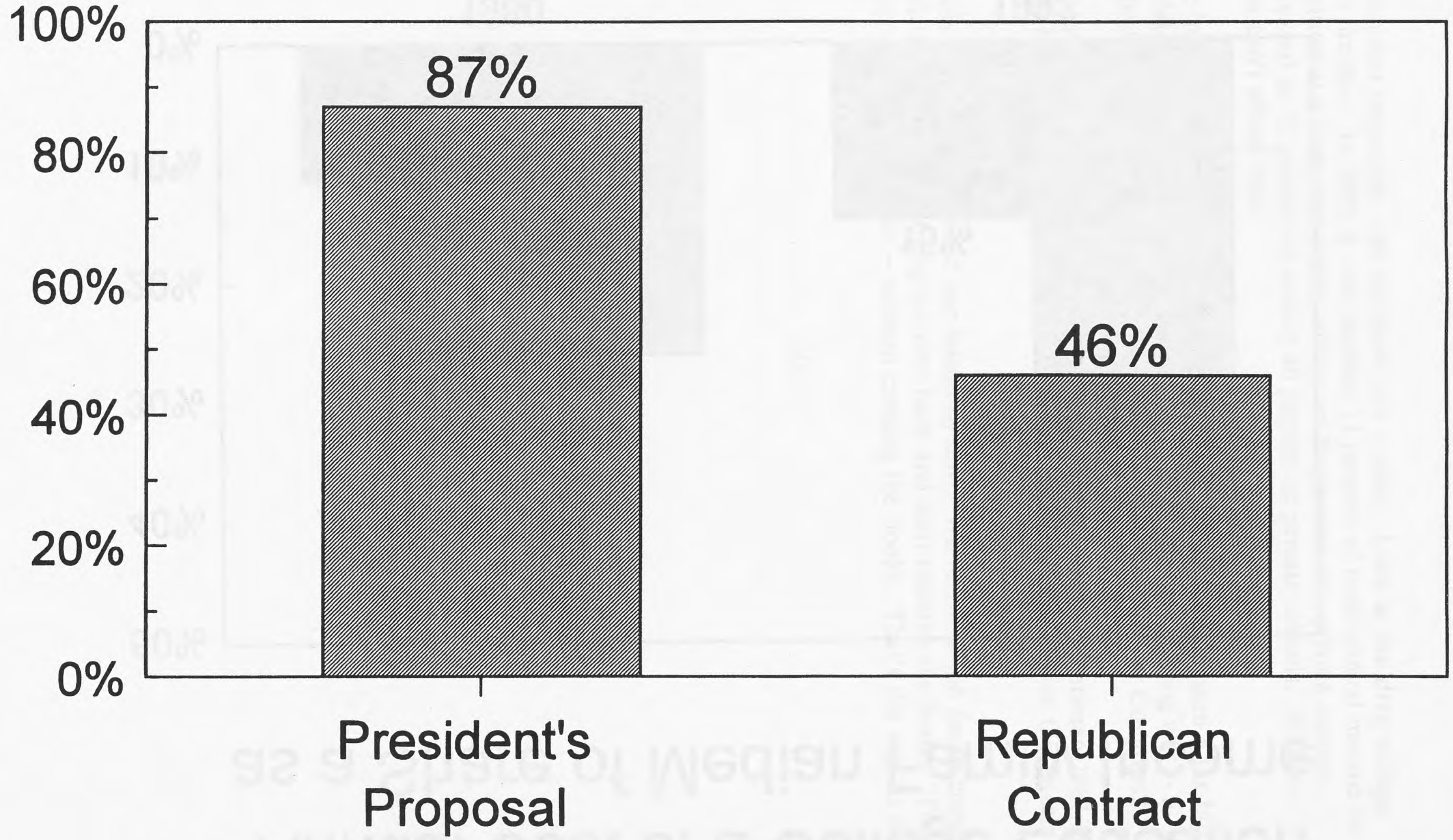
Annual Cost of a College Education as a Share of Median Family Income



Source: Department of Education, National Center for Education Statistics

Share of Tax Cuts Going to Middle Income Families*

President's Proposal vs Republican Contract

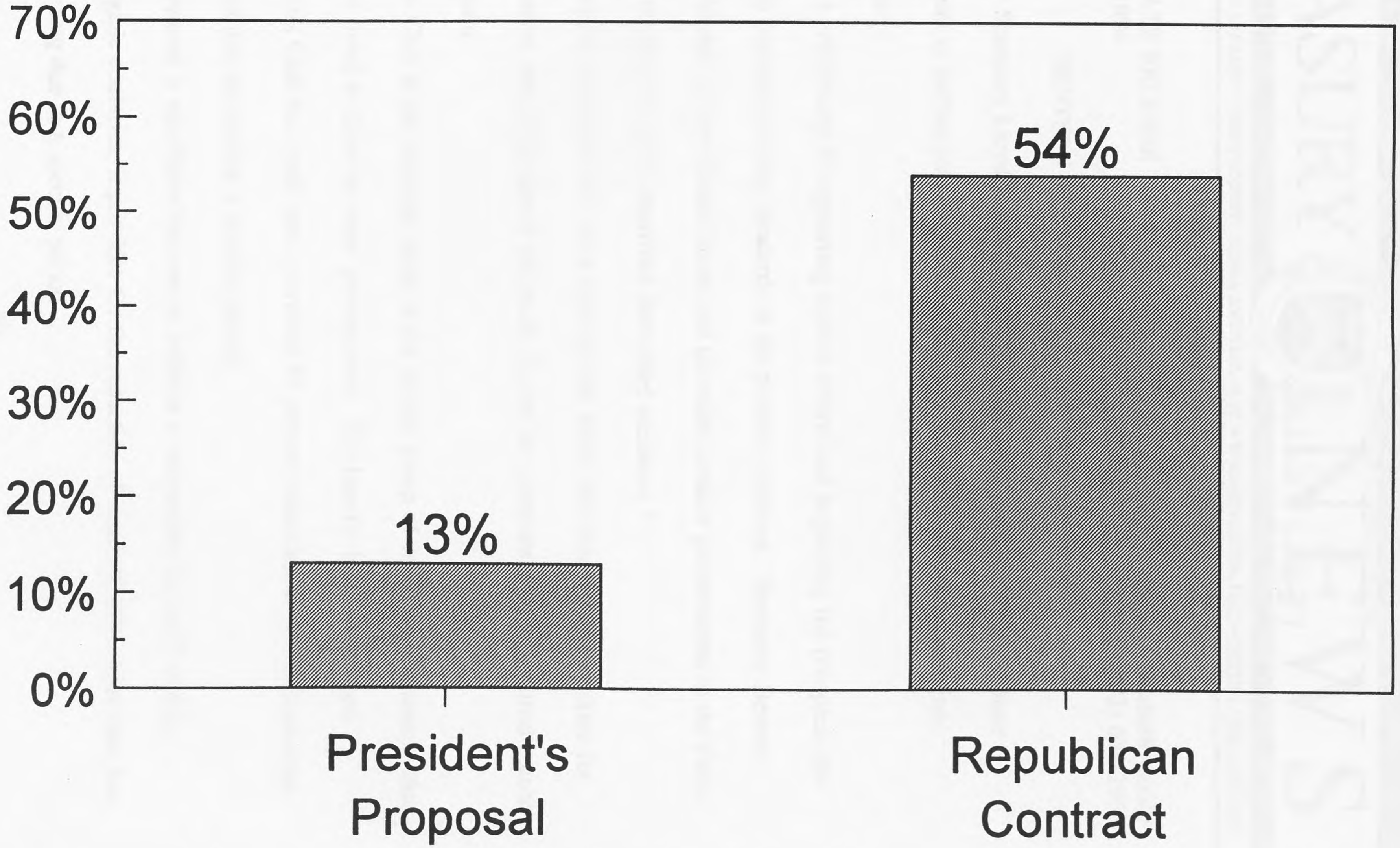


*Families with Incomes Under $100,000

Source: Department of the Treasury, Office of Tax Analysis

Share of Tax Cuts Going to Families With Incomes Over $100,000

President's Proposal vs Republican Contract



Source: Department of the Treasury, Office of Tax Analysis

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 16, 1994

Contact: Michelle Smith
(202) 622-2960

BENTSEN WELCOMES PARIS CLUB DECISION

Treasury Secretary Lloyd Bentsen on Friday welcomed the Paris Club creditor nations' agreement to further reduce the debt of poorest countries that show sustained economic reform.

"This is a critical step in supporting reform efforts and improving the prospects for economic growth and better living standards in the poorest countries," Secretary Bentsen said. "We are pleased that the United States and the other creditor governments in the Paris Club were able to agree on these improved debt relief measures."

The improved terms provide, on a case-by-case basis, two-thirds debt reduction for the poorest countries, and reduction of the stock of debt for countries with a sustained record of economic reform.

The Paris Club is the informal name of the ad hoc group of creditor governments that reschedules debts owed to them by other governments. For heavily indebted poorest countries, the Paris Club has, until now, provided 50 percent reduction of commercial-term debt payments coming due during a specific period.

This agreement is significant because in addition to increasing the level of debt reduction for eligible countries, it provides for the reduction of stock of debt rather than just for payments coming due in a specific period.

LB-1285

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

REMARKS BY
LESLIE B. SAMUELS
ASSISTANT SECRETARY FOR TAX POLICY
SEVENTH ANNUAL INTERNATIONAL
TAX INSTITUTE
GEORGE WASHINGTON UNIVERSITY

December 16, 1994

Good afternoon.

Today I would like to address two issues that are currently receiving a lot of attention in the Treasury Department. The first issue, which I will discuss only briefly, is revenue estimating.

Treasury is frequently criticized for using so-called "static" revenue estimates. This erroneous description implies, for example, that if an increase in the gasoline tax is proposed, Treasury's estimators will simply multiply the current level of gasoline consumption by the change in the tax rate to estimate the expected revenue pickup. This is not accurate. Treasury's estimates are in fact "dynamic" because they take into account behavioral changes. For instance, in the case of a gasoline tax, Treasury would consider the estimated change in gasoline consumption when estimating the revenue gain. Treasury would not, however, try to determine the overall effect of a gasoline tax increase on the economy.

Similarly, for the change in individual income tax rates enacted last year, Treasury's revenue estimators included several behavior effects. These effects included higher-income taxpayers switching both from taxable bonds to tax-exempt bonds and from high-dividend stocks to low-dividend stocks. But Treasury's estimates did not include any effect of the rate changes on the overall strength of the U.S. economy. Estimates of effects on the overall economy are called "macroeconomic feedback effects."

One reason we do not consider macroeconomic effects is that in most cases they are likely to be relatively small. For example, although the refining industry may be affected by an increase in the gasoline tax, consumers who cut back on gasoline purchases will probably spend more on other goods, so the overall effect on the economy is likely to be negligible.

There is a more important reason why macroeconomic feedback effects are not considered. Economists cannot agree on how large these effects would be. Economists use a wide variety of macroeconomic models and assumptions to forecast future changes in the economy. Some stress "demand side" effects -- the short run effects on the economy resulting from increased government spending or from tax cuts that give households and businesses more after-tax income. Others stress "supply side" effects -- the long run effects that result from changes in the after-tax return to work effort or to saving, and thus lead to increased labor participation or increased capital stock. The spectrum of possible estimates produced by these different models is very broad. One model may estimate a large feedback effect from a particular proposal, while a second model may find a small feedback effect from the same proposal. The result of including feedback effects in estimates would be a bitter debate over whose model is more accurate.

Because of the great uncertainty surrounding the size of feedback effects, revenue estimates that include macroeconomic effects would be susceptible to political pressures. The potential for political misuse of macroeconomic feedback effects should not be underestimated. Feedback effects could be used to justify tax cuts and/or endless spending, regulatory, and social policy initiatives. And I have yet to see a proposal that its proponent believes is bad for the economy. We would be viewed as cooking the books if we claimed favorable macroeconomic feedback effects from our own proposals. The practical effects would be to undermine the credibility of the government's budget estimates and erode confidence in the government in financial markets (causing interest rates to soar). In contrast, by following a more conservative approach in preparing budget estimates, surprises are more likely to be favorable -- the deficit might actually decline more rapidly than anticipated. We believe that this is clearly the best approach to fiscal responsibility.

Now I would like to turn to the second issue that I would like to discuss. Yesterday Commissioner Richardson brought you up to date on various aspects of the Administration's effort to improve compliance in the international area. The focus of my remarks today is one aspect of this effort - an OECD document entitled "Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations - Discussion Draft of Part I." Published in July, it is the first part of a complete revision of the OECD's 1979 Transfer Pricing Guidelines. The OECD is currently considering public comments submitted on the report, and intends to finalize this portion of the report in June next year. Subsequent portions of the report will cover a number of additional subjects relevant to transfer pricing -- penalties, documentation, cost-sharing, and corresponding adjustments.

Today I would like to stress that the Treasury Department strongly supports prompt finalization of the report substantially in its current form, and to urge all of you to support it as well.

Transfer pricing has always been a very important subject. It attracts a great deal of scrutiny from legislators, tax administrators and taxpayers. The reason is obvious: transfer pricing rules and practices determine the allocation of income among tax jurisdictions arising from related party transactions. And the subject has come under even more intense scrutiny in recent years.

I think that this additional focus is attributable to two causes.

One cause is the increasing pressure to raise revenue in this country and elsewhere. This scrutiny is appropriate, since each country has a right to expect its taxpayers to pay their fair share of taxes.

The second cause is the fact that the system has not been working as well as it should. From the government's perspective, we see two obvious flaws. First, there is insufficient self-compliance by taxpayers. Second, the legal framework does not offer taxpayers, tax administrators and courts adequate guidance in cases in which the traditional transfer pricing methods are inadequate.

Last year at this conference, the Commissioner and I announced a program entitled "Tax Compliance in a Global Economy." Transfer pricing was at the center of this initiative. We recognized that a system had to be created under which the United States would collect its fair share of revenue from taxpayers conducting cross-border transactions with related parties. However, this revenue must be collected without forcing taxpayers to pay tax on the same income more than once. Also, the system must not create impossible administrative burdens for taxpayers and governments.

With these concerns in mind, we have taken the following actions in the past year. To ensure that taxpayers report an appropriate amount of income to the United States, we issued temporary penalty regulations in February and final regulations under section 482 in July. Since the panel earlier this morning discussed these regulations, I will not delve into them again, except to make the following observation: The penalty provisions are an essential component of our efforts to make the arm's length standard work. They are fully consistent with a taxation system based on the principle of self-compliance. In accordance with this principle, we believe that taxpayers who make reasonable, good faith efforts to report arm's length results from their intercompany transactions should not be penalized -- even if it is subsequently demonstrated that they were wrong. But taxpayers who do not accept their responsibility to attempt to file accurate tax returns should be penalized. We are open to suggestions as to how to appropriately alleviate taxpayers' burdens in fulfilling this duty. But there can be no turning back from the fundamental principle that underlies these regulations.

Now I now would like to discuss an important piece of the transfer pricing puzzle that sometimes is overlooked -- the overriding need for international consensus if large scale double taxation is to be avoided. This concern is the second theme underlying our compliance initiative.

To address this concern the United States has participated actively in a task force within the OECD. This group is revising the 1979 Transfer Pricing Guidelines in light of recent developments in this country and others. The OECD is making an extremely important contribution to tax administration by revising a set of guidelines that in many ways is badly out of date.

It is difficult to overemphasize the importance of these guidelines. As the consensus interpretation of the arm's length standard, the guidelines are the bridge between each country's substantive rules during the competent authority process. They also provide a framework for bilateral discussions leading to Advance Pricing Agreements -- or APAs -- which are another critical component of our compliance initiative. Common guidelines permit the competent authorities to resolve disputes without having first to agree on basic principles. They therefore greatly facilitate the smooth resolution of difficult cases in mutual agreement procedures and in the APA process.

The impetus for revising the OECD's 1979 guidelines is coming to terms with reality. The reality is that the traditional methods for applying the arm's length standard are often inadequate to deal with many transfer pricing cases.

Indeed, the drafters of the 1968 482 regulations and the 1979 guidelines recognized this problem when they expressly authorized the use of unspecified methods in cases in which the traditional methods were inadequate. Congress also recognized the problem in 1986 when it observed that the existing approaches to transfers of intangible property were inadequate.

The United States is not alone in this regard. There has been a similar evolution in many other countries. We have seen non-traditional applications of the arm's length standard in competent authority proceedings and in APAs concluded with many of our most significant trading partners. The global trading APAs are a prime example of this trend. And we expect this trend to accelerate.

Because this evolution has not occurred at the same rate, we have seen increasing tension in the system. Different approaches in different countries have resulted in disputes over the definition of the arm's length standard. This is very dangerous. It creates potential for abuse by those taxpayers bent on reducing their overall tax burden through inappropriate transfer pricing. At the same time it is difficult for taxpayers to comply with the rules of each country if inconsistent approaches are adopted. This raises the specter of double taxation.

This is why revised OECD guidelines are so important. They represent broad acceptance by all our major trading partners of the reality that the traditional methods are appropriate when the data to apply them is adequate. But the traditional methods must be supplemented by new methods when the data is not adequate.

If the report is accepted in its current form, it will ensure the future viability of the arm's length standard. A consensus interpretation of the arm's length standard will go far to avoid the double taxation that would result if inconsistent approaches to transfer pricing were adopted by different countries. At the same time, when the approaches in various countries are reasonably consistent, it will be more difficult for taxpayers to shift income inappropriately. And taxpayers interested in complying with one country's rules will be able to do so without fear of violating another's.

Thus, the strengths of the report are both obvious and important. The Treasury Department strongly supports prompt finalization of the report in its current form.

There seems to be a wariness in certain quarters about revising the 1979 guidelines. This wariness reflects the interests of different groups. One group suspects that attempts to revise the guidelines are thinly veiled attempts to overturn the arm's length standard. They reject virtually any application of methods other than those specifically sanctioned in the 1979 guidelines. Others draw an opposite conclusion from the report -- they see it as perpetuating the arm's length standard, which they view as obsolete and unworkable.

To the group that suspects a plot to undermine the arm's length standard, I say that it is necessary to revise the OECD guidelines -- not to overturn the arm's length standard, but to save it.

Inflexible adherence to dogma would forfeit one of the chief advantages of the arm's length standard. That advantage is flexibility. Its ability to adopt different approaches depending on the available data permits a variety of applications -- all of which are intended to achieve the economically desirable result of treating related and unrelated taxpayers similarly. Formulary apportionment, based on a predetermined formula that disregards individual facts and circumstances, does not enjoy this important advantage. If we do not permit taxpayers and tax administrators to employ the method that is most likely to yield an arm's length result, then the results achieved under the arm's length standard will begin to look as arbitrary as those achieved under formulary apportionment.

The overwhelming majority of taxpayers and tax administrators recognize the need for new approaches within the framework of the arm's length standard. There can be no retreat from this reality. Rejection of the draft report would mean ignoring this reality. And this would contribute to lack of consensus and an increase in double taxation and related problems. More fundamentally, lack of consensus over the definition of the arm's length standard endangers the unanimous commitment to the arm's length standard represented by the draft report.

There is a second group that opposes the report. Like the Treasury Department, this group has closely observed the turmoil in the area of transfer pricing over the last decade. But it has proposed a very different solution to the problem. It has concluded that the arm's length standard cannot be saved, and a new standard should replace it. Some, but not all, members of this group urge the United States to abandon the arm's length standard regardless of whether or not our trading partners agree. Most in this group advocate formulary apportionment.

There clearly are very important differences between formulary apportionment and the arm's length standard. But it may surprise you to hear that we believe both approaches share a critical characteristic -- neither is acceptable in the absence of consensus. Unlike the arm's length standard, formulary apportionment is not currently accepted on the international level. As long as there is substantial consensus on the interpretation and application of the arm's length standard, the arm's length standard will enjoy an overwhelming advantage in relation to any alternative approach, including formulary apportionment.

For those who doubt whether there is international opposition to formulary apportionment, please reflect on the draft report. It strongly rejects formulary apportionment. It enumerates a number of serious problems that would be encountered if formulary apportionment were adopted on the international level. Many of these problems would exist even if the international community decided that a formulary approach made sense as a theoretical matter. I would also add that the report is not an isolated list of concerns by a group of stubborn bureaucrats. Much of the scholarly literature on this subject, including that written by proponents of the approach, identifies difficult problems that would have to be resolved before the approach could be introduced internationally. I refer you to that literature for a detailed exposition of these problems, and only can briefly outline them today.

The choice of the formula and the definition of the factors in the formula are obvious areas where basic agreement would be necessary. This process would not be easy, and in my opinion would not be successful in today's international environment. While most U.S. states employ formulary apportionment, even they do not all use the same formula. The economic and political differences between states in the U.S. that result in differing formulae are much more pronounced between countries. The inability of the European Union to harmonize the EU's income tax systems illustrates some of the difficulties we could expect on the international level.

In addition, the three factor formula used by many states would not be acceptable on the international level, or at least it would not be acceptable to the United States. Significant income generated by US multinationals is attributable not to the three factors of property, payroll and sales, but to intangible property. Congress recognized this fact when it amended section 482 in 1986. The United States potentially would face a major revenue loss if the creation and ownership of intangible property were not reflected in the income allocations under a formula.

It also would be necessary to agree to a common definition of the taxable base that will be apportioned under the formula. Reaching such an agreement presents extraordinarily serious practical problems. Every country has unique accounting and tax rules. These rules regulate definitions of income, timing of income recognition, as well as deductions for everything from depreciation to pension contributions. The differences in these rules reflect choices arising out of each country's unique set of cultural, political and economic characteristics. But they would need to be standardized throughout the world to arrive at a uniform definition of the taxable base subject to apportionment.

Obviously, reaching agreement on these and other important issues would require a great deal of coordination among tax administrations. At the state level the forum for resolution of this type of issue is the Multistate Tax Commission. The MTC does an outstanding job of developing common guidelines for use by its members. It also is substantially aided by the fact that the starting point for application of the formula generally is the federal income tax base. Having to deal with only one currency and one language also helps. These advantages would be lost on the international level.

Unfortunately the MTC has no counterpart at the international level to address these issues. Some new multinational organization would have to be created to perform its function at the international level. Composed of all the countries that would sign on to a formulary system, a new Multinational Tax Commission would be delegated the authority to resolve issues such as the definition of the taxable base, the definition of the factors in the formula, and the other issues that I have described.

This delegation of authority to this Multinational Tax Commission might prove quite troublesome. For the system to work, the United States effectively would have to agree that the Internal Revenue Code would be modified to achieve a worldwide standardized definition of taxable income. Along with the rest of the world we effectively would forfeit control over a major portion of our domestic tax policy. I think you will agree that Congress would be very reluctant to permit our tax policy to be developed in this way.

Transfer pricing rules, in conjunction with our tax treaties, serve two principal purposes. First, they divide the income of multinationals among the jurisdictions in which the multinationals do business. Second, they avoid double taxation of such income. These purposes can be achieved only with consensus. For this reason alone formulary apportionment as used by our states is not a feasible alternative at this time or in the foreseeable future.

Nevertheless, although highly unlikely, it is theoretically conceivable that at some undetermined point in the future most of the world could decide to move to formulary apportionment. None of these problems is insoluble as a theoretical matter, although solving them would be a very painful process that would entail difficult choices. If these problems could be resolved in a practical way, a system of formulary apportionment could achieve a consistent allocation of income among the jurisdictions that sign on to the international agreement. It would not achieve an allocation of income that resembles the allocation achieved under the arm's length standard. But it could allocate income on an objective basis and might not give rise to double taxation. Nevertheless, it must be emphasized that even with consensus, a shift to formulary apportionment would be irresponsible without resolution of the kinds of issues I have described. And it is important to remember that the inflexible results obtained under a predetermined formula would not resemble the results under the arm's length standard, where the method used is tailored to the individual facts and circumstances.

All of this theoretically could happen, but there is no assurance that it ever will. Nor is there any assurance that it should. If the arm's length standard can be made to operate effectively, then the wrenching changes and compromises of autonomy necessitated by a shift to formulary apportionment or any other system would be unnecessary.

In their obsession with the details of the draft report, both groups that question the report overlook the need for broad international acceptance of any approach to transfer pricing. Without this consensus, no approach, regardless of its theoretical purity, can be seriously considered. The report represents a possibly unique opportunity to achieve this consensus.

The primary advantage that the arm's length standard currently enjoys in relation to formulary apportionment is the simple fact that most of the world agrees that it should be the international norm. The report sets forth a common understanding of how the arm's length standard is to be applied. If the report is rejected or shelved, the arm's length standard loses its chief advantage over formulary apportionment. Without the common bond represented by the report, there is a risk that the major countries in the world would drift apart in their applications of the arm's length standard. Cases of double and under taxation would proliferate. It would be ironic indeed if those who present themselves as the truest believers in the arm's length standard were a chief cause of its downfall. For this reason every taxpayer and government that is interested in improving the arm's length standard should support the finalization of the report in its current form.

I would ask those who prefer formulary apportionment to recognize that it can be a realistic alternative only if the problems I have described can be resolved and if there is a consensus in favor of its adoption. If we were to move to formulary apportionment before these conditions were satisfied, we would find that the cure would be worse than the disease. On the other hand, if we cannot fix the system and make the arm's length standard work in a reasonable way, the sickness will worsen, and we will have to consider our alternatives.

I am, however, optimistic that we can improve on the arm's length standard and that the OECD's draft report will be finalized. At that point the international community can be proud that it is facilitating international trade and investment without undue concern over double taxation.

Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 16, 1994

Contact: Scott Dykema
(202) 622-2960

TAX CUT PROPOSALS IN PRESIDENT CLINTON'S MIDDLE CLASS BILL OF RIGHTS
Background Information

LB-1287

Preliminary Revenue Estimates

Middle-Class Tax Cut

16-Dec-94	Fiscal Years 1995 - 2000 ($'s in billions)
Child Tax Benefit	
Credit for children 12-years and under; credit = $200 for 1996, $300 for 1997, $400 for 1998, $500 for 1999 and thereafter; phase-out AGI between $60,000 - $75,000; effective 1/1/96	-35.6
Education and Job Training Incentive	
Phased-in deduction for up-to $5,000 in post-secondary education and training expenses with phase-out AGI between $70,000 - $90,000 single, $100,000 - $120,000 joint; phase-in= $2,000 for 1996, $4,000 for 1997, $6,000 for 1998, $8,000 for 1999 and $10,000 for 2000 and thereafter	-20.6
Savings Incentive	
Expand eligibility for deductible "front-loaded" IRAs by increasing AGI eligibility phase-out from current $40,000 - $50,000 to $80,000 - $100,000 for joint returns (current $25,000 - $35,000 phase-out increased to $50,000 - $70,000 for single returns); add new "back-loaded" IRA option; allow conversion of existing IRAs into "backloaded" IRAs and retain current law non-working spouse limit; allow penalty-free withdrawals for education, first home, medical expenses and long-term unemployment	-3.7
Middle-class tax cut total	-59.9

Department of the Treasury
Office of Tax Analysis

DESCRIPTION OF ADMINISTRATION'S TAX PROPOSALS

$500 Child Tax Benefit

A $500 non-refundable credit will be allowed for each dependent child under the age of 13. The credit will be phased-in and equal $200 for 1996, $300 for 1997, $400 for 1998 and $500 for 1999 and thereafter. The credit will be phased-out ratably for taxpayers with adjusted gross income (AGI) between $60,000 and $75,000. The credit must be applied after the earned income tax credit, and cannot be used to offset alternative minimum tax liability.

Deduction for Post-Secondary Education Expenses

A deduction will be permitted for up to $10,000 of the amounts spent by a taxpayer for expenditures on post-secondary school education and training expenses for the taxpayer, the taxpayer's spouse, and dependents (i.e., persons for whom the taxpayer is entitled to claim a dependency exemption). This deduction will allowed "above-the-line," i.e., it will be used in determining the taxpayer's adjusted gross income (AGI).

Payments to post-secondary institutions and programs will be deductible if such institutions and programs are eligible for Federal assistance. This will include most public and nonprofit universities and colleges and certain vocational schools. Deductible education expenses will include tuition and fees but will not include meals, lodging, books, or transportation. Education involving sports, games, or hobbies will not be deductible, unless that education relates to the student's current profession or is required as part of a degree program.

The maximum allowable deduction will be phased-in. For 1996, the maximum deduction will be $2,000. The maximum deduction will increase by $2,000 each year; for 2000 and later years the maximum deduction will be $10,000. In addition, the maximum deduction will be phased out ratably for taxpayers filing a joint return with AGI (before the proposed deduction) between $100,000 and $120,000. For taxpayers filing a head-of-household or single return, the maximum deduction will be phased out ratably between $70,000 and $90,000 of AGI (before the proposed deduction).

12/16/94

Individual Retirement Accounts (IRAs)

The proposal is similar to the Bentsen-Roth IRA provisions that were passed by Congress in late 1992.

Expand the Availability of Deductible IRAs -- Today, eligibility for deductible IRAs is phased-out for those with adjusted gross income (AGI) of $25,000-$35,000 for individuals and $40,000-$50,000 for couples. Annual IRA contributions cannot exceed $2,000 per individual. These income thresholds and the $2,000 maximum contribution are not indexed for inflation. This results in fewer and fewer Americans being eligible for relatively smaller and smaller IRA contributions each year.

The proposal would expand the availability of deductible IRAs to most Americans. Beginning in 1996, the income thresholds for IRA eligibility would be doubled. This means that the maximum IRA deduction would be phased-out ratably for couples with AGI between $80,000 and $100,000 and individuals with AGI between $50,000 and $70,000. These thresholds and the $2,000 contribution limit would be indexed for future inflation.

Taxpayers Get Another IRA Option -- Each individual who is eligible for a deductible IRA would have the option of contributing $2,000 per year either to a traditional deductible IRA or to a new back-loaded type of IRA -- a Special IRA. Contributions to this new type of IRA would not be tax deductible, but withdrawals of amounts that have been held in the account for at least five years would not be included in income. Withdrawals during the five-year period would be subject to a 10% penalty tax, unless made for one of the purposes specified below. An individual whose AGI for a year falls below the eligibility thresholds could convert an existing IRA into a Special IRA.

Penalty-Free IRA Withdrawals -- The proposal would provide exemptions from the 10% penalty tax on pre-retirement IRA or Special IRA distributions for the following purposes:

- Education -- To pay post-secondary education costs.

- First Home Purchase -- To buy or build a first home.

- Care of an Elderly Parent -- To pay for nursing home or other costs associated with caring for an incapacitated parent or grandparent.

- Unemployment -- To cover living costs if they have been unemployed for at least 12 consecutive weeks.

- Medical expenses -- To pay catastrophic medical expenses in excess of 7.5% of AGI.

Current Law and Fully Phased-In Law Tax Liabilities of Hypothetical Families Under Administration's Middle-Class Tax Cuts, Based on 1995 Income Levels

Four person family, with $50,000 of wage and salary income, $7,500 of itemized deductions, and $10,000 in personal exemptions (4 x $2,500).

Case 1. Both children 12 or under.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$4,875	$3,875	$1,000	21%

Case 2. One child 12 or under, other not, no education expense.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$4,875	$4,375	$500	10%

Case 3. Both children over 12, education expense $10,000 or more.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$4,875	$3,375	$1,500	31%

Case 4. One child 12 or under, other child over 12, education expense $10,000 or more.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$4,875	$2,875	$2,000	41%

Case 5. Two children over 12, no education expense, $2,000 contributed to IRA.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$4,875	$4,575	$300	6%

Case 6. Same as Case 5, but both spouses work, and $4,000 contributed to IRA.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$4,875	$4,275	$600	12%

Case 7. One child 12 or under, other child over 12, education expense $10,000 or more, $2,000 contributed to IRA.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$4,875	$2,575	$2,300	47%

Case 8. No Children, education expense $10,000 or more, $2,000 contributed to IRA.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$5,625	$3,825	$1,800	32%

12/16/94

Current Law and First Year Tax Liabilities of Hypothetical Families Under Administration's Middle-Class Tax Cuts, Based on 1995 Income Levels

Four person family, with $50,000 of wage and salary income, $7,500 of itemized deductions, and $10,000 in personal exemptions (4 x $2,500).

Case 1. Both children 12 or under.

Current Law Tax	First Year Law Tax	Tax Reduction	Percent Reduction
$4,875	$4,475	$400	8%

Case 2. One child 12 or under, other not, no education expense.

Current Law Tax	First Year Law Tax	Tax Reduction	Percent Reduction
$4,875	$4,675	$200	4%

Case 3. Both children over 12, education expense $2,000 or more.

Current Law Tax	First Year Law Tax	Tax Reduction	Percent Reduction
$4,875	$4,575	$300	6%

Case 4. One child 12 or under, other child over 12, education expense $2,000 or more.

Current Law Tax	First Year Law Tax	Tax Reduction	Percent Reduction
$4,875	$4,375	$500	10%

Case 5. Two children over 12, no education expense, $2,000 contributed to IRA.

Current Law Tax	First Year Law Tax	Tax Reduction	Percent Reduction
$4,875	$4,575	$300	6%

Case 6. Same as Case 5, but both spouses work, and $4,000 contributed to IRA.

Current Law Tax	First Year Law Tax	Tax Reduction	Percent Reduction
$4,875	$4,275	$600	12%

Case 7. One child 12 or under, other child over 12, education expense $2,000 or more, $2,000 contributed to IRA.

Current Law Tax	First Year Law Tax	Tax Reduction	Percent Reduction
$4,875	$4,075	$800	16%

Case 8. No Children, education expense $2,000 or more, $2,000 contributed to IRA.

Current Law Tax	Fully Phased-In Tax	Tax Reduction	Percent Reduction
$5,625	$5,025	$600	11%

12/16/94

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 16, 1994

CLINTON TAX CUT PROPOSAL INFORMATION AVAILABLE

Fact sheets on President Clinton's tax cut proposal, the Middle Class Bill of Rights, are available from the Treasury Department Office of Public Affairs.

Materials can be picked up at the Main Treasury Building Courier Desk Entrance on 15th Street N.W. which is open from 8 A.M. until 5:45 P.M.

The materials are also available through the Public Affairs Office's 24-hour fax line. Dial (202) 622-2040 and request document number 1287.

LB-1288

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

December 19, 1994

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of November 1994.

As indicated in this table, U.S. reserve assets amounted to $74,000 million at the end of November 1994, down from $78,172 million in October 1994.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/	Reserve Position in IMF 2/
1994					
October	78,172	11,053	10,088	44,692	12,339
November	74,000	11,052	10,017	40,894	12,037

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Valued at current market exchange rates.

LB-1289

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 17, 1994

HOUSE REPUBLICAN TAX CUTS WOULD COST $712 BILLION OVER 10-YEARS, NEW ESTIMATES SHOW

A package of tax cuts offered by House Republicans would cost $712 billion over the next 10 years compared to $174 billion in cuts included in President Clinton's Middle Class Bill of Rights, according to new Treasury Department estimates.

As noted by Treasury Secretary Lloyd Bentsen, the President's plan is fully paid for with spending cuts in every year. Details of how the federal budget is to be trimmed under the President's package will be discussed Monday by Vice President Gore.

According to the estimates released today, while the GOP tax plan would cost $197.2 billion between fiscal years 1995-2000, it would cost $514.8 billion between FY 2001-2005.

In contrast, the President's plan would cost $59.9 billion between FY 1995-2000 and $113.7 billion between FY 2001-2005.

Furthermore, unlike the GOP's Contract with America, the President's proposals are aimed at middle-income Americans. Some 87 percent of the President's tax cuts go to families with incomes under $100,000 a year compared to 46 percent under the GOP proposals. Almost a third (31.9 percent) of the benefits under the GOP plan go to households with incomes of more than $200,000. In contrast, only 0.6 percent of the President's tax cut benefits go to those with incomes more than $200,000.

Tables showing the new 10-year revenue estimates and a chart showing the shares of tax cut benefits going to families are attached.

-30-

LB-1290

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FIVE- AND TEN-YEAR REVENUE ESTIMATES FOR PRESIDENT CLINTON'S PROPOSED MIDDLE CLASS TAX CUT AND THE HOUSE REPUBLICAN "CONTRACT WITH AMERICA"

December 17, 1994

SUMMARY

The attached tables provide preliminary estimates of the five- year and 10-year revenue effects of the President's Middle-Class Tax Cut and the revenue proposals in the House Republican Contract with America. The President's proposals would reduce revenue by $60 billion over five years and $174 billion over 10 years. In contrast, the House Republican Contract with America would reduce revenue by $197 billion over five years and by $712 billion over 10 years.

The President's tax cuts, including the timing of the five-year phase-in, are designed so that, when combined with spending cuts, they will produce no increase in the Federal deficit in any year. The Administration is working to identify additional budgetary savings beyond those already planned. Any such additional savings will then be available for deficit reduction and/or for phasing-in the tax cuts earlier to deliver more immediate benefits to middle-income taxpayers. To the extent that the tax cuts are phased-in earlier, revenue losses from the President's proposal will be larger than shown in the tables.

Preliminary Revenue Estimates 1/

PRESIDENT'S MIDDLE CLASS TAX CUT

Proposal (12/17/94)	Fiscal years 1995-2000	1995- 2005
	($ billions)	
1 $500 per child tax credit (phased-in); phase-out AGI between $60,000 - $75,000.	-35.6	-89.6
2 Deduction for up to $10,000 in post-secondary education and training expenses (phased-in) ; phase-out AGI between $100,000 - $120,000 joint.	-20.6	-60.7
3 Expand eligibility for deductions for IRA's to AGI $100,000 joint; allow penalty-free withdrawals for education, first home, medical expenses, long term unemployment, and care for an elderly parent.	-3.7	-23.3
Middle Class Tax Cut total	-59.9	-173.6

Department of the Treasury
Office of Tax Analysis

Estimates for FY 1995 - FY 2000 are based on the Administration's new economic assumptions that will be incorporated in the FY 1996 Budget.
The estimates do not incorporate forthcoming Administration economic assumptions for the years 2001-2005.
The estimates for FY 2001 - FY 2005 are projections made by the Treasury's Office of Tax Analysis.
The estimates for FY 2001 - FY 2005 will be revised based upon Administration's assumptions, when available.
The Administration is working to identify additional budgetary savings beyond those already planned. Any such additional savings will then be available for for deficit reduction and/or for phasing-in the tax cuts earlier to deliver more immediate benefits to middle-income tax payers. To the extent that the tax cuts are phased-in earlier, revenue losses from the President's proposal will be larger than shown in the table.

