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(b) AMENDMENT OF SECTION 22 (b) (10).—Section 22 (b) (10) (relating to income from discharge of indebtedness of a railroad corporation) is hereby amended by striking out "December 31, 1951" and inserting in lieu thereof "December 31, 1954".

SEC. 305. COMPENSATION OF CERTAIN MEMBERS OF THE ARMED FORCES.

(a) AMENDMENT OF SECTION 22 (b) (13).—Section 22 (b) (13) (relating to exclusion from gross income of compensation of certain members of the armed forces) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Enlisted Personnel.—Compensation received for active service as a member below the grade of commissioned officer in the armed forces of the United States for any month during any part of which such member—

"(i) served in a combat zone after June 24, 1950, and prior to January 1, 1954, or

"(ii) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone prior to January 1, 1954; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph.

"(B) Commissioned Officers.—So much of the compensation as does not exceed $200 received for active service as a commissioned officer in the armed forces of the United States for any month during any part of which such officer—

"(i) served in a combat zone after June 24, 1950, and prior to January 1, 1954, or

"(ii) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone prior to January 1, 1954; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph."

(b) DEFINITION OF SERVICE IN COMBAT ZONE.—Clause (iii) of section 22 (b) (13) (C) is hereby amended by striking out "such zone; and" and inserting in lieu thereof "such zone, except that June 25, 1950, shall be considered the date of the commencing of combatant activities in the combat zone designated in Executive Order 10195; and".

(c) WITHHOLDING ON WAGES.—Section 1621 (a) (1) (relating to definition of the term "wages") is hereby amended to read as follows:

"(1) for active service as a member of the armed forces of the United States performed prior to January 1, 1954, in a month for which such member is entitled to the benefits of section 22 (b) (13), or".

(d) EFFECTIVE DATES.—The amendments made by subsections (a) and (b) shall be applicable to taxable years ending after June 24, 1950. The amendment made by subsection (c) shall be applicable with respect to wages paid after the tenth day following the date of the enactment of this Act.

SEC. 306. INVOLUNTARY LIQUIDATION AND REPLACEMENT OF INVENTORY.

(a) AMENDMENT OF SECTION 22 (d) (6) (F) (iii).—Section 22 (d) (6) (F) (iii) (relating to replacement of inventory involuntarily liquidated) is hereby amended by striking out the last sentence and inserting in lieu thereof the following: "If, for any taxable year ending after June 30, 1950, and prior to January 1, 1953, subparagraph (C) is applicable with respect to involuntary liquidations of goods

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of the same class subject to the provisions of both subparagraph (A) and this subparagraph, the involuntary liquidations of such goods subject to the provisions of this subparagraph shall be considered for the purpose of subparagraph (C) as having occurred prior to the involuntary liquidations of such goods subject to the provisions of subparagraph (A). For the purpose of this clause, and with respect to the taxable years covered by this subparagraph, the reference in subparagraph (E) to section 734 (d) shall be taken as a reference to section 452 (d)."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after June 30, 1950.

SEC. 307. MEDICAL EXPENSES.

(a) AMENDMENT OF SECTION 23 (x).—Section 23 (x) (relating to medical, dental, etc., expenses) is hereby amended to read as follows:

"(x) MEDICAL, DENTAL, ETC., EXPENSES.—Expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent specified in section 25 (b) (3)—

"(1) If neither the taxpayer nor his spouse has attained the age of 65 before the close of the taxable year, to the extent that such expenses exceed 5 per centum of the adjusted gross income; or

"(2) If either the taxpayer or his spouse has attained the age of 65 before the close of the taxable year, (A) the amount of such expenses for the care of the taxpayer and his spouse, and (B) the amount by which such expenses for the care of such dependents exceed 5 per centum of the adjusted gross income.

The deduction under this subsection shall not be in excess of $1,250 multiplied by the number of exemptions allowed under section 25 (b) for the taxable year (exclusive of exemptions allowed under section 25 (b) (1) (B) or (C), with a maximum deduction of $2,500, except that the maximum deduction shall be $5,000 in the case of a joint return of husband and wife under section 51 (b). The term 'medical care', as used in this subsection, shall include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance). The determination of whether an individual is married at any time during the taxable year shall be made in accordance with the provisions of section 51 (b) (5)."