Preliminary Estimates 1/

CONTRACT WITH AMERICA - REPUBLICAN REVENUE PROPOSALS

Proposal	16-Dec-94	Fiscal Years 1995 - 2000	1995 - 2005
		($'s in billions)	
1	Refundable $5,000 tax credit for adoption expenses	-1.3	-2.9
2	Refundable $500 tax credit for eldercare expenses	-1.2	-2.6
3	$500 per child tax credit for families with AGI < $200,000	-107.2	-243.8
4	Reduce marriage penalty	-9.0	-19.0
5	Establish back-loaded IRA	-1.5	-17.9
6	Phase-in repeal of new SS thresholds (85%) enacted in 1993	-15.0	-48.5
7	Long-term care tax incentives	0.0	0.0
	a Long-term care insurance	-4.1	-11.8
	b Allow tax-free payment of accelerated death benefits under life insurance policies	-0.1	-0.4
8	50% exclusion for indexed capital gains (Individual & corporate)	-57.5	-170.4
9	Neutral cost recovery	12.8	-169.5
10	Small business incentives	0.0	0.0
	a Raise section 179 expensing limit from $17,500 to $25,000	-4.2	-5.0
	b Clarify home-office deduction	-0.5	-1.1
	c Increase estate tax exemption from $600,000 to $750,000	-8.4	-19.1
	Total	-197.2	-712.0

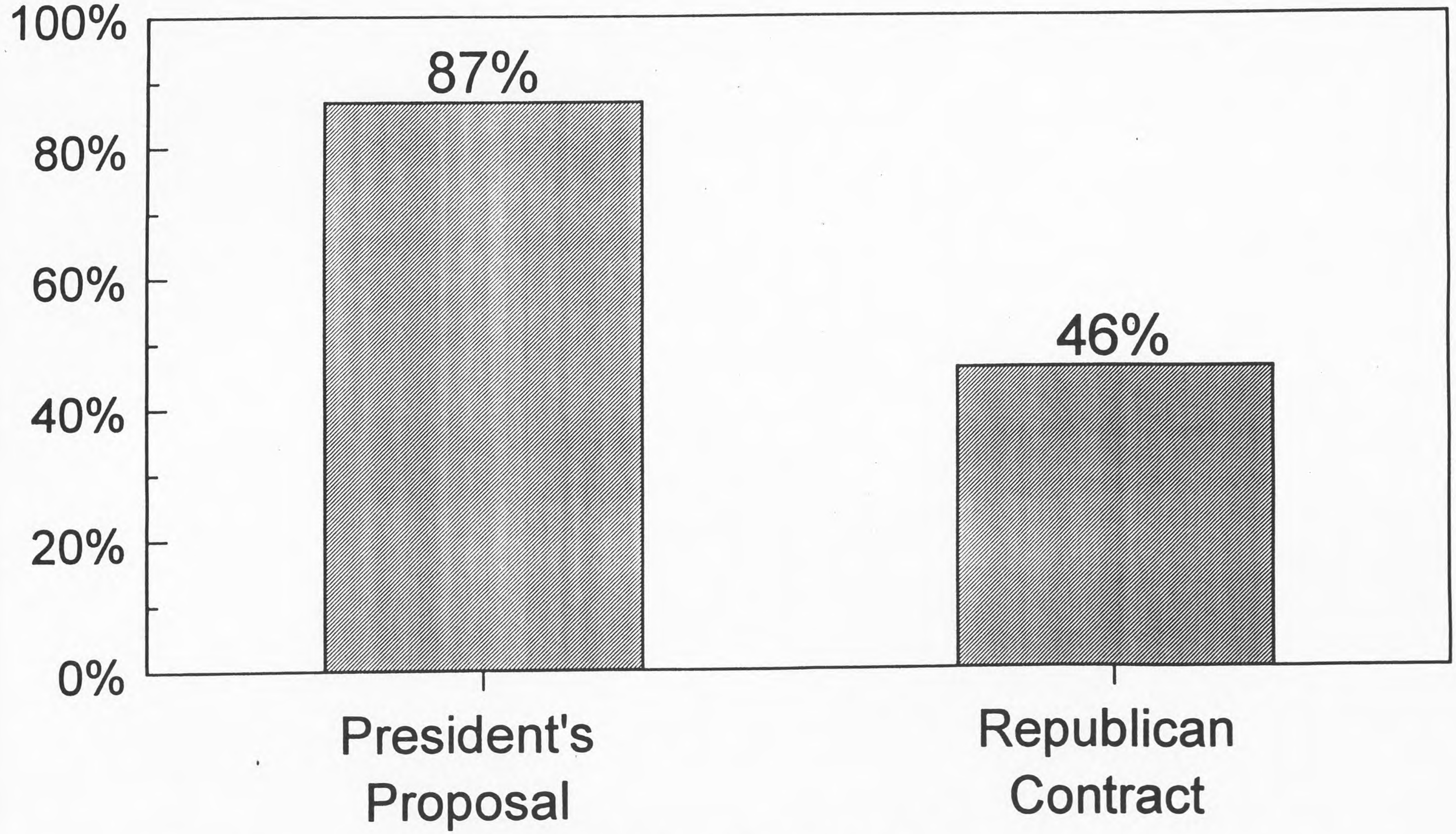
Department of the Treasury
Office of Tax Analysis

1/ Estimates for FY 1995 - FY 2000 are based on the Administration's new economic assumptions that will be incorporated in the FY 1996 Budget. The estimates do not incorporate forthcoming Administration economic assumptions for the years 2001 - 2005. The estimates for FY 2001 - FY 2005 are projections made by the Treasury's Office of Tax Analysis. The estimates for FY 2001 - FY 2005 will be revised based upon Administration's assumptions, when available.

Source: Department of the Treasury. Office of Tax Analysis

Share of Tax Cuts Going to Middle Income Families*

President's Proposal vs Republican Contract



*Families with Incomes Under $100,000

Source: Department of the Treasury, Office of Tax Analysis

AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 19, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,068 million of 13-week bills to be issued December 22, 1994 and to mature March 23, 1995 were accepted today (CUSIP: 912794R22).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.57%	5.73%	98.592
High	5.60%	5.76%	98.584
Average	5.59%	5.75%	98.587

Tenders at the high discount rate were allotted 41%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$45,274,797	$13,068,076
Type		
Competitive	$39,364,670	$7,157,949
Noncompetitive	1,536,817	1,536,817
Subtotal, Public	$40,901,487	$8,694,766
Federal Reserve	3,209,310	3,209,310
Foreign Official Institutions	1,164,000	1,164,000
TOTALS	$45,274,797	$13,068,076

LB-1291

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 19, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,085 million of 26-week bills to be issued December 22, 1994 and to mature June 22, 1995 were accepted today (CUSIP: 912794S70).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	6.27%	6.57%	96.830
High	6.30%	6.60%	96.815
Average	6.30%	6.60%	96.815

Tenders at the high discount rate were allotted 61%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$46,286,510	$13,084,670
Type		
Competitive	$39,365,216	$6,163,376
Noncompetitive	1,288,094	1,288,094
Subtotal, Public	$40,653,310	$7,451,470
Federal Reserve	3,300,000	3,300,000
Foreign Official Institutions	2,333,200	2,333,200
TOTALS	$46,286,510	$13,084,670

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 21, 1994

Contact: Jon Murchinson
(202) 622-2960

BENTSEN PHOTO OPPORTUNITY AT TREASURY

Treasury Secretary Lloyd Bentsen and Mrs. Bentsen will be available for a photo opportunity today, Wednesday, December 21 at 11 a.m., on the Hamilton Place steps of the Treasury Department. The Texas state flag will fly over Treasury in honor of the Bentsens, who will be returning to private life in Houston on Thursday after 30 years of public service in Washington. Hamilton Place is on the south side of the Treasury. Cameras should be in place by 10:45 a.m.

-30-

LB-1293

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 20, 1994

STATEMENT BY SECRETARY LLOYD BENTSEN ON PESO DEVALUATION

Mexico's exchange rate action today will support the healthy development of the Mexican economy. With a balanced budget, continuing economic reform and prudent monetary policy, Mexico's fundamentals remain sound.

-30-

LB-1294

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
December 20, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,000 million, to be issued December 29, 1994. This offering will provide about $3,175 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $22,821 million.

Federal Reserve Banks hold $6,096 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $3,852 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

LB-1295

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED DECEMBER 29, 1994

December 20, 1994

Offering Amount	$13,000 million	$13,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 R3 0	912794 S8 8
Auction date	December 27, 1994	December 27, 1994
Issue date	December 29, 1994	December 29, 1994
Maturity date	March 30, 1995	June 29, 1995
Original issue date	September 29, 1994	June 30, 1994
Currently outstanding	$11,678 million	$16,757 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . . . Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 20, 1994

Contact: Jon Murchinson
(202) 622-2960

JOINT STATEMENT OF PRESIDENT'S WORKING GROUP ON FINANCIAL MARKETS AND STATE AND LOCAL GOVERNMENT ASSOCIATIONS

Prudent investment of taxpayer money is a significant responsibility for public officials. All levels of government, local, state and federal, have an interest in promoting appropriate investment policies and practices. Indeed, significant attention has been paid by many governmental entities in enacting state legislation and developing investment guidelines, but recent losses by certain communities, while not indicative of systemic problems, indicate that further attention is warranted. In addition, rapid evolution in the capital markets and the proliferation of new financial instruments have made careful investing more challenging and complex.

The associations of state and local officials listed below and the President's Working Group on Financial Markets have agreed to work together to promote sound investment policies and practices by state and local governments. We intend to: (1) promote the use of model investment guidelines such as those already developed by many of the associations; (2) provide educational materials; (3) conduct training programs; (4) share information and relevant guidelines developed by federal regulators; and (5) identify possible regulatory or oversight issues. The investment policies and practices to be discussed will include management of credit and market risks, internal controls, accounting, reporting and investment disclosure. We will then address how best to promote the use of these practices.

(Note: Statement issued by Government Finance Officers Association; Municipal Treasurers Association; National Association of Counties, National Association of State Auditors, Comptrollers, and Treasurers; National Association of State Treasurers; National Conference of State Legislatures; National Governors Association; National League of Cities; U.S. Conference of Mayors and the President's Working Group on Financial Markets.)

-30-

LB-1296

The President's Working Group on Financial Markets

The President's Working Group on Financial Markets is chaired by Treasury Secretary Lloyd Bentsen, and includes the chairs of the Federal Reserve Board, the Securities and Exchange Commission and the Commodity Futures Trading Commission. Representatives of other regulatory entities with responsibilities related to financial markets, including the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation and the Federal Reserve Bank of New York, also participate.

The Working Group was originally established by Executive Order of the President on March 18, 1988 in response to the October 1987 stock market decline. In January 1994, Secretary Bentsen charged the group with considering a wide range of issues in order to further the goals of enhancing the integrity, efficiency, orderliness and competitiveness of our nation's financial markets and maintaining investor confidence. The primary goal of the Working Group is to promote information sharing among regulators and encourage consistent regulatory actions across markets and market participants.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
As prepared for delivery
December 21, 1994

FAREWELL REMARKS OF TREASURY SECRETARY LLOYD BENTSEN TREASURY EMPLOYEES

It's gratifying to see so many of you here, but it makes me wonder, who's minding the store?

Well, it's been a long run, hasn't it? I've had more fun than I can tell you. I have some thank-yous and observations I want to make. First, the observations.

I walked in the door here 23 months ago -- A brand new administration, Brand new goals, a new recognition of the fiscal realities. Since then, I've been to 23 states and 13 countries, given 453 speeches and had dozens of articles in the paper.

I can tell you this: we've come a long way together, and we've made a heck of a difference.

I'm not going to run down every accomplishment, but clearly, we've done a great deal: deficit reduction, the Brady Law and the Crime Bill with the assault weapons ban; the banking agenda; we advanced the health care debate in this country; there's NAFTA and GATT, our help for transitioning economies, the new respect we have in the world economic community, our expanding trade and political relations throughout Asia and now what we're doing in Latin America. It's clear that economic policy is an integral part of foreign policy now. The list goes on, but I won't.

No one person like a Treasury Secretary can accomplish it all. It takes teamwork. It takes professionalism. It takes dedication. I can say with certainty there's plenty of all of that here at the Treasury Department.

I want to thank a great many people, but before I do that, there are some people who may not be in the room who deserve some recognition -- the people who make this place run, day after day, night after night, administration after administration.

(More)

There are the operators -- who work around the clock, keeping Treasury in communication; there are the crews that keep this building looking like the shrine that it is; there are the drivers and the printers and the people who make sure the computers keep running and our communications systems are up and running all day and all night. And there are the career secretaries who support us all every day and keep us on schedule and on track.

We tend to take what they provide for granted. But I want to tell you, without them we could not operate, and I want them to know how much I appreciate what they do.

I go around talking about how many different ways there are to serve -- preaching, teaching, healing and the like. And I'm fond of saying that the best way to touch the most people is in public service. That's what drew me back into politics and what has kept me at it all these years -- the desire to make a difference.

To the professional staff here, I want to say that in all my years in Washington, I've never met a more dedicated, knowledgeable and skillful group of public servants. You have my gratitude and my respect. You serve at no small sacrifice. I know your families have paid a price in terms of the nights and weekends, and please tell them how much I appreciate their contribution.

The kind of people who work here will fly halfway around the world on next to no notice to iron out a problem, and do it on very little sleep. You'll stay up all night crunching numbers so that the people who make policy can have some answers they know they can count on. There's an incredible commitment here that I'm not sure the public understands.

And why do you do it? For the honor of seeing that the people of the United States have the best government possible and that we are properly represented to the world community. There's a certain cynicism out there about government -- people who see the bad apples and think all of government is that way. There are always bad apples, but on the whole -- we have the best government in the world -- because of people like you.

Let me tell you a little story. One of our very senior people was headed out to Dulles recently on yet another short-notice trip to go overseas and do a little firefighting. I'm not going to name the person, but someone asked them why they put themselves through all the gyrations and pressure that come with this kind of work.

And the answer was rather telling, and I think it represents the spirit of everyone here at Treasury. The person said: "I do it because it's such an honor to represent the United States of America."

That says it for me, too: It's such an honor to represent the United States of America.

Now, after today I'm going back in the private sector -- create a new job for myself to add to the more than 5 million new ones we have. I think I'll come in a little later and leave a little earlier, however. And I promised B.A. I won't come home for lunch. One thing I'll be thinking about in Houston is the memories I will take from my time here at Treasury.

There never is a perfect time to leave. There's always one more reason to stay, one more thing to do, one more project. I leave now knowing that we have made a difference over these past two years. I leave knowing that you'll give Bob Rubin the same loyalty and dedicated service and support that you have given me. I leave knowing that it's been a great time to be Treasury Secretary. And I leave with the sense of having done my best for the people of this country.

Thank you very much for the support you have given me and what you have done for this country. Happy Holidays and God bless you.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 21, 1994

Contact: Jon Murchinson
(202) 622-2960

SECRETARY BENTSEN ANNOUNCES CDFI FUND TRANSITION TEAM MEMBERS

Treasury Secretary Lloyd Bentsen announced on Wednesday, December 21 the initial members of the transition team that will focus on establishing the operations of the Community Development Financial Institutions Fund and undertake preliminary work to establish the fund's programs.

The Community Development and Regulatory Improvement Act of 1994 created the Community Development Financial Institutions Fund as a wholly-owned government corporation and authorized the Secretary of the Treasury to hire a transition team to serve as employees of the fund prior to the appointment of the Administrator. The transition team will be led by Katharine W. McKee and includes Jeannine S. Jacokes, Patrick O. Quinton and David C. Rice.

McKee was formerly the associate director of the Center for Community Self-Help in Durham, N.C. Previously she was a program officer with the Ford Foundation in New York and West Africa. McKee received a Masters in Public Affairs from the Woodrow Wilson School of Public and International Affairs at Princeton University and is a graduate of Bowdoin College, where she received a B.A. in international relations.

Jacokes was previously a staff member on the Senate Committee on Banking, Housing and Urban Affairs. She has also worked at the Department of Housing and Urban Development on a variety of community development and finance issues. Jacokes received a Masters of Regional Planning from the University of North Carolina and graduated from Aquinas College.

-more-

Quinton formerly served as public policy coordinator and a project manager of Shorebank Advisory Services in Chicago. He was also a program specialist in the Office of Insured Single Family Housing at the Department of Housing and Urban Development. Quinton received a M.A. in Public Policy from the University of Chicago's Irving B. Harris School of Public Policy Studies and a B.A. in government from Dartmouth College.

Rice previously was president of the Neighborhood Capital Corporation in Washington, D.C. He was also the executive vice president and chief operating officer of the Cooperative Assistance Fund, has worked at the Opportunity Funding Corporation and the Children's Defense Fund in addition to having held a variety of finance positions with the IBM World Trade Commission and Mobil Oil Company. Rice has completed course work in accounting and statistics at the New York University Graduate School of Business and received a B.A. in economics and business from Lincoln University.

The CDFI Fund will operate programs to provide monetary and technical assistance as well as other forms of support to community development financial institutions. The fund will also provide economic incentives to encourage banks, credit unions and other insured depository institutions to provide financial assistance to CDFIs and to expand their community service and lending efforts. In addition, the fund will offer training programs to enhance the capacity of CDFIs and other members of the financial services industry to undertake community development finance activities.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 22, 1994

Contact: Chris Peacock/Treasury
(202) 622-2960

Joyce McDonald/FinCEN
(703) 905-3770

TREASURY ANNOUNCES NEW ANTI-MONEY LAUNDERING REGULATIONS FOR WIRE TRANSFERS

The Treasury Department released two final rules Thursday that will for the first time require uniform recordkeeping for wire transfers under the Bank Secrecy Act (BSA).

The BSA is the core of Treasury's anti-money laundering efforts and one of the main elements of this authority is the ability to require financial institutions to retain records that can be an invaluable tool in criminal, tax or regulatory investigations or proceedings.

"Wire transfers are the arteries of the international financial system," said Treasury Under Secretary for Enforcement Ron Noble. "Not surprisingly, use of wire transfers is a necessity for many large scale money laundering schemes. Wire transfers are used both to move funds out of (or into) the United States and to confuse the money trail."

"These regulations mark a basic shift of our attention from cash at the teller's window to concentrating on crime hidden in the details of legitimate commerce."

The rules, which were developed by Treasury and the Federal Reserve Board, strike an appropriate balance between the costs of compliance and the need of law enforcement agencies for information relating to wire transfers. Once they take full effect, the two final rules will assist law enforcement efforts in cases involving wire transfers by requiring information identifying parties to such transactions, and if necessary making it available to investigators.

The first rule, issued jointly by Treasury and the Board of Governors of the Federal Reserve System, requires the collection and retention of information related to wire transfer transactions.

LB-1299

(more)

The second rule requires each financial institution involved in wire transfer transactions to include identifying information in the payment orders sent to the next institution in the wire transfer link (so that the information "travels" with the payment order).

The final rules will be lodged with the Federal Register today and published in accordance with the Register's schedule.

The preparation of these regulations has been a five-year process. Treasury first proposed regulations relating to recordkeeping for funds transfers in October 1990, and in 1993 the rules were re-proposed for comment. The final rules announced today will become effective on January 1, 1996, which gives financial institutions a year to create systems to implement the regulations.

"I think the industry will find that its concerns are reflected in these final regulations," Noble said. "For instance, we have excluded smaller transactions -- those below $3,000 -- from the recordkeeping process, and that exclusion should be especially helpful in the case of non-bank transmitters of funds, for example, those who process the sending of money for family emergencies. In general, we have tried to conform the rules and their implementation to commercial realities."

Stanley E. Morris, Director of the Financial Crimes Enforcement Network, which administers the BSA, emphasized that the criminals who continue to use the wire transfer system do so at their own peril.

"People should not think this is simply more paper," he said. "It's anything but. These rules will for the first time give us a significant picture of the details of funds movement, especially as they relate to the tax haven and off-shore banking preserves used by international money launderers.

"Over time, our computer systems will be able to map the avenues of illicit money movement and the people involved in those transactions."

-30-

Monthly Treasury Statement

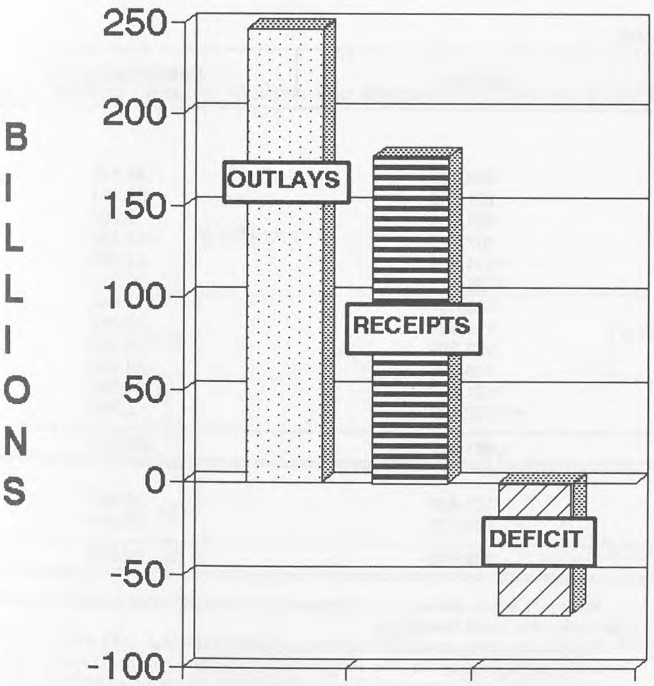
of Receipts and Outlays of the United States Government

For Fiscal Year 1995 Through **November 30, 1994,** and Other Periods

Highlight

The cumulative deficit for FY 1995 is $69,915 million.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH NOVEMBER 1994



Contents

Compiled and Published by

Department of the Treasury
Financial Management Service

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Financial Management Service, Department of the Treasury, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*.

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1994 and 1995, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
FY 1994			
October	78,662	124,085	45,422
November	83,102	121,483	38,381
December	125,403	133,108	7,705
January	122,961	107,713	−15,248
February	[1]73,186	[1]114,752	41,566
March	[2]93,108	[2]125,423	32,315
April	141,321	123,867	−17,454
May	83,541	115,597	32,057
June	138,119	123,269	−14,850
July	84,822	118,020	33,198
August	97,333	[3]121,617	24,284
September	[4]135,895	[4,5,6]132,133	−3,762
Year-to-Date	**1,257,453**	**1,461,067**	**203,615**
FY 1995			
October	89,024	[7]121,480	32,457
November	87,673	125,131	37,458
Year-to-Date	**176,696**	**246,612**	**69,915**

[1]Receipts have been increased in February 1994 and outlays correspondingly increased by $317 million to reflect adjustments made by the Internal Revenue Service to the Health Insurance Supplement to the Earned Income Credit.

[2]Receipts have been increased in March 1994 and outlays correspondingly increased by $6 million to reflect governmental receipts previously reported as offsetting collections.

[3]Outlays have been increased by $14 million in August 1994 to reflect non-budgetary activity previously reported as offsetting collections by the Maritime Administration.

[4]Receipts have been increased in September 1994 and outlays have been correspondingly increased by $5 million to reflect governmental receipts previously reported as offsetting collections by the Air Force.

[5]Outlays have been decreased in the September 1994 by $59 million for additional reporting by the Commodity Credit Corporation.

[6]Outlays have been increased in September 1994 by $71 million, $212 million, and $7 million for additional reporting by the FHA, PBGC, and the Comptroller of the Currency, respectively.

[7]Outlays have been increased in October 1994 by $8 million to reflect additional reporting by the Air Force.

Note: The receipt and outlay figures for FY 1994 have been revised to reflect the reclassification of the agency reporting for "Tonnage Duty Increases", from a governmental receipt to an offsetting governmental receipt.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, November 1994 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year[1]	Prior Fiscal Year to Date (1994)	Budget Estimates Next Fiscal Year (1996)[1]
Total on-budget and off-budget results:					
Total receipts	87,673	176,696	1,354,333	161,764	1,425,699
On-budget receipts	62,083	127,467	1,000,459	114,553	1,052,086
Off-budget receipts	25,590	49,229	353,874	47,211	373,613
Total outlays	125,131	246,612	1,521,447	245,568	1,604,939
On-budget outlays	99,464	194,770	1,229,419	197,281	1,298,044
Off-budget outlays	25,668	51,841	292,028	48,286	306,895
Total surplus (+) or deficit (−)	−37,458	−69,915	−167,114	−83,803	−179,240
On-budget surplus (+) or deficit (−)	−37,381	−67,303	−228,960	−82,728	−245,958
Off-budget surplus (+) or deficit (−)	−78	−2,612	+61,846	−1,075	+66,718
Total on-budget and off-budget financing	37,458	69,915	167,114	83,803	179,240
Means of financing:					
Borrowing from the public	40,528	72,985	175,699	75,283	192,078
Reduction of operating cash, increase (−)	9,366	8,886	......	20,196	......
By other means	−12,435	−11,956	−8,585	−11,675	−12,838

[1]These figures are based on the *Mid-Session Review of the FY 1995 Budget*, released by the Office of Management and Budget on July 14, 1994.

... No Transactions.
Note: Details may not add to totals due to rounding.

Figure 1. Monthly Receipts, Outlays, and Budget Deficit/Surplus of the U.S. Government, Fiscal Years 1994 and 1995

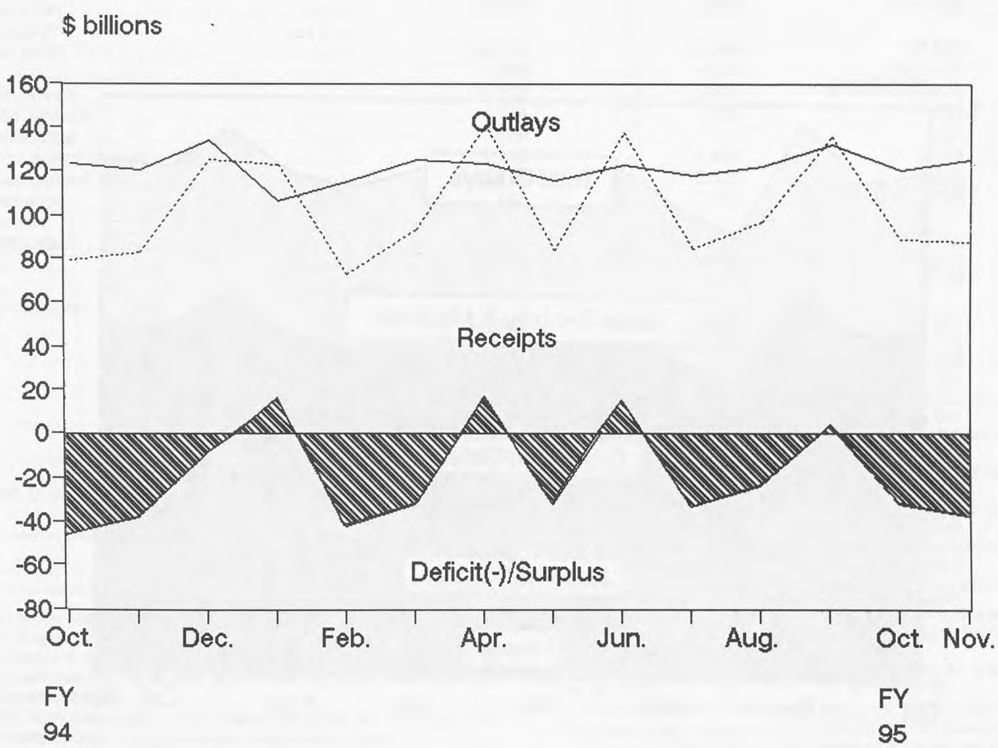


Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1994 and 1995

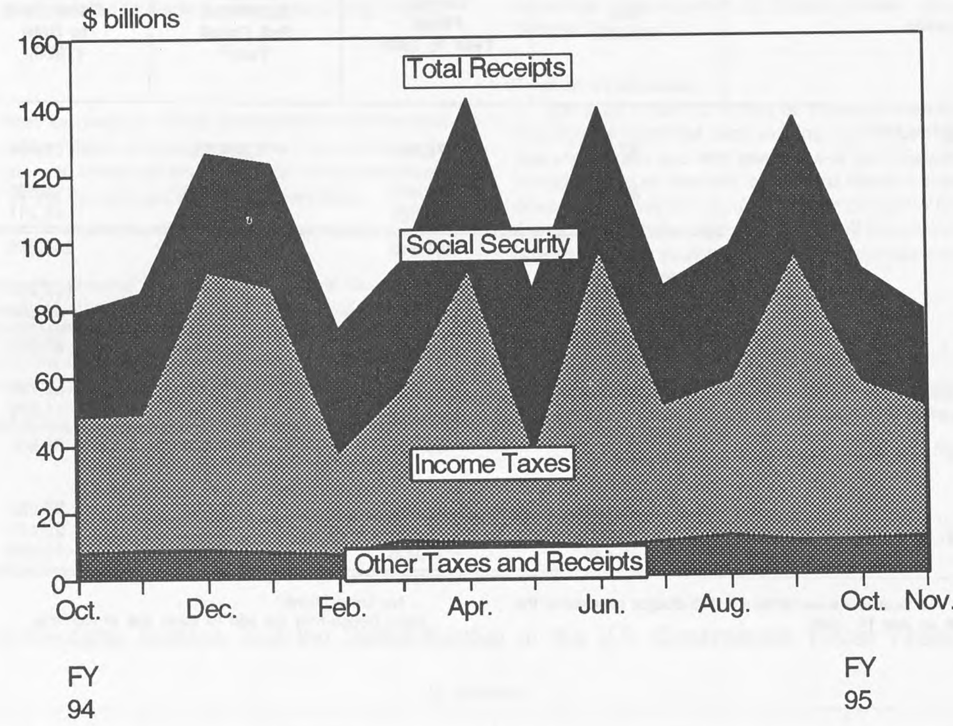


Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1994 and 1995

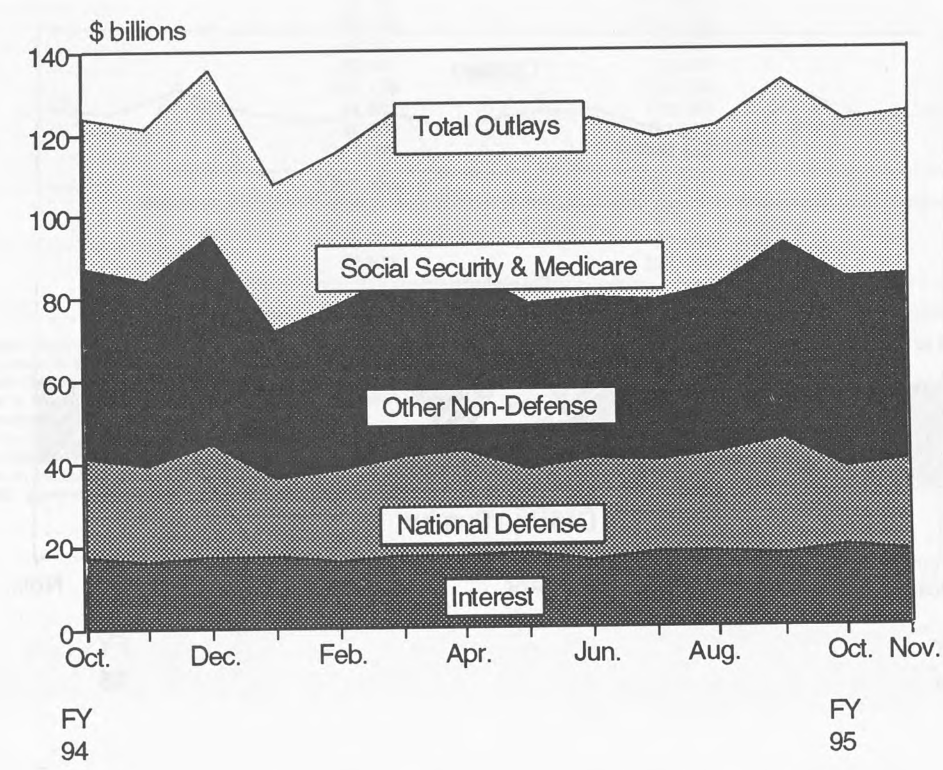


Table 3. Summary of Receipts and Outlays of the U.S. Government, November 1994 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	37,414	80,652	[2]75,314	603,065
Corporation income taxes	1,497	4,967	4,366	143,950
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	25,590	49,229	47,211	353,874
Employment taxes and contributions (on-budget)	8,196	15,821	13,754	103,063
Unemployment insurance	3,249	4,322	3,819	27,756
Other retirement contributions	352	702	728	4,578
Excise taxes	5,518	9,792	8,405	55,975
Estate and gift taxes	1,220	2,426	2,296	14,706
Customs duties	1,827	3,674	3,396	21,986
Miscellaneous receipts	2,811	5,111	[3,4,5]2,476	25,380
Total Receipts	**87,673**	**176,696**	**161,764**	**1,354,333**
(On-budget)	**62,083**	**127,467**	**114,553**	**1,000,459**
(Off-budget)	**25,590**	**49,229**	**47,211**	**353,874**
Budget Outlays				
Legislative Branch	217	570	584	2,931
The Judiciary	169	353	377	3,078
Executive Office of the President	17	35	37	197
Funds Appropriated to the President	1,130	4,731	5,088	11,143
Department of Agriculture	6,833	14,432	[6]12,041	61,277
Department of Commerce	300	605	541	3,690
Department of Defense—Military	21,435	[7]39,115	44,943	258,894
Department of Defense—Civil	2,656	5,294	[5]5,064	31,159
Department of Education	2,322	4,271	5,161	30,302
Department of Energy	1,330	3,013	3,433	15,663
Department of Health and Human Services, except Social Security	26,650	49,700	50,126	341,677
Department of Health and Human Services, Social Security	26,605	52,677	50,106	331,313
Department of Housing and Urban Development	2,426	5,329	[8]5,060	27,755
Department of the Interior	583	1,467	[9]1,126	7,306
Department of Justice	818	1,726	1,654	11,641
Department of Labor	1,684	4,037	[8]6,185	32,720
Department of State	841	1,329	1,429	5,394
Department of Transportation	3,499	6,944	[3,6,10]6,392	37,495
Department of the Treasury:				
Interest on the Public Debt	24,912	44,644	39,898	324,235
Other	−308	−274	[2,4,6,8]−27	16,970
Department of Veterans Affairs	3,312	5,011	5,974	37,737
Environmental Protection Agency	474	912	936	6,658
General Services Administration	639	−11	−250	895
National Aeronautics and Space Administration	1,143	1,987	2,293	14,439
Office of Personnel Management	3,118	6,528	6,214	40,437
Small Business Administration	145	210	160	752
Other independent agencies:				
Resolution Trust Corporation	−1,502	−1,973	−1,162	−11,113
Other	1,983	5,459	3,217	7,935
Allowances	......	......	......	−1,075
Undistributed offsetting receipts:				
Interest	−5,727	−6,338	−5,533	−91,780
Other	−2,575	−5,171	−5,503	−38,279
Total outlays	**125,131**	**246,612**	**245,568**	**1,521,447**
(On-budget)	**99,464**	**194,770**	**197,281**	**1,229,419**
(Off-budget)	**25,668**	**51,841**	**48,286**	**292,028**
Surplus (+) or deficit (−)	**−37,458**	**−69,915**	**−83,803**	**−167,114**
(On-budget)	**−37,381**	**−67,303**	**−82,728**	**−228,960**
(Off-budget)	**−78**	**−2,612**	**−1,075**	**+61,846**

[1]These figures are based on the *Mid-Session Review of the FY 1995 Budget*, released by the Office of Management and Budget on July 14, 1994.

[2]Receipts have been increased in February 1994 and outlays correspondingly increased by $317 million to reflect adjustments made by the Internal Revenue Service to the Health Insurance Supplement to the Earned Income Credit.

[3]Includes $62 million for a reclassification of the agency reporting for "Tonnage Duty Increases", from a governmental receipt to an offsetting governmental receipt.

[4]Receipts have been increased in March 1994 and outlays correspondingly increased by $6 million to reflect governmental receipts previously reported as offsetting collections by the Department of the Treasury.

[5]Receipts have been increased in September 1994 by $5 million to reflect governmental receipts previously reported as offsetting collections by the Air Force.

[6]Outlays have been decreased in September 1994 by $59 million, $1 million, and $11 million for additional reporting for the Commodity Credit Corporation, Federal-Aid Highways, and the Department of the Treasury, respectively.

[7]Outlays have been increased in October 1994 by $8 million to reflect additional reporting by the Air Force.

[8]Outlays have been increased in September 1994 by $71 million, $212 million, and $7 million for additional reporting by the FHA, PBGC, and the Comptroller of the Currency, respectively.

[9]Outlays for the Bureau of Land Management have been decreased by $1 million and outlays for the National Park Service have been increased by $13 million to reflect additional reporting by the agency in September 1994.

[10]Outlays have been increased by $14 million in August 1994 to reflect non-budgetary activity previously reported as offsetting collections by the Maritime Administration.

Note: Details may not add to totals due to rounding.

Table 4. Receipts of the U.S. Government, November 1994 and Other Periods

[$ millions]

Classification	This Month: Gross Receipts	This Month: Refunds (Deduct)	This Month: Receipts	Current Fiscal Year to Date: Gross Receipts	Current Fiscal Year to Date: Refunds (Deduct)	Current Fiscal Year to Date: Receipts	Prior Fiscal Year to Date: Gross Receipts	Prior Fiscal Year to Date: Refunds (Deduct)	Prior Fiscal Year to Date: Receipts
Individual income taxes:									
Withheld	37,882			78,361			72,107		
Presidential Election Campaign Fund	2			2			(* *)		
Other	1,857			5,776			[1]5,998		
Total—Individual income taxes	**39,740**	**2,327**	**37,414**	**84,139**	**3,487**	**80,652**	**78,106**	**2,792**	**75,314**
Corporation income taxes	**2,682**	**1,185**	**1,497**	**8,195**	**3,229**	**4,967**	**7,125**	**2,759**	**4,366**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[2]8,426	......	8,426	28,099	......	28,099	42,642	......	42,642
Self-Employment Contributions Act taxes	[2]–448	......	–448	–110	......	–110	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FOASI trust fund	7,978	......	7,978	27,989	......	27,989	42,642	......	42,642
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[2]17,164	......	17,164	20,756	......	20,756	4,569	......	4,569
Self-Employment Contributions Act taxes	[2]448	......	448	484	......	484	......	......	......
Receipts from railroad retirement account	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Other	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	17,612	......	17,612	21,240	......	21,240	4,569	......	4,569
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	7,934	......	7,934	15,123	......	15,123	13,163	......	13,163
Self-Employment Contributions Act taxes	......	......	......	90	......	90	......	......	......
Receipts from Railroad Retirement Board	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FHI trust fund	7,934	......	7,934	15,213	......	15,213	13,163	......	13,163
Railroad retirement accounts:									
Rail industry pension fund	109	(* *)	109	309	7	302	306	(* *)	306
Railroad Social Security equivalent benefit	153	......	153	305	......	305	285	......	285
Total—Employment taxes and contributions	33,786	(* *)	33,786	65,056	7	65,049	60,965	(* *)	60,965
Unemployment insurance:									
State taxes deposited in Treasury	2,814	......	2,814	3,604	......	3,604	3,151	......	3,151
Federal Unemployment Tax Act taxes	438	3	435	719	8	712	667	7	660
Railroad unemployment taxes	1	......	1	6	......	6	7	......	7
Railroad debt repayment	......	......	......	......	......	......	1	......	1
Total—Unemployment insurance	3,253	3	3,249	4,330	8	4,322	3,826	7	3,819
Other retirement contributions:									
Federal employees retirement — employee contributions	344	......	344	686	......	686	711	......	711
Contributions for non-federal employees	8	......	8	17	......	17	17	......	17
Total—Other retirement contributions	352	......	352	702	......	702	728	......	728
Total—Social insurance taxes and contributions	**37,390**	**3**	**37,387**	**70,089**	**14**	**70,074**	**65,519**	**7**	**65,512**
Excise taxes:									
Miscellaneous excise taxes[3]	3,590	29	3,561	5,944	59	5,886	4,849	347	4,502
Airport and airway trust fund	453	......	453	896	6	890	891	2	889
Highway trust fund	1,448	......	1,448	2,901	1	2,900	2,833	–85	2,919
Black lung disability trust fund	57	......	57	116	......	116	95	......	95
Total—Excise taxes	**5,547**	**29**	**5,518**	**9,858**	**66**	**9,792**	**8,669**	**264**	**8,405**
Estate and gift taxes	**1,263**	**42**	**1,220**	**2,497**	**71**	**2,426**	**2,355**	**59**	**2,296**
Customs duties	**1,965**	**138**	**1,827**	**3,926**	**252**	**3,674**	**3,573**	**177**	**3,396**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	2,587	......	2,587	4,542	......	4,542	2,033	......	2,033
All other	223	(* *)	224	574	6	569	[4,5,6]445	2	443
Total — Miscellaneous receipts	**2,811**	**(* *)**	**2,811**	**5,116**	**6**	**5,111**	**2,478**	**2**	**2,476**
Total — Receipts	**91,398**	**3,725**	**87,673**	**183,821**	**7,124**	**176,696**	**167,823**	**6,059**	**161,764**
Total — On-budget	**65,808**	**3,725**	**62,083**	**134,592**	**7,124**	**127,467**	**120,612**	**6,059**	**114,553**
Total — Off-budget	**25,590**	......	**25,590**	**49,229**	......	**49,229**	**47,211**	......	**47,211**

[1]Receipts have been increased in February 1994 and outlays correspondingly increased by $317 million to reflect adjustments made by the Internal Revenue Service to the Health Insurance Supplement to the Earned Income Credit.

[2]Includes a retroactive adjustment for January 1994 — September 1994, of $13,284 million and $448 million to the Federal Insurance Contributions Act Taxes and the Self-Employment Contributions Act Taxes, respectively, to reflect the new distribution between the FOASI and FDI trust funds.

[3]Includes amounts for the windfall profits tax pursuant to P.L. 96-223.

[4]Includes $62 million for a reclassification of the agency reporting for "Tonnage Duty Increases", from a governmental receipt to an offsetting governmental receipt.

[5]Receipts have been increased in March 1994 and outlays correspondingly increased by $6 million to reflect governmental receipts previously reported as offsetting collections to the Department of the Treasury.

[6]Receipts have been increased in September 1994 by $5 million to reflect governmental receipts previously reported as offsetting collections by the Air Force.

... No Transactions.

(* *) Less than $500,000.

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods

[$ millions]

Classification	This Month: Gross Outlays	This Month: Applicable Receipts	This Month: Outlays	Current Fiscal Year to Date: Gross Outlays	Current Fiscal Year to Date: Applicable Receipts	Current Fiscal Year to Date: Outlays	Prior Fiscal Year to Date: Gross Outlays	Prior Fiscal Year to Date: Applicable Receipts	Prior Fiscal Year to Date: Outlays
Legislative Branch:									
Senate	33	(* *)	33	68	(* *)	68	71	(* *)	71
House of Representatives	62	(* *)	62	129	(* *)	129	124	2	122
Joint items	6	......	6	13	......	13	14	......	14
Congressional Budget Office	2	......	2	3	......	3	4	......	4
Architect of the Capitol	20	(* *)	19	41	1	40	41	1	39
Library of Congress	26	......	26	198	......	198	227	......	227
Government Printing Office:									
Revolving fund (net)	20	......	20	32	......	32	21	......	21
General fund appropriations	10	......	10	16	......	16	13	......	13
General Accounting Office	34	......	34	63	......	63	65	......	65
United States Tax Court	4	......	4	6	......	6	6	......	6
Other Legislative Branch agencies	3	......	3	6	......	6	5	......	5
Proprietary receipts from the public	......	1	–1	......	1	–1	......	1	–1
Intrabudgetary transactions	–1	......	–1	–2	......	–2	–2	......	–2
Total—Legislative Branch	**218**	**1**	**217**	**573**	**3**	**570**	**588**	**4**	**584**
The Judiciary:									
Supreme Court of the United States	2	......	2	4	......	4	4	......	4
Courts of Appeals, District Courts, and other judicial services	158	1	157	332	1	331	356	(* *)	355
Other	10	......	10	18	......	18	18	......	18
Total—The Judiciary	**170**	**1**	**169**	**354**	**1**	**353**	**377**	**(* *)**	**377**
Executive Office of the President:									
Compensation of the President and the White House Office	3	......	3	6	......	6	8	......	8
Office of Management and Budget	4	......	4	10	......	10	11	......	11
Other	10	......	10	19	......	19	18	......	18
Total—Executive Office of the President	**17**	**......**	**17**	**35**	**......**	**35**	**37**	**......**	**37**
Funds Appropriated to the President:									
International Security Assistance:									
Guaranty reserve fund	57	34	22	137	54	83	136	53	83
Foreign military financing grants	110	......	110	2,025	......	2,025	2,143	......	2,143
Economic support fund	183	......	183	1,463	......	1,463	1,480	......	1,480
Military assistance	(* *)	......	(* *)	(* *)	......	(* *)	2	......	2
Peacekeeping Operations	3	......	3	7	......	7	8	......	8
Other	(* *)	......	(* *)	2	......	2	4	......	4
Proprietary receipts from the public	......	8	–8	......	14	–14	......	20	–20
Total—International Security Assistance	353	42	310	3,634	68	3,566	3,773	74	3,699
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association	......	......	......	246	......	246	194	......	194
International organizations and programs	78	......	78	170	......	170	41	......	41
Other	68	......	68	202	......	202	194	......	194
Total—Multilateral Assistance	146	......	146	618	......	618	429	......	429
Agency for International Development:									
Functional development assistance program	131	......	131	221	......	221	238	......	238
Sub-Saharan Africa development assistance	68	......	68	132	......	132	98	......	98
Operating expenses	47	......	47	74	......	74	91	......	91
Payment to the Foreign Service retirement and disability fund	......	......	......	......	......	......	......	......	......
Other	84	4	79	179	7	173	132	8	124
Proprietary receipts from the public	......	103	–103	......	133	–133	......	90	–90
Intrabudgetary transactions	......	......	......	......	......	......	......	......	......
Total—Agency for International Development	329	107	222	606	140	467	559	98	461
Peace Corps	32	......	32	41	......	41	45	......	45
Overseas Private Investment Corporation	3	40	–37	5	50	–45	5	49	–44
Other	4	(* *)	4	14	1	13	18	(* *)	18
Total—International Development Assistance	515	147	367	1,284	190	1,094	1,056	148	908
International Monetary Programs	230	......	230	89	......	89	296	......	296
Military Sales Programs:									
Special defense acquisition fund	9	1	8	32	43	–11	37	44	–7
Foreign military sales trust fund	908	......	908	1,985	......	1,985	2,123	......	2,123
Kuwait civil reconstruction trust fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Proprietary receipts from the public	......	697	–697	......	1,995	–1,995	......	1,933	–1,933
Other	3	......	3	4	......	4	2	......	2
Total—Funds Appropriated to the President	**2,017**	**888**	**1,130**	**7,028**	**2,297**	**4,731**	**7,287**	**2,198**	**5,088**

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Agriculture:									
Agricultural Research Service	61	......	61	121	......	121	116	......	116
Cooperative State Research Service	42	......	42	73	......	73	74	......	74
Extension Service	42	......	42	70	......	70	65	......	65
Animal and Plant Health Inspection Service	44	......	44	86	......	86	70	......	70
Food Safety and Inspection Service	38	......	38	77	......	77	76	......	76
Agricultural Marketing Service	118	......	118	228	......	228	175	1	174
Soil Conservation Service:									
Watershed and flood prevention operations	24	......	24	54	......	54	49	......	49
Conservation operations	42	......	42	77	......	77	88	......	88
Other	6	......	6	13	......	13	13	......	13
Agricultural Stabilization and Conservation Service:									
Conservation programs	58	......	58	1,744	......	1,744	1,746	......	1,746
Other	71	......	71	113	......	113	107	......	107
Farmers Home Administration:									
Credit accounts:									
Agricultural credit insurance fund	20	91	−71	164	197	−33	263	242	21
Rural housing insurance fund	354	203	152	639	418	221	574	542	32
Other	......	......	......	......	......	......	(* *)	......	(* *)
Salaries and expenses	60	......	60	108	......	108	94	......	94
Other	10	(* *)	10	21	(* *)	21	20	1	19
Total—Farmers Home Administration	445	294	151	933	616	317	951	785	166
Foreign assistance programs	221	......	221	243	......	243	[1]240	......	240
Rural Development Administration:									
Rural development insurance fund	58	64	−6	149	93	56	173	79	95
Rural water and waste disposal grants	33	......	33	63	......	63	56	......	56
Other	4	......	4	8	......	8	5	......	5
Rural Electrification Administration	85	150	−65	143	340	−196	98	441	−343
Federal Crop Insurance Corporation	92	315	−223	177	402	−224	446	263	183
Commodity Credit Corporation:									
Price support and related programs	3,038	287	2,752	5,045	566	4,478	[1]3,980	1,057	2,923
National Wool Act Program	1	......	1	1	......	1	(* *)	......	(* *)
Food and Nutrition Service:									
Food stamp program	2,219	......	2,219	4,347	......	4,347	4,218	......	4,218
State child nutrition programs	647	......	647	1,175	......	1,175	1,016	......	1,016
Women, infants and children programs	280	......	280	593	......	593	499	......	499
Other	50	......	50	136	......	136	63	......	63
Total—Food and Nutrition Service	3,196	......	3,196	6,250	......	6,250	5,796	......	5,796
Forest Service:									
National forest system	133	......	133	253	......	253	292	......	292
Forest and rangeland protection	72	......	72	238	......	238	81	......	81
Forest service permanent appropriations	12	......	12	248	......	248	−33	......	−33
Other	56	......	56	96	......	96	88	......	88
Total—Forest Service	274	......	274	835	......	835	428	......	428
Other	39	2	36	94	6	89	111	6	104
Proprietary receipts from the public	......	88	−88	......	145	−145	......	190	−190
Intrabudgetary transactions	......	......	......	......	......	......	1	......	1
Total—Department of Agriculture	**8,033**	**1,200**	**6,833**	**16,599**	**2,167**	**14,432**	**14,863**	**2,822**	**12,041**
Department of Commerce:									
Economic Development Administration	31	1	30	54	3	50	53	4	49
Bureau of the Census	31	......	31	75	......	75	59	......	59
Promotion of Industry and Commerce	34	......	34	54	......	54	43	......	43
Science and Technology:									
National Oceanic and Atmospheric Administration	162	6	156	342	7	336	329	1	328
Patent and Trademark Office	14	......	14	7	......	7	[2]7	......	7
National Institute of Standards and Technology	36	......	36	66	......	66	41	......	41
Other	6	2	4	18	6	12	18	7	11
Total—Science and Technology	219	8	211	433	13	420	395	8	387
Other	6	......	6	26	......	26	25	......	25
Proprietary receipts from the public	......	12	−12	......	21	−21	......	[2]22	−22
Intrabudgetary transactions	......	......	......	(* *)	......	(* *)	......	......	......
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of Commerce	**322**	**21**	**300**	**642**	**37**	**605**	**574**	**33**	**541**

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Military:									
Military personnel:									
Department of the Army	2,019	......	2,019	3,112	......	3,112	4,513	......	4,513
Department of the Navy	2,028	......	2,028	3,724	......	3,724	4,257	......	4,257
Department of the Air Force	1,654	......	1,654	2,578	......	2,578	3,222	......	3,222
Total—Military personnel	5,701	......	5,701	9,414	......	9,414	11,991	......	11,991
Operation and maintenance:									
Department of the Army	1,968	......	1,968	3,591	......	3,591	3,199	......	3,199
Department of the Navy	1,608	......	1,608	3,060	......	3,060	3,406	......	3,406
Department of the Air Force	2,629	......	2,629	[3]4,134	......	4,134	3,533	......	3,533
Defense agencies	1,632	......	1,632	3,171	......	3,171	3,323	......	3,323
Total—Operation and maintenance	7,837	......	7,837	13,955	......	13,955	13,461	......	13,461
Procurement:									
Department of the Army	415	......	415	1,128	......	1,128	1,416	......	1,416
Department of the Navy	2,002	......	2,002	3,939	......	3,939	4,233	......	4,233
Department of the Air Force	1,918	......	1,918	3,230	......	3,230	3,932	......	3,932
Defense agencies	419	......	419	712	......	712	682	......	682
Total—Procurement	4,754	......	4,754	9,009	......	9,009	10,263	......	10,263
Research, development, test, and evaluation:									
Department of the Army	397	......	397	734	......	734	960	......	960
Department of the Navy	551	......	551	1,249	......	1,249	1,029	......	1,029
Department of the Air Force	1,300	......	1,300	2,152	......	2,152	2,507	......	2,507
Defense agencies	648	......	648	1,263	......	1,263	1,366	......	1,366
Total—Research, development, test and evaluation	2,896	......	2,896	5,398	......	5,398	5,861	......	5,861
Military construction:									
Department of the Army	87	......	87	148	......	148	153	......	153
Department of the Navy	51	......	51	98	......	98	53	......	53
Department of the Air Force	115	......	115	236	......	236	190	......	190
Defense agencies	284	......	284	480	......	480	396	......	396
Total—Military construction	537	......	537	961	......	961	792	......	792
Family housing:									
Department of the Army	72	......	72	160	......	160	150	......	150
Department of the Navy	75	......	75	145	......	145	107	......	107
Department of the Air Force	85	......	85	162	......	162	163	......	163
Defense agencies	15	4	11	28	7	21	19	5	14
Revolving and management funds:									
Department of the Army	14	......	14	–27	......	–27	49	......	49
Department of the Navy	13	......	13	41	......	41	95	......	95
Department of the Air Force	......	......	......	......	......	......	......	......	......
Defense agencies:									
Defense business operations fund	–311	......	–311	–137	......	–137	2,257	......	2,257
Other	–26	(* *)	–26	–40	1	–41	–16	1	–17
Trust funds:									
Department of the Army	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of the Navy	2	1	1	7	2	5	5	3	2
Department of the Air Force	(* *)	......	(* *)	(* *)	......	(* *)	2	2	(* *)
Defense agencies	17	......	17	27	......	27	[4]51	......	51
Proprietary receipts from the public:									
Department of the Army	......	120	–120	......	143	–143	......	145	–145
Department of the Navy	......	11	–11	......	82	–82	......	147	–147
Department of the Air Force	......	15	–15	......	[3]179	–179	......	161	–161
Defense agencies	......	62	–62	......	192	–192	......	39	–39
Intrabudgetary transactions:									
Department of the Army	8	......	8	126	......	126	108	......	108
Department of the Navy	–13	......	–13	427	......	427	22	......	22
Department of the Air Force	2	......	2	103	......	103	93	......	93
Defense agencies	–30	......	–30	–39	......	–39	[4]–29	......	–29
Offsetting governmental receipts:									
Department of the Army	......	......	......	......	......	......	......	......	......
Defense agencies	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Total—Department of Defense—Military	**21,649**	**214**	**21,435**	**39,721**	**606**	**39,115**	**45,444**	**502**	**44,943**

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Civil									
Corps of Engineers:									
Construction, general	109	......	109	215	......	215	174	......	174
Operation and maintenance, general	160	......	160	304	......	304	181	......	181
Other	102	......	102	246	......	246	291	......	291
Proprietary receipts from the public	......	4	−4	......	22	−22	......	25	−25
Total—Corps of Engineers	371	4	367	765	22	742	647	25	622
Military retirement:									
Payment to military retirement fund	......	......	......	11,470	......	11,470	11,908	......	11,908
Retired pay	......	......	......	......	......	......	......	......	......
Military retirement fund	2,268	......	2,268	4,555	......	4,555	4,405	......	4,405
Intrabudgetary transactions	......	......	......	−11,470	......	−11,470	−11,908	......	−11,908
Education benefits	16	......	16	−10	......	−10	30	......	30
Other	7	(* *)	6	10	1	10	[5]9	1	9
Proprietary receipts from the public	......	(* *)	(* *)	......	2	−2	......	2	−2
Total—Department of Defense—Civil	**2,661**	**5**	**2,656**	**5,320**	**25**	**5,294**	**5,091**	**27**	**5,064**
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	501	......	501	857	......	857	1,080	......	1,080
Impact aid	34	......	34	67	......	67	469	......	469
School improvement programs	108	......	108	211	......	211	256	......	256
Indian education	6	......	6	11	......	11	12	......	12
Other	1	......	1	4	......	4	1	......	1
Total—Office of Elementary and Secondary Education	650	......	650	1,149	......	1,149	1,818	......	1,818
Office of Bilingual Education and Minority Languages Affairs	17	......	17	33	......	33	37	......	37
Office of Special Education and Rehabilitative Services:									
Special education	216	......	216	463	......	463	462	......	462
Rehabilitation services and disability research	200	......	200	365	......	365	364	......	364
Special institutions for persons with disabilities	12	......	12	23	......	23	20	......	20
Office of Vocational and Adult Education	143	......	143	262	......	262	264	......	264
Office of Postsecondary Education:									
College housing loans	......	7	−7	6	24	−18	......	19	−19
Student financial assistance	566	......	566	1,316	......	1,316	1,369	......	1,369
Federal family education loans	360	......	360	363	......	363	593	......	593
Higher education	60	......	60	126	......	126	106	......	106
Howard University	32	......	32	32	......	32	26	......	26
Other	9	......	9	14	......	14	1	......	1
Total—Office of Postsecondary Education	1,026	7	1,018	1,857	24	1,833	2,095	19	2,076
Office of Educational Research and Improvement	31	......	31	75	......	75	67	......	67
Departmental management	36	......	36	76	......	76	63	......	63
Proprietary receipts from the public	......	4	−4	......	8	−8	......	10	−10
Total—Department of Education	**2,333**	**12**	**2,322**	**4,302**	**31**	**4,271**	**5,190**	**29**	**5,161**
Department of Energy:									
Atomic energy defense activities	973	......	973	2,057	......	2,057	2,231	......	2,231
Energy programs:									
General science and research activities	322	......	322	407	......	407	237	......	237
Energy supply, R and D activities	252	......	252	549	......	549	487	......	487
Uranium supply and enrichment activities	15	......	15	16	......	16	182	......	182
Fossil energy research and development	46	......	46	76	......	76	74	......	74
Energy conservation	63	......	63	98	......	98	91	......	91
Strategic petroleum reserve	15	......	15	37	......	37	36	......	36
Clean coal technology	......	......	......	......	......	......	......	......	......
Nuclear waste disposal fund	33	......	33	56	......	56	60	......	60
Other	73	(* *)	73	147	(* *)	147	67	(* *)	66
Total—Energy programs	819	(* *)	819	1,385	(* *)	1,385	1,233	(* *)	1,233
Power Marketing Administration	173	122	51	355	257	98	328	201	126
Departmental administration	−178	......	−178	75	......	75	81	......	81
Proprietary receipts from the public	......	253	−253	......	458	−458	......	101	−101
Intrabudgetary transactions	−82	......	−82	−141	......	−141	−132	......	−132
Offsetting governmental receipts	......	(* *)	(* *)	......	4	−4	......	6	−6
Total—Department of Energy	**1,705**	**374**	**1,330**	**3,732**	**719**	**3,013**	**3,741**	**308**	**3,433**

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued
[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, except Social Security:									
Public Health Service:									
Food and Drug Administration	60	(* *)	60	139	1	139	126	1	126
Health Resources and Services Administration	170	......	170	349	......	349	317	......	317
Indian Health Services	173	......	173	331	......	331	288	......	288
Centers for Disease Control and Prevention	129	......	129	291	......	291	233	......	233
National Institutes of Health	924	......	924	1,692	......	1,692	1,737	......	1,737
Substance Abuse and Mental Health Services Administration	168	......	168	359	......	359	340	......	340
Agency for Health Care Policy and Research	9	......	9	21	......	21	19	......	19
Assistant secretary for health	–45	......	–45	10	......	10	108	......	108
Total—Public Health Service	1,588	(* *)	1,588	3,191	1	3,191	3,167	1	3,166
Health Care Financing Administration:									
Grants to States for Medicaid	7,545	......	7,545	14,167	......	14,167	14,020	......	14,020
Payments to health care trust funds	3,042	......	3,042	6,104	......	6,104	7,511	......	7,511
Federal hospital insurance trust fund:									
Benefit payments	8,850	......	8,850	16,587	......	16,587	15,258	......	15,258
Administrative expenses	93	......	93	189	......	189	180	......	180
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FHI trust fund	8,942	......	8,942	16,776	......	16,776	15,438	......	15,438
Federal supplementary medical insurance trust fund:									
Benefit payments	5,173	......	5,173	9,854	......	9,854	9,236	......	9,236
Administrative expenses	116	......	116	234	......	234	252	......	252
Total—FSMI trust fund	5,290	......	5,290	10,089	......	10,089	9,487	......	9,487
Other	51	......	51	44	......	44	72	......	72
Total—Health Care Financing Administration	24,869	......	24,869	47,178	......	47,178	46,529	......	46,529
Social Security Administration:									
Payments to Social Security trust funds	7	......	7	637	......	637	988	......	988
Special benefits for disabled coal miners	61	......	61	123	......	123	137	......	137
Supplemental security income program	2,132	......	2,132	2,357	......	2,357	3,905	......	3,905
Total—Social Security Administration	2,200	......	2,200	3,116	......	3,116	5,031	......	5,031
Administration for children and families:									
Family support payments to States	1,272	......	1,272	3,009	......	3,009	2,790	......	2,790
Low income home energy assistance	105	......	105	171	......	171	574	......	574
Refugee and entrant assistance	42	......	42	72	......	72	46	......	46
Community Services Block Grant	25	......	25	47	......	47	50	......	50
Payments to States for afdc work programs	89	......	89	139	......	139	106	......	106
Interim assistance to States for legalization	29	......	29	35	......	35	569	......	569
Payments to States for child care assistance	81	......	81	145	......	145	111	......	111
Social services block grant	227	......	227	466	......	466	324	......	324
Children and families services programs	371	......	371	726	......	726	568	......	568
Payments to States for foster care and adoption assistance	276	......	276	434	......	434	382	......	382
Other	1	......	1	1	......	1	......	......	......
Total—Administration for children and families	2,519	......	2,519	5,247	......	5,247	5,520	......	5,520
Administration on aging	80	......	80	132	......	132	100	......	100
Office of the Secretary	18	......	18	59	......	59	29	......	29
Proprietary receipts from the public	......	1,582	–1,582	......	3,120	–3,120	......	2,738	–2,738
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	......	......	......	......	......	......	......	......	......
Federal supplementary medical insurance trust fund	–3,042	......	–3,042	–6,103	......	–6,103	–7,511	......	–7,511
Payments for tax and other credits:									
Federal hospital insurance trust fund	......	......	......	–1	......	–1	......	......	......
Other	......	......	......	......	......	......	......	......	......
Total—Department of Health and Human Services, except Social Security	**28,233**	**1,582**	**26,650**	**52,821**	**3,121**	**49,700**	**52,865**	**2,739**	**50,126**

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Benefit payments	23,342	......	23,342	46,713	......	46,713	44,812	......	44,812
Administrative expenses and construction	26	......	26	68	......	68	288	......	288
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Interest expense on interfund borrowings	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FOASI trust fund	23,368	......	23,368	46,781	......	46,781	45,100	......	45,100
Federal disability insurance trust fund:									
Benefit payments	3,174	......	3,174	6,375	......	6,375	5,837	......	5,837
Administrative expenses and construction	70	......	70	158	......	158	153	......	153
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	3,244	......	3,244	6,533	......	6,533	5,990	......	5,990
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions[6]	–7	......	–7	–637	......	–637	–984	......	–984
Total—Department of Health and Human Services, Social Security(off-budget)	**26,605**	**(* *)**	**26,605**	**52,677**	**(* *)**	**52,677**	**50,107**	**(* *)**	**50,106**
Department of Housing and Urban Development:									
Housing programs:									
Public enterprise funds	14	11	3	24	18	6	26	14	13
Credit accounts:									
Federal housing administration fund	478	599	–120	1,040	1,010	31	[7]1,108	859	249
Housing for the elderly or handicapped fund	–7	55	–62	326	110	215	375	118	257
Other	48	......	48	92	......	92	75	(* *)	75
Rent supplement payments	7	......	7	22	......	22	10	......	10
Homeownership assistance	8	......	8	21	......	21	18	......	18
Rental housing assistance	44	......	44	109	......	109	110	......	110
Rental housing development grants	......	......	......	......	......	......	(* *)	......	(* *)
Low-rent public housing	216	......	216	249	......	249	255	......	255
Public housing grants	324	......	324	651	......	651	597	......	597
College housing grants	2	......	2	4	(* *)	4	3	......	3
Lower income housing assistance	816	......	816	1,670	......	1,670	1,763	......	1,763
Section 8 contract renewals	389	......	389	733	......	733	530	......	530
Other	11	......	11	21	......	21	7	......	7
Total—Housing programs	2,350	664	1,685	4,961	1,138	3,823	4,877	991	3,886
Public and Indian Housing programs:									
Low-rent public housing—Loans and other expenses	239	196	43	241	196	44	255	189	66
Payments for operation of low-income housing projects	214	......	214	435	......	435	432	......	432
Community Partnerships Against Crime	12	......	12	23	......	23	25	......	25
Other	1	......	1	1	......	1	......	......	......
Total—Public and Indian Housing programs	466	196	270	700	196	504	711	189	522
Government National Mortgage Association:									
Management and liquidating functions fund	......	......	......	......	......	......	......	(* *)	(* *)
Guarantees of mortgage-backed securities	39	75	–36	92	125	–34	175	264	–89
Total—Government National Mortgage Association	39	75	–36	92	125	–34	175	264	–89
Community Planning and Development:									
Community Development Grants	330	......	330	659	......	659	586	......	586
Home investment partnerships program	100	......	100	188	......	188	80	......	80
Other	22	12	10	47	25	22	60	29	32
Total—Community Planning and Development	452	12	440	894	25	869	725	29	697
Management and Administration	66	......	66	160	......	160	83	......	83
Other	4	......	4	11	......	11	4	......	4
Proprietary receipts from the public	......	3	–3	......	3	–3	......	44	–44
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of Housing and Urban Development	**3,377**	**950**	**2,426**	**6,817**	**1,488**	**5,329**	**6,576**	**1,516**	**5,060**

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Interior:									
Land and minerals management:									
Bureau of Land Management:									
Management of lands and resources	55	......	55	117	......	117	108	......	108
Other	36	......	36	164	......	164	[8]59	......	59
Minerals Management Service	68	......	68	143	......	143	130	......	130
Office of Surface Mining Reclamation and Enforcement	30	......	30	61	......	61	49	......	49
Total—Land and minerals management	189	......	189	486	......	486	346	......	346
Water and science:									
Bureau of Reclamation:									
Construction program	40	......	40	71	......	71	43	......	43
Operation and maintenance	21	......	21	39	......	39	37	......	37
Other	27	15	12	63	22	41	76	50	26
Central utah project	23	......	23	23	......	23	......	......	......
Geological Survey	23	......	23	81	......	81	84	......	84
Bureau of Mines	15	2	13	28	4	24	29	5	24
Total—Water and science	149	17	132	305	27	278	269	55	215
Fish and wildlife and parks:									
United States Fish and Wildlife Service	138	......	138	216	......	216	174	......	174
National Biological Survey	9	......	9	20	......	20	......	......	......
National Park Service	127	......	127	246	......	246	[8]250	......	250
Total—Fish and wildlife and parks	274	......	274	482	......	482	423	......	423
Bureau of Indian Affairs:									
Operation of Indian programs	107	......	107	236	......	236	234	......	234
Indian tribal funds	15	......	15	−6	......	−6	−64	......	−64
Other	47	1	46	119	2	117	130	1	129
Total—Bureau of Indian Affairs	169	1	168	349	2	347	300	1	299
Territorial and international affairs	8	......	8	238	......	238	111	......	111
Departmental offices	56	......	56	62	......	62	29	......	29
Proprietary receipts from the public	......	164	−164	......	345	−345	......	280	−280
Intrabudgetary transactions	−80	......	−80	−81	......	−81	−16	......	−16
Offsetting governmental receipts	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Total—Department of the Interior	**765**	**182**	**583**	**1,840**	**373**	**1,467**	**1,462**	**336**	**1,126**
Department of Justice:									
Legal activities	193	......	193	390	......	390	363	......	363
Federal Bureau of Investigation	141	......	141	277	......	277	353	......	353
Drug Enforcement Administration	66	......	66	148	......	148	132	......	132
Immigration and Naturalization Service	119	......	119	252	......	252	226	......	226
Federal Prison System	221	10	210	421	21	400	362	19	343
Office of Justice Programs	69	......	69	184	......	184	142	......	142
Other	76	......	76	168	......	168	153	......	153
Intrabudgetary transactions	−2	......	−2	−4	......	−4	−1	......	−1
Offsetting governmental receipts	......	53	−53	......	88	−88	......	57	−57
Total—Department of Justice	**882**	**64**	**818**	**1,836**	**110**	**1,726**	**1,730**	**76**	**1,654**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	385	......	385	738	......	738	681	......	681
Community Service Employment for Older Americans	29	......	29	58	......	58	65	......	65
Federal unemployment benefits and allowances	15	......	15	41	......	41	25	......	25
State unemployment insurance and employment service operations	−26	......	−26	13	......	13	−46	......	−46
Payments to the unemployment trust fund	......	......	......	......	......	......	......	......	......
Advances to the unemployment trust fund and other funds	......	......	......	......	......	......	1,714	......	1,714

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Labor:—Continued									
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	1,517	......	1,517	2,924	......	2,924	4,734	......	4,734
State administrative expenses	301	......	301	524	......	524	600	......	600
Federal administrative expenses	10	......	10	16	......	16	104	......	104
Veterans employment and training	20	......	20	29	......	29	19	......	19
Repayment of advances from the general fund	......	......	......	......	......	......	......	......	......
Railroad unemployment insurance	5	......	5	9	......	9	10	......	10
Other	1	......	1	3	......	3	5	......	5
Total—Unemployment trust fund	1,854	......	1,854	3,504	......	3,504	5,472	......	5,472
Other	5	......	5	13	......	13	12	......	12
Total—Employment and Training Administration	2,262	......	2,262	4,368	......	4,368	7,922	......	7,922
Pension Benefit Guaranty Corporation	73	56	17	145	105	40	272	[7]–55	327
Employment Standards Administration:									
Salaries and expenses	17	......	17	38	......	38	34	......	34
Special benefits	–692	......	–692	–611	......	–611	–601	......	–601
Black lung disability trust fund	48	......	48	94	......	94	[9]99	......	99
Other	15	......	15	30	......	30	24	......	24
Occupational Safety and Health Administration	24	......	24	46	......	46	42	......	42
Bureau of Labor Statistics	9	......	9	28	......	28	30	......	30
Other	44	......	44	63	......	63	[9]68	......	68
Proprietary receipts from the public	......	(* *)	(* *)	......	1	–1	......	(* *)	(* *)
Intrabudgetary transactions	–58	......	–58	–59	......	–59	–1,760	......	–1,760
Total—Department of Labor	**1,741**	**57**	**1,684**	**4,143**	**106**	**4,037**	**6,130**	**–55**	**6,185**
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	124	......	124	330	......	330	243	......	243
Acquisition and maintenance of buildings abroad	57	......	57	77	......	77	92	......	92
Payment to Foreign Service retirement and disability fund	129	......	129	129	......	129	125	......	125
Foreign Service retirement and disability fund	38	......	38	73	......	73	68	......	68
Other	10	......	10	5	......	5	26	......	26
Total—Administration of Foreign Affairs	358	......	358	614	......	614	554	......	554
International organizations and Conferences	535	......	535	714	......	714	915	......	915
Migration and refugee assistance	64	......	64	109	......	109	64	......	64
International narcotics control	7	......	7	12	......	12	17	......	17
Other	7	......	7	10	......	10	4	......	4
Proprietary receipts from the public	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	–129	......	–129	–129	......	–129	–125	......	–125
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of State	**841**	**......**	**841**	**1,329**	**......**	**1,329**	**1,429**	**......**	**1,429**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,750	......	1,750	3,530	......	3,530	[10]3,361	......	3,361
Other	12	......	12	26	......	26	14	......	14
Other programs	22	......	22	42	......	42	59	......	59
Total—Federal Highway Administration	1,784	......	1,784	3,598	......	3,598	3,434	......	3,434
National Highway Traffic Safety Administration	25	......	25	44	......	44	40	......	40
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation	......	......	......	344	......	344	214	......	214
Other	15	1	14	32	2	30	54	2	52
Total—Federal Railroad Administration	15	1	14	376	2	374	269	2	266

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Transportation:—Continued									
Federal Transit Administration:									
Formula grants	103	......	103	240	......	240	140	......	140
Discretionary grants	192	......	192	336	......	336	240	......	240
Other	44	......	44	84	......	84	174	......	174
Total—Federal Transit Administration	339	......	339	661	......	661	555	......	555
Federal Aviation Administration:									
Operations	36	......	36	281	......	281	688	......	688
Airport and airway trust fund:									
Grants-in-aid for airports	179	......	179	355	......	355	359	......	359
Facilities and equipment	277	......	277	428	......	428	286	......	286
Research, engineering and development	17	......	17	37	......	37	35	......	35
Operations	408	......	408	504	......	504	......	......	......
Total—Airport and airway trust fund	882	......	882	1,325	......	1,325	680	......	680
Other	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)
Total—Federal Aviation Administration	918	(* *)	918	1,606	(* *)	1,606	1,368	(* *)	1,368
Coast Guard:									
Operating expenses	225	......	225	367	......	367	406	......	406
Acquisition, construction, and improvements	52	......	52	72	......	72	43	......	43
Retired pay	41	......	41	81	......	81	71	......	71
Other	16	1	15	32	1	31	20	1	19
Total—Coast Guard	335	1	334	552	1	552	539	1	538
Maritime Administration	54	1	53	90	39	50	133	[11]42	91
Other	38	(* *)	38	71	(* *)	71	99	(* *)	99
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions	......	......	......	......	......	......	13	......	13
Offsetting governmental receipts	......	6	−6	......	11	−11	......	[12]11	−11
Total—Department of Transportation	**3,507**	**8**	**3,499**	**6,998**	**54**	**6,944**	**6,450**	**57**	**6,392**
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	−327	2	−329	−426	3	−429	−114	2	−116
Other	10	......	10	28	......	28	61	......	61
Financial Management Service:									
Salaries and expenses	19	......	19	37	......	37	34	......	34
Payment to the Resolution Funding Corporation	......	......	......	587	......	587	587	......	587
Claims, judgements, and relief acts	84	......	84	135	......	135	70	......	70
Net interest paid to loan guarantee financing accounts	4	......	4	83	......	83	2	......	2
Other	3	......	3	5	......	5	23	......	23
Total—Financial Management Service	110	......	110	847	......	847	717	......	717
Federal Financing Bank	−109	......	−109	−223	......	−223	−224	......	−224
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	38	......	38	66	......	66	50	......	50
Internal revenue collections for Puerto Rico	19	......	19	37	......	37	37	......	37
United States Customs Service	170	......	170	302	......	302	280	......	280
Bureau of Engraving and Printing	6	......	6	4	......	4	32	......	32
United States Mint	−13	......	−13	−42	......	−42	−6	......	−6
Bureau of the Public Debt	45	......	45	58	......	58	28	......	28
Internal Revenue Service:									
Processing tax returns and assistance	139	......	139	250	......	250	228	......	228
Tax law enforcement	328	......	328	634	......	634	596	......	596
Information systems	137	......	137	236	......	236	145	......	145
Payment where earned income credit exceeds liability for tax	21	......	21	40	......	40	43	......	43
Health insurance supplement to earned income credit	......	......	......	......	......	......	[13]4	......	4
Refunding internal revenue collections, interest	125	......	125	226	......	226	575	......	575
Other	13	......	13	26	......	26	[14]22	......	22
Total—Internal Revenue Service	763	......	763	1,412	......	1,412	1,613	......	1,613

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month: Gross Outlays	This Month: Applicable Receipts	This Month: Outlays	Current Fiscal Year to Date: Gross Outlays	Current Fiscal Year to Date: Applicable Receipts	Current Fiscal Year to Date: Outlays	Prior Fiscal Year to Date: Gross Outlays	Prior Fiscal Year to Date: Applicable Receipts	Prior Fiscal Year to Date: Outlays
Department of the Treasury:—Continued									
United States Secret Service	44	......	44	95	......	95	74	......	74
Comptroller of the Currency	27	3	24	58	7	51	[7]58	9	49
Office of Thrift Supervison	11	1	10	22	2	20	30	3	27
Interest on the public debt:									
Public issues (accrual basis)	18,280	......	18,280	36,961	......	36,961	34,080	......	34,080
Special issues (cash basis)	6,632	......	6,632	7,683	......	7,683	5,819	......	5,819
Total—Interest on the public debt	24,912	......	24,912	44,644	......	44,644	39,898	......	39,898
Other	5	......	5	7	......	7	12	......	12
Proprietary receipts from the public	......	284	−284	......	450	−450	......	[10]274	−274
Receipts from off-budget federal entities	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	−717	......	−717	−1,898	......	−1,898	−2,247	......	−2,247
Offsetting governmental receipts	......	101	−101	......	161	−161	......	142	−142
Total—Department of the Treasury	**24,994**	**390**	**24,604**	**44,993**	**623**	**44,370**	**40,301**	**429**	**39,872**
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,310	......	1,310	2,484	......	2,484	2,454	......	2,454
Other	53	22	31	109	44	65	117	43	74
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	127	43	84	195	89	106	81	123	−42
Loan guaranty revolving fund	114	30	83	206	61	145	240	81	159
Other	5	3	2	53	9	44	69	63	6
Compensation and pensions	1,457	......	1,457	1,562	......	1,562	2,805	......	2,805
Readjustment benefits	116	......	116	188	......	188	184	......	184
Post-Vietnam era veterans education account	5	......	5	8	......	8	15	......	15
Insurance funds:									
National service life	95	......	95	182	......	182	182	......	182
United States government life	1	......	1	3	......	3	3	......	3
Veterans special life	9	3	6	18	5	12	18	6	12
Other	−1	......	−1	3	......	3	−11	......	−11
Total—Veterans Benefits Administration	1,928	79	1,849	2,419	164	2,254	3,587	272	3,315
Construction	52	(* *)	52	101	(* *)	101	118	(* *)	118
Departmental administration	150	......	150	268	......	268	193	......	193
Proprietary receipts from the public:									
National service life	......	25	−25	......	48	−48	......	60	−60
United States government life	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Other	......	54	−54	......	111	−111	......	113	−113
Intrabudgetary transactions	(* *)	......	(* *)	−2	......	−2	−7	......	−7
Total—Department of Veterans Affairs	**3,492**	**179**	**3,312**	**5,378**	**367**	**5,011**	**6,462**	**488**	**5,974**
Environmental Protection Agency:									
Program and research operations	61	......	61	128	......	128	133	......	133
Abatement, control, and compliance	100	......	100	251	......	251	210	......	210
Water infrastructure financing	167	......	167	307	......	307	323	......	323
Hazardous substance superfund	120	......	120	180	......	180	230	......	230
Other	41	(* *)	41	332	(* *)	332	77	(* *)	77
Proprietary receipts from the public	......	13	−13	......	35	−35	......	34	−34
Intrabudgetary transactions	......	......	......	−250	......	−250	......	......	......
Offsetting governmental receipts	......	1	−1	......	1	−1	......	2	−2
Total—Environmental Protection Agency	**488**	**14**	**474**	**949**	**37**	**912**	**972**	**36**	**936**
General Services Administration:									
Real property activities	583	......	583	−62	......	−62	−258	......	−258
Personal property activities	−17	......	−17	−86	......	−86	−67	......	−67
Information Resources Management Service	43	......	43	87	......	87	29	......	29
Other	31	......	31	50	......	50	47	......	47
Proprietary receipts from the public	......	1	−1	......	1	−1	......	1	−1
Total—General Services Administration	**640**	**1**	**639**	**−10**	**1**	**−11**	**−249**	**1**	**−250**