(b) EFFECTIVE DATE.—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950.

SEC. 308. STANDARD DEDUCTION.

(a) METHOD OF ELECTION.—Subparagraphs (A) and (B) of section 23 (aa) (3) (relating to optional standard deduction for individuals) are hereby amended by striking out the word "only"; and subparagraph (C) of section 23 (aa) (3) is hereby amended to read as follows:

"(C) If the taxpayer upon making his return fails to signify, in the manner provided by subparagraph (A) or (B), his election to take the standard deduction, such failure shall be considered his election not to take the standard deduction."

(b) CHANGE OF ELECTION.—Section 23 (aa) is hereby amended by adding at the end thereof the following new paragraph:

"(7) CHANGE OF ELECTION.—Under regulations prescribed by the Secretary, a change of an election to take, or not to take, the

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standard deduction for any taxable year may be made after the filing of the return for such year. If the spouse of the taxpayer filed a separate return for any taxable year corresponding, for the purposes of paragraph (4), to the taxable year of the taxpayer, the change shall not be allowed unless, in accordance with such regulations—

"(A) the spouse makes a change of election with respect to the standard deduction for the taxable year covered in such separate return, consistent with the change of election sought by the taxpayer, and

"(B) the taxpayer and his spouse consent in writing to the assessment, within such period as may be agreed upon with the Secretary, of any deficiency, to the extent attributable to such change of election, even though at the time of the filing of such consent the assessment of such deficiency would otherwise be prevented by the operation of any law or rule of law.

This paragraph shall not apply if the tax liability of the taxpayer's spouse, for the taxable year corresponding (for the purposes of paragraph (4)) to the taxable year of the taxpayer, has been compromised under the provisions of section 3761."

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1949.

SEC. 309. EXPENDITURES IN THE DEVELOPMENT OF MINES.

(a) DEDUCTION OF EXPENDITURES.—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(cc) DEVELOPMENT OF MINES.—

"(1) IN GENERAL.—Except as provided in paragraph (2), all expenditures paid or incurred during the taxable year for the development of a mine or other natural deposit (other than an oil or gas well) if paid or incurred after December 31, 1950, and after the existence of ores or minerals in commercially marketable quantities has been disclosed. This subsection shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (l), but allowances for depreciation shall be considered, for the purposes of this subsection, as expenditures.

"(2) ELECTION OF TAXPAYER.—At the election of the taxpayer, made in accordance with regulations prescribed by the Secretary, expenditures described in paragraph (1) paid or incurred during the taxable year shall be treated as deferred expenses and shall be deductible on a ratable basis as the units of produced ores or minerals benefited by such expenditures are sold. In the case of such expenditures paid or incurred during the development stage of the mine or deposit, the election shall apply only with respect to the excess of such expenditures during the taxable year over the net receipts during the taxable year from the ores or minerals produced from such mine or deposit. The election under this paragraph, if made, must be for the total amount of such expenditures, or the total amount of such excess, as the case may be, with respect to the mine or deposit, and shall be binding for such taxable year.

"(3) ADJUSTED BASIS OF MINE OR DEPOSIT.—The amount of expenditures which are treated under paragraph (2) as deferred

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expenses shall be taken into account in computing the adjusted basis of the mine or deposit, except that such amount, and the adjustments to basis provided in section 113 (b) (1) (J), shall be disregarded in determining the adjusted basis of the property for the purpose of computing a deduction for depletion under section 114."

(b) ADJUSTED BASIS FOR DETERMINING GAIN OR LOSS UPON SALE OR EXCHANGE.—Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following subparagraph:

"(J) for amounts allowed as deductions as deferred expenses under section 23 (cc) (2) (relating to certain expenditures in the development of mines) and resulting in a reduction of the taxpayer's taxes under this chapter, but not less than the amounts allowable under such section for the taxable year and prior years."

(c) TECHNICAL AMENDMENT.—Section 24 (a) (2) (relating to items not deductible) is hereby amended by adding after the word "estate" the following: ", except expenditures for the development of mines or deposits deductible under section 23 (cc)".

(d) EFFECTIVE DATE.—The amendments made by this section shall be applicable to taxable years ending after December 31, 1950.

SEC. 310. GROSS INCOME OF DEPENDENT OF TAXPAYER.

(a) INCREASE IN AMOUNT OF GROSS INCOME PERMITTED.—Section 25 (b) (1) (D) (relating to exemptions for dependents of taxpayer) is hereby amended by striking out "$500" and inserting in lieu thereof "$600".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 311. CREDIT FOR DIVIDENDS RECEIVED.

(a) DIVIDENDS FROM FOREIGN CORPORATION ENGAGED IN TRADE OR BUSINESS IN THE UNITED STATES.—Section 26 (b) (relating to dividends received credit) is hereby amended by inserting after paragraph (2) the following new paragraph:

"(3) DIVIDENDS RECEIVED FROM CERTAIN FOREIGN CORPORATIONS.—In the case of dividends received from a foreign corporation (other than a foreign personal holding company) which is subject to taxation under this chapter, if, for an uninterrupted period of not less than 36 months ending with the close of such foreign corporation's taxable year in which such dividends are paid (or, if the corporation has not been in existence for 36 months at the close of such taxable year, for the period the foreign corporation has been in existence as of the close of such taxable year) such foreign corporation has been engaged in trade or business within the United States and has derived 50 per centum or more of its gross income from sources within the United States—

"(A) an amount equal to 85 per centum of the dividends received out of its earnings or profits specified in clause (2) of the first sentence of section 115 (a), but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such earnings or profits as the gross income of such foreign corporation for the taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

"(B) an amount equal to 85 per centum of the dividends received out of that part of its earnings or profits specified in

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clause (1) of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 per centum of such dividends received out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of such taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

For determination of earnings or profits distributed in any taxable year, see section 115 (b)."

(b) TECHNICAL AMENDMENT.—Section 119 (a) (2) (B) (relating to rules as to source of income in the case of dividends) is hereby amended by inserting before the semicolon at the end thereof the following: "to the extent exceeding the amount which is 100/85ths of the amount of the credit allowable under section 26 (b) in respect of such dividends".

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 312. JOINT RETURN AFTER FILING SEPARATE RETURN.

(a) CHANGE OF ELECTION.—Section 51 of the Internal Revenue Code (relating to making of individual returns) is hereby amended by adding at the end thereof the following new subsection:

"(g) JOINT RETURN AFTER FILING SEPARATE RETURN.—

"(1) IN GENERAL.—If an individual has filed a separate return for a taxable year for which a joint return could have been made by him and his spouse under subsection (b) of this section, and the time prescribed by law for filing the return for such taxable year has expired, such individual and his spouse may nevertheless make a joint return for such taxable year. A joint return filed by the husband and wife in such a case shall constitute the return of the husband and wife for such taxable year, and all payments, credits, refunds, or other repayments made or allowed with respect to the separate return of either spouse for such taxable year shall be taken into account in determining the extent to which the tax based upon the joint return has been paid.

"(2) PAYMENTS REQUIRED BEFORE JOINT RETURN CAN BE MADE.—A joint return can be made under paragraph (1) only if there is paid in full at or before the time of the filing of the joint return—

"(A) all amounts previously assessed with respect to either spouse for such taxable year;

"(B) all amounts shown as the tax by either spouse upon his separate return for such taxable year; and

"(C) any amount determined, at the time of the filing of the joint return, as a deficiency with respect to either spouse for such taxable year if, prior to such filing, a notice under section 272 (a) of such deficiency has been mailed.

"(3) TIME FOR MAKING JOINT RETURN.—A joint return cannot be made under paragraph (1)—

"(A) after the expiration of three years from the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse);

"(B) after there has been mailed to either spouse, with respect to such taxable year, a notice of deficiency under section 272 (a), if the spouse, as to such notice, files a petition

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with the Tax Court of the United States within the time prescribed in such section;

"(C) after either spouse has commenced a suit in any court for the recovery of any part of the tax for such taxable year; or

"(D) after either spouse has entered into a closing agreement under section 3760 with respect to such taxable year, or after any civil or criminal case arising against either spouse with respect to such taxable year has been compromised under section 3761.

"(4) ELECTIONS MADE IN SEPARATE RETURN.—If a joint return is made under this subsection, any election (other than the election to file a separate return) made by either spouse in his separate return for such taxable year with respect to the treatment of any income, deduction, or credit of such spouse shall not be changed in the making of the joint return where such election would have been irrevocable if the joint return had not been made.