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
National Aeronautics and Space Administration:									
Human space flight	73	......	73	50	......	50	......	......	......
Science, aeronautics and technology	120	......	120	136	......	136	......	......	......
Mission support	131	......	131	191	......	191	......	......	......
Research and development	460	......	460	851	......	851	1,135	......	1,135
Space flight, control and data communications	345	......	345	649	......	649	836	......	836
Construction of facilities	11	......	11	39	......	39	65	......	65
Research and program management	1	......	1	70	......	70	255	......	255
Other	1	......	1	2	......	2	2	......	2
Total—National Aeronautics and Space Administration	**1,143**	......	**1,143**	**1,987**	......	**1,987**	**2,293**	......	**2,293**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	286	......	286	574	......	574	593	......	593
Payment to civil service retirement and disability fund	......	......	......	......	......	......	......	......	......
Civil service retirement and disability fund	3,105	......	3,105	6,228	......	6,228	5,918	......	5,918
Employees health benefits fund	1,233	1,261	−28	2,518	2,496	22	2,471	2,497	−26
Employees life insurance fund	114	353	−238	229	542	−313	225	523	−298
Retired employees health benefits fund	1	1	(* *)	1	1	(* *)	1	1	(* *)
Other	−3	......	−3	22	......	22	33	......	33
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	......	......	......	......	......	......	......	......	......
Other	−3	......	−3	−5	......	−5	−6	......	−6
Total—Office of Personnel Management	**4,733**	**1,614**	**3,118**	**9,567**	**3,039**	**6,528**	**9,235**	**3,021**	**6,214**
Small Business Administration:									
Public enterprise funds:									
Business loan fund	61	22	39	77	41	36	147	82	66
Disaster loan fund	84	21	63	129	42	87	74	60	13
Other	3	2	1	4	3	1	8	2	5
Other	41	(* *)	41	86	(* *)	86	76	(* *)	76
Total—Small Business Administration	**189**	**44**	**145**	**297**	**86**	**210**	**305**	**144**	**160**
Other independent agencies:									
Action	18	......	18	34	......	34	9	......	9
Board for International Broadcasting	27	......	27	28	......	28	32	......	32
Corporation for National and Community Service	16	......	16	26	......	26	(* *)	......	(* *)
Corporation for Public Broadcasting	......	......	......	286	......	286	275	......	275
District of Columbia:									
Federal payment	......	......	......	714	......	714	698	......	698
Other	......	......	......	7	12	−5	3	12	−9
Equal Employment Opportunity Commission	19	(* *)	19	39	(* *)	39	31	(* *)	31
Export-Import Bank of the United States	77	[15]−114	191	431	−38	468	85	210	−125
Federal Communications Commission	4	1	2	18	6	12	20	6	14
Federal Deposit Insurance Corporation:									
Bank insurance fund	104	313	−208	416	752	−336	676	806	−130
Savings association insurance fund	2	15	−13	14	29	−15	6	7	−1
FSLIC resolution fund	541	111	430	578	236	342	471	463	7
Affordable housing and bank enterprise	......	......	......	(* *)	......	(* *)	1	......	1
Federal Emergency Management Agency:									
Public enterprise funds	76	27	49	99	63	37	152	42	110
Disaster relief	205	......	205	465	......	465	317	......	317
Emergency management planning and assistance	21	......	21	38	......	38	34	......	34
Other	15	......	15	26	......	26	26	......	26
Federal Trade Commission	5	......	5	15	......	15	15	......	15
Interstate Commerce Commission	3	......	3	9	......	9	7	......	7
Legal Services Corporation	1	......	1	56	......	56	31	......	31
National Archives and Records Administration	25	(* *)	25	34	(* *)	34	17	(* *)	17
National Credit Union Administration:									
Credit union share insurance fund	1	1	1	−1	3	−4	27	14	12
Central liquidity facility	5	......	5	5	5	(* *)	20	20	......
Other	7	(* *)	6	3	1	3	(* *)	(* *)	−1
National Endowment for the Arts	12	......	12	30	......	30	33	......	33
National Endowment for the Humanities	13	......	13	27	......	27	26	......	26
National Labor Relations Board	12	......	12	29	......	29	29	......	29
National Science Foundation	209	......	209	394	......	394	413	......	413
Nuclear Regulatory Commission	44	99	−56	85	145	−60	81	116	−35
Panama Canal Commission	44	48	−4	90	94	−5	87	86	1

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Other independent agencies:—Continued									
Postal Service:									
Public enterprise funds (off-budget)	4,045	[16]4,155	–110	7,850	7,312	538	7,516	8,263	–747
Payment to the Postal Service fund	......	......	......	61	......	61	61	......	61
Railroad Retirement Board:									
Federal windfall subsidy	22	......	22	43	......	43	47	......	47
Federal payments to the railroad retirement accounts	(* *)	......	(* *)	46	......	46	12	......	12
Rail industry pension fund:									
Advances from FOASDI fund	–90	......	–90	–181	......	–181	–179	......	–179
OASDI certifications	90	......	90	181	......	181	179	......	179
Administrative expenses	4	......	4	10	......	10	11	......	11
Interest on refunds of taxes	(* *)	......	(* *)	17	......	17	(* *)	......	(* *)
Other	1	......	1	1	......	1	1	......	1
Intrabudgetary transactions:									
Payments from other funds to the railroad retirement trust funds	......	......	......	......	......	......	......	......	......
Other	......	......	......	–46	......	–46	–12	......	–12
Supplemental annuity pension fund	242	......	242	488	......	488	478	......	478
Railroad Social Security equivalent benefit account	401	......	401	798	......	798	779	......	779
Other	(* *)	......	(* *)	1	......	1	1	......	1
Total—Railroad Retirement Board	669	......	669	1,358	......	1,358	1,316	......	1,316
Resolution Trust Corporation	311	1,813	–1,502	925	2,898	–1,973	1,599	2,761	–1,162
Securities and Exchange Commission	4	......	4	24	......	24	24	......	24
Smithsonian Institution	21	......	21	47	......	47	45	......	45
Tennessee Valley Authority	802	563	239	1,817	1,313	504	1,890	1,617	273
United States Information Agency	105	......	105	178	......	178	169	(* *)	169
Other	177	126	52	398	336	62	389	151	238
Total—Other independent agencies	**7,641**	**7,159**	**481**	**16,651**	**13,165**	**3,486**	**16,630**	**14,575**	**2,055**
Undistributed offsetting receipts:									
Other interest	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
The Judiciary:									
Judicial survivors annuity fund	......	......	......	......	......	......	......	......	......
Department of Defense—Civil:									
Military retirement fund	–1,005	......	–1,005	–2,026	......	–2,026	–2,193	......	–2,193
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund:									
Federal employer contributions	–158	......	–158	–316	......	–316	–317	......	–317
Postal Service employer contributions	–45	......	–45	–89	......	–89	–73	......	–73
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	–394	......	–394	–788	......	–788	–850	......	–850
Payments for military service credits	......	......	......	......	......	......	......	......	......
Federal disability insurance trust fund:									
Federal employer contributions	–71	......	–71	–141	......	–141	–92	......	–92
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of State:									
Foreign Service retirement and disability fund	–8	......	–8	–17	......	–17	–17	......	–17
Office of Personnel Management:									
Civil service retirement and disability fund	–735	......	–735	–1,481	......	–1,481	–1,478	......	–1,478
Independent agencies:									
Court of veterans appeals retirement fund	......	......	......	......	......	......	......	......	......
Total—Employer share, employee retirement	–2,416	......	–2,416	–4,858	......	–4,858	–5,021	......	–5,021
Interest received by trust funds:									
The Judiciary:									
Judicial survivors annuity fund	–4	......	–4	–4	......	–4	–4	......	–4
Department of Defense—Civil:									
Corps of Engineers	(* *)	......	(* *)	–1	......	–1	–1	......	–1
Military retirement fund	–5,029	......	–5,029	–5,391	......	–5,391	–5,004	......	–5,004
Education benefits fund	–14	......	–14	–15	......	–15	–17	......	–17
Soldiers' and airmen's home permanent fund	(* *)	......	(* *)	–2	......	–2	–4	......	–4
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)

Table 5. Outlays of the U.S. Government, November 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Undistributed offsetting receipts:—Continued									
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund	−5	......	−5	−13	......	−13	−34	......	−34
Federal supplementary medical insurance trust fund	−42	......	−42	−76	......	−76	−29	......	−29
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund	−352	......	−352	−418	......	−418	−99	......	−99
Federal disability insurance trust fund	−11	......	−11	−27	......	−27	−32	......	−32
Department of Labor:									
Unemployment trust fund	−45	......	−45	−77	......	−77	−18	......	−18
Department of State:									
Foreign Service retirement and disability fund	(* *)	......	(* *)	−1	......	−1	−2	......	−2
Department of Transportation:									
Highway trust fund	−36	......	−36	−72	......	−72	−37	......	−37
Airport and airway trust fund	−23	......	−23	−31	......	−31	−2	......	−2
Oil spill liability trust fund	−2	......	−2	−2	......	−2	−2	......	−2
Department of Veterans Affairs:									
National service life insurance fund	−2	......	−2	−4	......	−4	−4	......	−4
United States government life Insurance Fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Environmental Protection Agency	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
National Aeronautics and Space Administration	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Office of Personnel Management:									
Civil service retirement and disability fund	−57	......	−57	−61	......	−61	−62	......	−62
Independent agencies:									
Railroad Retirement Board	−90	......	−90	−100	......	−100	−151	......	−151
Other	−3	......	−3	−2	......	−2	−3	......	−3
Other	−10	......	−10	−41	......	−41	−28	......	−28
Total—Interest received by trust funds	−5,727	......	−5,727	−6,338	......	−6,338	−5,533	......	−5,533
Rents and royalties on the outer continental shelf lands	......	160	−160	......	313	−313	......	483	−483
Sale of major assets	......	......	......	......	......	......	......	......	......
Spectrum auction proceeds	......	......	......	......	......	......	......	......	......
Total—Undistributed offsetting receipts	**−8,143**	**160**	**−8,303**	**−11,196**	**313**	**−11,510**	**−10,553**	**483**	**−11,036**
Total outlays	**140,253**	**15,122**	**125,131**	**275,382**	**28,770**	**246,612**	**275,338**	**29,771**	**245,568**
Total on-budget	**110,430**	**10,966**	**99,464**	**216,228**	**21,458**	**194,770**	**218,789**	**21,507**	**197,281**
Total off-budget	**29,823**	**4,155**	**25,668**	**59,154**	**7,313**	**51,841**	**56,550**	**8,263**	**48,286**
Total surplus (+) or deficit			**−37,458**			**−69,915**			**−83,803**
Total on-budget			**−37,381**			**−67,303**			**−82,728**
Total off-budget			**−78**			**−2,612**			**−1,075**

Memorandum

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	7,765	6,933
Receipts from off-budget federal entities	......	......
Intrabudgetary transactions	31,544	35,088
Governmental receipts	411	334
Total receipts offset against outlays	39,720	42,354

[1]Outlays for the Foreign Assistance Programs have been decreased by $152 million and outlays for the Price Support and Related Programs have been increased by $92 million to reflect additional reporting by the Commodity Credit Corporation in September 1994.

[2]Outlays for the Patent and Trademark Administration and proprietary receipts from the public have been increased due to additional reporting by the agency in September 1994.

[3]Outlays for "Operation and Maintenance" have been increased by $13 million and proprietary receipts from the public have been increased by $5 million to reflect additional reporting by the Air Force.

[4]Includes an adjustment in September 1994 of $39 million for receipts previously reported as offsetting collections.

[5]Receipts have been increased in September 1994 and outlays have been correspondingly increased by $5 million to reflect governmental receipts previously reported as offsetting collections by the Air Force.

[6]Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.

[7]Outlays have been increased in September 1994 by $71 million, $212 million, and $7 million for additional reporting by the FHA, PBGC, and the Comptroller of the Currency, respectively.

[8]Outlays for the Bureau of Land Management have been decreased by $1 million and outlays for the National Park Service have been increased by $13 million to reflect additional reporting by the agency in September 1994.

[9]Outlays for Departmental Management have been increased and outlays for the Black Lung Disability Trust Fund have been correspondingly decreased by $1 million to reflect additional agency reporting in September 1994.

[10]Outlays have been decreased in September 1994 by $1 million, and $11 million for additional reporting for the Federal-Aid Highways and the Department of the Treasury, respectively.

[11]Outlays have been increased by $14 million in August 1994 to reflect non-budgetary activity previously reported as offsetting collections by the Maritime Administration.

[12]Includes $62 million for a reclassification of the agency reporting for "Tonnage Duty Increases", from a governmental receipt to an offsetting governmental receipt.

[13]Receipts have been increased in February 1994 and outlays correspondingly increased by $317 million to reflect adjustments made by the Internal Revenue Service to the Health Insurance Supplement to the Earned Income Credit.

[14]Receipts have been increased in March 1994 and outlays correspondingly increased by $6 million to reflect governmental receipts previously reported as offsetting collections by the Department of the Treasury.

[15]Prior period adjustment.

[16]The Postal Service accounting is composed of thirteen 28-day accounting periods. To conform with the MTS calendar-month reporting basis used by all other Federal agencies, the MTS reflects USPS results through 11/11 and estimates for $1,331 million through 11/30.

... No Transactions.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, November 1994 and Other Periods

[$ millions]

Assets and Liabilities Directly Related to Budget Off-budget Activity	Net Transactions (–) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Liability accounts:						
Borrowing from the public:						
Public debt securities, issued under general Financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	44,353	85,770	82,046	4,677,750	4,719,167	4,763,520
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	44,353	85,770	82,046	4,692,750	4,734,167	4,778,520
Plus premium on public debt securities	–8	–15	49	1,333	1,325	1,317
Less discount on public debt securities	502	917	–2,828	78,631	79,045	79,548
Total public debt securities net of Premium and discount	43,843	84,838	84,923	4,615,453	4,656,448	4,700,292
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	326	–1,780	304	28,543	26,437	26,762
Total federal securities	44,169	83,058	85,227	4,643,996	4,682,885	4,727,054
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	3,654	10,148	7,115	[1]1,213,104	1,219,598	1,223,252
Less discount on federal securities held as investments of government accounts	14	75	–2,829	[2]1,684	1,745	1,759
Net federal securities held as investments of government accounts	3,641	10,073	9,944	1,211,421	1,217,853	1,221,493
Total borrowing from the public	40,528	72,985	75,283	3,432,575	3,465,033	3,505,561
Accrued interest payable to the public	–15,166	–9,037	–9,791	43,287	49,417	34,251
Allocations of special drawing rights	–136	–52	–169	7,189	7,274	7,137
Deposit funds	–134	139	2,866	[3]7,316	7,589	7,455
Miscellaneous liability accounts (includes checks Outstanding etc.)	1,228	–3,433	–3,929	4,938	[4]276	1,504
Total liability accounts	**26,319**	**60,602**	**64,260**	**3,495,306**	**3,529,588**	**3,555,908**
Asset accounts (deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash:[5]						
Federal Reserve account	183	–1,501	–10,955	6,848	5,164	5,348
Tax and loan note accounts	–9,549	–7,385	–9,240	29,094	31,258	21,709
Balance	–9,366	–8,886	–20,196	35,942	36,422	27,056
Special drawing rights:						
Total holdings	–70	46	–112	9,971	10,088	10,017
SDR certificates issued to Federal Reserve banks	......	......	......	–8,018	–8,018	–8,018
Balance	–70	46	–112	1,953	2,070	1,999
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	......	......	31,762	31,762	31,762
Maintenance of value adjustments	–737	–282	–916	7,163	7,618	6,881
Letter of credit issued to IMF	–74	60	21	–25,923	–25,789	–25,863
Dollar deposits with the IMF	7	1	–2	–96	–102	–95
Receivable/Payable (–) for interim maintenance of value adjustments	507	193	620	–837	–1,151	–644
Balance	–297	–28	–277	12,069	12,337	12,040
Loans to International Monetary Fund	......	......	......	(* *)	(* *)	(* *)
Other cash and monetary assets	–361	2,297	2,884	21,417	24,074	23,714
Total cash and monetary assets	–10,094	–6,571	–17,700	71,380	74,903	64,809
Net activity, guaranteed loan financing	–129	–226	–873	[6]–9,806	–9,903	–10,032
Net activity, direct loan financing	521	1,012	645	[7]12,726	13,217	13,738
Miscellaneous asset accounts	–1,377	–3,405	–1,501	–1,386	–3,414	–4,791
Total asset accounts	**–11,079**	**–9,191**	**–19,429**	**72,915**	**74,803**	**63,724**
Excess of liabilities (+) or assets (–)	**+37,398**	**+69,793**	**+83,689**	**+3,422,391**	**+3,454,785**	**+3,492,183**
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	60	123	114	......	62	123
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (–))	**+37,458**	**+69,915**	**+83,803**	**+3,422,391**	**+3,454,848**	**+3,492,306**

[1]Includes an adjustment of –$11 million in September 1994 to reflect additional reporting by the Commodity Credit Corporation.

[2]Includes an adjustment of $212 million in September 1994 to reflect additional reporting by the PBGC.

[3]Includes an adjustment of –$4 million in September 1994 to reflect additional reporting by the Commodity Credit Corporation.

[4]Includes additional agency reporting in October 1994 of $8 million for the Department of the Air Force.

[5]Major sources of information used to determine Treasury's operating cash income include the Daily Balance Wires from Federal Reserve Banks, reporting from the Bureau of Public Debt, electronic transfers through the Treasury Financial Communication System and reconciling wires from Internal Revenue Centers. Operating cash is presented on a modified cash basis, deposits are reflected as received and withdrawals are reflected as processed.

[6]Includes additional reporting in September 1994 of $71 million and $14 million for the Department of Housing and Urban Development and the Maritime Administration, respectively.

[7]Includes additional reporting in September 1994 of $59 million for the Commodity Credit Corporation.

... No Transactions.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, November 1994 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	3,454,532	3,422,146	3,218,965
Adjustments during current fiscal year for changes in composition of unified budget:			
Revisions by federal agencies to the prior budget results	253	245	526
Excess of liabilities beginning of period (current basis)	3,454,785	3,422,391	3,219,491
Budget surplus (—) or deficit:			
Based on composition of unified budget in prior fiscal yr	37,458	69,915	83,803
Changes in composition of unified budget	......	......	......
Total surplus (—) or deficit (Table 2)	37,458	69,915	83,803
Total-on-budget (Table 2)	37,381	67,303	82,728
Total-off-budget (Table 2)	78	2,612	1,075
Transactions not applied to current year's surplus or deficit:			
Seigniorage	−60	−123	−114
Net gain (—)/Loss for IMF loan valuation adjustment	......	......	......
Total-transactions not applied to current year's Surplus or deficit	−60	−123	−114
Excess of liabilities close of period	**3,492,183**	**3,492,183**	**3,303,180**

Table 6. Schedule B—Securities Issued by Federal Agencies Under Special Financing Authorities, November 1994 and Other Periods

[$ millions]

Classification	Net Transactions (—) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank of the United States	......	......	......	(* *)	(* *)	(* *)
Federal Deposit Insurance Corporation:						
FSLIC resolution fund	......	......	......	538	538	538
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages	......	......	(* *)	6	6	6
Department of Housing and Urban Development:						
Federal Housing Administration	3	5	41	112	114	117
Department of the Interior:						
Bureau of Land Management	......	......	......	13	13	13
Department of Transportation:						
Coast Guard:						
Family housing mortgages	......	......	......	(* *)	(* *)	(* *)
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	3	3	192	193	195
Independent agencies:						
Farm Credit System Financial Assistance Corporation	......	......	......	1,261	1,261	1,261
National Archives and Records Administration	......	......	......	298	298	298
Postal Service	......	......	......	......	......	......
Tennessee Valley Authority	322	−1,787	261	26,121	24,012	24,334
Total, agency securities	**326**	**−1,780**	**304**	**28,543**	**26,437**	**26,762**

... No Transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, November 1994 and Other Periods

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Funds Appropriated to the President:						
International Security Assistance:						
Guaranty reserve fund	......	337	......	413	750	750
Agency for International Development:						
International Debt Reduction	......	......	......	315	315	315
Housing and other credit guaranty programs	......	......	......	125	125	125
Private sector revolving fund	......	......	......	1	1	1
Overseas Private Investment Corporation	......	......	......	16	16	16
Department of Agriculture:						
Foreign assistance programs	......	−7	......	550	544	544
Commodity Credit Corporation	2,849	−12,093	−15,227	16,909	1,967	4,816
Farmers Home Administration:						
Agriculture credit insurance fund	......	−1,748	−2,385	4,032	2,284	2,284
Self-help housing land development fund	......	1	......	(* *)	1	1
Rural housing insurance fund	......	975	......	4,497	5,472	5,472
Rural Development Administration:						
Rural development insurance fund	......	715	−10	2,091	2,806	2,806
Rural development loan fund	......	40	......	21	61	61
Rural Electrification Administration:						
Rural communication development fund	......	......	31	57	57	57
Rural electrification and telephone revolving fund	......	695	280	8,212	8,907	8,907
Rural Telephone Bank	−1	115	32	586	702	701
Department of Education:						
Guaranteed student loans	......	......	......	1,605	1,605	1,605
College housing and academic facilities fund	......	1,288	13	596	1,884	1,884
College housing loans	......	......	......	411	411	411
Department of Energy:						
Isotope production and distribution fund	......	......	......	14	14	14
Bonneville power administration fund	......	......	58	2,617	2,617	2,617
Department of Housing and Urban Development:						
Housing programs:						
Federal Housing Administration	......	−21	......	783	762	762
Housing for the ederly and handicapped	......	−770	−475	8,484	7,714	7,714
Public and Indian housing:						
Low-rent public housing	......	......	......	135	135	135
Department of the Interior:						
Bureau of Reclamation Loans	......	......	......	11	11	11
Bureau of Mines, Helium Fund	......	......	......	252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans	(* *)	−1	......	26	25	25
Department of Justice:						
Federal prison industries, incorporated	......	......	......	20	20	20
Department of Transportation:						
Federal Railroad Administration:						
Railroad rehabilitation and improvement financing funds	(* *)	(* *)	......	14	14	14
Settlements of railroad litigation	......	......	......	−39	−39	−39
Amtrak corridor improvement loans	(* *)	(* *)	......	2	2	3
Regional rail reorganization program	......	......	......	39	39	39
Federal Aviation Administration:						
Aircraft purchase loan guarantee program	......	......	(* *)	(* *)	(* *)	(* *)
Department of the Treasury:						
Federal Financing Bank revolving fund	−1,274	−3,695	−2,839	94,357	91,936	90,662
Department of Veterans Affairs:						
Loan guaranty revolving fund	......	......	......	1,107	1,107	1,107
Guaranty and indemnity fund	......	......	......	181	181	181
Direct loan revolving fund	......	......	......	2	2	2
Vocational rehabilitation revolving fund	......	......	......	2	2	2
Environmental Protection Agency:						
Abatement, control, and compliance loan program	11	11	(* *)	26	26	37
Small Business Administration:						
Business loan and revolving fund	......	......	......	7,289	7,289	7,289

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, November 1994 and Other Periods—Continued

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing for the Treasury:—Continued						
Other independent agencies:						
Export-Import Bank of the United States	–247	–27	813	2,632	2,852	2,605
Federal Emergency Management Agency:						
National insurance development fund	......	......	......	87	87	87
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund	......	......	......	85	85	85
Railroad Retirement Board:						
Railroad retirement account	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	478	477	458	2,781	2,781	3,259
Smithsonian Institution:						
John F. Kennedy Center parking facilities	......	......	......	20	20	20
Tennessee Valley Authority	......	......	......	150	150	150
Total agency borrowing from the Treasury financed through public debt securities issued	**1,818**	**–13,706**	**–19,250**	**163,642**	**148,118**	**149,936**
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military sales	–18	–24	–25	3,785	3,779	3,761
Department of Agriculture:						
Rural Electrification Administration	43	48	–92	21,916	21,921	21,964
Farmers Home Administration:						
Agriculture credit insurance fund	......	......	......	6,063	6,063	6,063
Rural housing insurance fund	–150	–410	......	24,391	24,131	23,981
Rural development insurance fund	......	......	......	3,675	3,675	3,675
Department of Defense:						
Department of the Navy	......	......	......	1,624	1,624	1,624
Defense agencies	......	......	......	–145	–145	–145
Department of Education:						
Student Loan Marketing Association	......	......	–30	......	......	......
Department of Health and Human Services, Except Social Security:						
Medical facilities guarantee and loan fund	–8	–9	......	63	62	54
Department of Housing and Urban Development:						
Low rent housing loans and other expenses	–58	–58	–54	1,747	1,747	1,689
Community Development Grants	–1	–5	–13	110	106	105
Department of Interior:						
Territorial and international affairs	......	......	......	22	22	22
Department of Transportation:						
Federal Railroad Administration	(* *)	(* *)	(* *)	15	15	14
Federal Transit Administration	......	......	......	665	665	665
Department of the Treasury:						
Financial Management Service	......	......	–30	......	......	......
General Services Administration:						
Federal buildings fund	10	51	52	1,780	1,821	1,831
National Aeronautics and Space Administration:						
Space flight, control and data communications	......	......	......	......	......	......
Small Business Administration:						
Business loan and investment fund	–10	–16	–15	581	574	564
Independent agencies:						
Export-Import Bank of the United States	......	......	......	3,926	3,926	3,926
Pennsylvania Avenue Development Corporation	11	19	16	250	258	268
Postal Service	300	–900	......	8,973	7,773	8,073
Resolution Trust Corporation	–1,392	–2,190	–2,646	26,519	25,721	24,329
Tennessee Valley Authority	......	–200	......	3,400	3,200	3,200
Total borrowing from the Federal Financing Bank	**–1,274**	**–3,695**	**–2,839**	**109,360**	**106,938**	**105,664**

Note: This table includes lending by the Federal Financing Bank accomplished by the purchase of agency financial assets, by the acquisition of agency debt securities, and by direct loans on behalf of an agency. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to agencies in lieu of agencies borrowing directly through Treasury or issuing their own securities.

... No Transactions.
(* *) Less than $500,000
Note: Details may not add to totals due to rounding

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, November 1994 and Other Periods

[$ millions]

Classification	Net Purchases or Sales (–)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal funds:						
Department of Agriculture	2	2	2	......	......	2
Department of Commerce	1	1	–3	13	13	14
Department of Defense—Military:						
Defense cooperation account	......	–4	(* *)	5	(* *)	(* *)
Department of Energy	185	291	165	4,527	4,634	4,818
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund:						
Public debt securities	(* *)	–78	81	5,742	5,664	5,664
Government National Mortgage Association:						
Management and liquidating functions fund:						
Public debt securities	......	......	(* *)	......	......	......
Agency securities	......	......	......	16	16	16
Guarantees of mortgage-backed securities:						
Public debt securities	36	68	90	3,713	3,745	3,781
Agency securities	......	......	......	1	1	1
Other	......	19	22	193	212	212
Department of the Interior:						
Public debt securities	15	473	181	2,722	3,181	3,195
Department of Labor	–16	–43	–3,192	5,330	5,303	5,287
Department of Transportation	4	15	25	974	985	989
Department of the Treasury	1,191	1,246	–60	7,452	7,507	8,699
Department of Veterans Affairs:						
Canteen service revolving fund	......	......	......	37	37	37
Veterans reopened insurance fund	–3	–5	–5	524	522	519
Servicemen's group life insurance fund	......	–38	......	41	3	3
Independent agencies:						
Export-Import Bank of the United States	8	–49	161	57	......	8
Federal Deposit Insurance Corporation:						
Bank insurance fund	213	336	197	13,972	14,095	14,308
Savings association insurance fund	13	16	1	2,493	2,495	2,508
FSLIC resolution fund						
Public debt securities	–420	–342	602	1,649	1,727	1,307
Federal Emergency Management Agency:						
National flood insurance fund	......	......	–71	200	200	200
National Credit Union Administration	–7	1	–12	3,052	3,060	3,053
Postal Service	668	10	1,065	1,271	613	1,281
Tennessee Valley Authority	–11	–2,701	–50	3,954	1,263	1,253
Other	–3	(* *)	1	1,017	1,020	1,017
Other	552	429	–412	2,626	2,503	3,055
Total public debt securities	2,428	–352	–1,211	61,564	58,784	61,212
Total agency securities	......	......	......	17	17	17
Total Federal funds	**2,428**	**–352**	**–1,211**	**61,581**	**58,801**	**61,229**
Trust funds:						
Legislative Branch:						
Library of Congress	4	12	4	4	12	16
United States Tax Court	(* *)	(* *)	(* *)	5	5	5
Other	(* *)	(* *)	(* *)	27	27	27
The Judiciary:						
Judicial retirement funds	1	30	16	245	273	275
Department of Agriculture	3	4	179	273	275	278
Department of Commerce	......	......	(* *)	(* *)	(* *)	(* *)
Department of Defense—Military:						
Voluntary separation incentive fund	–6	18	–45	763	786	781
Other	(* *)	(* *)	5	157	157	156
Department of Defense—Civil:						
Military retirement fund	3,868	14,666	14,336	105,367	116,164	120,033
Other	–31	1	21	1,307	1,338	1,308

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, November 1994 and Other Periods—Continued

[$ millions]

Classification	Net Purchases or Sales (–)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Trust Funds—Continued						
Department of Health and Human Services, except Social Security:						
Federal hospital insurance trust fund:						
Public debt securities	–523	–21	–1,770	128,716	129,218	128,695
Federal supplementary medical insurance trust fund	–952	–1,702	715	21,489	20,739	19,787
Other	7	16	22	836	845	852
Department of Health and Human Services, Social Security:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	–15,124	–14,470	–512	413,425	414,078	398,954
Federal disability insurance trust fund	14,899	15,587	–820	6,100	6,788	21,687
Department of the Interior:						
Public debt securities	–8	38	106	234	280	272
Department of Justice	......	......	106	......	......	......
Department of Labor:						
Unemployment trust fund	1,628	1,248	253	39,788	39,408	41,036
Other	–11	–20	–17	59	50	39
Department of State:						
Foreign Service retirement and disability fund	105	80	14	7,179	7,155	7,259
Other	–50	–50	–38	50	50	(* *)
Department of Transportation:						
Highway trust fund	–448	–951	–1,114	17,694	17,191	16,743
Airport and airway trust fund	–456	–376	341	12,206	12,286	11,830
Other	36	38	15	1,683	1,685	1,721
Department of the Treasury	–27	–52	–62	247	222	195
Department of Veterans Affairs:						
General post fund, national homes	......	......	(* *)	38	38	38
National service life insurance:						
Public debt securities	–68	–129	–122	11,852	11,791	11,723
Agency securities	......	......	......	......	......	......
United States government life Insurance Fund	–1	–3	–3	115	114	113
Veterans special life insurance fund	–6	–12	–12	1,509	1,503	1,497
Environmental Protection Agency	107	224	–14	6,250	6,367	6,473
National Aeronautics and Space Administration	(* *)	(* *)	(* *)	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	–1,970	–3,970	–3,566	338,889	336,889	334,919
Employees health benefits fund	56	–7	77	7,572	7,509	7,565
Employees life insurance fund	238	316	310	14,929	15,008	15,245
Retired employees health benefits fund	(* *)	(* *)	......	1	1	1
Independent agencies:						
Harry S. Truman memorial scholarship trust fund	(* *)	(* *)	......	53	53	53
Japan-United States Friendship Commission	(* *)	(* *)	–1	17	16	17
Railroad Retirement Board	–54	–93	–102	12,203	12,164	12,110
Other	9	80	3	226	297	306
Total public debt securities	1,226	10,500	8,326	1,151,523	1,160,797	1,162,024
Total trust funds	**1,226**	**10,500**	**8,326**	**1,151,523**	**1,160,797**	**1,162,024**
Grand total	**3,654**	**10,148**	**7,115**	**1,213,104**	**1,219,598**	**1,223,252**

... No Transactions
(* *) Less than $500,000.

Note: Investments are in public debt securities unless otherwise noted.
Note: Details may not add to totals due to rounding.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1995

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Receipts:														
Individual income taxes	43,239	37,414											80,652	75,314
Corporation income taxes	3,470	1,497											4,967	4,366
Social insurance taxes and contributions:														
Employment taxes and contributions	31,263	33,786											65,049	60,965
Unemployment insurance	1,073	3,249											4,322	3,819
Other retirement contributions	351	352											702	728
Excise taxes	4,275	5,518											9,792	8,405
Estate and gift taxes	1,206	1,220											2,426	2,296
Customs duties	1,848	1,827											3,674	3,396
Miscellaneous receipts	2,300	2,811											5,111	2,476
Total—Receipts this year	**89,024**	**87,673**											**176,696**	......
(On-budget)	**65,384**	**62,083**											**127,467**	......
(Off-budget)	**23,639**	**25,590**											**49,229**	......
Total—Receipts prior year	*78,662*	*83,102*											......	*161,764*
(On budget)	*55,858*	*58,695*											......	*114,553*
(Off budget)	*22,804*	*24,407*											......	*47,211*
Outlays														
Legislative Branch	354	217											570	584
The Judiciary	184	169											353	377
Executive Office of the President	18	17											35	37
Funds Appropriated to the President:														
International Security Assistance	3,255	310											3,566	3,699
International Development Assistance	726	367											1,094	908
Other	−381	452											71	481
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	1,749	2,973											4,723	3,162
Other	5,850	3,860											9,709	8,879
Department of Commerce	305	300											605	541
Department of Defense:														
Military:														
Military personnel	3,713	5,701											9,414	11,991
Operation and maintenance	6,118	7,837											13,955	13,461
Procurement	4,254	4,754											9,009	10,263
Research, development, test, and evaluation	2,501	2,896											5,398	5,861
Military construction	425	537											961	792
Family housing	247	242											489	434
Revolving and management funds	147	−311											−164	2,384
Other	275	−222											53	−244
Total Military	17,680	21,435											39,115	44,943
Civil	2,638	2,656											5,294	5,064
Department of Education	1,949	2,322											4,271	5,161
Department of Energy	1,683	1,330											3,013	3,433
Department of Health and Human Services, except Social Security:														
Public Health Service	1,603	1,588											3,191	3,166
Health Care Financing Administration:														
Grants to States for Medicaid	6,622	7,545											14,167	14,020
Federal hospital ins. trust fund	7,834	8,942											16,776	15,438
Federal supp. med. ins. trust fund	4,799	5,290											10,089	9,487
Other	3,055	3,092											6,147	7,584
Social Security Administration	917	2,200											3,116	5,031
Administration for children and families	2,728	2,519											5,247	5,520
Other	−4,508	−4,525											−9,032	−10,120
Department of Health and Human Services, Social Security:														
Federal old-age and survivors ins. trust fund	23,413	23,368											46,781	45,100
Federal disability ins. trust fund	3,289	3,244											6,533	5,990
Other	−630	−7											−637	−984
Department of Housing and Urban Development	2,903	2,426											5,329	5,060

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1995—Continued
[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Outlays—Continued														
Department of the Interior	884	583											1,467	1,126
Department of Justice	908	818											1,726	1,654
Department of Labor:														
Unemployment trust fund	1,650	1,854											3,504	5,472
Other	702	−170											533	713
Department of State	488	841											1,329	1,429
Department of Transportation:														
Highway trust fund	1,794	1,762											3,556	3,375
Other	1,650	1,737											3,387	3,018
Department of the Treasury:														
Interest on the public debt	19,732	24,912											44,644	39,898
Other	34	−308											−274	−27
Department of Veterans Affairs:														
Compensation and pensions	105	1,457											1,562	2,805
National service life	64	70											134	123
United States government life	1	1											3	3
Other	1,528	1,784											3,312	3,043
Environmental Protection Agency	438	474											912	936
General Services Administration	−651	639											−11	−250
National Aeronautics and Space Administration	845	1,143											1,987	2,293
Office of Personnel Management	3,410	3,118											6,528	6,214
Small Business Administration	65	145											210	160
Independent agencies:														
Fed. Deposit Ins. Corp.:														
Bank insurance fund	−127	−208											−336	−130
Savings association insurance fund	−2	−13											−15	−1
FSLIC resolution fund	−87	430											342	7
Postal Service:														
Public enterprise funds (off-budget)	648	−110											538	−747
Payment to the Postal Service fund	61	......											61	61
Resolution Trust Corporation	−471	−1,502											−1,973	−1,162
Tennessee Valley Authority	265	239											504	273
Other independent agencies	2,720	1,646											4,365	3,753
Undistributed offsetting receipts:														
Employer share, employee retirement	−2,442	−2,416											−4,858	−5,021
Interest received by trust funds	−611	−5,727											−6,338	−5,533
Rents and royalties on outer continental shelf lands	−154	−160											−313	−483
Other	(* *)	(* *)											(* *)	(* *)
Totals this year:														
Total outlays	**121,480**	**125,131**											**246,612**	.....
(On-budget)	**95,307**	**99,464**											**194,770**	.....
(Off-budget)	**26,174**	**25,668**											**51,841**	.....
Total-surplus (+) or deficit (−)	**−32,457**	**−37,458**											**−69,915**	.....
(On-budget)	**−29,922**	**−37,381**											**−67,303**	.....
(Off-budget)	**−2,535**	**−78**											**−2,612**	.....
Total borrowing from the public	**32,457**	**40,528**											**72,985**	**75,283**
Total-outlays prior year	*124,085*	*121,483*											......	*245,568*
(On-budget)	*100,562*	*96,719*											......	*197,281*
(Off-budget)	*23,523*	*24,764*											......	*48,286*
Total-surplus (+) or deficit (−) prior year	*−45,422*	*−38,381*											......	*−83,803*
(On-budget)	*−44,704*	*−38,024*											......	*−82,728*
(Off-budget)	*−719*	*−357*											......	*−1,075*

... No transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of November 31, 1994

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport	476	882	−406	921	1,325	−404	12,206	12,286	11,830
Black lung disability	57	48	9	117	94	23	......	......	......
Federal disability insurance	17,693	3,244	14,449	21,490	6,533	14,957	6,100	6,788	21,687
Federal employees life and health	......	−213	213	......	−201	201	22,503	22,518	22,811
Federal employees retirement	1,286	3,144	−1,858	2,427	6,304	−3,877	346,317	344,322	342,458
Federal hospital insurance	8,224	8,942	−718	15,798	16,776	−978	128,716	129,218	128,695
Federal old-age and survivors insurance	8,732	23,368	−14,637	29,749	46,781	−17,032	413,425	414,078	398,954
Federal supplementary medical insurance	4,546	5,290	−743	9,091	10,089	−997	21,489	20,739	19,787
Highways	1,483	1,970	−487	2,972	3,913	−941	17,694	17,191	16,743
Military advances	697	908	−211	1,995	1,985	11	......	......	......
Railroad retirement	352	648	−296	754	1,314	−560	12,203	12,164	12,110
Military retirement	6,034	2,268	3,766	18,888	4,555	14,333	105,367	116,164	120,033
Unemployment	3,351	1,854	1,497	4,456	3,504	952	39,788	39,408	41,036
Veterans life insurance	27	102	−75	52	197	−145	13,477	13,408	13,333
All other trust	454	275	179	1,163	402	761	12,240	12,514	12,547
Total trust fund receipts and outlays and investments held from Table 6-D	**53,411**	**52,730**	**682**	**109,873**	**103,569**	**6,304**	**1,151,523**	**1,160,797**	**1,162,024**
Less: Interfund transactions	11,453	11,453	......	30,105	30,105	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	41,959	41,277	682	79,768	73,464	6,304			
Total Federal fund receipts and outlays	**48,076**	**86,217**	**−38,140**	**102,265**	**178,485**	**−76,220**			
Less: Interfund transactions	21	21	......	38	38	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	48,056	86,196	−38,140	102,227	178,447	−76,220			
Less: offsetting proprietary receipts	2,341	2,341	......	5,299	5,299	......			
Net budget receipts & outlays	**87,673**	**125,131**	**−37,458**	**176,696**	**246,612**	**−69,915**			

... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against bugdet outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, November 1994 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	37,414	80,652	75,314
Corporation income taxes	1,497	4,967	4,366
Social insurance taxes and contributions:			
Employment taxes and contributions	33,786	65,049	60,965
Unemployment insurance	3,249	4,322	3,819
Other retirement contributions	352	702	728
Excise taxes	5,518	9,792	8,405
Estate and gift taxes	1,220	2,426	2,296
Customs	1,827	3,674	3,396
Miscellaneous	2,811	5,111	2,476
Total	**87,673**	**176,696**	**161,764**
NET OUTLAYS			
National defense	22,428	41,237	47,279
International affairs	2,177	6,516	6,695
General science, space, and technology	1,673	2,789	2,943
Energy	166	691	935
Natural resources and environment	1,797	5,215	4,696
Agriculture	2,784	4,832	3,679
Commerce and housing credit	−1,244	−386	−984
Transportation	3,506	6,940	6,363
Community and Regional Development	1,109	2,279	1,826
Education, training, employment and social services	4,025	7,730	8,704
Health	9,525	18,156	17,991
Medicare	12,687	23,786	22,220
Income security	16,151	31,426	34,086
Social Security	26,612	53,314	51,094
Veterans benefits and services	3,337	5,014	6,017
Administration of justice	1,176	2,516	2,315
General government	1,556	2,816	1,958
Interest	18,242	36,911	33,253
Undistributed offsetting receipts	−2,575	−5,171	−5,503
Total	**125,131**	**246,612**	**245,568**

Note: Details may not add to totals due to rounding.

Explanatory Notes

1. Flow of Data Into Monthly Treasury Statement

The Monthly Treasury Statement (MTS) is assembled from data in the central accounting system. The major sources of data include monthly accounting reports by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. These reports detail accounting transactions affecting receipts and outlays of the Federal Government and off-budget Federal entities, and their related effect on the assets and liabilities of the U.S. Government. Information is presented in the *MTS* on a modified cash basis.

2. Notes on Receipts

Receipts included in the report are classified into the following major categories: (1) budget receipts and (2) offsetting collections (also called applicable receipts). Budget receipts are collections from the public that result from the exercise of the Government's sovereign or governmental powers, excluding receipts offset against outlays. These collections, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the public that are of a business-type or market-oriented nature. They are classified into two major categories: (1) offsetting collections credited to appropriations or fund accounts, and (2) offsetting receipts (i.e., amounts deposited in receipt accounts). Collections credited to appropriation or fund accounts normally can be used without appropriation action by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being appropriated. They are subdivided into two categories: (1) proprietary receipts—these collections are from the public and they are offset against outlays by agency and by function, and (2) intragovernmental funds—these are payments into receipt accounts from Governmental appropriation or funds accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts. The transactions may be intrabudgetary when the payment and receipt both occur within the budget or from receipts from off-budget Federal entities in those cases where payment is made by a Federal entity whose budget authority and outlays are excluded from the budget totals.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions, where the payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, where the payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions, where the payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, by subfunction, or by agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by off-budget Federal entities) as employers into employees retirement funds, (2) interest received by trust funds, (3) rents and royalties on the Outer Continental Shelf lands, and (4) other interest (i.e., interest collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

3. Notes on Outlays

Outlays are generally accounted for on the basis of checks issued, electronic funds transferred, or cash payments made. Certain outlays do not require issuance of cash or checks. An example is charges made against appropriations for that part of employees' salaries withheld for taxes or savings bond allotments — these are counted as payments to the employee and credits for whatever purpose the money was withheld. Outlays are stated net of offsetting collections (including receipts of revolving and management funds) and of refunds. Interest on the public debt (public issues) is recognized on the accrual basis. Federal credit programs subject to the Federal Credit Reform Act of 1990 use the cash basis of accounting and are divided into two components. The portion of the credit activities that involve a cost to the Government (mainly subsidies) is included within the budget program accounts. The remaining portion of the credit activities are in non-budget financing accounts. Outlays of off-budget Federal entities are excluded by law from budget totals. However, they are shown separately and combined with the on-budget outlays to display total Federal outlays.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS*.

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

- *A Glossary of Terms Used in the Federal Budget Process, March 1981* (Available from the U.S. General Accounting Office, Gaithersburg, Md. 20760). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

- *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

- *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only). This publication provides detailed information concerning the public debt.

- *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402, by subscription or single copy). Quarterly. Contains a mix of narrative, tables, and charts on Treasury issues, Federal financial operations, international statistics, and special reports.

- *Budget of the United States Government, Fiscal Year 19 —* (Available from GPO, Washington, D.C. 20402). This publication is a single volume which provides budget information and contains:

  -Appendix, The Budget of the United States Government, FY 19 —
  -The United States Budget in Brief, FY 19 —
  -Special Analyses
  -Historical Tables
  -Management of the United States Government
  -Major Policy Initiatives

- *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20227). This annual report represents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

Scheduled Release

Listed below are the scheduled release dates for the 1995 Statements.
The release time will be 2:00 p.m. EST.

Accounting Month	Release Date
January 1995	2-22-95
February 1995	3-21-95
March 1995	4-21-95
April 1995	5-19-95
May 1995	6-21-95
June 1995	7-24-95
July 1995	8-21-95
August 1995	9-22-95
September 1995	([1])
October 1995	11-22-95
November 1995	12-21-95
December 1995	1-23-96

[1]Release date subject to completion of year-end reporting requirements.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (202) 512-1800. The subscription price is $35.00 per year (domestic), $43.75 per year (foreign).
No single copies are sold.

The Monthly Treasury Statement is now available on the Department of Commerce's Economic Bulletin Board.
For information call (202)482-2939.

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 21, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,289 million of 2-year notes, Series AP-1996, to be issued January 3, 1995 and to mature December 31, 1996 were accepted today (CUSIP: 912827S37).

The interest rate on the notes will be 7 1/2%. All competitive tenders at yields lower than 7.57% were accepted in full. Tenders at 7.57% were allotted 41%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 7.57%, with an equivalent price of 99.873. The median yield was 7.55%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 7.53%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$49,368,964	$17,289,335

The $17,289 million of accepted tenders includes $2,382 million of noncompetitive tenders and $14,907 million of competitive tenders from the public.

In addition, $760 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,250 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 22, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN

After consultations with the Mexican authorities, the Treasury Department and the Federal Reserve have agreed to a request from Mexico to activate their respective swap lines totalling $6.0 billion under the North American Framework Agreement.

With a balanced budget, continuing economic reform, and prudent monetary policy, Mexico's economic fundamentals remain sound.

LB-1301

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 22, 1994

PENALTY LEVIED AGAINST CAESARS ATLANTIC CITY HOTEL CASINO

The Treasury Department announced Thursday that Caesars Atlantic City has paid a $57,300 civil money penalty for failing to report to the Internal Revenue Service (IRS) twelve currency transactions as required by the Bank Secrecy Act (BSA).

The currency transactions were conducted by the casino's customers from May 1985 to December 1986. In determining the amount of the penalty, Treasury considered the extensive improvements to the BSA compliance program subsequently implemented by the casino's management. Treasury has no evidence that the casino engaged in any criminal activities in conjunction with these reporting violations.

"Weaknesses in BSA compliance and failures to report currency transactions, whatever their cause, are extremely serious," said Stanley E. Morris, Director, Financial Crimes Enforcement Network, which is responsible for enforcing the BSA. "They potentially deprive Treasury of financial information, which is a vital weapon in the battle against tax evaders and others who attempt to disguise their transactions from the government."

Morris commended the IRS for the compliance examination that led to the BSA penalty. "Today's action could not have been undertaken without the dedication and skill of the agents of the IRS Examination Division in Mays Landing, New Jersey."

The BSA requires banks and other financial institutions to keep records and file currency transaction reports on currency transactions in excess of $10,000. The purpose of these requirements is to assist the government in combatting money laundering as well as for use in civil, criminal, tax and regulatory investigations. The BSA permits Treasury to require institutions to implement anti-money laundering programs and report potentially suspicious transactions.

(more)

LB-1302

State licensed casinos were brought under BSA compliance in 1985, with the exception of casinos in Nevada. The casinos there must maintain a state casino regulatory system, which substantially meets the reporting and recordkeeping requirements of the BSA regulations.

-30-

Contact: Chris Peacock/Treasury
(202) 622-2960

Joyce McDonald/FinCEN
(703) 905-3770

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 22, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $11,011 million of 5-year notes, Series V-1999, to be issued January 3, 1995 and to mature December 31, 1999 were accepted today (CUSIP: 912827S45).

The interest rate on the notes will be 7 3/4%. All competitive tenders at yields lower than 7.85% were accepted in full. Tenders at 7.85% were allotted 42%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 7.85%, with an equivalent price of 99.593. The median yield was 7.80%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 7.76%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$24,439,098	$11,011,326

The $11,011 million of accepted tenders includes $918 million of noncompetitive tenders and $10,093 million of competitive tenders from the public.

In addition, $220 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,180 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
December 27, 1994

STATEMENT BY UNDER SECRETARY LAWRENCE SUMMERS

Recent movements in the value of the Mexican peso have gone considerably beyond what can be justified by Mexican economic fundamentals. We have confidence in the underlying soundness of Mexican economic policies. We are in close contact with the Mexican and Canadian authorities regarding the situation in currency markets and recognize that excessive depreciation is in no one's interest.

-30-

FN-1

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 27, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,008 million of 13-week bills to be issued December 29, 1994 and to mature March 30, 1995 were accepted today (CUSIP: 912794R30).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.53%	5.69%	98.602
High	5.57%	5.73%	98.592
Average	5.56%	5.72%	98.595

Tenders at the high discount rate were allotted 16%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$36,904,970	$13,008,270
Type		
Competitive	$31,202,065	$7,305,365
Noncompetitive	1,385,979	1,385,979
Subtotal, Public	$32,588,044	$8,691,344
Federal Reserve	3,046,335	3,046,335
Foreign Official Institutions	1,270,591	1,270,591
TOTALS	$36,904,970	$13,008,270

An additional $201,609 thousand of bills will be issued to foreign official institutions for new cash.

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 27, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,057 million of 26-week bills to be issued December 29, 1994 and to mature June 29, 1995 were accepted today (CUSIP: 912794S88).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	6.22%	6.51%	96.855
High	6.24%	6.53%	96.845
Average	6.24%	6.53%	96.845

Tenders at the high discount rate were allotted 90%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$39,316,670	$13,057,170
Type		
Competitive	$32,631,190	$6,371,690
Noncompetitive	1,254,948	1,254,948
Subtotal, Public	$33,886,138	$7,626,638
Federal Reserve	3,050,000	3,050,000
Foreign Official Institutions	2,380,532	2,380,532
TOTALS	$39,316,670	$13,057,170

An additional $377,568 thousand of bills will be issued to foreign official institutions for new cash.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
December 27, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,800 million, to be issued January 5, 1995. This offering will provide about $1,525 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $25,264 million.

Federal Reserve Banks hold $6,610 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,107 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JANUARY 5, 1995

December 27, 1994

Offering Amount	$13,400 million	$13,400 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 R4 8	912794 T8 7
Auction date	January 3, 1995	January 3, 1995
Issue date	January 5, 1995	January 5, 1995
Maturity date	April 6, 1995	July 6, 1995
Original issue date	April 7, 1994	January 5, 1995
Currently outstanding	$29,542 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
December 28, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury will auction approximately $14,000 million of 16-day Treasury cash management bills to be issued January 3, 1995.

Competitive and noncompetitive tenders will be received at all Federal Reserve Banks and Branches. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D. C.

Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

FN-5

HIGHLIGHTS OF TREASURY OFFERING
OF 16-DAY CASH MANAGEMENT BILL

December 28, 1994

Offering Amount	$14,000 million
Description of Offering:	
Term and type of security .	16-day Cash Management Bill
CUSIP number	912794 P9 9
Auction date	December 29, 1994
Issue date	January 3, 1995
Maturity date	January 19, 1995
Original issue date	July 21, 1994
Currently outstanding . . .	$25,917 million
Minimum bid amount	$1,000,000
Multiples	$1,000,000
Minimum to hold amount . .	$10,000
Multiples to hold	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
	(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
	(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield . . .	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders . .	Prior to 12:00 noon Eastern Standard time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Standard time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 29, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 16-DAY BILLS

Tenders for $14,009 million of 16-day bills to be issued January 3, 1995 and to mature January 19, 1995 were accepted today (CUSIP: 912794P99).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.55%	5.65%	99.753
High	5.62%	5.72%	99.750
Average	5.59%	5.67%	99.752

Tenders at the high discount rate were allotted 12%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$42,975,000	$14,009,000
Type		
Competitive	$42,975,000	$14,009,000
Noncompetitive	0	0
Subtotal, Public	$42,975,000	$14,009,000
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$42,975,000	$14,009,000

Report to The Congress on Section 212 Expenses and The Alternative Minimum Tax

Department of the Treasury
December 1994

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

DEC 28 1994

The Honorable Daniel Patrick Moynihan
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Section 13113 of the conference agreement on the Omnibus Budget Reconciliation Act of 1993 urged the Department of the Treasury to study whether the present-law treatment of section 212 expenses under the alternative minimum tax (AMT) creates a disincentive for "the long-term investments that Congress has intended to foster through the capital gains exclusion." The conference agreement also urged the Department to prepare a report by March 1, 1994. Pursuant to that request, I hereby submit the "Report to the Congress on Section 212 Expenses and the Alternative Minimum Tax."

I am sending a similar letter to Senator Bob Packwood.

Sincerely,

Leslie Samuels

Leslie B. Samuels
Assistant Secretary
(Tax Policy)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

DEC 28 1994

The Honorable Sam Gibbons
Acting Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Section 13113 of the conference agreement on the Omnibus Budget Reconciliation Act of 1993 urged the Department of the Treasury to study whether the present-law treatment of section 212 expenses under the alternative minimum tax (AMT) creates a disincentive for "the long-term investments that Congress has intended to foster through the capital gains exclusion." The conference agreement also urged the Department to prepare a report by March 1, 1994. Pursuant to that request, I hereby submit the "Report to the Congress on Section 212 Expenses and the Alternative Minimum Tax."

I am sending a similar letter to Representative Bill Archer.

Sincerely,

Leslie Samuels

Leslie B. Samuels
Assistant Secretary
(Tax Policy)

REPORT ON SECTION 212 EXPENSES AND THE ALTERNATIVE MINIMUM TAX

Under present law, certain expenses that are incurred in the production of income cannot be deducted against income in calculating an individual's alternative minimum tax (AMT). These expenses, defined in section 212 of the Internal Revenue Code (IRC), are generally grouped for tax purposes with other "miscellaneous itemized deductions." In calculating regular tax, taxpayers are permitted to deduct miscellaneous itemized deductions only to the extent these deductions exceed two percent of the taxpayers' adjusted gross income (AGI). For purposes of the AMT, however, no deductions are allowed for miscellaneous itemized expenses.

The conferees of the Omnibus Budget Reconciliation Act of 1993 were concerned that the "... AMT treatment of section 212 expenses might create a disincentive for the long-term investments that Congress has intended to foster through the capital gains exclusion."[1] Consequently, they urged the Treasury Department to study the subject of their concern and to present its views and recommendations regarding a statutory amendment to the AMT treatment of section 212 expenses, "along with a discussion of the merits and consequences of any such amendment." This Report responds to their request.

The first section of this Report provides background on the current treatment of section 212 expenses and on recent initiatives to modify it. The following section examines some of the related economic issues, and the final section discusses policy options. The Report concludes that current law may mismeasure economic income for some individuals facing the AMT, but that the effects on investment are not likely to be severe. Allowing section 212 expenses to be deducted for AMT purposes in a manner similar to investment interest, or similar to a provision in the vetoed Revenue Act of 1992, would improve the measurement of income under the AMT. However, in the current budgetary environment and given the uncertain effect on investment, the Treasury Department does not at this time recommend a change in the law.

I. Background

Section 212 expenses are expenses that are incurred or paid for the production or collection of income; the management, conservation, or maintenance of property held for the production of income; or that are paid in connection with the determination, collection, or refund of tax. Unless otherwise disallowed, section 212 expenses may be deducted ("expensed") when incurred. Examples of section 212 expenses include: fees for preparation of tax returns, safe deposit box fees, investment counsel's fees, and other

[1] Conference Report of the Committee on the Budget, House of Representatives to accompany H.R. 2264, Omnibus Budget Reconciliation Act of 1993, page 528.

expenses incurred in connection with the management of investments such as salaries, travel, research, and office expenses.[2] These section 212 expenses are reported as miscellaneous itemized deductions and are subject to the two percent floor described below. Employee business expenses (such as union dues, uniforms, certain job-related travel and education) are another type of section 212 expense reported as miscellaneous itemized deductions subject to the two percent floor.

Since a minimum tax was adopted in 1969, miscellaneous itemized deductions of individuals have never been fully allowed in calculating the minimum tax. Under the early "add-on" minimum tax, their deductibility was limited for many taxpayers. Under its successor AMT miscellaneous itemized deductions have been fully disallowed for all AMT taxpayers since 1983.[3] The Tax Reform Act of 1986 introduced two changes that affected section 212 expenses. First, it imposed a two-percent-of-AGI floor on most miscellaneous itemized deductions, including section 212 expenses. The effect was to reduce and, for many individuals, completely eliminate the deductibility under the regular tax of directly incurred section 212 expenses. Second, the Act prohibited the indirect deduction of section 212 expenses through most pass-through entities.[4] As a result, partnerships and S corporations no longer deduct section 212 expenses from their ordinary income, but rather, pass these expenses on to their partners or shareholders as separately stated items. The section 212 expenses passed through to partners and shareholders who are individuals are, in turn, deductible only as part of their individual miscellaneous itemized deductions. That is, they are deductible for regular tax purposes only to the extent they exceed two percent of AGI (for those taxpayers who itemize deductions), and are not deductible at all for individual AMT purposes. C corporations that are partners or that incur section 212 expenses directly can fully deduct such expenses for regular and corporate alternative minimum tax purposes.

Tax legislation passed by both houses of Congress in 1992, but vetoed by the President, would have allowed a portion of a partner's distributive share of section 212 expenses to be deductible for individual AMT purposes. Deductibility would have been limited to the lesser of (1) the individual's investment income from partnerships, or (2) the excess of the distributive share of section 212 expenses over two percent of AGI. The

---

[2] Venture capital partnerships frequently incur such expenses as part of their support for businesses in which they invest.

[3] The AMT was enacted in 1978 but through 1982 continued treating miscellaneous itemized deductions as they had been under the add-on minimum tax. In 1983, the separate add-on minimum tax was eliminated and the AMT substantially revised.

[4] An exception to the prohibition on indirect deduction of section 212 expenses was provided for regulated investment companies (RICs, or mutual funds), which are publicly offered.

proposal was intended to permit taxpayers paying AMT to claim a deduction against investment income for expenses incurred in producing that income.[5]

II. Economic Issues

The current treatment of section 212 expenses raises several economic issues related to the measurement of income, the effect on investment, and the partial exclusion of capital gains from qualifying small business stock enacted in the Omnibus Budget Reconciliation Act of 1993. The limited data available on the amount of section 212 expenses are discussed at the end of this section.

A. The Measurement of Economic Income

Economists commonly define "income" as consumption plus change in net worth in a particular period. The tax base under an income tax system necessarily deviates from this theoretical concept for many practical and political reasons, although such deviations often reduce economic efficiency. Income as defined by economists is net of the expenses needed to generate it. The definition of income in the Internal Revenue Code is in most cases also based on a net concept. Counting returns on investments as income without allowing deductions for the costs of generating them overstates, on an economic basis, the net income those investments produce.

Measuring annual net income accurately also requires matching the timing of income and expenses. Costs of producing income fall into two general timing categories: (1) expenses that produce current or ongoing income, and (2) expenses that produce future income. To measure income properly, the former type would typically be deducted currently ("expensed"), while expenses attributable to future income would be capitalized. Because of the time value of money, taxpayers can reduce the present value of their tax liability if they can deduct expenses immediately while recognizing income in a future year. (The 28 percent limit on the capital gains tax rate further reduces the tax burden for taxpayers who can deduct expenses at rates over 28 percent.)

---

[5] The large partnership provisions of H.R. 4210, H.R. 11 (both vetoed in 1992), and of H.R. 3419, the "Tax Simplification and Technical Corrections Act" which passed the House of Representatives on May 19, 1994, would disallow 70 percent of miscellaneous itemized deductions (including section 212 expenses) incurred by large partnerships (generally those with 250 or more partners) at the partnership level. The remaining 30 percent would be allowed in calculating the partnership's ordinary income and would not be subject to the two percent floor for the individual partners. As the Report on H.R. 3419 states, "The '70 percent' figure is intended to approximate the amount of such deductions that would be denied at the partner level as a result of the two-percent floor." (Page 53.)

In practice, attributing a particular expense to either future or current income may be difficult in some cases. The proper allocation may depend on specific facts and circumstances. Although current law may allow section 212 items to be expensed, the expenditure may contribute to both current and future gains, and determining the correct economic division can be difficult.

Consequently, the current law treatment of section 212 expenses, combined with the benefits of capital gains, has a wide range of effects on taxpayers, compared to the liability they would have incurred if the timing of income and deductions were exactly matched. Some taxpayers benefit, others lose, and for a final group the impact is unclear. Taxpayers that benefit are those subject to the regular tax (particularly those in the top marginal tax brackets) with miscellaneous itemized deductions substantially exceeding two percent of AGI whose section 212 expenses produce future income. Taxpayers disadvantaged include those with all their section 212 expenses disallowed, either by the two percent of AGI floor or by the AMT, particularly if their expenses produce current income and if their expenses represent a substantial portion of their investment. The effect on taxpayers does not depend on whether they incur section 212 expenses directly or through a pass-through entity such as a partnership.

B. Effect on Investment

By mismeasuring economic income, the current law treatment of section 212 expenses can distort the after-tax return on investments involving section 212 expenses. Taxpayers for whom section 212 expenses are limited or disallowed might find other investments relatively more attractive. All else equal (such as the pre-tax rate of return), they tend to choose investment vehicles that do not involve section 212 expenses. However, taxpayers who can deduct section 212 expenses currently (particularly at rates over 28 percent) and defer realizing the income produced by those expenses might prefer investments involving section 212 expenses, all else equal. Because the current treatment of section 212 expenses does not tax (or subsidize) capital income in general -- only income from investments involving section 212 expenses -- even for taxpayers under the AMT, the likely effect would be on the choice of investment opportunities selected, and the avenues through which such investment is pursued, rather than on the total amount of investment undertaken. A few taxpayers facing limitations on section 212 expenses might reduce the total amount of investment they undertake, however, if there are not enough investment opportunities that meet their required rate of return. However, macroeconomic policy is the primary determinant of the level of aggregate investment in the economy.

How taxpayers change their investment patterns in response to limitations on section 212 expenses depends on several factors, most importantly on the after-tax return on the investments and on the type of expense subject to the section 212 limitation. The greater the difference between after-tax returns of investments involving limited section 212 expenses and other investments, the more taxpayers will choose alternative investment opportunities. However, the tax benefits afforded capital gains income (deferral and, for high income investors, a lower nominal tax rate) may offset some of this disadvantage. Some investments that produce long-term capital gains and on which the section 212 expenses have been disallowed may still yield higher after-tax returns than investments with neither capital gains nor disallowed section 212 expenses.[6] At the other extreme, investments with substantial disallowed section 212 expenses can produce low after-tax returns, even with the benefits of deferral. Some taxpayers subject to the AMT are likely to be in this situation.

Taxpayer response to limitations on section 212 expenses also depends on the type of expense involved. Some section 212 expenses represent costs incurred on behalf of the taxpayer that do not affect the business in which the taxpayer has invested. This type of expense includes investment advice or information services that improve the taxpayer's investment decisions. Taxpayers might respond to limitations on deductibility of this type of expense by buying less -- subscribing to fewer investment publications, attending fewer investment seminars, seeking less investment advice. They might switch to investment vehicles that required less information on the part of the investor, such as choosing mutual funds rather than making their own selections of promising companies.

Other section 212 expenses represent expenses incurred on behalf of the business in which the taxpayer has invested, such as salaries or office expenses, and effectively substitute for direct costs of the business, benefitting all investors. Treating such expenses differently if they are incurred by investors than if they are expenses of the business inserts tax considerations into choosing who can best undertake the expenses. Investors can avoid the limitation by choosing investment vehicles in which section 212 expenses are not an issue (such as mutual funds), or in some cases by increasing their direct equity investment in the business and allowing the business to incur the expenses itself. In this case, the investors' added contribution would increase their basis, lowering their ultimate capital gains on the investment. Capitalizing expenses would produce an after-tax rate of return higher than if the expenses were fully disallowed, but lower than if the expenses were deducted currently. Although avoiding limitations on section 212 expenses by increasing direct investment could in some cases result in a more proper measure of income[7], it increases transactions costs and loses the value of intermediation -- such as economies of scale, information, experience -- provided by venture capital partnerships and other investment firms to the individual

---

[6] Appendix 1, columns 1 through 4, illustrates some of these differences in after-tax rates of return under the regular tax and the AMT. It shows that the after-tax return depends on a number of factors besides the disallowance of section 212 expenses, including pre-tax rates of return and the relation between tax rates on ordinary income and capital gains, as well as the importance of disallowed section 212 expenses in the investment. Factors not illustrated in Appendix Table 1 that also affect after-tax rates of return include the holding period, inflation, and the particular tax treatment of section 212 expenses.

[7] This could occur, for example, if the expenses contributed to future, not current income.

taxpayer-investor. To the extent such firms provide a disproportionate share of investment for certain industries, those industries may be disadvantaged by the disallowance of section 212 expenses. Limitations on section 212 expenses therefore may change the pattern of investment, and may even lower the productivity of the investment to the extent the investment intermediaries are better at managing promising businesses.

C. Partial Exclusion for Capital Gains on Qualifying Small Business Stock

In 1993, Congress enacted a 50 percent exclusion for capital gains on certain small business stock held for more than 5 years. One-half of the excluded gains would be a preference under the alternative minimum tax. Therefore, with the maximum statutory rate on net capital gains income of 28 percent, the nominal marginal rate on qualifying capital gains would be 14 percent for most taxpayers under the regular tax and 19.5 or 21 percent for those on the alternative minimum tax.[8] These AMT rates are still substantially lower than the rates on ordinary income of 36 and 39.6 percent faced by the taxpayers who realize the largest amounts of capital gains.

The disallowance of section 212 expenses interacts with the small business capital gains exclusion in several ways and can offset some of the tax rate advantage of investing in qualifying small businesses. In most cases, though, the disallowance does not eliminate the advantage.[9]

1. For taxpayers subject to the regular tax, the small business capital gains exclusion provides a clearly higher after-tax return for any investment, even with disallowed section 212 expenses, compared to returns on equivalent investments producing regular capital gains.[10]

2. The small business capital gains provision benefits taxpayers who are subject to the AMT without considering small business gains.[11]

3. If the small business capital gains exclusion moves a taxpayer from the regular tax to the AMT, the gain from the small business provision depends on how much of

---

[8] With three-fourths of the small business capital gains included in the AMT base, and AMT rates of 26 and 28 percent, 19.5 = 26 * 3/4, and 21 = 28 * 3/4.

[9] Appendix Table 1, columns 5 and 6, illustrates the impact on after-tax rates of return of the small business capital gains provision.

[10] In terms of Appendix Table 1, compare column 3 with column 5.

[11] In Appendix Table 1, compare columns 4 and 6.

the section 212 expenses the taxpayer can currently claim under the regular tax.[12] In the extreme, a taxpayer with most section 212 expenses allowed under the regular tax could receive no benefit from the special capital gains exclusion.[13]

D. Evidence on Amount of Section 212 Expenses Disallowed

Disallowed section 212 expenses are not reported explicitly on individual income tax returns but can be estimated by combining evidence from individual returns and returns of S corporations and partnerships. For 1991, the available evidence suggests that $150 million to $225 million in section 212 expenses, or 5 to 7 percent of the total coming from flow-through entities, were disallowed. This section presents the evidence behind this estimate.

Table 1 summarizes data related to miscellaneous itemized deductions from individual income tax returns for 1991. In that year, 7.6 million individual taxpayers deducted $26.5 billion in miscellaneous itemized deductions in excess of two percent of their AGI. These taxpayers reported an additional $8.7 billion in deductions that were below the two percent floor, for a total of $35.3 billion. (There is no information on miscellaneous deductions of taxpayers whose total did not reach two percent of their AGI.) Of these 7.6 million taxpayers, 148,000 had AMT liability. Their miscellaneous deductions which counted as AMT preferences equalled $3.4 billion.

Although section 212 expenses incurred directly by individual taxpayers or indirectly through flow-through entities are treated as miscellaneous deductions, they are not separately identified in available individual tax return data. Only employee business expenses and, occasionally, tax preparation expenses are identified. The unidentified deductions, which represent the upper bound on section 212 expenses reported by individuals, are labeled "potential investment expenses" in the bottom section of Table 1. 5.4 million taxpayers reported $11.5 billion potential investment expenses in 1991, of which approximately $9.3 billion exceeded the two percent of AGI floor (stacked last)[14]. Of this amount over the AGI threshold, $1.7 billion was reported by 117,000 AMT taxpayers and was treated as a preference item under the AMT.

---

[12] In terms of Appendix Table 1, compare column 3 with column 6.

[13] If the taxpayer were able to deduct a portion of the section 212 expenses at a higher marginal tax rate on ordinary income than 28 percent, the shift to the AMT would be even more adverse. Presumably taxpayers would not choose small business capital gain treatment if doing so would leave them in a less advantageous position. For example, some taxpayers would be better off deducting their section 212 expenses at a 39.6 percent rate and paying capital gains tax at 28 percent, rather than declaring the gain as qualified for small business treatment but being subjected to AMT treatment of the expenses and the gain.

[14] Stacked last means that these expenditures are applied last in reaching or surpassing the two percent floor.

Table 1

Miscellaneous Itemized Deductions, 1991[1]

	Taxpayers subject to regular tax	Taxpayers subject to AMT	All Taxpayers
	(Dollar amounts in billions)		
Taxpayers with miscellaneous itemized deductions			
Number of taxpayers	7.4 million	148,000	7.6 million
Total reported expenses, deducted and not deducted	$31.4	$3.9	$35.3
Not deducted - under 2% floor	$8.2	$0.5[2]	$8.7
Deductions - Total over 2% floor	$23.1	$3.4	$26.5
Taxpayers with potential investment expense deductions[3]			
Number of taxpayers	5.3 million	117,000	5.4 million
Potential investment expenses, deducted and not deducted	$9.6	$1.9	$11.5
Not deducted - under 2% floor	$2.0	$0.2[2]	$2.2
Deductions - Total over 2% floor	$7.6	$1.7	$9.3

Source: Unpublished data from IRS, Individual Income Tax Returns, 1991.

[1] For taxpayers with expenses exceeding two-percent-of-AGI floor.

[2] Not a preference for the AMT.

[3] Miscellaneous itemized deductions not identified as employee business expenses or as tax preparation expenses, stacked last.

From the business side, partnerships and S corporations are instructed to report section 212 expenses to shareholders and partners on their schedule K-1's. Table 2 shows partnerships reporting $3.1 billion in investment expenses in 1991, with most of this reported by partnerships who list their principal business activity as "Other holding and investment companies." S corporations reported a small amount of investment expenses.

It is reasonable to assume that all the investment expenses reported by S corporations were allocated to individuals, but that is not true for partnerships. Not only do partnerships have many partners who are not individuals, but there can be substantial double counting in the partnership data, because partnerships can be partners: the same expense could be reported appropriately on the schedule K of two or more partnerships. When the potential for double counting and allocations to partners that are not individuals are taken into account, we estimate that approximately $1-1.5 billion in investment expenses from flow-through businesses was allocated to individuals.

Table 2

Investment Expenses of Flow-Through Entities, 1991

	Amount	Returns
Partnerships, Total	$3.1 billion	80,000
Investment and other holding companies	$2.3 billion	30,000
S corporations	$0.2 billion	14,000

Source: Unpublished IRS data from Partnership Tax Returns, and Corporation Tax Returns, 1991.

The data provide no evidence on which individual taxpayers received these flow-through expenses nor, therefore, on what fraction was deductible in excess of the two percent of AGI floor, or was a preference for AMT purposes. The estimated $1-1.5 billion of expenses that were allocated to individual partners and S corporation shareholders went to three types of taxpayers.

(1) Individuals whose miscellaneous deductions did not reach two percent of their AGI.

(2) Some of the 5.3 million taxpayers subject to the regular tax who claimed the $9.6 billion in miscellaneous itemized deductions that could have been section 212 expenses.

(3) Some of the 117,000 taxpayers subject to the AMT who had $1.9 billion in potential investment expenses that were disallowed.

If all the $1-1.5 billion from flow-through entities went to taxpayers in categories (2) and (3) (individuals with miscellaneous deductions over the AGI floor), and if the same fraction of the $1-1.5 billion was a preference for the AMT as of potential investment expenses,[15] then approximately $150-225 million section 212 expenses from flow-through entities would have been disallowed as AMT preferences in 1991. This would amount to 5-7 percent of the total of $3.3 billion in section 212 expenses of flow-through entities. This may represent an upper bound on the estimate of AMT preferences because an unknown amount of the investment expenses would have been allocated to individuals in category (1) whose miscellaneous expenses did not reach two percent of their AGI.

E. Venture Capital

Much of the concern over the disallowance of section 212 expenses relates to its potential effect on venture capital partnerships and their role in funding new "high-tech" firms. Available data suggest, however, that individuals contribute a minor share of the investment funds of venture capital partnerships so it is likely that the treatment of section 212 expenses has little effect on venture capital.

Table 3 summarizes data on the formal part of the venture capital sector on sources of capital committed by limited partners to institutionally-funded independent private venture capital funds over the past decade.[16] While the venture capital partnerships represented by the data are not the only source of capital for new businesses, they are an important vehicle through which individuals invest through partnerships in the later stages of start-up firms. Data are limited on informal sources of investment funds in start-up businesses, which are particularly important in the early stages of business growth and in which individual investors play an important role.

Table 3 suggests that capital from individuals has been, and continues to be, a relatively small share of total capital contributed to partnerships in the formal venture capital sector. Pension funds have been the main investors, even though they receive no tax benefits from deferral of capital gains. Similarly, they are not affected by limitations on deducting section 212 expenses. Indeed, the vast majority of capital supplied to venture capital partnerships as reported by the National Venture Capital Association came from investors not covered by the AMT. The limited role of individuals in venture capital partnerships, combined with the estimates in the previous section that only a small portion of section 212 expenses flowing to individuals is disallowed by the AMT, suggests that only a small fraction of investment expenses incurred by venture capital partnerships is affected by the AMT treatment of section 212 expenses.

[15] 1.7/11.5 = .15. See Table 1.

[16] These data only include the "formal" venture capital firms, as counted by the National Venture Capital Association; they do not include all new businesses.

Table 3

Sources of Capital Committed by Limited Partners
to Institutionally-funded Independent Private
Venture Capital Funds, 1980-1992
(Dollar amounts in billions)

	1980-1991		1992	
	Amounts	Share	Amounts	Share
Pension funds	10,830	38.9%	$1,060	41.6%
Foreigners	3,877	13.9	283	11.1
Individuals & families	3,734	13.4	280	11.0
Corporations	3,393	12.2	84	3.3
Insurance companies	3,289	11.8	370	14.5
Endowments & foundations	2,718	9.8	471	18.5
Total	27,854	100%	$2,548	100%

Source: National Venture Capital Association, 1991 and 1992 Annual Reports, prepared by Venture Economics.

III. Summary and Policy Discussion

Although the data related to the current tax treatment of section 212 expenses are limited, the foregoing analysis leads to several conclusions and policy implications.

1. From an economic perspective, a proper measure of income would allow deductions for section 212 expenses that do not benefit future periods as costs of earning income. However, some of these expenses may benefit future periods, and taxpayers with section 212 expenses generally benefit from deferral of income and preferential treatment of capital gains. On balance, it is not clear that these activities are tax disadvantaged, compared to investments that have neither disallowed section 212 expenses nor capital gains treatment. Therefore, the theoretical case for removing limits on the deductibility of section 212 expenses on grounds of neutrality is not compelling.

2. Available data suggest that the AMT disallowance of section 212 expenses affects only a small fraction of investment expenses from flow-through entities and an even smaller fraction of taxpayers with such expenses. Of the investment expenses incurred by partnerships and S corporations in 1991, it is likely that at most 5 to 7 percent were allocated to individuals and then disallowed as AMT preferences. Of the estimated 5.4 million taxpayers in 1991 with miscellaneous itemized deductions that might include section 212 expenses, only 117,000 (or two percent) were subject to the AMT, although this two percent reported $1.7 billion (or 15 percent) of potential investment expenses of individuals with miscellaneous itemized deductions.

Although the current law AMT treatment of section 212 expenses does not appear to have -- at present or in the future -- a substantial economic impact, the impact it does have may be of concern. There are several possible policy options in response to that concern.

Option 1. Keep current law. This could be supported on the grounds that, for the reasons summarized above, the treatment of section 212 expenses probably has little aggregate economic effect.

Option 2. Allow regular tax treatment of section 212 expenses for AMT purposes. This would remove the tax disadvantage that the current-law AMT disallowance of section 212 expenses imposes on some investments, but it would confer a tax advantage on others that benefit from deferral of tax on income, and it would result in a loss of revenue.

Option 3. Treat section 212 expenses under AMT in a fashion similar to investment interest, with expenses allowed to the extent of investment income and the excess deferred to succeeding years. This approach would address both sources of income mismeasurement related to the current law treatment of section 212 expenses. It would permit expenses of generating investment income to be netted against the proceeds from those investments while limiting the benefit from deducting expenses before paying tax on the associated income.

Option 3 is a broader version of the provision in the vetoed Revenue Act of 1992 dealing with section 212 expenses of partnerships. That provision would have limited deductibility under the AMT to the lesser of: (1) the individual's investment income from partnerships, or (2) the excess of the distributive share of section 212 expenses over two percent of AGI. While that provision would have helped one group of taxpayers affected by the AMT limitations on section 212 expenses--individual partners, particularly those with very large investments in venture capital partnerships--there is no economic logic for excluding from the relief S corporation shareholders and individuals making direct investments.

In light of the conclusions from the earlier analysis that the present AMT disallowance of section 212 expenses does not appear to have a substantial economic impact, and in light of the continued need for budget restraint, the Treasury Department does not find a compelling need to revise policy at this time and favors Option 1. If the treatment of section 212 expenses were to be reformed, the approach reflected in Option 3 applied to section 212 expenses from all sources would be preferable.

APPENDIX

Appendix Table 1 presents examples of after-tax rates of return for hypothetical investments with given pre-tax returns, with and without capital gains and with differing tax treatments of section 212 expenses. It also shows the effect on after-tax returns of a preferential statutory tax rate on capital gains and of the small business capital gains exclusion under the regular tax and under the AMT.

Investments A and B are virtually the same except for the timing of income: investment A produces income annually with no capital gain, whereas investment B produces all return as capital gain in the final year. For both, an initial investment is made and capitalized in year 1, followed by annual section 212 expenses equivalent to the net pre-tax rate of return on the investment (either 12 percent or 24 percent). For example, on an initial investment of $100 which earns a 12 percent return, the annual section 212 expenses are chosen to be $12.[17] For tax purposes, the section 212 expenses are deducted against ordinary income as incurred, to the extent allowed.