"(5) DEATH OF SPOUSE.—If a joint return is made under this subsection after the death of either spouse, such return with respect to the decedent can be made only by his executor or administrator.

"(6) ADDITIONS TO THE TAX.—Where the amount shown as the tax by the husband and wife on a joint return made under this subsection exceeds the aggregate of the amounts shown as the tax upon the separate return of each spouse—

"(A) Negligence.—If any part of such excess is attributable to negligence or intentional disregard of rules and regulations (but without intent to defraud) at the time of the making of such separate return, then 5 per centum of the total amount of such excess shall be assessed, collected, and paid in the same manner as if it were a deficiency;

"(B) Fraud.—If any part of such excess is attributable to fraud with intent to evade tax at the time of the making of such separate return, then 50 per centum of the total amount of such excess shall be so assessed, collected, and paid, in lieu of the 50 per centum addition to the tax provided in section 3612 (d) (2).

"(7) RULES FOR APPLICATION OF SECTIONS 275 AND 291.—For the purposes of section 275 (relating to period of limitations upon assessment and collection), and for the purposes of section 291 (relating to delinquent returns), a joint return made under this subsection shall be deemed to have been filed—

"(A) where both spouses filed separate returns prior to making the joint return—on the date the last separate return was filed (but not earlier than the last date prescribed by law for filing the return of either spouse);

"(B) where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had less than $600 of gross income for such taxable year—on the date of the filing of such separate return (but not earlier than the last date prescribed by law for the filing of such separate return); or

"(C) where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had gross income of $600 or more for such taxable year—on the date of the filing of such joint return.

"(8) RULE FOR APPLICATION OF SECTION 322.—For the purposes of section 322 (relating to refunds and credits), a joint return

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made under this subsection shall be deemed to have been filed on the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse).

"(9) ADDITIONAL TIME FOR ASSESSMENT.—If a joint return is made under this subsection, the period of limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall with respect to such return include one year immediately after the date of the filing of such joint return (computed without regard to the provisions of paragraph (7) of this subsection).

"(10) RULE FOR APPLICATION OF SECTION 3809 (a).—For the purposes of section 3809 (a) (relating to criminal penalties in the case of fraudulent returns) the term 'return' includes a separate return filed by a spouse with respect to a taxable year for which a joint return is made under this subsection after the filing of such separate return."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 313. MUTUAL SAVINGS BANKS, BUILDING AND LOAN ASSOCIATIONS, COOPERATIVE BANKS.

(a) MUTUAL SAVINGS BANKS.—Section 101 (2) (relating to exemption from tax of mutual savings banks) is hereby repealed.

(b) BUILDING AND LOAN ASSOCIATIONS AND COOPERATIVE BANKS.—Section 101 (4) (relating to exemption from tax of building and loan associations and cooperative banks) is hereby amended to read as follows:

"(4) Credit unions without capital stock organized and operated for mutual purposes and without profit; and corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in—

"(A) domestic building and loan associations,

"(B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or

"(C) mutual savings banks not having capital stock represented by shares;".

(c) EXEMPTIONS FROM EXCESS PROFITS TAX.—Section 454 (corporations exempt from the excess profits tax) is hereby amended by adding at the end thereof the following:

"(h) Any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in section 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit."

(d) FEDERAL SAVINGS AND LOAN ASSOCIATIONS.—Section 5 (h) of the Home Owners' Loan Act of 1933, as amended (12 U. S. C. 1464 (h)), is hereby amended by striking out "date)" and inserting in lieu thereof the following: "date, and except, in the case of taxable years beginning after December 31, 1951, income, war-profits, and excess-profits taxes)".

(e) BAD DEBT RESERVES.—Section 23 (k) (1) (relating to deduction from gross income of bad debts) is hereby amended by adding at the end thereof the following: "In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organ-

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ized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951. In the case of a taxpayer described in the preceding sentence, the reasonable addition to a reserve for bad debts for any taxable year shall in no case be less than the amount determined by the taxpayer as the reasonable addition for such year; except that the amount determined by the taxpayer under this sentence shall not be greater than the lesser of (A) the amount of its net income for the taxable year, computed without regard to this subsection, or (B) the amount by which 12 per centum of the total deposits or withdrawable accounts of its depositors at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year."

(f) DIVIDENDS PAID TO DEPOSITORS.—Section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) is hereby amended to read as follows:

"(r) DIVIDENDS PAID BY BANKING CORPORATIONS.—

"(1) In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw.

"(2) For deduction of dividends paid by certain other banking corporations, see section 121."

(g) DEDUCTION FOR REPAYMENT OF CERTAIN LOANS.—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following:

"(dd) REPAYMENT BY MUTUAL SAVINGS BANKS, ETC., OF CERTAIN LOANS.—In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, or a cooperative bank without capital stock organized and operated for mutual purposes and without profit, amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by (1) the United States or any agency or instrumentality thereof which is wholly owned by the United States, or (2) any mutual fund established under the authority of the laws of any State."

(h) DEFINITION OF BANK.—Section 104 (a) (relating to definition of bank) is hereby amended by inserting at the end thereof the following: "Such term also means a domestic building and loan association."

(i) DEFINITION OF DOMESTIC BUILDING AND LOAN ASSOCIATION.—Section 3797 (a) (relating to definitions for the purposes of the Internal Revenue Code) is hereby amended by adding at the end thereof the following new paragraph:

"(19) DOMESTIC BUILDING AND LOAN ASSOCIATION.—The term 'domestic building and loan association' means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members."

(j) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

SEC. 314. INCOME TAX TREATMENT OF EXEMPT COOPERATIVES.

(a) AMENDMENT OF SECTION 101 (12).—Section 101 (12) is hereby amended as follows:

(1) By inserting after "(12)" the following: "(A)".

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(2) By inserting after such paragraph the following:

"(B) An organization exempt from taxation under the provisions of subparagraph (A) shall be subject to the taxes imposed by sections 13 and 15, or section 117 (c) (1), except that in computing the net income of such an organization there shall be allowed as deductions from gross income (in addition to other deductions allowable under section 23)—

"(i) amounts paid as dividends during the taxable year upon its capital stock, and

"(ii) amounts allocated during the taxable year to patrons with respect to its income not derived from patronage (whether or not such income was derived during such taxable year) whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated to him. Allocations made after the close of the taxable year and on or before the fifteenth day of the ninth month following the close of such year shall be considered as made on the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year.

Patronage dividends, refunds, and rebates to patrons with respect to their patronage in the same or preceding years (whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount of such dividend, refund, or rebate) shall be taken into account in computing net income in the same manner as in the case of a cooperative organization not exempt under subparagraph (A). Such dividends, refunds, and rebates made after the close of the taxable year and on or before the 15th day of the ninth month following the close of such year shall be considered as made on the last day of such taxable year to the extent the dividends, refunds, or rebates, are attributable to patronage occurring before the close of such year."

(b) TECHNICAL AMENDMENTS.—

(1) Section 101 is hereby amended by striking out "Except as provided in supplement U" and inserting in lieu thereof the following: "Except as provided in paragraph (12) (B) and in supplement U".

(2) The last sentence of section 101 is hereby amended by striking out "Notwithstanding supplement U" and inserting in lieu thereof "Notwithstanding paragraph (12) (B) and supplement U".

(c) INFORMATION RETURNS.—Section 148 (relating to information by corporations) is hereby amended by adding at the end thereof the following:

"(f) PATRONAGE DIVIDENDS.—Any corporation allocating amounts as patronage dividends, rebates, or refunds (whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the amount of such dividend, refund, or rebate) shall render a correct return stating (1) the name and address of each patron to whom it has made such allocations amounting to $100 or more during the calendar year, and (2) the amount of such allocations to each patron. If required by the Secretary, any such corporation shall render a correct return of all patronage dividends, rebates, or refunds made during the calendar year to its patrons. This subsection shall not apply in the case of any corporation (includ-

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ing any cooperative or nonprofit corporation engaged in rural electrification) exempt from taxation under section 101 (10) or (11) or in the case of any corporation subject to a tax imposed by supplement G."

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) of this section shall be applicable only with respect to taxable years beginning after December 31, 1951. The amendment made by subsection (c) shall be applicable to the calendar year 1951 and subsequent calendar years.

SEC. 315. SURTAX ON CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS.