For Taxpayer 1 in the 28 percent tax bracket on ordinary income and capital gains under the regular tax and the AMT, Investment A that involved no deferral and that yielded a pre-tax rate of return of 12 percent (column 1, top half of the table) would yield after-tax returns ranging from 8.6 percent to 5.3 percent depending on the fraction of section 212 expenses that are deductible. If the taxpayer were subject to the AMT where none of the section 212 expenses were deductible and faced an AMT rate of 28 percent, the after-tax return would be 5.3 percent.

Alternatively, the taxpayer could receive a 12 percent pre-tax return with Investment B. Because of the benefit of deferral, this approach would provide higher after-tax returns than the non-deferral Investment A: with 100 percent of section 212 expenses allowed, a 9.5 percent after-tax return (column 3) instead of 8.6 percent for Investment A (with a marginal rate of 28 percent). If only half of the section 212 expenses were allowed on Investment B, the after-tax return would be almost as high (8.5 percent) as the return on Investment A with all section 212 expenses allowed (8.6 percent). If both types of investments yielded pre-tax returns of 24 percent (bottom half of the table), the taxpayer would prefer Investment B with only 25 percent of the section 212 expenses allowed over Investment A with the expenses allowed in full.

Investments that produce qualifying small business capital gains (columns 5 and 6) would generate higher after tax-returns for any given level of disallowed section 212 expenses than investments earning regular capital gains.

[17] If the amount of section 212 expenses differed, the after-tax rates of return in the table would be different but the qualitative conclusions would persist.

Appendix Table 1

Examples of After-Tax Rates of Return on Investments with Different Assumptions on Tax Rates, Before-Tax Rates of Return, and Disallowed Section 212 Expenses

Percent of section 212 expenses allowed	Investment A 1/ No Deferral (No Capital Gains)		Investment B 1/ With Capital Gains			
			Regular Gains		Small Business Capital Gains	
	Regular Tax	AMT	Regular Tax	AMT	Regular Tax	AMT
	(1)	(2)	(3)	(4)	(5)	(6)
Tax Rate on Capital Gains	NA	NA	28.0%	28.0%	14.0%	21.0%
Pre-Tax Rate of Return = 12%						
Taxpayer 1: tax rate on ordinary income = 28%						
100	8.6%	--	9.5%	--	12.0%	--
75	7.8%	--	8.9%	--	11.4%	--
50	7.0%	--	8.3%	--	10.8%	--
25	6.1%	--	7.7%	--	10.2%	--
0	5.3%	5.3%	7.1%	7.1%	9.6%	8.4%
Taxpayer 2: tax rate on ordinary income = 36% 2/						
100	7.8%	--	10.2%	--	12.7%	--
75	6.0%	--	9.4%	--	11.9%	--
50	5.8%	--	8.6%	--	11.1%	--
25	4.7%	--	7.8%	--	10.4%	--
0	3.7%	5.3%	7.1%	7.1%	9.6%	8.4%
Pre-Tax Rate of Return = 24%						
Taxpayer 1: tax rate on ordinary income = 28%						
100	17.3%	--	19.4%	--	23.3%	--
75	15.6%	--	18.4%	--	22.3%	--
50	13.9%	--	17.5%	--	21.4%	--
25	12.2%	--	16.5%	--	20.5%	--
0	10.6%	10.6%	15.6%	15.6%	19.6%	17.6%
Taxpayer 2: tax rate on ordinary income = 36% 2/						
100	15.6%	--	20.5%	--	24.4%	--
75	13.6%	--	19.2%	--	23.1%	--
50	11.5%	--	18.0%	--	22.0%	--
25	9.4%	--	16.8%	--	20.8%	--
0	7.4%	10.6%	15.5%	15.6%	19.6%	17.6%

1/ Investments A and B are the same, before taxes, except for the timing of the receipt of income. In year 1, an initial investment is made and capitalized. In years 2 through 6, section 212 expenses are incurred equal to the annualized return on investment (either 12% or 24%). Investment A produces an annual pre-tax flow of net income (income after deduction of section 212 expenses) equal to the rate of return (12% or 24%) in years 2 through 6. The investment is sold at the end of year 6 for the amount of the initial investment. Investment B generates no income in years 2 through 5, but is sold in year 6 at a gain sufficient to produce the required pre-tax return (12% or 24%).

2/ The maximum AMT rate on ordinary income is 28 percent.

Source: Treasury calculations.

For Taxpayer 2 who faces a higher statutory rate on ordinary income than does Taxpayer 1 (28 percent and 36 percent, respectively), the benefits of deferral are even greater. From a successful investment without deferral yielding 12 percent before taxes (Investment A, column 1), this taxpayer would receive a 7.8 percent after-tax return. The taxpayer would prefer Investment B generating regular capital gains even if less than 25 percent of the section 212 expenses were allowed.

As these illustrations show, disallowing some section 212 expenses reduces the return from the investment, but may still leave the investment relatively tax favored. The results depend on relative tax rates, rates of return, and the tax treatment of section 212 expenses, including the importance of disallowed section 212 expenses in the investment.

Department of the Treasury
Washington, D.C. 20220

Official Business
Penalty for Private Use, $300

Report to The Congress on

Adjusting the Excess Passive Assets Rules and the Passive Foreign Investment Company Rules to Account for Marketing Intangibles

Department of the Treasury
November 1994

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 22, 1994

The Honorable Sam Gibbons
Acting Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In the Conference Report to the Omnibus Budget Reconciliation Act of 1993, Congress requested the Department of the Treasury to study whether the excess passive assets rules for the current taxation of certain earning of controlled foreign corporations and the passive foreign investment company rules should be amended to account for intangible assets created by marketing expenditures, in a manner similar to that used to account for assets created by research or experimental expenditures. Congress also requested that the study include Treasury's views and recommendation as to whether such an amendment should be made, along with a discussion of the merits and consequences of any such amendment.

Pursuant to that request, I hereby submit this "Report to The Congress on Adjusting the Excess Passive Assets Rules and the Passive Foreign Investment Company Rules to Account for Marketing Intangibles".

I am sending a similar letter to Representative Bill Archer.

Sincerely,

Leslie Samuels

Leslie B. Samuels
Assistant Secretary
(Tax Policy)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 22, 1994

The Honorable Daniel Patrick Moynihan
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In the Conference Report to the Omnibus Budget Reconciliation Act of 1993, Congress requested the Department of the Treasury to study whether the excess passive assets rules for the current taxation of certain earning of controlled foreign corporations and the passive foreign investment company rules should be amended to account for intangible assets created by marketing expenditures, in a manner similar to that used to account for assets created by research or experimental expenditures. Congress also requested that the study include Treasury's views and recommendation as to whether such an amendment should be made, along with a discussion of the merits and consequences of any such amendment.

Pursuant to that request, I hereby submit this "Report to The Congress on Adjusting the Excess Passive Assets Rules and the Passive Foreign Investment Company Rules to Account for Marketing Intangibles".

I am sending a similar letter to Senator Bob Packwood.

Sincerely,

Leslie Samuels

Leslie B. Samuels
Assistant Secretary
(Tax Policy)

CHAPTER 1

INTRODUCTION AND SUMMARY

1.1 Introduction

This report was prepared in response to a request made by Congress in the Conference Report to the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993). In the Conference Report, Congress asked the Department of the Treasury to study whether the excess passive assets rules for the current taxation of certain earnings of controlled foreign corporations (CFCs) and the passive foreign investment company (PFIC) rules should be amended to account for intangible assets created by marketing expenditures, in a manner similar to that used to account for assets created by research or experimental expenditures. Congress requested that the study include Treasury's views and recommendations as to whether such an amendment should be made, along with a discussion of the merits and consequences of any such amendment.

The excess passive assets rules deny deferral of the U.S. income tax on earnings of CFCs when the CFCs hold excessive accumulations of passive assets. Passive asset holdings are excessive if they exceed 25 percent of the CFC's total assets. In determining total assets and passive assets, the CFC must use the adjusted tax basis of its assets. The CFC's basis in its total assets is increased by research and experimental (R&E) expenditures made in the last three years and by three times the payments made during the year to license assets of the type created by R&E expenditures.

Prior to OBRA 1993, a CFC could use the fair market value method of measuring assets for the PFIC asset test. Under that method all assets, including intangible assets, would be included in the asset test. In OBRA 1993, Congress rejected the fair market value method, primarily because it proved difficult to administer, and adopted the adjusted tax basis in its place. In this context, assigning a hypothetical basis to R&E assets should be perceived as a narrow exception to the general rule of using standard tax basis rules to measure assets when determining the active or passive nature of a CFC, or to determine whether a CFC has invested its earnings in excess passive assets. This report addresses the question of whether a similar exception to the standard basis rules should be provided for intangible assets created by marketing expenditures.

1.2 Summary

Two tasks must be accomplished if the asset tests for CFC-PFICs and for the excess passive assets rules are to be adjusted to account for intangible assets of the type created by marketing expenditures (marketing assets) in a way similar to that now used to account for intangible assets of the type created by R&E

expenditures. First, the marketing expenditures that create lasting assets must be identified. Second, a hypothetical basis must be constructed to represent the basis the marketing expenditures would have created if they had been capitalized and amortized rather than expensed. These tasks pose problems similar to those encountered in capitalizing R&E expenditures. Marketing expenditures can take a variety of forms, some difficult to identify and measure. It is also difficult to determine which marketing expenditures create lasting assets and the economic lifetimes of those assets.

Most marketing expenditures consist of advertising expenditures that inform potential customers about a firm's products, or that persuade customers to buy the products. The impression left on the potential customers is an intangible asset that may earn future profits for the firm. The primary difficulty in measuring advertising assets is determining their economic lifetime. The lifetimes vary greatly, depending on the industry in which the advertising occurs, and estimates of the lifetimes are subject to a great deal of error.

As described in greater detail in chapter 2 of this report, it is usually even more difficult to measure assets created by other kinds of marketing expenditures. In some cases, only a part of a given kind of marketing expenditure creates a lasting asset. Other kinds of marketing expenditure cannot be measured directly. The problems involved make it impossible to measure accurately assets created by the various types of marketing expenditures in different industries.

If marketing assets were to be included in the asset tests for PFICs and for the excess passive assets rules, the most administratively feasible procedure would be to limit the eligible expenditures to those typically regarded as advertising expenditures which would be hypothetically capitalized for tax purposes and to use a uniform lifetime to amortize the capitalized marketing expenditures. Based on the literature described in chapter 4 of this report, the average lifetime of assets created by such advertising expenditures appears to be considerably shorter than the average lifetime for R&E assets, but neither average can be accurately determined.

When proposals have surfaced requiring advertising to be capitalized and amortized rather than expensed, taxpayers have argued that the effects of advertising are largely exhausted within one year of the expenditures, and therefore expensing is appropriate. If marketing assets were measured by using a single average lifetime of one year, adjusting the asset tests for the CFC-PFICs and for the excess passive assets rules to account for the marketing assets would not have a large effect on tax revenues. It is estimated in chapter 5 that such an adjustment would reduce the revenue pick-up from the new excess passive rules and from the changes that OBRA 1993 made in the asset test for CFC-PFICs by less than three percent, and perhaps by less than one percent. Based on estimates for the revenue pick-up produced by Treasury staff and by the Joint Committee on Taxation, these percentage reductions translate into absolute reductions of less than $10 million, and perhaps less than $3 million, over the five-year period from fiscal year 1994 through fiscal year 1998.

Treasury strongly recommends that no adjustment be made to the asset tests to account for marketing assets. The asset tests for PFICs and for taxing excess passive assets of CFCs use the adjusted tax basis of assets. Although a basis is created for assets of the type created by R&E expenditures, there are good reasons for not providing a similar rule for assets created with marketing expenditures.

Both research and experimentation expenditures and marketing expenditures are currently expensed for tax purposes. An adjustment to create an intangible asset from either type of expenditure would be difficult to administer, because it is difficult to identify and measure the resulting assets. The need to provide an adjustment for the R&E assets is more compelling, however, because the R&E assets typically have a much longer lifetime than those created with marketing expenditures. Furthermore, the adjustment for R&E assets uses a definition for eligible R&E expenditures that was already developed for purposes of allowing these expenditures to be expensed. In contrast, there is currently little administrative guidance as to what is a marketing expenditure. These costs are expensed, which provides administrative convenience and is consistent with taxpayer claims that the effects of advertising are largely exhausted within one year of the expenditures. An adjustment for marketing assets would require developing a definition of marketing expenditures in order to isolate these expenditures from other expenses, adding significant complexity to our tax laws and reducing administrative convenience associated with expensing marketing costs. In light of all these considerations, current treatment of marketing assets under the asset test is appropriate.

1.3 Organization of the Report

The next chapter provides background on the new rules for taxing certain earnings of CFCs and the asset test for CFC-PFICs. Chapter 3 focuses on the problems in identifying marketing expenditures that may be capitalized and included in the total assets of a CFC for purposes of sections 965A and 1296. Chapter 4 examines the evidence on the average economic lifetime of the assets created by these expenditures. Chapter 5 provides an estimate of the revenue consequences of including marketing assets in the asset tests. Chapter 6 presents conclusions and recommendations.

CHAPTER 2

BACKGROUND

2.1 Deferral and the New Rules For Taxing Certain Earnings of Controlled Foreign Corporations

The Internal Revenue Code (IRC) generally does not tax income earned by U.S. shareholders from investment in a foreign corporation until the income is repatriated to the United States. Thus, the U.S. tax on such income is effectively deferred as long as the income is retained abroad. The IRC contains several important exceptions to this general deferral rule, however, including the subpart F rules for CFCs and the PFIC rules. These rules were modified by OBRA 1993 to provide that certain earnings of CFCs that have excessive amounts of passive assets would be subject to tax. In addition, OBRA 1993 modified the PFIC asset test described below.

Under the subpart F rules, a U.S. shareholder (a person that owns 10 percent or more of a CFC's voting stock) is required to include in current income the *pro rata* share of the "subpart F income" of the CFC. A CFC is a foreign corporation more than 50 percent of the voting stock or value of which is owned by U.S. shareholders. Subpart F income generally includes passive income and certain types of active income believed to be very mobile.

Under section 956A, which was added by OBRA 1993, U.S. shareholders of CFCs that have excessive amounts of passive assets are required to include in current income their *pro rata* share of a specified portion of the CFC's current and accumulated earnings. Excessive passive assets are defined as passive assets in excess of 25 percent of total assets.

Under the PFIC rules, a U.S. person that owns any stock in a PFIC is subject to tax under one of two regimes. A shareholder in a PFIC may defer U.S. tax until income is realized (either by payment of a dividend or sale of the stock) and pay an interest charge for that deferral or may pay current tax on the *pro rata* share of the PFIC's total income. A foreign corporation is a PFIC if 75 percent or more of its gross income for the taxable year is passive income, or if 50 percent or more of its assets produce or are held for the production of passive income.

2.2. The Asset Test for CFC-PFICs and for the New Rules for Taxing Certain Earnings of CFCs

To determine the amount of excess passive assets held by a CFC or to determine whether an entity is a PFIC, passive assets and total assets must be defined and measured. For a CFC, the rules for measuring all assets are the same for purposes of sections 965A and 1296. For all entities, the definition of passive assets is the same for purposes of sections 956A and 1296.

OBRA 1993 changed the rules for measuring the assets of CFC-PFICs. In particular, a CFC-PFIC must now measure its assets using the adjusted tax basis. PFICs that are not CFCs still have the option of using either adjusted basis or fair market value. OBRA 1993 also allows CFCs and PFICS to include the value of certain leased assets in total assets. The adjusted basis of the leased property is the unamortized portion of the present value of the payments made under the lease. OBRA 1993 also adopted special rules which apply to CFC-PFICs, to account for active assets of the type created with R&E expenditures ("R&E assets"), whether the CFC-PFIC owns or licenses the assets. Under these rules, the basis of the CFC's total assets is increased by the sum of R&E expenditures made in the current taxable year and the two preceding taxable years (including cost sharing payments), and by three times the total payments made during the taxable year to unrelated persons and to related U.S. persons for licensing R&E assets that the CFC uses in the active conduct of its trade or business.

The allowances in the asset test for R&E expenditures and for payments for licensing intangible property give the firm credit for these intangible assets in the asset test, even though the costs incurred to create them were expensed rather than amortized. Taxpayers have raised the question of whether a similar allowance should be provided for marketing expenditures that are properly deductible under Code section 162 as ordinary and necessary business expenses.

CHAPTER 3
IDENTIFYING ASSET-CREATING MARKETING EXPENDITURES

This chapter describes the various types of expenditures that may create marketing assets. It also provides data that can be used to gauge the importance of marketing assets in the total assets of CFCs.

3.1 Advertising Expenditures

Most expenditures that create marketing assets consist of advertising expenditures. Advertising expenditures are undertaken to inform potential customers about a firm's products and to persuade customers to buy the products. Advertising expenditures may thus create a marketing asset (the impression on potential customers) that earns future profits for the firm.

Advertising usually consists of developing product information and distributing it through periodicals, direct mailings, radio or television. Often, firms contract out the advertising campaigns, in which case advertising expenditures are easy to identify and measure; they are the amount paid to the outside contractor. If, instead of using an outside contractor, a firm conducts advertising campaigns using its own resources, it is more difficult to segregate and measure the advertising costs, because they would include some costs for resources shared with other operations of the firm.

The current tax treatment of advertising costs provides little help in separating advertising expenditures from other expenses that are deductible from income as ordinary and necessary business expenses under section 162 of the IRC. The Treasury regulations give little guidance on this issue. Section 1.162-1(a) of the regulations merely provides that "advertising and other selling expenses" are among the items included in deductible business expenses. Section 1.162-20 provides that "Expenditures for institutional or 'good will' advertising which keeps the taxpayer's name before the public are generally deductible as ordinary and necessary business expenses provided the expenditures are related to the patronage the taxpayer might reasonably expect in the future."

This lack of detail is probably the result of the deductibility of advertising expenditures. Advertising expenditures need not be separated from other deductible expenses, only from expenses that are not currently deductible.[1]

---

[1] Certain lobbying expenses and other expenses incurred to influence legislation (section 1.162-20 of the Treasury regulations), amounts paid out for permanent improvements that

If Congress were to adopt a rule constructing basis for marketing assets created by advertising expenditures, distinctions between different types of currently deductible expenses would have to be made. There is currently no guidance for distinguishing advertising expenditures that create assets from other selling expenses currently deductible under section 162 of the IRC. This is not the case for R&E assets, because the IRC defines qualified R&E expenditures.[2]

3.2 Other Types of Asset-Creating Marketing Expenditures

Expenditures other than direct advertising expenditures may create marketing assets, but these expenditures are harder to identify and measure. For example, in some instances charitable donations can be viewed as an indirect form of advertising.[3] As another example, sales representatives[4] may provide information about a product to potential customers that enhances the firm's sales for some time into the future, although much of their activity may provide no value to the firm beyond that received from an immediate sale. Sales workers (such as retail clerks) may also provide some information to customers that enhances future sales. This suggests that a complete measure for expenditures that create marketing assets might include a portion

---

increase the value of any property (section 263(a) of the IRC), or for advertising that is "directed towards obtaining future benefits significantly beyond those associated with ordinary product advertising" are not currently deductible. (Revenue Ruling 92-80). Such distinctions are of little help in separating advertising expenditures from other expenses currently deductible under section 162 of the IRC.

[2] See IRC sections 41 and 174.

[3] See Peter Navarro, "Why Do Corporations Give to Charity," *Journal of Business* (January 1988). p. 65. There is some question, however, about whether charitable donations by firms are primarily advertising. See the recent paper by Robert Carroll and David Joulfaian, "Taxes and Corporate Giving to Charity," Office of Tax Analysis, U.S. Department of the Treasury, mimeo (January 1994).

[4] In the occupational classification used by the Bureau of Labor Statistics, sales representatives generally include employees that go outside their employer's establishment to visit potential customers and actively solicit their business, whereas sales workers generally sell to customers that come to their employer's establishment. See Employment and Training Administration, Dictionary of Occupational Titles. Washington, D.C. (1991).

of charitable contributions, salaries or commissions to the firm's sales representatives and even some wages of sales workers. The portion of these costs that would create a lasting asset would vary widely from case to case and would be extremely difficult to measure accurately.

Don Fullerton and Andrew Lyon describe some of the problems in segregating asset-creating marketing expenditures from other types of expenditures.[5] They note (pages 70-72)

> ...much of what one considers advertising may be deductible as another allowable business expense. For example, a company that hires a consultant to mount an advertising campaign could probably deduct this expense as a consultant fee rather than advertising. The costs of consumer relations divisions and sales personnel are deductible largely as wages. Second, firms may take less direct methods to create intangible capital. While advertising is one way to create a reputation, a new firm may sell at lower margins or take greater care in production of customer service as an alternative way to create intangible capital. Here, foregone profits is the mechanism by which the firm invests in future reputation.

As the foregoing discussion suggests, there is much room for debate over which expenditures create marketing assets and should therefore be included in the asset test for the excess passive assets rules and for determining CFC-PFICs. The amount that corporations now report for advertising expenditures on their income tax return may include only a part of the expenditures that create marketing assets: it should include payments for outside advertising services, such as for developing the advertisements and for distributing them through the media, but may not include overhead costs associated with in-house production of advertising services, such as depreciation of capital equipment used to develop or conduct advertising campaigns. Compensation of sales representatives and sales workers that might create marketing assets is probably not included.

The R&E expenditures that can be capitalized and included in the asset tests are defined under section 174 of the IRC and section 1.174-2 of the Treasury regulations. A similar definition of asset-creating marketing expenditures would include a broader range of expenditures than the advertising expenditures

---

[5] Don Fullerton and Andrew B. Lyon, "Tax neutrality and intangible capital," Tax Policy and the Economy. Lawrence Summers, editor. Washington, D.C.: National Bureau of Economic Research (November 1987). p. 57.

probably now reported on the corporate tax returns. For example, such a definition would include depreciation of capital goods used in advertising campaigns (depreciation of capital goods used to develop technology is a qualified R&E expenditure under section 174). It is not clear, however, whether such a definition would include any charitable contributions or any portion of the compensation of sales representative or sales workers, because there is no clear parallel to any qualified R&E expenditures.

3.3 Gauging the Importance of Assets Created by Marketing Expenditures in Total Assets of Firms

Table 1 presents data, for selected industries, on total assets, labor costs, advertising expenditures, and R&E expenditures as reported by U.S. corporations on their corporate tax returns (Form 1120) for 1990. These data are useful in gauging the importance of marketing assets in relation to total assets of firms in various industries. Data on domestic operations are presented because data on advertising expenditures for CFCs are not available. It should be noted that the data on labor costs, R&E expenditures and advertising expenditures refer only to domestic operations of the U.S. companies, whereas the tangible assets include their holdings in foreign companies. Specifically, the equity in foreign subsidiaries[6] and loans to CFCs are included among the active tangible assets of the U.S. companies. It is assumed that CFCs use intangible assets in the same proportion to active tangible assets as the U.S. companies. Hence, if the CFCs own less in the way of assets in lower-tier companies, the data for the U.S. companies (after excluding passive assets) may understate slightly the importance of marketing assets in total active assets of the CFCs, but the tendency is probably slight.

Treasury lacks data on many of the types of marketing expenditures besides advertising (as reported on the Form 1120) that could be included in an adjustment to the asset tests for CFC-PFICs and for the excess passive assets rules. Nevertheless, the likely realm of possibilities can be bracketed. Thus, two measures of asset-creating marketing expenditures are presented. The first measure only includes advertising expenditures as currently reported on Form 1120. The second measure uses a broader definition of marketing expenditures that includes other expenses not traditionally included in advertising expenditures. For this measure, a portion of labor expenses is treated as advertising expenditures, because labor expenses are probably the main source of expenses that could be reclassified as asset-

---

[6] A foreign subsidiary is a foreign company 10 percent or more of which is owned by a U.S. company.

creating marketing expenditures. There is little information from which to predict how extensive such reclassification might be, but the effects are potentially important. Data from the Bureau of Labor Statistics suggest that about 10 percent of total labor costs represent compensation of sales representatives and sales workers.[7] According to the data in Table 1, if 10 percent of labor costs were re-classified as asset-creating marketing expenditures, the resulting amount would be almost four-fifths as great as reported advertising expenditures. Of course, even a very generous definition of marketing expenditures would include only a portion of the compensation of sales representatives and sales workers, so the increase in asset-creating marketing expenditures caused by reclassification of labor costs would be substantially smaller than this amount.

The R&E expenditures reported on the tax forms are those for which a credit may be claimed under section 41 of the IRC. The difference between R&E expenditures as reported on tax forms and those that may be included under the definition in section 174 (and that thus may be included in the asset tests of section 956A and 1296) is often substantial.[8] Data on R&E expenditures for manufacturing corporations are also reported by the National Science Foundation (NSF), and their definition of R&E expenditures appears to be similar to that in section 174.[9] Therefore, a separate set of the expenditures are presented based

---

[7] This calculation is based on data for total employment and median hourly earnings in the various occupations. See U.S. Bureau of Labor Statistics, Employment and Earnings. Washington, D.C. (January 1993).

[8] R&E expenditures eligible for the credit under section 41 do not include all expenses that qualify as R&E expenditures under the definition given under section 174. One important difference between the two definitions is that the depreciation expenses on equipment used for research or experimentation, which are included under the definition of R&E expenditures under section 174, are not eligible for the R&E credit. The definition of eligible research or experimental activities is also more restrictive under section 41 than under section 174. Furthermore, some corporations may not report R&E expenditures separately on the tax form if they cannot use the R&E credit (for example, if they have a net operating loss).

[9] The National Science Foundation (NSF) data are based on annual surveys conducted by the Bureau of the Census, Department of Commerce for industrial research and development performed within the United States. See National Science Foundation, Selected Data on Research and Development in Industry: 1990. Washington, D.C. (1992).

on the NSF data. For purposes of the asset tests, R&E assets are measured as the last three years of R&E expenditures plus three times the annual R&E licensing payments. Thus, one can obtain a rough idea of the importance of R&E assets in the asset tests by multiplying the R&E expenditures in Table 1 (as reported by the NSF) times three and comparing the result with the corresponding figure for tangible assets.

Before we can determine the effect of including an adjustment for asset-creating marketing expenditures, we must first determine the economic lifetime that will be used to amortize these expenditures. This is the topic of the next chapter.

CHAPTER 4

THE ECONOMIC LIFETIMES OF ASSETS CREATED WITH MARKETING EXPENDITURES

4.1 Evidence from Economic Studies

There has been considerable debate over the economic lifetime of assets created through marketing expenditures. Early economic studies suggested a fairly long life for the effects of advertising. For example, Kristian Palda estimated that the annual depreciation rate for advertising ranged from 31 percent to 47 percent.[10] Later studies, however, have concluded that the duration of advertising effects is much shorter. Darral Clarke estimated that advertising effects last only between 3 months and 15 months.[11] From an analysis of demand for various consumer goods, William Comanor and Thomas Wilson concluded that in many industries a large portion of advertising expenditures creates assets with lifetimes shorter than one year and that in many durable and semi-durable goods industries, virtually all assets created by such expenditures have lifetimes shorter than one year.[12] Representatives of the advertising industry, testifying on the question of whether advertising expenditures should be expensed or capitalized, have argued that the effects of advertising are largely exhausted within one year of the expenditures.[13]

Though the average economic lifetime of many assets created with marketing expenditures is probably fairly short (a year or less), this lifetime appears to vary greatly among industries. For example, in a recent study of four disaggregate industries, Pamela Megna and Dennis Mueller found that whereas the lifetime of advertising assets was less than one year in the toys and distilled beverages industries, the advertising expenditures for

---

[10] Kristian S. Palda, The Measurement of Cumulative Advertising Effects. Englewood Cliffs, New Jersey: Prentice-Hall (1964).

[11] Darral G. Clarke, "Econometric measurement of the duration of advertising effects on sales," *Journal of Marketing Research* (November 1976). p. 345.

[12] William S. Comanor and Thomas A. Wilson, Advertising and Market Power. Cambridge: Harvard University Press (1974).

[13] See, for example, the testimony on miscellaneous revenue issues delivered by Sheldon Cohen on behalf of the Leadership Council on Advertising Issues, before the Subcommittee on Select Revenue Measures, Committee on Ways and Means, on September 8, 1993.

some firms in the cosmetics industry have their greatest effect two, or even three years after the advertising takes place.[14] The effects of advertising are also believed to be long lived in the pharmaceutical industry. For example, in his study of rates of return in the industry, Kenneth Clarkson argues that the effects of pharmaceutical advertising and promotion activities last at least three years.[15] Others have shown that in durable goods industries, advertising in one period can have adverse effects on sales in subsequent periods owing to stock adjustment effects: for example, if advertising induces consumers to buy more new cars this year, there will be a smaller demand for new cars next year.[16]

Expenditures on newspaper advertisements, or on radio or television broadcasting advertisements, create assets, though usually short-lived, that help the firm generate income. Such assets are unlikely to be fully exhausted at the end of any accounting period, even if their lifespan is shorter than the accounting period. For example, suppose the firm's marketing expenditures consist entirely of buying daily newspaper advertisements that announce its prices, which change bi-weekly. Unless the end of the accounting period coincides exactly with the end of a two-week pricing cycle, the firm will have an asset created by its advertising expenditures at the end of the accounting period. Advertisements for two-week pricing cycles ending within the accounting period would be completely amortized. If we were to construct basis for purposes of the asset test in this case, only a small part of the annual expenditures for such advertisements (the portion of the two-week cycle that was unexpired at the end of the accounting period) would be added to the firm's total assets.

The economic lifetime of advertising assets can also depend on their purpose, and some types of advertising expenditures do not create assets. In particular, defensive advertising undertaken to cancel out the effects of advertising by competitors might more appropriately be characterized as maintenance costs than as asset-creating expenditures.

---

[14] Pamela Megna and Dennis C. Mueller, "Profit rates and intangible capital," *Review of Economics and Statistics*, (November 1992). p. 632.

[15] Kenneth W. Clarkson, Intangible Capital and Rates of Returns. Washington, D.C.: American Enterprise Institute (1977).

[16] See, for example, the study by Yoram Peles, "Rates of amortization of advertising expenditures," *Journal of Political Economy* (September/October 1971). p. 1032.

4.2 Adjusting the Asset Test to Account for Asset-Creating Marketing Expenditures

From the evidence reviewed above, it is clear that no single lifetime will provide accurate results if used to construct a hypothetical basis for marketing assets for all industries and all types of advertising. Yet, it would be administratively burdensome to attempt to use more accurate lifetimes of marketing assets by industry or type of marketing expenditure, and the available evidence is not sufficiently robust to justify such an effort. Thus, despite the inaccuracies, if one were to construct a hypothetical basis for marketing assets, the best approach appears to be the use of a single average lifetime. This is the approach that was used to construct a hypothetical basis for R&E assets.

There is no consensus as to the appropriate length for the single lifetime that would best represent the average for all marketing assets. For example, Don Fullerton and Andrew Lyon (1987) assumed advertising assets depreciate at a uniform rate in all industries in order to derive estimates for the total U.S. capital stock (tangible assets and intangible assets). They could not determine accurately the appropriate uniform depreciation rate, however, so they performed calculations using uniform rates of 16.7 percent, 33.3 percent, and 50 percent. Similarly, to measure R&E assets they used uniform rates of 10 percent, 15 percent, and 20 percent. The depreciation rates they use were obtained from a survey of the economics literature. The rates they chose imply a wide range of possible lifetimes for both types of intangible assets and also a wide range in their relative lifetimes (the ratio of the average lifetimes of the two types of intangible property), though they imply that R&E assets are considerably longer-lived than marketing assets. In a more recent study of fourteen manufacturing industries, Kenneth Clarkson assumes an annual depreciation rate of 70 percent for advertising and promotion expenses, though he includes a sensitivity analysis in which he considers the effects on his calculations of assuming alternative depreciation rates ranging from 50 percent to 100 percent.[17]

The evidence from the economic studies on the appropriate average lifetime for all marketing assets appears to be weak. Industry representatives have testified that the effects of advertising are largely exhausted within one year of the

---

[17] Kenneth W. Clarkson, "Intangible Capital and Profitability Measures: Effects of Research and Promotion on Rates of Return," in <u>Competitive Strategies in the Pharmaceutical Industry</u>, Robert B. Helms, editor, American Enterprise Institute for Public Policy Research: Washington, D.C. (forthcoming).

expenditures.[18] An average lifetime of one year or less for advertising assets would be consistent with this view and with the current practice of allowing all marketing expenditures to be fully expensed. If such a short average lifetime is used for the eligible marketing assets, however, it is difficult to justify the administrative costs of accounting for these assets in the asset tests for PFICs and for the excess passive assets rules.

[18] See note 14.

CHAPTER 5

THE REVENUE COST OF PROVIDING ADJUSTED BASIS FOR MARKETING EXPENDITURES

As discussed above, data are not available for advertising expenditures or for passive assets of CFCs. Thus, any estimate of the revenue cost of providing adjusted basis for asset-creating marketing expenditures in the asset tests for CFC-PFICs and for the excess passive assets rules is tenuous. The approach adopted here is to estimate the proportion by which such an adjustment would reduce the total revenue pick-up resulting from the new excess passive assets rules and from the change that the OBRA 1993 made in the asset test for CFC-PFICs (referred to hereafter as the "OBRA 1993 changes"). The revenue consequences of the adjustment for marketing expenditures are estimated by assuming that they will cause the total revenue pick-up from the OBRA 1993 changes to decline by the same proportion as the decline in excess passive assets for CFCs.

With this approach, the estimate for the revenue cost of providing adjusted basis for marketing expenditures varies roughly in proportion to the average lifetime used to amortize these expenditures, as long as the estimate is small relative to the total revenue pick-up provided by the OBRA 1993 changes. For example, if an average lifetime of two years is used to amortize the marketing expenditures, the estimate will be about twice as great as if an average lifetime of one year is used.

The OBRA 1993 changes should not increase the residual U.S. tax on earnings of CFCs that were PFICs under prior law, and an adjustment for marketing expenditures is unlikely to change the PFIC status of these firms, because OBRA 1993 tightened the asset test considerably by eliminating the option to value active assets at fair market value. Even if the CFC is a PFIC under current law and the more lenient asset test (one that allows an adjustment for marketing expenditures) would allow it to escape PFIC status, its accumulation of excess passive assets would probably still be sufficiently large that it would lose deferral on current earnings for most of the five-year revenue estimating window (just as it would if it had remained a PFIC), so again the adjustment for marketing expenditures would probably have little effect on the total revenue pick-up from the OBRA 1993 changes.

CFCs that are PFICs under current law (as revised by OBRA 1993) account for a large portion (probably about 85 percent) of total excess passive asset accumulations. As a result of the above considerations, two sets of calculations were performed to measure the proportional decline in excess passive assets. In the first set, CFCs that are likely to be PFICs under current law (those with passive assets at least 50 percent as great as total assets) were removed from the sample. A second set of calculations was performed in which only CFCs with passive assets at least 75 percent as great as total assets were removed from the sample. These CFCs are unlikely to escape PFIC status even under the more lenient asset test. These CFCs accounted for about 62 percent of the total excess passive asset balances as measured under current law. Note that the proportional change in excess passive assets will tend to be smaller for the second group of CFCs than for the first group: because the second group has larger average passive asset balances, their marketing assets will tend to be less important relative to their passive assets.

The absolute (as opposed to the proportional) reduction in excess passive assets for a CFC that results from moving to the more lenient asset test is equal to one-fourth of its marketing assets. Treasury does not have data on advertising expenditures of CFCs from which to construct estimates of marketing assets. We do, however, have data on the advertising expenditures for the domestic operations of U.S. companies. Therefore, to estimate the marketing assets of the CFCs, it is assumed that the ratio of such assets to active tangible assets is the same for them as it is for the domestic operations of U.S. companies in a similar industry. Even with data on advertising expenditures it is difficult to determine a hypothetical basis for marketing assets of the domestic operations, so two methods were used. One method was simply to use one-half of the annual advertising expenditures as reported on corporate tax returns. The second method was to use one-half of the annual advertising expenditures plus 5 percent of the annual total labor compensation. Both methods are based on the assumption that, if permitted, constructed basis for marketing assets will be set at one-half of annual eligible marketing expenditures. This assumption is consistent with an economic lifetime of one year for these assets. The second method accounts for the possibility that firms may be able to classify as eligible marketing expenditures an amount equal to 10 percent of their total labor costs. To separate active tangible assets used in the domestic operations from the total tangible assets (which include passive assets), a passive asset share of 12 percent was assumed.[19]

Treasury does not have data on actual accumulations of passive assets by CFCs in low-tax jurisdictions, but their size can be estimated by looking at subpart F income in these jurisdictions, because the bulk of such income represents income

---

[19] This is an average passive asset ratio for U.S. manufacturing corporations as calculated using Standard and Poor's Compustat data base.

from passive assets.[20] Thus, dividing the subpart F income by an average rate of return on passive assets yields a rough estimate of the size of the stock of passive assets. The average rate of return chosen for the calculations was 10 percent, which is the average rate of return on corporate bonds in 1990.

To obtain an estimate of the excess passive assets of a CFC, 25 percent of its total assets are subtracted from the estimate of its passive assets. Under current law, adjusted basis of total assets is the sum of adjusted basis for tangible assets owned by the CFC-PFIC plus an adjustment for intangible assets of the type created by research or experimental expenditures and an adjustment for certain leased assets. If an adjustment for marketing assets is allowed, these assets must also be included in the total. The proportional reduction in excess passive assets caused by moving to the more lenient asset test is calculated by dividing one-fourth of the CFC's imputed marketing assets by the estimate of its excess passive assets.

The estimates for the proportional changes in excess passive assets of non-PFIC-CFCs in low-tax countries, by major industry group, are shown in Table 2. The industry sectors for mining; transportation and utilities; wholesale and retail trade; and finance, insurance, and real estate are excluded, because important parts of the active income of CFCs in these sectors may be included in subpart F income. Hence, for these sectors our imputation method would tend to overstate substantially the passive assets (and hence the excess passive assets) of the CFCs.[21]

The results indicate that the adjustment for advertising assets would reduce the revenue pick-up from the 1993 OBRA changes by a modest amount. Assuming that the revenue pick-up declines by the same proportion as the decline in excess passive assets, it is estimated that the overall reduction is less than 3 percent, and perhaps less than 1 percent. The Joint Committee on Taxation estimated that the revenue pick-up from the OBRA 1993 changes would be $250 million over the five-year window from fiscal year 1993 through fiscal year 1998. The Department of Treasury estimated that the revenue pick-up would be $350 million over this five-year window. Hence, in absolute amounts, the above percentage estimates translate into revenue losses over the

---

[20] Important exceptions to this rule can occur in some industries. The exceptions are discussed below.

[21] These exclusions are equivalent to assuming that the adjustment for marketing assets reduces excess passive assets in these industries by the same proportion as it reduces excessive passive assets in the included industries.

five-year window of less than $10 million, and perhaps less than $3 million.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

Treasury recommends strongly that no adjustment for marketing intangibles be made in the asset tests for CFC-PFICs and for the new rules for taxing CFC earnings invested in excess passive assets. These asset tests use adjusted basis to measure assets. Prior to OBRA 1993, a CFC could use the fair market value method of measuring assets for purposes of the PFIC asset test. In OBRA 1993, Congress rejected the fair market value method of measuring assets and replaced it with an adjusted basis standard. In this context, attaching basis to R&E assets should be perceived as a narrow exception to the general rule of using adjusted basis to measure the active or passive nature of a taxpayer's business or to determine whether a CFC has invested its earnings in excess passive assets. Treasury believes that the justifications for this exception cannot be extended to include an exception for assets of the type created by marketing expenditures.