(a) LONG-TERM CAPITAL GAINS.—Section 102 (d) (1) (relating to definition of section 102 net income) is hereby amended by adding at the end thereof the following new subparagraph:

"(D) Long-Term Capital Gains.—The excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, minus the taxes imposed by this chapter attributable to such excess. The taxes attributable to such excess shall be an amount equal to the difference between (i) the taxes imposed by this chapter (except the tax imposed by this section) for such year and (ii) such taxes computed for such year without including such excess in net income."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 316. ELECTION AS TO RECOGNITION OF GAIN IN CERTAIN CORPORATE LIQUIDATIONS.

(a) AMENDMENT OF SECTION 112 (b) (7).—Section 112 (b) (7) (relating to recognition of gain in certain corporate liquidations) is hereby amended by striking out in subparagraph (A) (ii) "1951" and by inserting in lieu thereof "1951 or 1952".

(b) BASIS OF PROPERTY.—Section 113 (a) (18) (relating to basis of property received in certain corporate liquidations) is amended by striking out "the Revenue Act of 1950" and by inserting in lieu thereof "any revenue act".

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable only to taxable years ending after December 31, 1951.

SEC. 317. CERTAIN DISTRIBUTIONS OF STOCK ON REORGANIZATION.

(a) DISTRIBUTIONS NOT IN LIQUIDATION.—Section 112 (b) (relating to nonrecognition of gain or loss in the case of certain exchanges) is hereby amended by adding at the end thereof the following new paragraph:

"(11) DISTRIBUTION OF STOCK NOT IN LIQUIDATION.—If there is distributed, in pursuance of a plan of reorganization, to a shareholder of a corporation which is a party to the reorganization, stock (other than preferred stock) in another corporation which is a party to the reorganization, without the surrender by such shareholder of stock, no gain to the distributee from the receipt of such stock shall be recognized unless it appears that (A) any corporation which is a party to such reorganization was not intended to continue the active conduct of a trade or business after such reorganization, or (B) the corporation whose stock is distributed was used principally as a device for the distribution of earnings and profits to the shareholders of any corporation a party to the reorganization."

(b) BASIS OF STOCK.—Section 113 (a) (relating to unadjusted basis for determining gain or loss) is hereby amended by adding at the end thereof the following new paragraph:

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"(23) TAX-FREE DISTRIBUTIONS.—If the property consists of stock distributed after the date of the enactment of the Revenue Act of 1951 to a taxpayer in connection with a transaction described in section 112 (b) (11) (hereinafter in this paragraph called 'new stock'), or consists of stock in respect of which such distribution was made (hereinafter in this paragraph called 'old stock'), then the basis of the new stock and of the old stock, respectively, shall, in the shareholder's hands, be determined by allocating between the old stock and the new stock the adjusted basis of the old stock; such allocation to be made under regulations prescribed by the Secretary."

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable with respect to taxable years ending after the date of the enactment of this Act, but shall apply only with respect to distributions of stock made after such date.

SEC. 318. GAIN FROM SALE OR EXCHANGE OF TAXPAYER'S RESIDENCE.

(a) NONRECOGNITION OF GAIN IN CERTAIN CASES.—Section 112 (relating to recognition of gain or loss) is hereby amended by adding at the end thereof the following new subsection:

"(n) GAIN FROM SALE OR EXCHANGE OF RESIDENCE.—

"(1) NONRECOGNITION OF GAIN.—If property (hereinafter in this subsection called 'old residence') used by the taxpayer as his principal residence is sold by him and, within a period beginning one year prior to the date of such sale and ending one year after such date, property (hereinafter in this subsection called 'new residence') is purchased and used by the taxpayer as his principal residence, gain (if any) from such sale shall be recognized only to the extent that the taxpayer's selling price of the old residence exceeds the taxpayer's cost of purchasing the new residence.

"(2) RULES FOR APPLICATION OF SUBSECTION.—For the purposes of this subsection:

"(A) An exchange by the taxpayer of his residence for other property shall be considered as a sale of such residence, and the acquisition of a residence upon the exchange of property shall be considered as a purchase of such residence.

"(B) If the taxpayer's residence (as a result of its destruction in whole or in part, theft, or seizure) is compulsorily or involuntarily converted into property or into money, such destruction, theft, or seizure shall be considered as a sale of the residence; and if the residence is so converted into property which is used by the taxpayer as his residence, such conversion shall be considered as a purchase of such property by the taxpayer.

"(C) In the case of an exchange or conversion described in subparagraph (A) or (B), in determining the extent to which the selling price of the old residence exceeds the taxpayer's cost of purchasing the new residence, the amount realized by the taxpayer upon such exchange or conversion shall be considered the selling price of the old residence.

"(D) A residence any part of which was constructed or reconstructed by the taxpayer shall be considered as purchased by the taxpayer. In determining the taxpayer's cost of purchasing a residence, there shall be included only so much of his cost as is attributable to the acquisition, construction, reconstruction, and improvements made which are properly chargeable to capital account, during the period specified in paragraph (1).

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"(E) If a residence is purchased by the taxpayer prior to the date of his sale of the old residence, the purchased residence shall not be treated as his new residence if sold or otherwise disposed of by him prior to the date of the sale of the old residence.

"(F) If the taxpayer, during the period described in paragraph (1), purchases more than one residence which is used by him as his principal residence at some time within one year after the date of the sale of the old residence, only the last of such residences so used by him after the date of such sale shall constitute the new residence. If within the one year referred to in the preceding sentence property used by the taxpayer as his principal residence is destroyed, stolen, seized, requisitioned, or condemned, or is sold or exchanged under threat or imminence thereof, then for the purposes of the preceding sentence such one year shall be considered as ending with the date of such destruction, theft, seizure, requisition, condemnation, sale, or exchange.

"(G) In the case of a new residence the construction of which was commenced by the taxpayer prior to the expiration of one year after the date of the sale of the old residence, the period specified in paragraph (1), and the one year referred to in subparagraph (F) of this paragraph, shall be considered as including a period of 18 months beginning with the date of the sale of the old residence.

"(3) LIMITATION.—The provisions of paragraph (1) shall not be applicable with respect to the sale of the taxpayer's residence if within one year prior to the date of such sale the taxpayer sold at a gain other property used by him as his principal residence, and any part of such gain was not recognized by reason of the provisions of paragraph (1). For the purposes of this paragraph, the destruction, theft, seizure, requisition, or condemnation of property or the sale or exchange of property under threat or imminence thereof, shall not be considered as a sale of such property.

"(4) BASIS OF NEW RESIDENCE.—Where the purchase of a new residence results, under paragraph (1), in the nonrecognition of gain upon the sale of an old residence, in determining the adjusted basis of the new residence as of any time following the sale of the old residence, the adjustments to basis shall include a reduction by an amount equal to the amount of the gain not so recognized upon the sale of the old residence. For this purpose, the amount of the gain not so recognized upon the sale of the old residence includes only so much of such gain as is not recognized by reason of the cost, up to such time, of purchasing the new residence.

"(5) TENANT-STOCKHOLDER IN A COOPERATIVE APARTMENT CORPORATION.—For the purposes of this subsection, section 113 (b) (1) (K), and section 117 (h) (7), references to property used by the taxpayer as his principal residence, and references to the residence of a taxpayer, shall include stock held by a tenant-stockholder (as defined in section 23 (z) (2)) in a cooperative apartment (as defined in such section) if—

"(A) in the case of stock sold, the apartment which the taxpayer was entitled to occupy as such stockholder was used by him as his principal residence, and

"(B) in the case of stock purchased, the taxpayer used as his principal residence the apartment which he was entitled to occupy as such stockholder.

"(6) HUSBAND AND WIFE.—If the taxpayer and his spouse, in accordance with regulations which shall be prescribed by the Sec-

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retary pursuant to this paragraph, consent to the application of subparagraph (B) of this paragraph, then—

"(A) for the purposes of this subsection, the words 'taxpayer's selling price of the old residence' shall mean the selling price (of the taxpayer, or of the taxpayer and his spouse) of the old residence, and the words 'taxpayer's cost of purchasing the new residence' shall mean the cost (to the taxpayer, his spouse, or both) of purchasing the new residence (whether held by the taxpayer, his spouse, or the taxpayer and his spouse); and

"(B) so much of the gain upon the sale of the old residence as is not recognized solely by reason of this paragraph, and so much of the adjustment under paragraph (4) to the basis of the new residence as results solely from this paragraph, shall be allocated between the taxpayer and his spouse as provided in such regulations.