As explained in this report, there are important difficulties in identifying and measuring intangible assets of the type created by marketing expenditures. Given the difficulties, the most practical way to include these assets in the asset tests for CFC-PFICs and for the excess passive assets rules would be to use a uniform lifetime to capitalize the eligible marketing expenditures and to limit the eligible marketing expenditures to what are traditionally regarded as advertising expenditures. However, even if a uniform lifetime were chosen, one would still be faced with the serious problem of segregating the eligible expenditures. Because the bulk of advertising expenditures produce assets with short economic lifetimes (often less than a year), the uniform lifetime used to capitalize these assets would be substantially shorter than that used to capitalize the R&E expenditures. Thus, there is less justification for incurring the administrative costs of providing an adjustment to the asset test for marketing assets than for R&E assets. An adjustment for marketing assets would require developing a definition of marketing expenditures in order to isolate these expenditures from other expenses, adding significantly to the complexity of our tax laws as well as reducing the administrative convenience associated with expensing marketing costs.

Table 1
Assets and Selected Expenses of U.S. Corporations in 1990
(in millions of dollars)

Industry	Total Tangible Assets	Labor Compen-ation[1]	Advertising Expenditures	R&E Expenditures: Tax Form	R&E Expenditures: NSF
Agriculture	47,257	5,862	238	84	[2]
Mining	208,052	6,146	112	232	[2]
Construction	173,581	29,380	1,044	56	[2]
Manufacturing	3,783,225	235,589	54,347	33,520	67,249
Food and tobacco	503,406	24,387	20,147	538	1,376
Indust. chemicals	235,679	9,984	1,634	3,319	4,280
Drugs & medicines	126,233	11,429	4,160	3,706	5,651
Other chemicals	129,217	7,693	4,891	875	2,567
Nonelectrical machinery	293,947	33,315	2,882	7,225	13,804
Electrical & electronic equipment	373,591	31,254	3,421	5,152	11,768
Motor vehicles	402,955	12,497	2,963	5,025	8,550
Other manufacturing	1,718,197	105,030	14,249	7,680	19,253
Transportation & utilities	1,488,923	88,294	5,000	2,548	[2]
Wholesale and retail trade	1,216,637	222,982	32,454	630	[2]
Finance, insurance & real estate	10,098,984	153,541	8,860	358	[2]
Other industries	429,084	122,618	7,341	1,706	[2]
Total	17,445,743	864,412	109,396	39,134	73,764

[1] Wages, salaries and compensation of corporate officers.
[2] Not available.

Sources: The data in the first four columns of the table are from corporate tax returns (Forms 1120) filed for 1990. The data in the last column (labeled "NSF") are from National Science Foundation (1992).

Table 2
Proportional Reductions in Excess Passive Assets Caused by Including an Adjustment for Marketing Assets in the PFIC Asset Test for CFCs
(Based on data for 1990)
(in percents)

Industry	Including an Adjustment for Advertising Expenditures Only		Including an Adjustment for Advertising Expenditures and Some Labor Costs		Share of All Excess Passive Asset Holdings of CFCs in Low-Tax Jurisdictions[1]	
	Set I[2]	Set II[3]	Set I	Set II	Set I	Set II
Agriculture...........	-	-	-	-	0.0	0.0
Construction..........	-	-	-	-	0.0	0.0
Manufacturing.........	1.53	.71	2.60	1.19	76.3	84.1
Food and tobacco.....	4.00	4.00	4.50	4.50	1.5	.6
Indust. chemicals....	.33	.33	.53	.53	1.2	.5
Drugs & medicines....	2.21	2.21	2.82	2.82	11.4	4.6
Other chemicals......	2.13	.46	2.48	.53	1.2	13.3
Nonelectrical machinery...........	.78	.19	1.67	.40	4.8	16.2
Electrical & electronic equipment.....	1.15	.64	2.22	1.23	42.5	39.6
Motor vehicles.......	-	-	-	-	0.0	0.0
Other manufacturing.......	2.11	1.31	3.84	2.38	13.7	9.3
Other industries......	1.47	.97	3.94	2.61	23.7	15.9
Weighted average[4].....	1.51	.75	2.92	1.42	-	-

[1] The total excludes passive assets in "Mining," "Transportation and utilities," "Wholesale and retail trade," and "Finance, insurance and real estate."
[2] Set I excludes CFCs with passive assets that exceed 50 percent of total assets.
[3] Set II excludes CFCs with passive assets that exceed 75 percent of total assets.
[4] Averages of the industries listed in the table (which exclude the industries listed in note 1) weighted by the share of excess passive asset holdings of CFCs in low-tax jurisdictions. (The weights are shown in the last two columns of the table).

Source: Department of the Treasury
Office of Tax Analysis

Department of the Treasury
Washington, D.C. 20220

Official Business
Penalty for Private Use, $300

12-29-94

[4830-01-u]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 8588]

RIN 1545-AS70

Subchapter K Anti-Abuse Rule

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final Regulation.

SUMMARY: This document contains a final regulation providing an anti-abuse rule under subchapter K of the Internal Revenue Code of 1986 (Code). The rule authorizes the Commissioner of Internal Revenue, in certain circumstances, to recast a transaction involving the use of a partnership. The final regulation affects partnerships and the partners of those partnerships and is necessary to provide guidance needed to comply with the applicable tax law.

EFFECTIVE DATES: This regulation is effective May 12, 1994, except that §1.701-2(e) and (f) are effective [INSERT DATE THIS DOCUMENT IS FILED WITH THE **FEDERAL REGISTER**].

FOR FURTHER INFORMATION CONTACT: Mary A. Berman or D. Lindsay Russell, (202) 622-3050 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Introduction

This document adds §1.701-2 to the Income Tax Regulations (26 CFR part 1) under section 701 of the Code.

Background

Subchapter K was enacted to permit businesses organized for joint profit to be conducted with "simplicity, flexibility, and equity as between the partners." S. Rep. No. 1622, 83d Cong., 2d Sess. 89 (1954); H.R. Rep. No. 1337, 83d Cong., 2d Sess. 65 (1954). It was not intended, however, that the provisions of subchapter K be used for tax avoidance purposes. For example, in enacting subchapter K, Congress indicated that aggregate, rather than entity, concepts should be applied if such concepts are more appropriate in applying other provisions of the Code. H.R. Conf. Rep. No. 2543, 83d Cong., 2d Sess. 59 (1954). Similarly, in later amending the rules relating to special allocations, Congress sought to "prevent the use of special allocations for tax avoidance purposes, while allowing their use for bona fide business purposes." S. Rep. No. 938, 94th Cong., 2d Sess. 100 (1976).

On May 12, 1994, the IRS and Treasury issued a notice of proposed rulemaking (59 FR 25581) under section 701 of the Code. That document proposed to add an anti-abuse rule under subchapter K. Comments responding to the notice were received, and a public hearing was held on July 25, 1994. After considering the comments that were received in response to the notice of proposed rulemaking and the statements made at the hearing, the IRS and Treasury adopt the proposed regulation as revised by this Treasury decision. The anti-abuse rule in this final regulation applies to the operation and interpretation of any provision of the Code and the regulations thereunder that may be relevant to a particular partnership transaction (including income, estate, gift, generation-skipping, and excise tax). The anti-abuse rule in the final regulation is expected primarily to affect a relatively small number of partnership transactions that make inappropriate use of the rules of subchapter K. The regulation is not intended to interfere with bona fide joint business arrangements conducted through partnerships.

Explanation of Provisions

A. Overview of Provisions

As noted above, subchapter K is intended to permit taxpayers to conduct joint business (including investment) activities through a flexible economic arrangement without incurring an entity-level tax. Implicit in the intent of subchapter K are three requirements. First, the partnership must be bona fide and each partnership transaction (or series of related transactions) must be entered into for a substantial business purpose. Second, the form of each partnership transaction must be respected under substance over form principles. Third, the tax consequences under subchapter K to each partner of partnership operations and of transactions between the partner and the partnership must accurately reflect the partners' economic agreement and clearly reflect the partner's income (referred to in the final regulation as proper reflection of income), except to the extent that a provision of subchapter K that is intended to promote administrative convenience or other policy objectives causes tax results that deviate from that requirement. In those cases, if the application of that provision of subchapter K and the ultimate tax results to the partners and the partnership, taking into account all the relevant facts and circumstances, are clearly contemplated by that provision, the transaction is treated as properly reflecting the partners' income. In determining whether a transaction clearly reflects the partners' income, the principles of sections 446(b) and 482 apply.

The provisions of subchapter K must be applied to partnership transactions in a manner consistent with the intent of subchapter K. The final regulation clarifies the authority of the Commissioner to recast transactions that attempt to use partnerships in a manner inconsistent with the intent of subchapter K as appropriate to achieve tax results that are consistent with this intent, taking into account all the facts and circumstances.

In addition, the final regulation provides that the Commissioner can treat a partnership as an aggregate of its partners in whole or in part as appropriate to carry out the purpose of any provision of the Code or regulations, except to the extent that (1) a provision of the Code or regulations prescribes the treatment of the partnership as an entity, and (2) that treatment and the ultimate tax results, taking into account all of the facts and circumstances, are clearly contemplated by that provision.

B. Discussion of Comments Relating to Provisions in the Regulation

Comments that relate to the application of the proposed regulation and the responses to them, including an explanation of the revisions made to the final regulation, are summarized below.

1. Scope of the Regulation

Several comments stated that, as drafted, the language in the proposed regulation was too broad and too vague to provide adequate guidance to taxpayers as to which transactions are affected by the regulation. Similarly, some comments suggested that the intent of subchapter K as stated in the proposed regulation (upon which the regulation operates) was overbroad and potentially conflicted with explicit statutory or regulatory provisions. Several comments expressed concern that the regulation, if finalized as proposed, would adversely affect the legitimate use of partnerships. Other comments suggested that additional examples should be added to clarify the scope of the regulation, which would provide the necessary guidance. Some of the comments requested that the regulation be withdrawn, or revised and reproposed.

On the other hand, other comments supported the approach in the proposed regulation, noting that it was well established that the provisions of the Code must be interpreted consistent with their purpose. Some of these comments noted that the regulation would in large part simply be codifying aspects of existing judicial doctrines, such as substance over form and business purpose, as they relate to partnership transactions. Finally, some of these comments suggested that the regulation be modified in various respects, including by adding additional examples of its application.

In response to these comments, the IRS and Treasury have revised the final regulation in three principal respects. First, the scope of the regulation has been clarified substantially by revising the portion captioned <u>Intent of Subchapter K</u>, in paragraph (a) of the proposed regulation. Paragraph (a) of the final regulation now specifically requires that (1) the partnership must be bona fide and each partnership transaction or series of related transactions (individually or collectively, the transaction) must be entered into for a substantial business purpose, (2) the form of each partnership transaction must be respected under substance over form principles, and (3) the tax consequences under subchapter K to each partner of partnership operations and of transactions between the partner and the partnership must, subject to certain exceptions, accurately reflect the partners' economic agreement and clearly reflect the partner's income (<u>proper reflection of income</u>). However, certain provisions of subchapter K that were adopted to promote administrative convenience or other policy objectives may, under certain circumstances, produce tax results that do not properly reflect income. To reflect the conscious choice in these instances to favor administrative convenience or such other objectives over the accurate measurement of income, the final regulation provides that proper reflection of income will be treated as satisfied with respect to the tax consequences of a partnership transaction that satisfies paragraphs (a)(1) and (2) of the final regulation to the extent the application of such a provision to the transaction and the ultimate tax results, taking into account all the relevant facts and circumstances, are clearly contemplated by that provision. Examples of such provisions include section 732, the elective feature of section 754, and the value-equals-basis rule in §1.704-1(b)(2)(iii)(c), as well as regulatory de minimis rules such as those reflected in §§1.704-3(e)(1) and 1.752-2(e)(4). A number of examples in the final regulation demonstrate the proper application of these rules.

In addition, the revised Intent of Subchapter K set forth in paragraph (a) no longer provides that the provisions of subchapter K are not intended to permit taxpayers "to use the existence of the partnerships to avoid the purposes of other provisions of the Internal Revenue Code." Many comments expressed confusion regarding the scope of this clause. Other comments suggested that this clause should be limited to questions of the appropriate treatment of a partnership as an entity or as an aggregate of its partners for purposes of applying another provision of the Code. Some comments further suggested that the correct application of the aggregate/entity concept does not depend on the intent of the taxpayer in structuring the transaction.

This clause was principally intended to address aggregate/entity issues that exist under current law. The final regulation clarifies this aspect of the regulation by removing the clause from paragraph (a) and adding a new paragraph (e) to address inappropriate treatment of a partnership as an entity. Paragraph (e) confirms the Commissioner's authority to treat a partnership as an aggregate of its partners in whole or in part as appropriate to carry out the purpose of any provision of the Code or the regulations thereunder. As stated in some comments, as well as under current law, the Commissioner's authority to treat a partnership as an aggregate of its partners is not dependent on the taxpayer's intent in structuring the transaction. However, the Commissioner may not treat the partnership as an aggregate of its partners under paragraph (e) to the extent that a provision of the Code or the regulations thereunder prescribes the treatment of a partnership as an entity, in whole or in part, and that treatment and the ultimate tax results, taking into account all the relevant facts and circumstances, are clearly contemplated by that provision. Underlying the promulgation of paragraph (e) is the belief that significant potential for abuse exists in the inappropriate treatment of a partnership as an entity in applying rules outside of subchapter K to transactions involving partnerships. Examples in new paragraph (f) illustrate the application of paragraph (e).

Paragraph (c) contains the second principal revision reflected in this final regulation. The corresponding paragraph in the proposed regulation provides that the purposes for structuring a transaction involving a partnership will be determined based on all of the facts and circumstances. In response to comments requesting guidance concerning the factors that will indicate that the taxpayers had a principal purpose to reduce substantially their aggregate federal tax liability in a manner inconsistent with the intent of subchapter K, paragraph (c) of the final regulation sets forth several of those factors.

Finally, in response to comments that the examples in the proposed regulation do not provide adequate guidance regarding the application of the regulation, as well as to suggestions that additional examples would help clarify the scope of the regulation, the final regulation contains numerous examples that illustrate the application of the regulation to specifically described transactions, including the weight to be given to relevant factors listed in paragraph (c) in the particular situations involved. The examples include transactions that are consistent with the intent of subchapter K as well as transactions that are inconsistent with the intent of subchapter K.

2. <u>A Principal Purpose</u>

The proposed regulation provides that if a partnership is formed or availed of in connection with a transaction or series of related transactions with a principal purpose of substantially reducing the present value of the partners' aggregate federal tax liability in a manner inconsistent with the intent of subchapter

K, the Commissioner can disregard the form of the transaction. Some comments stated that all partnership transactions have a principal purpose of reducing federal taxes, and therefore, the standard should be changed from _a_ principal purpose to _the_ principal purpose. Other comments supported an "_a_ principal purpose" standard, because the Commissioner can recast the transaction only if the tax results are also found to be inconsistent with the intent of subchapter K. Other comments stated that the taxpayer's intent should be irrelevant in all cases; rather, the inquiry should only be whether the results are inconsistent with the intent of subchapter K. Still other comments suggested that the taxpayer's intent should be irrelevant only in the case of aggregate/entity determinations.

The IRS and Treasury continue to believe that an inquiry into the taxpayer's intent generally is appropriate for an anti-abuse rule of this nature. As noted above, the regulation applies only if _both_ (1) the taxpayer has a principal purpose to achieve substantial federal tax reduction, _and_ (2) that tax reduction is inconsistent with the intent of subchapter K. Having a principal purpose to use a bona fide partnership to conduct business activities in a manner that is more tax efficient than any alternative means available does not establish that the resulting tax reduction is inconsistent with the intent of subchapter K. In those cases, the Commissioner cannot recast the transaction under this regulation. A number of examples in the final regulation demonstrate this point. Thus, the additional requirement in the regulation that the tax results be inconsistent with the intent of subchapter K sufficiently restricts the potential application of the regulation, so that the requirement of a principal purpose of federal tax reduction is appropriate.

By contrast, as noted above, the entity/aggregate determination under paragraph (e) of the final regulation does not require the taxpayer to have a principal purpose of substantially reducing taxes through misapplication of that principle. In this context, the IRS and Treasury agree with those comments that suggested that the entity/aggregate principle is properly applied, as under current law, solely on the basis of carrying out the purpose of the particular provision to be applied.

3. Scope of Commissioner's Ability to Recast Transactions

The proposed regulation provides that if a transaction is determined to be inconsistent with the intent of subchapter K and the taxpayer acted with the requisite principal purpose of federal tax reduction, the Commissioner can disregard the form of the transaction. The proposed regulation describes several ways in which a transaction could appropriately be recast. Some comments interpreted this language as attempting to provide the Commissioner with unlimited discretionary recharacterization powers, without guidance as to which recharacterization applies to a particular transaction. To address these concerns, paragraph (b) of the final regulation has been revised to clarify that the Commissioner may recast transactions only as appropriate to ensure that the tax treatment of each transaction is consistent with the intent of subchapter K.

4. Effective Date of the Regulation

The regulation was proposed to be effective for all transactions relating to a partnership occurring on or after May 12, 1994, the date the proposed regulation was issued. Some comments requested that, in order to address the regulation's effect on bona fide partnership transactions, it apply prospectively only from the date the final regulation is issued. In light of the significant revisions made in the final regulation that clarify and narrow its potential scope and application, the final regulation generally continues to be effective as of May 12, 1994. However, to preclude the possibility that the regulation could be interpreted to apply, for example, when a partner who received an asset from a partnership before the effective date disposes of the asset after the effective date, the final regulation has been revised to clarify that it applies only to transactions involving a partnership after the effective date. Also, in light of the elimination of the proposed requirement that the taxpayer must have a principal purpose to achieve substantial tax reduction in the case of aggregate/entity determinations under paragraph (e), paragraphs (e) and (f) are effective for all transactions involving a partnership on or after [INSERT DATE THIS DOCUMENT IS FILED WITH THE **FEDERAL REGISTER**]. No inference is intended as to the treatment of partnership transactions prior to the applicable effective date of the regulation.

5. Relationship of the Regulation to Established Legal Doctrines

Several comments questioned the relationship between the regulation and established legal doctrines, such as the business purpose and substance over form doctrines (including the step transaction and sham transaction doctrines), which are designed to assure that the tax consequences of transactions under the Code are governed by their substance and that statutes and regulations are interpreted consistent with their purposes.

Partnerships, like other business arrangements, are subject to those doctrines. The application of those doctrines to partnership transactions is particularly important in light of (i) the flexibility of partnership arrangements, which can take myriad forms that are often of substantial complexity, and (ii) the tax rules for partnerships, which are also often complex and, in many cases, appear purely mechanical. A literal application of these partnership tax rules in contexts not contemplated by Congress has, in certain circumstances, resulted in taxpayers claiming tax results that are contrary to those doctrines.

The final regulation confirms certain fundamental principles that must, in all cases, be satisfied in applying the provisions of subchapter K to partnership transactions, to assure that those provisions are not used to achieve inappropriate tax results. While the fundamental principles reflected in the regulation are consistent with the established legal doctrines, those doctrines will also continue to apply.

So viewed, the uncertainty regarding the application of the regulation reflects the uncertainty that already exists in properly evaluating transactions under current law, including the proper application of existing legal doctrines. As a result, the regulation should not impose any undue administrative burdens on either taxpayers or the IRS.

C. Other Comments

1. Suggested Alternatives to the Regulation

While some comments stated that it is appropriate to include a general anti-abuse rule in the regulations to limit the misuse of the provisions of subchapter K, others claimed that was not necessary. These comments stated that the IRS and Treasury already have sufficient means to challenge abusive partnership transactions and that existing authority should be used to address specific transactions as they are discovered. These comments suggested using the established legal doctrines, amending the section 704(b) regulations, and increasing partnership audits. These comments are discussed below.

In the past, the IRS and Treasury have attempted to address partnership transactions on a case-by-case basis. However, as recognized in those comments supporting a regulatory anti-abuse rule, experience has demonstrated that the case-by-case approach has been inadequate. A case-by-case approach arguably encourages non-economic, tax-motivated behavior by inappropriately putting a premium on being the first to engage in a transaction that would violate the principles of this regulation. The IRS and Treasury believe that the final regulation is a reasonable and effective way to reduce the number and magnitude of these abusive transactions. Moreover, the IRS and Treasury believe that proper application of the principles embodied in the regulation will forestall additional complexity in the Code and the regulations, by reducing the pressure for case-by-case legislative or regulatory revisions to prevent inappropriate use of the provisions of subchapter K.

Although the section 704(b) regulations are one example of the provisions of subchapter K that may be used inappropriately to reach results that are inconsistent with the intent of subchapter K, there are many other provisions of subchapter K that are being inappropriately applied to partnership transactions in a manner inconsistent with the intent of subchapter K. Therefore, an amendment to the section 704(b) regulations, by itself, is not sufficient.

Significant efforts are already underway to reduce the inappropriate use of subchapter K through increased resource allocation to partnership audits. This regulation is part of that focus on partnership transactions, and should not be viewed as an alternative to increased audits of partnerships. As part of this overall focus, a new team under the Industry Specialization Program has been established that will coordinate partnership audits and (together with the IRS National Office) the application of this regulation to partnership transactions. Thus, the IRS and Treasury believe that the regulation complements the increased enforcement of partnership transactions through enhanced audit activity.

2. Application by Revenue Agents

Many comments expressed concern that the regulation, if finalized as proposed, will not be applied appropriately by Revenue Agents. As stated in Announcement 94-87, 1994-27 I.R.B. 124, when an issue that may be affected by the regulation is considered on examination, any application of the regulation must be coordinated with both the Issue Specialist on the Partnership Industry Specialization Program team and the IRS National Office. The IRS and Treasury believe that this coordination, together with the many clarifying changes made in the final regulation, will result in fair and consistent treatment of taxpayers in the application of the final regulation to partnership transactions.

3. Special Analyses and the Secretary's Authority

Some comments questioned the determination that the notice of proposed rulemaking was not a significant regulatory action as defined in EO 12866, as well as the determination that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply. Some comments also questioned the Secretary's authority to issue the regulation as proposed. The IRS and Treasury believe that the regulation complies with all statutory and regulatory requirements relating to the issuance of the notice of proposed rulemaking, and that it is clearly within the Secretary's authority to issue the final regulation. The final regulation clarifies that the authority for the regulation includes sections 701 through 761.

4. De Minimis Rule

In the preamble accompanying the proposed regulation, the IRS and Treasury solicited comments on the appropriateness of a safe harbor or de minimis rule. Some comments responded that a de minimis rule would be appropriate, and suggested delineating the rule on the basis of the number of partners, the value of the partnership assets, or the amount of the reduction in the present value of the partners' aggregate federal tax liability resulting from the transaction.

The requirement in the regulation that the present value of the partners' aggregate federal tax reduction must be substantial assures that the regulation will not be applied where the amounts involved are not significant. In addition, the IRS and Treasury believe that the clarifications made in the final regulation provide sufficient safeguards for bona fide joint business arrangements involving partnerships. For example, the exception from the proper reflection of income standard set forth in paragraph (a)(3) for transactions that are clearly contemplated by a particular provision of subchapter K provides appropriate safeguards for these business arrangements. Finally, the final regulation explicitly recognizes the application of specific statutory and regulatory de minimis rules in subchapter K. In light of these safeguards, the IRS and Treasury believe no additional specific safe harbor rules are needed.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to this regulation, and, therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, the notice of proposed rulemaking was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business. Comments were submitted and are addressed in the Supplementary Information section of this document.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding an entry in numerical order to read as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.701-2 also issued under 26 U.S.C. 701 through 761 * * *

Par. 2. Section 1.701-2 is added under the heading "Determination of Tax Liability" to read as follows:

§1.701-2 Anti-abuse rule.

(a) Intent of subchapter K. Subchapter K is intended to permit taxpayers to conduct joint business (including investment) activities through a flexible economic arrangement without incurring an entity-level tax. Implicit in the intent of subchapter K are the following requirements--

(1) The partnership must be bona fide and each partnership transaction or series of related transactions (individually or collectively, the transaction) must be entered into for a substantial business purpose.

(2) The form of each partnership transaction must be respected under substance over form principles.

(3) Except as otherwise provided in this paragraph (a)(3), the tax consequences under subchapter K to each partner of partnership operations and of transactions between the partner and the partnership must accurately reflect the partners' economic agreement and clearly reflect the partner's income (collectively, proper reflection of income). However, certain provisions of subchapter K and the regulations thereunder were adopted to promote administrative convenience and other policy objectives, with the recognition that the application of those provisions to a transaction could, in some circumstances, produce tax results that do not properly reflect income. Thus, the proper reflection of income requirement of this paragraph (a)(3)

is treated as satisfied with respect to a transaction that satisfies paragraphs (a)(1) and (2) of this section to the extent that the application of such a provision to the transaction and the ultimate tax results, taking into account all the relevant facts and circumstances, are clearly contemplated by that provision. See, for example, paragraph (d) Example 8 of this section (relating to the value-equals-basis rule in §1.704-1(b)(2)(iii)(c)), paragraph (d) Example 11 of this section (relating to the election under section 754 to adjust basis in partnership property), and paragraph (d) Examples 12 and 13 of this section (relating to the basis in property distributed by a partnership under section 732). See also, for example, §§1.704-3(e)(1) and 1.752-2(e)(4) (providing certain de minimis exceptions).

(b) Application of subchapter K rules. The provisions of subchapter K and the regulations thereunder must be applied in a manner that is consistent with the intent of subchapter K as set forth in paragraph (a) of this section (intent of subchapter K). Accordingly, if a partnership is formed or availed of in connection with a transaction a principal purpose of which is to reduce substantially the present value of the partners' aggregate federal tax liability in a manner that is inconsistent with the intent of subchapter K, the Commissioner can recast the transaction for federal tax purposes, as appropriate to achieve tax results that are consistent with the intent of subchapter K, in light of the applicable statutory and regulatory provisions and the pertinent facts and circumstances. Thus, even though the transaction may fall within the literal words of a particular statutory or regulatory provision, the Commissioner can determine, based on the particular facts and circumstances, that to achieve tax results that are consistent with the intent of subchapter K--

(1) The purported partnership should be disregarded in whole or in part, and the partnership's assets and activities should be considered, in whole or in part, to be owned and conducted, respectively, by one or more of its purported partners;

(2) One or more of the purported partners of the partnership should not be treated as a partner;

(3) The methods of accounting used by the partnership or a partner should be adjusted to reflect clearly the partnership's or the partner's income;

(4) The partnership's items of income, gain, loss, deduction, or credit should be reallocated; or

(5) The claimed tax treatment should otherwise be adjusted or modified.

(c) <u>Facts and circumstances analysis; factors</u>. Whether a partnership was formed or availed of with a principal purpose to reduce substantially the present value of the partners' aggregate federal tax liability in a manner inconsistent with the intent of subchapter K is determined based on all of the facts and circumstances, including a comparison of the purported business purpose for a transaction and the claimed tax benefits resulting from the transaction. The factors set forth below may be indicative, but do not necessarily establish, that a partnership was used in such a manner. These factors are illustrative only, and therefore may not be the only factors taken into account in making the determination under this section. Moreover, the weight given to any factor (whether specified in this paragraph or otherwise) depends on all the facts and circumstances. The presence or absence of any factor described in this paragraph does not create a presumption that a partnership was (or was not) used in such a manner. Factors include:

(1) The present value of the partners' aggregate federal tax liability is substantially less than had the partners owned the partnership's assets and conducted the partnership's activities directly;

(2) The present value of the partners' aggregate federal tax liability is substantially less than would be the case if purportedly separate transactions that are designed to achieve a particular end result are integrated and treated as steps in a single transaction. For example, this analysis may indicate that it was contemplated that a partner who was necessary to achieve the intended tax results and whose interest in the partnership was liquidated or disposed of (in whole or in part) would be a partner only temporarily in order to provide the claimed tax benefits to the remaining partners;

(3) One or more partners who are necessary to achieve the claimed tax results either have a nominal interest in the

partnership, are substantially protected from any risk of loss from the partnership's activities (through distribution preferences, indemnity or loss guaranty agreements, or other arrangements), or have little or no participation in the profits from the partnership's activities other than a preferred return that is in the nature of a payment for the use of capital;

(4) Substantially all of the partners (measured by number or interests in the partnership) are related (directly or indirectly) to one another;

(5) Partnership items are allocated in compliance with the literal language of §§1.704-1 and 1.704-2 but with results that are inconsistent with the purpose of section 704(b) and those regulations. In this regard, particular scrutiny will be paid to partnerships in which income or gain is specially allocated to one or more partners that may be legally or effectively exempt from federal taxation (for example, a foreign person, an exempt organization, an insolvent taxpayer, or a taxpayer with unused federal tax attributes such as net operating losses, capital losses, or foreign tax credits);

(6) The benefits and burdens of ownership of property nominally contributed to the partnership are in substantial part retained (directly or indirectly) by the contributing partner (or a related party); or

(7) The benefits and burdens of ownership of partnership property are in substantial part shifted (directly or indirectly) to the distributee partner before or after the property is

actually distributed to the distributee partner (or a related party).

(d) Examples. The following examples illustrate the principles of paragraphs (a), (b), and (c) of this section. The examples set forth below do not delineate the boundaries of either permissible or impermissible types of transactions. Further, the addition of any facts or circumstances that are not specifically set forth in an example (or the deletion of any facts or circumstances) may alter the outcome of the transaction described in the example. Unless otherwise indicated, parties to the transactions are not related to one another.

Example 1. Choice of entity; avoidance of entity-level tax; use of partnership consistent with the intent of subchapter K. (i) A and B form limited partnership PRS to conduct a bona fide business. A, the corporate general partner, has a 1% partnership interest. B, the individual limited partner, has a 99% interest. PRS is properly classified as a partnership under §§301.7701-2 and 301.7701-3. A and B chose limited partnership form as a means to provide B with limited liability without subjecting the income from the business operations to an entity-level tax.

(ii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. Although B has retained, indirectly, substantially all of the benefits and burdens of ownership of the money or property B contributed to PRS (see paragraph (c)(6) of this section), the decision to organize and conduct business through PRS under these circumstances is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1), (2), and (3) of this section have been satisfied. The Commissioner therefore cannot invoke paragraph (b) of this section to recast the transaction.

Example 2. Choice of entity; avoidance of subchapter S shareholder requirements; use of partnership consistent with the intent of subchapter K. (i) A and B form partnership PRS to conduct a bona fide business. A is a corporation that has elected to be treated as an S corporation under subchapter S. B is a nonresident alien. PRS is properly classified as a partnership under §§301.7701-2 and 301.7701-3. Because section

1361(b) prohibits B from being a shareholder in A, A and B chose partnership form, rather than admit B as a shareholder in A, as a means to retain the benefits of subchapter S treatment for A and its shareholders.

(ii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. The decision to organize and conduct business through PRS is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1), (2), and (3) of this section have been satisfied. Although it may be argued that the form of the partnership transaction should not be respected because it does not reflect its substance (inasmuch as application of the substance over form doctrine arguably could result in B being treated as a shareholder of A, thereby invalidating A's subchapter S election), the facts indicate otherwise. The shareholders of A are subject to tax on their pro rata shares of A's income (see section 1361 et. seq.), and B is subject to tax on B's distributive share of partnership income (see sections 871 and 875). Thus, the form in which this arrangement is cast accurately reflects its substance as a separate partnership and S corporation. The Commissioner therefore cannot invoke paragraph (b) of this section to recast the transaction.

<u>Example 3. Choice of entity; avoidance of more restrictive foreign tax credit limitation; use of partnership consistent with the intent of subchapter K</u>. (i) X, a domestic corporation, and Y, a foreign corporation, form partnership PRS under the laws of foreign Country A to conduct a bona fide joint business. X and Y each owns a 50% interest in PRS. PRS is properly classified as a partnership under §§301.7701-2 and 301.7701-3. PRS pays income taxes to Country A. X and Y chose partnership form to enable X to qualify for a direct foreign tax credit under section 901, with look-through treatment under §1.904-5(h)(1). Conversely, if PRS were a foreign corporation for U.S. tax purposes, X would be entitled only to indirect foreign tax credits under section 902 with respect to dividend distributions from PRS. The look-through rules, however, would not apply, and pursuant to section 904(d)(1)(E) and §1.904-4(g), the dividends and associated taxes would be subject to a separate foreign tax credit limitation for dividends from PRS, a noncontrolled section 902 corporation.

(ii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. The decision to organize and conduct business through PRS in order to take advantage of the look-through rules for foreign tax credit purposes, thereby maximizing X's use of its proper share of foreign taxes paid by PRS, is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1), (2), and (3) of this section have been satisfied. The Commissioner therefore cannot invoke paragraph (b) of this section to recast the transaction.

Example 4. Choice of entity; avoidance of gain recognition under sections 351(e) and 357(c); use of partnership consistent with the intent of subchapter K. (i) X, ABC, and DEF form limited partnership PRS to conduct a bona fide real estate management business. PRS is properly classified as a partnership under §§301.7701-2 and 301.7701-3. X, the general partner, is a newly formed corporation that elects to be treated as a real estate investment trust as defined in section 856. X offers its stock to the public and contributes substantially all of the proceeds from the public offering to PRS. ABC and DEF, the limited partners, are existing partnerships with substantial real estate holdings. ABC and DEF contribute all of their real property assets to PRS, subject to liabilities that exceed their respective aggregate bases in the real property contributed, and terminate under section 708(b)(1)(A). In addition, some of the former partners of ABC and DEF each have the right, beginning two years after the formation of PRS, to require the redemption of their limited partnership interests in PRS in exchange for cash or X stock (at X's option) equal to the fair market value of their respective interests in PRS at the time of the redemption. These partners are not compelled, as a legal or practical matter, to exercise their exchange rights at any time. X, ABC, and DEF chose to form a partnership rather than have ABC and DEF invest directly in X to allow ABC and DEF to avoid recognition of gain under sections 351(e) and 357(c). Because PRS would not be treated as an investment company within the meaning of section 351(e) if PRS were incorporated (so long as it did not elect under section 856), section 721(a) applies to the contribution of the real property to PRS. See section 721(b).

(ii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. The decision to organize and conduct business through PRS, thereby avoiding the tax consequences that would have resulted from contributing the existing partnerships' real estate assets to X (by applying the rules of sections 721, 731, and 752 in lieu of the rules of sections 351(e) and 357(c)), is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1), (2), and (3) of this section have been satisfied. Although it may be argued that the form of the transaction should not be respected because it does not reflect its substance (inasmuch as the present value of the partners' aggregate federal tax liability is substantially less than would be the case if the transaction were integrated and treated as a contribution of the encumbered assets by ABC and DEF directly to X, see paragraph (c)(2) of this section), the facts indicate otherwise. For example, the right of some of the former ABC and DEF partners after two years to exchange their PRS interests for cash or X stock (at X's option) equal to the fair market value of their PRS interest at that time would not require that right to be considered as exercised prior to its actual exercise. Moreover, X may make other real estate investments and other business decisions, including the decision to raise additional capital for those purposes. Thus, although it may be likely that some or all of the partners with the right to do so will, at some point, exercise their exchange rights, and thereby receive either cash or X stock, the form of the transaction as a separate partnership and real estate investment trust is respected under substance over form principles (see paragraph (a)(2) of this section). The Commissioner therefore cannot invoke paragraph (b) of this section to recast the transaction.

Example 5. Family partnership to conduct joint business activities; valuation discount; use of partnership consistent with the intent of subchapter K. (i) H and W, husband and wife, form limited partnership PRS by contributing their interests in actively managed, income-producing real property that PRS will own and operate. H holds a general partnership interest, and W holds a limited partnership interest. At a later date, W makes a gift of a portion of her limited partnership interest to each of H and W's two children, S and D. Appropriate discounts, consistent with the taxpayers' treatment of the arrangement as a partnership, were applied in determining the value of W's gifts to the children.

(ii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. Although PRS is owned entirely by related parties (see paragraph (c)(4) of this section), the decision to organize and conduct business through PRS under these circumstances is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1), (2), and (3) of this section have been satisfied. Therefore, absent other facts (such as the creation of the partnership immediately before the gifts by W), the Commissioner cannot invoke paragraph (b) of this section to recast the transaction. But see sections 2701 through 2704 for special valuation rules applicable to family arrangements for estate and gift tax purposes. See also sections 2036 through 2039.

(iii) The special valuation rules provided under chapter 14 of the Code, in particular section 2701, prescribe certain special rules in valuing gifts of family controlled partnership interests. These special rules clearly contemplate that a bona fide partnership like PRS be treated as an entity and not as an aggregate of its partners for that purpose. Accordingly, under paragraph (e) of this section, the Commissioner cannot treat PRS as an aggregate of its partners for purposes of valuing the gifts from W to S and D.

Example 6. Family partnership not engaged in bona fide joint business activities; valuation discount; use of partnership not consistent with the intent of subchapter K. (i) H and W, husband and wife, form limited partnership PRS and contribute to it their respective interests in their vacation home. H holds a general partnership interest, and W holds a limited partnership interest. At a later date, W makes a gift of a portion of her limited partnership interest to each of H and W's two children, S and D. Discounts, consistent with the taxpayers' treatment of the arrangement as a partnership, were applied in determining the value of W's gifts to the children.

(ii) PRS is not bona fide and there is no substantial business purpose for the purported activities of PRS. In addition, by using a partnership (if respected), H and W's aggregate federal tax liability would be substantially less than had they owned the partnership's assets directly (see paragraph (c)(1) of this section). On these facts, PRS has been formed and availed of with a principal purpose to reduce H's and W's aggregate federal tax liability in a manner that is inconsistent with the intent of subchapter K. Therefore (in addition to possibly challenging the transaction under applicable judicial principles, such as the substance over form doctrine, see paragraph (h) of this section), the Commissioner can recast the transaction as appropriate under paragraph (b) of this section.

Example 7. Special allocations; dividends received deductions; use of partnership consistent with the intent of subchapter K. (i) Corporations X and Y contribute equal amounts to PRS, a bona fide partnership formed to make joint investments. PRS pays $100 for a share of common stock of Z, an unrelated corporation, which has historically paid an annual dividend of $6. PRS specially allocates the dividend income on the Z stock to X to the extent of the London Inter-Bank Offered Rate (LIBOR) on the record date, applied to X's contribution of $50, and allocates the remainder of the dividend income to Y. All other items of partnership income and loss are allocated equally between X and Y. The allocations under the partnership agreement have substantial economic effect within the meaning of §1.704-1(b)(2). In addition to avoiding an entity-level tax, a principal purpose for the formation of the partnership was to invest in the Z common stock and to allocate the dividend income from the stock to provide X with a floating-rate return based on LIBOR, while permitting X and Y to claim the dividends received deduction under section 243 on the dividends allocated to each of them.

(ii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. The decision to organize and conduct business through PRS is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1), (2), and (3) of this section have been satisfied. Section 704(b) and §1.704-1(b)(2) permit income realized by the partnership to be allocated validly to the partners separate from the partners' respective ownership of the capital to which the allocations relate, provided that the allocations satisfy both the literal requirements of the statute and regulations and the purpose of those provisions (see paragraph (c)(5) of this section). Section 704(e)(2) is not applicable to the facts of this example (otherwise, the allocations would be required to be proportionate to the partners' ownership of contributed capital). The Commissioner therefore cannot invoke paragraph (b) of this section to recast the transaction.

Example 8. Special allocations; nonrecourse financing; low-income housing credit; use of partnership consistent with the intent of subchapter K. (i) A and B, high-bracket taxpayers, and X, a corporation with net operating loss carryforwards, form general partnership PRS to own and operate a building that qualifies for the low-income housing credit provided by section 42. The project is financed with both cash contributions from the partners and nonrecourse indebtedness. The partnership agreement provides for special allocations of income and deductions, including the allocation of all depreciation deductions attributable to the building to A and B equally in a manner that is reasonably consistent with allocations that have substantial economic effect of some other significant partnership item attributable to the building. The section 42 credits are allocated to A and B in accordance with the allocation of depreciation deductions. PRS's allocations comply with all applicable regulations, including the requirements of §§1.704-1(b)(2)(ii) (pertaining to economic effect) and 1.704-2(e) (requirements for allocations of nonrecourse deductions). The nonrecourse indebtedness is validly allocated to the partners under the rules of §1.752-3, thereby increasing the basis of the partners' respective partnership interests. The basis increase created by the nonrecourse indebtedness enables A and B to deduct their distributive share of losses from the partnership (subject to all other applicable limitations under the Internal Revenue Code) against their nonpartnership income and to apply the credits against their tax liability.

(ii) At a time when the depreciation deductions attributable to the building are not treated as nonrecourse deductions under §1.704-2(c) (because there is no net increase in partnership minimum gain during the year), the special allocation of depreciation deductions to A and B has substantial economic effect because of the value-equals-basis safe harbor contained in §1.704-1(b)(2)(iii)(c) and the fact that A and B would bear the economic burden of any decline in the value of the building (to the extent of the partnership's investment in the building), notwithstanding that A and B believe it is unlikely that the building will decline in value (and, accordingly, they anticipate significant timing benefits through the special allocation). Moreover, in later years, when the depreciation deductions attributable to the building are treated as nonrecourse deductions under §1.704-2(c), the special allocation of depreciation deductions to A and B is considered to be consistent with the partners' interests in the partnership under §1.704-2(e).

(iii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. The decision to organize and conduct business through PRS is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1), (2), and (3) of this section have been satisfied. Section 704(b), §1.704-1(b)(2), and §1.704-2(e) allow partnership items of income, gain, loss, deduction, and credit to be allocated validly to the partners separate from the partners' respective ownership of the capital to which the allocations relate, provided that the allocations satisfy both the literal requirements of the statute and regulations and the purpose of those provisions (see paragraph (c)(5) of this section). Moreover, the application of the value-equals-basis safe harbor and the provisions of §1.704-2(e) with respect to the allocations to A and B, and the tax results of the application of those provisions, taking into account all the facts and circumstances, are clearly contemplated. Accordingly, even if the allocations would not otherwise be considered to satisfy the proper reflection of income standard in paragraph (a)(3) of this section, that requirement will be treated as satisfied under these facts. Thus, even though the partners' aggregate federal tax liability may be substantially less than had the partners owned the partnership's assets directly (due to X's inability to use its allocable share of the partnership's losses and credits) (see paragraph (c)(1) of this section), the transaction is not inconsistent with the intent of subchapter K. The Commissioner therefore cannot invoke paragraph (b) of this section to recast the transaction.

Example 9. Partner with nominal interest; temporary partner; use of partnership not consistent with the intent of subchapter K. (i) Pursuant to a plan a principal purpose of which is to generate artificial losses and thereby shelter from federal taxation a substantial amount of income, X (a foreign corporation), Y (a domestic corporation), and Z (a promoter) form partnership PRS by contributing $9,000, $990, and $10, respectively, for proportionate interests (90.0%, 9.9%, and 0.1%, respectively) in the capital and profits of PRS. PRS purchases offshore equipment for $10,000 and validly leases the equipment offshore for a term representing most of its projected useful life. Shortly thereafter, PRS sells its rights to receive income under the lease to a third party for $9,000, and allocates the resulting $9,000 of income $8,100 to X, $891 to Y, and $9 to Z. PRS thereafter makes a distribution of $9,000 to X in complete liquidation of its interest. Under §1.704-1(b)(2)(iv)(f), PRS restates the partners' capital accounts immediately before making the liquidating distribution to X to reflect its assets consisting of the offshore equipment worth $1,000 and $9,000 in cash. Thus, because the capital accounts immediately before the distribution reflect assets of $19,000 (that is, the initial capital contributions of $10,000 plus the $9,000 of income realized from the sale of the lease), PRS allocates a $9,000 book loss among the partners (for capital account purposes only), resulting in restated capital accounts for X, Y, and Z of $9,000, $990, and $10, respectively. Thereafter, PRS purchases real property by borrowing the $8,000 purchase price on a recourse basis, which increases Y's and Z's bases in their respective partnership interests from $1,881 and $19, to $9,801 and $99, respectively (reflecting Y's and Z's adjusted interests in the partnership of 99% and 1%, respectively). PRS subsequently sells the offshore equipment, subject to the lease, for $1,000 and allocates the $9,000 tax loss $8,910 to Y and $90 to Z. Y's and Z's bases in their partnership interests are therefore reduced to $891 and $9, respectively.

(ii) On these facts, any purported business purpose for the transaction is insignificant in comparison to the tax benefits that would result if the transaction were respected for federal tax purposes (see paragraph (c) of this section). Accordingly, the transaction lacks a substantial business purpose (see paragraph (a)(1) of this section). In addition, factors (1), (2), (3), and (5) of paragraph (c) of this section indicate that PRS was used with a principal purpose to reduce substantially the partners' tax liability in a manner inconsistent with the intent of subchapter K. On these facts, PRS is not bona fide (see paragraph (a)(1) of this section), and the transaction is not respected under applicable substance over form principles (see paragraph (a)(2) of this section) and does not properly reflect the income of Y (see paragraph (a)(3) of this section). Thus, PRS has been formed and availed of with a principal purpose of reducing substantially the present value of the partners' aggregate federal tax liability in a manner inconsistent with the intent of subchapter K. Therefore (in addition to possibly challenging the transaction under judicial principles or the validity of the allocations under §1.704-1(b)(2) (see paragraph (h) of this section)), the Commissioner can recast the transaction as appropriate under paragraph (b) of this section.

<u>Example 10. Plan to duplicate losses through absence of section 754 election; use of partnership not consistent with the</u>

intent of subchapter K. (i) A owns land with a basis of $100 and a fair market value of $60. A would like to sell the land to B. A and B devise a plan a principal purpose of which is to permit the duplication, for a substantial period of time, of the tax benefit of A's built-in loss in the land. To effect this plan, A, C (A's brother), and W (C's wife) form partnership PRS, to which A contributes the land, and C and W each contribute $30. All partnership items are shared in proportion to the partners' respective contributions to PRS. PRS invests the cash in an investment asset (that is not a marketable security within the meaning of section 731(c)). PRS also leases the land to B under a three-year lease pursuant to which B has the option to purchase the land from PRS upon the expiration of the lease for an amount equal to its fair market value at that time. All lease proceeds received are immediately distributed to the partners. In year 3, at a time when the values of the partnership's assets have not materially changed, PRS agrees with A to liquidate A's interest in exchange for the investment asset held by PRS. Under section 732(b), A's basis in the asset distributed equals $100, A's basis in A's partnership interest immediately before the distribution. Shortly thereafter, A sells the investment asset to X, an unrelated party, recognizing a $40 loss.

(ii) PRS does not make an election under section 754. Accordingly, PRS's basis in the land contributed by A remains $100. At the end of year 3, pursuant to the lease option, PRS sells the land to B for $60 (its fair market value). Thus, PRS recognizes a $40 loss on the sale, which is allocated equally between C and W. C's and W's bases in their partnership interests are reduced to $10 each pursuant to section 705. Their respective interests are worth $30 each. Thus, upon liquidation of PRS (or their interests therein), each of C and W will recognize $20 of gain. However, PRS's continued existence defers recognition of that gain indefinitely. Thus, if this arrangement is respected, C and W duplicate for their benefit A's built-in loss in the land prior to its contribution to PRS.

(iii) On these facts, any purported business purpose for the transaction is insignificant in comparison to the tax benefits that would result if the transaction were respected for federal tax purposes (see paragraph (c) of this section). Accordingly, the transaction lacks a substantial business purpose (see paragraph (a)(1) of this section). In addition, factors (1), (2), and (4) of paragraph (c) of this section indicate that PRS was used with a principal purpose to reduce substantially the partners' tax liability in a manner inconsistent with the intent of subchapter K. On these facts, PRS is not bona fide (see paragraph (a)(1) of this section), and the transaction is not respected under applicable substance over form principles (see paragraph (a)(2) of this section). Further, the tax consequences to the partners do not properly reflect the partners' income; and Congress did not contemplate application of section 754 to partnerships such as PRS, which was formed for a principal purpose of producing a double tax benefit from a single economic loss (see paragraph (a)(3) of this section). Thus, PRS has been formed and availed of with a principal purpose of reducing substantially the present value of the partners' aggregate federal tax liability in a manner inconsistent with the intent of subchapter K. Therefore (in addition to possibly challenging the transaction under judicial principles or other statutory authorities, such as the substance over form doctrine or the disguised sale rules under section 707 (see paragraph (h) of this section)), the Commissioner can recast the transaction as appropriate under paragraph (b) of this section.

Example 11. Absence of section 754 election; use of partnership consistent with the intent of subchapter K. (i) PRS is a bona fide partnership formed to engage in investment activities with contributions of cash from each partner. Several years after joining PRS, A, a partner with a capital account balance and basis in its partnership interest of $100, wishes to withdraw from PRS. The partnership agreement entitles A to receive the balance of A's capital account in cash or securities owned by PRS at the time of withdrawal, as mutually agreed to by A and the managing general partner, P. P and A agree to distribute to A $100 worth of non-marketable securities (see section 731(c)) in which PRS has an aggregate basis of $20. Upon distribution, A's aggregate basis in the securities is $100 under section 732(b). PRS does not make an election to adjust the basis in its remaining assets under section 754. Thus, PRS's basis in its remaining assets is unaffected by the distribution. In contrast, if a section 754 election had been in effect for the year of the distribution, under these facts section 734(b) would have required PRS to adjust the basis in its remaining assets downward by the amount of the untaxed appreciation in the distributed property, thus reflecting that gain in PRS's retained assets. In selecting the assets to be distributed, A and P had a principal purpose to take advantage of the facts that (i) A's basis in the securities will be determined by reference to A's basis in its partnership interest under section 732(b), and (ii) because PRS will not make an election under section 754, the remaining partners of PRS will likely enjoy a federal tax timing advantage (i.e., from the $80 of additional basis in its assets that would have been eliminated if the section 754 election had been made) that is inconsistent with proper reflection of income under paragraph (a)(3) of this section.

(ii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. The decision to organize and conduct business through PRS is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1) and (2) of this section have been satisfied. The validity of the tax treatment of this transaction is therefore dependent upon whether the transaction satisfies (or is treated as satisfying) the proper reflection of income standard under paragraph (a)(3) of this section. A's basis in the distributed securities is properly determined under section 732(b). The benefit to the remaining partners is a result of PRS not having made an election under section 754. Subchapter K is generally intended to produce tax consequences that achieve proper reflection of income. However, paragraph (a)(3) of this section provides that if the application of a provision of subchapter K produces tax results that do not properly reflect income, but application of that provision to the transaction and the ultimate tax results, taking into account all the relevant facts and circumstances, are clearly contemplated by that provision (and the transaction satisfies the requirements of paragraphs (a)(1) and (2) of this section), then the application of that provision to the transaction will be treated as satisfying the proper reflection of income standard.

(iii) In general, the adjustments that would be made if an election under section 754 were in effect are necessary to minimize distortions between the partners' bases in their partnership interests and the partnership's basis in its assets following, for example, a distribution to a partner. The electivity of section 754 is intended to provide administrative convenience for bona fide partnerships that are engaged in transactions for a substantial business purpose, by providing those partnerships the option of not adjusting their bases in their remaining assets following a distribution to a partner. Congress clearly recognized that if the section 754 election were not made, basis distortions may result. Taking into account all the facts and circumstances of the transaction, the electivity of section 754 in the context of the distribution from PRS to A, and the ultimate tax consequences that follow from the failure to make the election with respect to the transaction, are clearly contemplated by section 754. Thus, the tax consequences of this transaction will be treated as satisfying the proper reflection of income standard under paragraph (a)(3) of this section. The Commissioner therefore cannot invoke paragraph (b) of this section to recast the transaction.

<u>Example 12. Basis adjustments under section 732; use of partnership consistent with the intent of subchapter K</u>. (i) A, B, and C are partners in partnership PRS, which has for several years been engaged in substantial bona fide business activities. For valid business reasons, the partners agree that A's interest in PRS, which has a value and basis of $100, will be liquidated with the following assets of PRS: a nondepreciable asset with a value of $60 and a basis to PRS of $40, and related equipment with two years of cost recovery remaining and a value and basis to PRS of $40. Neither asset is described in section 751 and the transaction is not described in section 732(d). Under section

732(b) and (c), A's $100 basis in A's partnership interest will be allocated between the nondepreciable asset and the equipment received in the liquidating distribution in proportion to PRS's bases in those assets, or $50 to the nondepreciable asset and $50 to the equipment. Thus, A will have a $10 built-in gain in the nondepreciable asset ($60 value less $50 basis) and a $10 built-in loss in the equipment ($50 basis less $40 value), which it expects to recover rapidly through cost recovery deductions. In selecting the assets to be distributed to A, the partners had a principal purpose to take advantage of the fact that A's basis in the assets will be determined by reference to A's basis in A's partnership interest, thus, in effect, shifting a portion of A's basis from the nondepreciable asset to the equipment, which in turn would allow A to recover that portion of its basis more rapidly. This shift provides a federal tax timing advantage to A, with no offsetting detriment to B or C.

(ii) Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. See paragraph (a) of this section. The decision to organize and conduct business through PRS is consistent with this intent. In addition, on these facts, the requirements of paragraphs (a)(1) and (2) of this section have been satisfied. The validity of the tax treatment of this transaction is therefore dependent upon whether the transaction satisfies (or is treated as satisfying) the proper reflection of income standard under paragraph (a)(3) of this section. Subchapter K is generally intended to produce tax consequences that achieve proper reflection of income. However, paragraph (a)(3) of this section provides that if the application of a provision of subchapter K produces tax results that do not properly reflect income, but the application of that provision to the transaction and the ultimate tax results, taking into account all the relevant facts and circumstances, are clearly contemplated by that provision (and the transaction satisfies the requirements of paragraphs (a)(1) and (2) of this section), then the application of that provision to the transaction will be treated as satisfying the proper reflection of income standard.

(iii) A's basis in the assets distributed to it was determined under section 732(b) and (c). The transaction does not properly reflect A's income due to the basis distortions caused by the distribution and the shifting of basis from a nondepreciable to a depreciable asset. However, the basis rules under section 732, which in some situations can produce tax results that are inconsistent with the proper reflection of income standard (see paragraph (a)(3) of this section), are intended to provide simplifying administrative rules for bona fide partnerships that are engaged in transactions with a substantial business purpose. Taking into account all the facts and circumstances of the transaction, the application of the basis rules under section 732 to the distribution from PRS to A, and the ultimate tax consequences of the application of that provision of subchapter K, are clearly contemplated. Thus, the application of section 732 to this transaction will be treated as satisfying the proper reflection of income standard under paragraph (a)(3) of this section. The Commissioner therefore cannot invoke paragraph (b) of this section to recast the transaction.

<u>Example 13. Basis adjustments under section 732; plan or arrangement to distort basis allocations artificially; use of partnership not consistent with the intent of subchapter K</u>. (i) Partnership PRS has for several years been engaged in the development and management of commercial real estate projects. X, an unrelated party, desires to acquire undeveloped land owned by PRS, which has a value of $95 and a basis of $5. X expects to hold the land indefinitely after its acquisition. Pursuant to a plan a principal purpose of which is to permit X to acquire and hold the land but nevertheless to recover for tax purposes a substantial portion of the purchase price for the land, X contributes $100 to PRS for an interest therein. Subsequently (at a time when the value of the partnership's assets have not materially changed), PRS distributes to X in liquidation of its interest in PRS the land and another asset with a value and basis to PRS of $5. The second asset is an insignificant part of the economic transaction but is important to achieve the desired tax results. Under section 732(b) and (c), X's $100 basis in its partnership interest is allocated between the assets distributed to it in proportion to their bases to PRS, or $50 each. Thereafter, X plans to sell the second asset for its value of $5, recognizing a loss of $45. In this manner, X will, in effect, recover a substantial portion of the purchase price of the land almost immediately. In selecting the assets to be distributed to X, the partners had a principal purpose to take advantage of the fact that X's basis in the assets will be determined under section 732(b) and (c), thus, in effect, shifting a portion of X's basis economically allocable to the land that X intends to retain to an inconsequential asset that X intends to dispose of quickly. This shift provides a federal tax timing advantage to X, with no offsetting detriment to any of PRS's other partners.

(ii) Although section 732 recognizes that basis distortions can occur in certain situations, which may produce tax results that do not satisfy the proper reflection of income standard of paragraph (a)(3) of this section, the provision is intended only to provide ancillary, simplifying tax results for bona fide partnership transactions that are engaged in for substantial business purposes. Section 732 is not intended to serve as the basis for plans or arrangements in which inconsequential or immaterial assets are included in the distribution with a principal purpose of obtaining substantially favorable tax results by virtue of the statute's simplifying rules. The transaction does not properly reflect X's income due to the basis distortions caused by the distribution that result in shifting a significant portion of X's basis to this inconsequential asset. Moreover, the proper reflection of income standard contained in paragraph (a)(3) of this section is not treated as satisfied, because, taking into account all the facts and circumstances, the application of section 732 to this arrangement, and the ultimate tax consequences that would thereby result, were not clearly contemplated by that provision of subchapter K. In addition, by using a partnership (if respected), the partners' aggregate federal tax liability would be substantially less than had they owned the partnership's assets directly (see paragraph (c)(1) of this section). On these facts, PRS has been formed and availed of with a principal purpose to reduce the taxpayers' aggregate federal tax liability in a manner that is inconsistent with the intent of subchapter K. Therefore (in addition to possibly challenging the transaction under applicable judicial principles and statutory authorities, such as the disguised sale rules under section 707, see paragraph (h) of this section), the Commissioner can recast the transaction as appropriate under paragraph (b) of this section.

(e) Abuse of entity treatment.

(1) General rule. The Commissioner can treat a partnership as an aggregate of its partners in whole or in part as appropriate to carry out the purpose of any provision of the Internal Revenue Code or the regulations promulgated thereunder.

(2) Clearly contemplated entity treatment. Paragraph (e)(1) of this section does not apply to the extent that--

(i) A provision of the Internal Revenue Code or the regulations promulgated thereunder prescribes the treatment of a partnership as an entity, in whole or in part, and

(ii) That treatment and the ultimate tax results, taking into account all the relevant facts and circumstances, are clearly contemplated by that provision.

(f) Examples. The following examples illustrate the principles of paragraph (e) of this section. The examples set forth below do not delineate the boundaries of either permissible or impermissible types of transactions. Further, the addition of any facts or circumstances that are not specifically set forth in an example (or the deletion of any facts or circumstances) may alter the outcome of the transaction described in the example. Unless otherwise indicated, parties to the transactions are not related to one another. See also paragraph (d) Example 5(iii) of this section (also demonstrating the application of the principles of paragraph (e) of this section).

Example 1. Aggregate treatment of partnership appropriate to carry out purpose of section 163(e)(5). (i) Corporations X and Y are partners in partnership PRS, which for several years has engaged in substantial bona fide business activities. As part of these business activities, PRS issues certain high yield discount obligations to an unrelated third party. Section 163(e)(5) defers (and in certain circumstances disallows) the interest deductions on this type of obligation if issued by a corporation. PRS, X, and Y take the position that, because PRS is a partnership and not a corporation, section 163(e)(5) is not applicable.

(ii) Section 163(e)(5) does not prescribe the treatment of a partnership as an entity for purposes of that section. The purpose of section 163(e)(5) is to limit corporate-level interest deductions on certain obligations. The treatment of PRS as an entity could result in a partnership with corporate partners issuing those obligations and thereby circumventing the purpose of section 163(e)(5), because the corporate partner would deduct its distributive share of the interest on obligations that would have been deferred until paid or disallowed had the corporation issued its share of the obligation directly. Thus, under paragraph (e)(1) of this section, PRS is properly treated as an aggregate of its partners for purposes of applying section 163(e)(5) (regardless of whether any party had a tax avoidance purpose in having PRS issue the obligation). Each partner of PRS will therefore be treated as issuing its share of the obligations for purposes of determining the deductibility of its distributive share of any interest on the obligations. See also section 163(i)(5)(B).

Example 2. Aggregate treatment of partnership appropriate to carry out purpose of section 1059. (i) Corporations X and Y are partners in partnership PRS, which for several years has engaged in substantial bona fide business activities. As part of these business activities, PRS purchases 50 shares of Corporation Z common stock. Six months later, Corporation Z announces an extraordinary dividend (within the meaning of section 1059). Section 1059(a) generally provides that if any corporation receives an extraordinary dividend with respect to any share of stock and the corporation has not held the stock for more than two years before the dividend announcement date, the basis in the stock held by the corporation is reduced by the nontaxed portion of the dividend. PRS, X, and Y take the position that section 1059(a) is not applicable because PRS is a partnership and not a corporation.

(ii) Section 1059(a) does not prescribe the treatment of a partnership as an entity for purposes of that section. The purpose of section 1059(a) is to limit the benefits of the dividends received deduction with respect to extraordinary dividends. The treatment of PRS as an entity could result in corporate partners in the partnership receiving dividends through partnerships in circumvention of the intent of section 1059. Thus, under paragraph (e)(1) of this section, PRS is properly treated as an aggregate of its partners for purposes of applying section 1059 (regardless of whether any party had a tax avoidance purpose in acquiring the Z stock through PRS). Each partner of PRS will therefore be treated as owning its share of the stock. Accordingly, PRS must make appropriate adjustments to the basis of the corporation Z stock, and the partners must also make adjustments to the basis in their respective interests in PRS under section 705(a)(2)(B). See also section 1059(g)(1).

<u>Example 3. Prescribed entity treatment of partnership; determination of CFC status clearly contemplated</u>. (i) X, a domestic corporation, and Y, a foreign corporation, intend to conduct a joint venture in foreign Country A. They form PRS, a bona fide domestic general partnership in which X owns a 40% interest and Y owns a 60% interest. PRS is properly classified as a partnership under §§301.7701-2 and 301.7701-3. PRS holds 100% of the voting stock of Z, a Country A entity that is classified as an association taxable as a corporation for federal tax purposes under §301.7701-2. Z conducts its business operations in Country A. By investing in Z through a domestic partnership, X seeks to obtain the benefit of the look-through rules of section 904(d)(3) and, as a result, maximize its ability to claim credits for its proper share of Country A taxes expected to be incurred by Z.

(ii) Pursuant to sections 957(c) and 7701(a)(30), PRS is a United States person. Therefore, because it owns 10% or more of the voting stock of Z, PRS satisfies the definition of a U.S. shareholder under section 951(b). Under section 957(a), Z is a controlled foreign corporation (CFC) because more than 50% of the voting power or value of its stock is owned by PRS.

Consequently, under section 904(d)(3), X qualifies for look-through treatment in computing its credit for foreign taxes paid or accrued by Z. In contrast, if X and Y owned their interests in Z directly, Z would not be a CFC because only 40% of its stock would be owned by U.S. shareholders. X's credit for foreign taxes paid or accrued by Z in that case would be subject to a separate foreign tax credit limitation for dividends from Z, a noncontrolled section 902 corporation. See section 904(d)(1)(E) and §1.904-4(g).

(iii) Sections 957(c) and 7701(a)(30) prescribe the treatment of a domestic partnership as an entity for purposes of defining a U.S. shareholder, and thus, for purposes of determining whether a foreign corporation is a CFC. The CFC rules prevent the deferral by U.S. shareholders of U.S. taxation of certain earnings of the CFC and reduce disparities that otherwise might occur between the amount of income subject to a particular foreign tax credit limitation when a taxpayer earns income abroad directly rather than indirectly through a CFC. The application of the look-through rules for foreign tax credit purposes is appropriately tied to CFC status. See sections 904(d)(2)(E) and 904(d)(3). This analysis confirms that Congress clearly contemplated that taxpayers could use a bona fide domestic partnership to subject themselves to the CFC regime, and the resulting application of the look-through rules of section 904(d)(3). Accordingly, under paragraph (e) of this section, the Commissioner cannot treat PRS as an aggregate of its partners for purposes of determining X's foreign tax credit limitation.

(g) Effective date. Paragraphs (a), (b), (c), and (d) of this section are effective for all transactions involving a partnership that occur on or after May 12, 1994. Paragraphs (e) and (f) of this section are effective for all transactions involving a partnership that occur on or after [INSERT DATE THIS DOCUMENT IS FILED WITH THE **FEDERAL REGISTER**].

(h) Application of nonstatutory principles and other statutory authorities. The Commissioner can continue to assert and to rely upon applicable nonstatutory principles and other statutory and regulatory authorities to challenge transactions. This section does not limit the applicability of those principles and authorities.

Margaret Milner Richardson
Commissioner of Internal Revenue
Margaret Milner Richardson

Approved:

Leslie Samuels December 20, 1994

Assistant Secretary of the Treasury
Leslie Samuels

Congress of the United States
Washington, DC 20510

December 16, 1994

The Honorable Lloyd Bentsen
Secretary of the Treasury
Department of the Treasury
Room 3300
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

We are very concerned about the implications of a proposed regulation under section 701 of the Internal Revenue Code, the so-called "partnership anti-abuse rule," which we understand is scheduled to be promulgated before the end of this year or early next year. This proposed regulation has been severely criticized by both small and large taxpayers and most of the tax professional organizations. We understand that the commentators have recommended that the regulation be withdrawn or substantially revised and reissued in proposed form.

While we have not prejudged the issue, many widely-respected tax advisers have raised concerns that the rule is a potentially radical break with prior administrative and regulatory practice. Furthermore, concerns have been raised about the regulation's ambiguity and overbreadth, Treasury's authority to issue such a sweeping regulation, and the retroactive application of the regulation. A rule with such serious potential consequences should be carefully reviewed and issued only after the most deliberate consideration.

It is our hope that the revised regulation, which we understand is substantially different than the regulation as it was originally proposed, addresses these concerns.

Sincerely,

[signature] Bob Packwood

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

December 29, 1994

The Honorable Bill Archer
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Archer:

Thank you for your letter of December 16, 1994, to Secretary Bentsen in which you and Senator Packwood raised concerns regarding the proposed regulation under section 701 of the Internal Revenue Code addressing abusive transactions involving partnerships. As you know, this proposed regulation was targeted at abusive partnership transactions, the types of transactions that one commentator referred to as the "tax shelters of the 1990s."

Although these transactions are susceptible to attack under existing common law doctrines and rules of interpretation, we believe the regulation is an important component to the sound administration of the tax laws.

A regulation based on general tax principles will assist in discouraging abusive partnership transactions by reminding the tax community that the tax laws must be interpreted in light of their spirit and purpose. Such a reminder is a matter of simple fairness to the taxpayers and their advisors who are abiding by this standard. Thus, we believe the regulation will serve to level the playing field for all taxpayers.

The anti-abuse regulation will also promote tax simplification. The partnership area has been plagued in recent years by a series of complex ad hoc responses to specific abusive transactions. These responses have seriously complicated the partnership tax area. With this regulation, the need for specific, isolated responses to abuses should be reduced. The salutatory effect of the regulation was recognized in some of the comments on the proposed regulation. For example, one comment noted that "if we limit the power of the Treasury to attack [abusive] transactions by interpreting the law so as to give effect to general principles and/or legislative purpose, then we force the Treasury to rely increasingly on detailed rulemaking, either by asking Congress to rewrite existing law . . . or . . . by further increasing the complexity of its own regulations."

In the process of finalizing this regulation, we have carefully considered all comments and suggestions we received. We held a hearing on the proposed regulation pursuant to our established procedures. We also received valuable input from congressional tax staff members on both sides of the aisle. All of these comments have resulted in an improved regulation.

Specifically, in response to the input we received, we made substantial revisions that clarify and narrow the scope of the regulation. These revisions should provide further comfort that the target of the regulation is a small number of abusive transactions. The changes include both revisions to the text and the addition of a number of examples. The effective date has also been clarified so the regulation will not apply, for example, to a sale of an asset received by a taxpayer in a partnership transaction prior to the effective date.

Like the proposed regulation, the final regulation requires that the partnership tax provisions (Subchapter K) be interpreted consistent with their intent. However, to provide clearer and more specific guidance, the final regulation sets forth three specific requirements that must be met for a transaction to be consistent with the intent of Subchapter K. The first two requirements are based on the traditional case law requirements that each partnership transaction must have a substantial business purpose and the form of the transaction must reflect its substance. While the vast majority of taxpayers and tax practitioners abide by these doctrines, the small minority who participate in abusive transactions are apparently taking the position that these doctrines have limited impact in the partnership area. The regulation confirms that these traditional doctrines apply in the partnership context. As one commentator noted, "we already navigate . . . these doctrines. . . . The only noteworthy event is the uproar by those who conveniently overlook the case law holding to the same effect."

The third specific requirement of the final regulation provides that the tax consequences of a partnership transaction must reflect the partners' economic arrangement and clearly reflect the partners' income unless a provision of Subchapter K clearly contemplates a different result. Thus, the final regulation provides that the anti-abuse rule does not override the various exceptions in the partnership rules that, for administrative simplicity and other policy objectives, provide rules that deviate from complete accuracy in reflecting the partners' income. In response to the comments on this issue, this exception to the application of the anti-abuse rule is spelled out in the text of the rule and is then illustrated in several examples.

The final regulation also clarifies a concern of many commentators by deleting the reference to the use of partnerships to avoid the purposes of other provision of the Code. In its place, the final regulation provides a separate provision that confirms the existence of the Commissioner's authority to treat a partnership as an aggregate of its partners, rather than as a separate entity, to the extent appropriate to carry out the purpose of a provision of the Code or regulations. This requirement reflects the current law rule that, depending on the circumstances, a partnership is treated as an aggregate of its partners or a separate entity.

In addition to these changes to the proposed regulation, the IRS has announced that it is establishing a new team under its Industry Specialization Program to coordinate all partnership audits. As part of the new team, an Industry Specialist will be appointed to coordinate application of the partnership anti-abuse regulation. As a result, before the regulation may be applied to a taxpayer, the appropriateness of that application must be coordinated with the Industry Specialist and the IRS National Office. This procedure should alleviate any fears taxpayers may have had regarding inappropriate application of the regulation.

In sum, I believe that the revisions to the final regulation adequately address your concerns and confirm that the regulation will not interfere with legitimate business transactions.

I am also sending a similar letter to Senator Packwood. Once again, thank you for your interest in this matter.

Sincerely,

Leslie Samuels

Leslie B. Samuels
Assistant Secretary
(Tax Policy)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

December 29, 1994

The Honorable Robert Packwood
United States Senate
Washington, D.C. 20510

Dear Senator Packwood:

Thank you for your letter of December 16, 1994, to Secretary Bentsen in which you and Representative Archer raised concerns regarding the proposed regulation under section 701 of the Internal Revenue Code addressing abusive transactions involving partnerships. As you know, this proposed regulation was targeted at abusive partnership transactions, the types of transactions that one commentator referred to as the "tax shelters of the 1990s."

Although these transactions are susceptible to attack under existing common law doctrines and rules of interpretation, we believe the regulation is an important component to the sound administration of the tax laws.

A regulation based on general tax principles will assist in discouraging abusive partnership transactions by reminding the tax community that the tax laws must be interpreted in light of their spirit and purpose. Such a reminder is a matter of simple fairness to the taxpayers and their advisors who are abiding by this standard. Thus, we believe the regulation will serve to level the playing field for all taxpayers.

The anti-abuse regulation will also promote tax simplification. The partnership area has been plagued in recent years by a series of complex ad hoc responses to specific abusive transactions. These responses have seriously complicated the partnership tax area. With this regulation, the need for specific, isolated responses to abuses should be reduced. The salutatory effect of the regulation was recognized in some of the comments on the proposed regulation. For example, one comment noted that "if we limit the power of the Treasury to attack [abusive] transactions by interpreting the law so as to give effect to general principles and/or legislative purpose, then we force the Treasury to rely increasingly on detailed rulemaking, either by asking Congress to rewrite existing law . . . or . . . by further increasing the complexity of its own regulations."

In the process of finalizing this regulation, we have carefully considered all comments and suggestions we received. We held a hearing on the proposed regulation pursuant to our established procedures. We also received valuable input from congressional tax staff members on both sides of the aisle. All of these comments have resulted in an improved regulation.

Specifically, in response to the input we received, we made substantial revisions that clarify and narrow the scope of the regulation. These revisions should provide further comfort that the target of the regulation is a small number of abusive transactions. The changes include both revisions to the text and the addition of a number of examples. The effective date has also been clarified so the regulation will not apply, for example, to a sale of an asset received by a taxpayer in a partnership transaction prior to the effective date.

Like the proposed regulation, the final regulation requires that the partnership tax provisions (Subchapter K) be interpreted consistent with their intent. However, to provide clearer and more specific guidance, the final regulation sets forth three specific requirements that must be met for a transaction to be consistent with the intent of Subchapter K. The first two requirements are based on the traditional case law requirements that each partnership transaction must have a substantial business purpose and the form of the transaction must reflect its substance. While the vast majority of taxpayers and tax practitioners abide by these doctrines, the small minority who participate in abusive transactions are apparently taking the position that these doctrines have limited impact in the partnership area. The regulation confirms that these traditional doctrines apply in the partnership context. As one commentator noted, "we already navigate . . . these doctrines. . . . The only noteworthy event is the uproar by those who conveniently overlook the case law holding to the same effect."

The third specific requirement of the final regulation provides that the tax consequences of a partnership transaction must reflect the partners' economic arrangement and clearly reflect the partners' income unless a provision of Subchapter K clearly contemplates a different result. Thus, the final regulation provides that the anti-abuse rule does not override the various exceptions in the partnership rules that, for administrative simplicity and other policy objectives, provide rules that deviate from complete accuracy in reflecting the partners' income. In response to the comments on this issue, this exception to the application of the anti-abuse rule is spelled out in the text of the rule and is then illustrated in several examples.

The final regulation also clarifies a concern of many commentators by deleting the reference to the use of partnerships to avoid the purposes of other provision of the Code. In its place, the final regulation provides a separate provision that confirms the existence of the Commissioner's authority to treat a partnership as an aggregate of its partners, rather than as a separate entity, to the extent appropriate to carry out the purpose of a provision of the Code or regulations. This requirement reflects the current law rule that, depending on the circumstances, a partnership is treated as an aggregate of its partners or a separate entity.

In addition to these changes to the proposed regulation, the IRS has announced that it is establishing a new team under its Industry Specialization Program to coordinate all partnership audits. As part of the new team, an Industry Specialist will be appointed to coordinate application of the partnership anti-abuse regulation. As a result, before the regulation may be applied to a taxpayer, the appropriateness of that application must be coordinated with the Industry Specialist and the IRS National Office. This procedure should alleviate any fears taxpayers may have had regarding inappropriate application of the regulation.

In sum, I believe that the revisions to the final regulation adequately address your concerns and confirm that the regulation will not interfere with legitimate business transactions.

I am also sending a similar letter to Mr. Archer. Once again, thank you for your interest in this matter.

Sincerely,

Leslie Samuels

Leslie B. Samuels
Assistant Secretary
(Tax Policy)

PRESS BACKGROUND INFORMATION
ON FINAL PARTNERSHIP ANTI-ABUSE REGULATION
[Not for Quotation or Publication]

The Internal Revenue Service today released the final partnership anti-abuse regulation. The regulation was proposed on May 17, 1994, in response to an increasing number of transactions in which large, sophisticated taxpayers attempt to use partnerships to avoid their tax obligations through complex, abusive structures that manipulate the partnership tax rules. Quite often, these schemes are "developed" and "marketed" as "products" by investment bankers to financial officers of major corporations, and involve very substantial amounts. As one practitioner stated in commenting in support of the regulation, these types of schemes have become the "tax shelters of the '90s." Comments on the proposed regulation were received and a public hearing was held on July 25, 1994.

The proposed regulation provided that the partnership provisions of the Internal Revenue Code (Subchapter K) and the Treasury regulations must be applied in a manner consistent with their intent. This approach is consistent with both the case law and the long-standing administrative and regulatory positions of the IRS and the Treasury Department. The final regulation generally adopts the same approach.

Nevertheless, in response to comments received on the proposed regulation and to ensure that the regulation does not affect legitimate business transactions, the final regulation changes the provisions of the proposed regulation in several important respects:

(1) The final regulation provides three specific requirements that must be met before a partnership transaction will be treated as consistent with the intent of Subchapter K. First, the transaction must have a substantial business purpose. Second, the form of the transaction must reflect its substance. These two requirement simply reflect long-standing general principles of taxation that apply to all transactions. Third, the tax consequences of the transaction must reflect the partners' economic arrangement and clearly reflect the partners' income unless a different result is clearly contemplated by a provision in Subchapter K of the Code or the regulations. This third requirement makes it clear that the regulation does not override various provisions and exceptions of Subchapter K, so long as the partnership transaction has a substantial business purpose and the form of the transaction reflects its substance.

(2) The final regulation provides several nonexclusive factors that are relevant in determining when the tax results of a transaction are inconsistent with the intent of Subchapter K.

(3) In response to written comments and comments made at the public hearing, the final regulation contains additional examples.

These examples illustrate that the regulation does not apply to taxpayers that chose a partnership form to avoid an entity-level tax. In addition, the examples also illustrate that the regulation does not adversely affect bona fide partnership business transactions.

The regulation also provides examples of partnership transactions that are inconsistent with the intent of Subchapter K. In one such example, a partnership purchases equipment that is immediately leased to another party. The equipment is expected to produce rental income and depreciation deductions that will virtually offset each other over the life of the equipment, leaving the partnership with a small amount of net income. In the example, however, the partnership immediately sells the right to the lease payments for a lump sum payment and allocates virtually all of the resulting income from that sale to a foreign, tax-exempt partner. Shortly thereafter, the foreign partner withdraws from the partnership in exchange for its original contribution to the partnership. The depreciation deductions on the equipment are then allocated to the remaining U.S. partners over the life of the equipment. As a result, the partnership has effectively separated the rental income from the depreciation deductions on the equipment and allocated the income to a tax-exempt partner, while retaining the depreciation deductions for the U.S. partner, thereby creating artificial tax losses for the U.S. partners on a transaction that has no economic loss.

(4) The proposed regulation provided that the regulation applied to partnerships that are used to avoid the purpose of another provision of the Internal Revenue Code. The final regulation removes that provision and provides that the Commissioner can generally treat a partnership as an aggregate of its partners as appropriate to carry out the provisions of the Internal Revenue Code.

(5) The effective date has also been clarified in the final regulation. To avoid any confusion as to the scope of this effective date, the final regulation applies to transactions "involving a partnership" after the date on which the proposed regulation was issued. This change will eliminate any concern that the effective date could apply, for example, to a partner that received an asset from a partnership before the effective date, but sold the asset after the effective date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 12:00 NOON
December 30, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $17,250 million of 52-week Treasury bills to be issued January 12, 1995. This offering will provide about $1,225 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $16,037 million. In addition to the maturing 52-week bills, there are $25,634 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $10,687 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,248 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $316 million of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED JANUARY 12, 1995

December 30, 1994

Offering Amount	$17,250 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 W5 9
Auction date	January 5, 1995
Issue date	January 12, 1995
Maturity date	January 11, 1996
Original issue date	January 12, 1995
Maturing amount.	$16,037 million
Minimum bid amount	$10,000
Multiples	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids.
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position are $2 billion or greater. (3) Net long position must be reported one half-hour prior to the closing time for receipt of competitive bids.
Maximum Recognized Bid at a Single Yield . . .	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders . .	Prior to 12:00 noon Eastern Standard time on auction day.
Competitive tenders	Prior to 1:00 p.m. Eastern Standard time on auction day.
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve bank on issue date.