This paragraph shall apply only if the old residence and the new residence are each used by the taxpayer and his spouse as their principal residence. In case the taxpayer and his spouse do not consent to the application of subparagraph (B) of this paragraph, then the recognition of gain upon the sale of the old residence shall be determined under this subsection without regard to the rules provided in this paragraph.

"(7) STATUTE OF LIMITATIONS.—If the taxpayer during a taxable year sells at a gain property used by him as his principal residence, then—

"(A) the statutory period for the assessment of any deficiency attributable to any part of such gain shall not expire prior to the expiration of three years from the date the Secretary is notified by the taxpayer (in such manner as the Secretary may by regulations prescribe) of—

"(i) the taxpayer's cost of purchasing the new residence which the taxpayer claims results in nonrecognition of any part of such gain,

"(ii) the taxpayer's intention not to purchase a new residence within the period specified in paragraph (1), or

"(iii) a failure to make such purchase within such period; and

"(B) such deficiency may be assessed prior to the expiration of such three-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment."

(b) TECHNICAL AMENDMENTS.—

(1) Section 112 (f) (relating to involuntary conversions) is hereby amended by adding at the end thereof the following: "This subsection shall not apply, in the case of property used by the taxpayer as his principal residence, if the destruction, theft, seizure, requisition, or condemnation of the residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950."

(2) Section 113 (a) (9) (relating to basis of property acquired as a result of involuntary conversions) is hereby amended by adding at the end thereof the following: "This paragraph shall not apply in respect of property acquired as a result of a compulsory or involuntary conversion of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, or condemnation of such residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950."

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(3) Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following new subparagraph:

"(K) in the case of a residence the acquisition of which resulted, under the provisions of section 112 (n), in the nonrecognition of any part of the gain realized upon the sale, exchange, or involuntary conversion of another residence, to the extent provided in section 112 (n) (4)."

(4) Section 117 (h) (relating to determination of holding period) is hereby amended by adding at the end thereof the following new paragraph:

"(7) In determining the period for which the taxpayer has held a residence, the acquisition of which resulted under section 112 (n) in the nonrecognition of any part of the gain realized on the sale, exchange, or involuntary conversion of another residence, there shall be included the period for which such other residence had been held as of the date of such sale, exchange, or involuntary conversion."

(5) Section 276 (relating to period of limitation upon assessment and collection) is hereby amended by adding at the end thereof the following:

"(e) Gain Upon Sale or Exchange of Residence.—In the case of a deficiency described in section 112 (n) (7), such deficiency may be assessed at any time prior to the expiration of the time therein provided."

(c) Effective Date.—The amendments made by this section shall be applicable to taxable years ending after December 31, 1950, but the provisions of section 112 (n) (1) and (6) of the Internal Revenue Code shall apply only with respect to residences sold (within the meaning of such section) after such date.

SEC. 319. PERCENTAGE DEPLETION.

(a) Allowance of Percentage Depletion.—So much of paragraph (4) of section 114 (b) as precedes the last sentence of subparagraph (A) is hereby amended to read as follows:

"(4) Percentage depletion for coal and metal mines and for certain other mines and natural mineral deposits.—

"(A) In general.—The allowance for depletion under section 23 (m) in the case of the following mines and other natural deposits shall be—

"(i) in the case of sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, and bromine, 5 per centum,

"(ii) in the case of coal, asbestos, brucite, dolomite, magnesite, perlite, wollastonite, calcium carbonates, and magnesium carbonates, 10 per centum,

"(iii) in the case of metal mines, aplite, bauxite, fluorspar, flake graphite, vermiculite, beryl, garnet, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball clay, sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, chemical grade limestone, and potash, 15 per centum, and

"(iv) in the case of sulfur, 23 per centum,

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of the gross income from the property during the taxable year, excluding from such gross income an amount equal to any rents or royalties paid or incurred by the taxpayer in respect of the property."

(b) TECHNICAL AMENDMENT.—So much of paragraph (2) of section 114 (b) as precedes "discovered by the taxpayer after February 28, 1913" is hereby amended to read as follows:

"(2) DISCOVERY VALUE IN THE CASE OF MINES.—In the case of mines (except mines in respect of which percentage depletion is allowable under paragraph (4) of this subsection)".

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 320. REDEMPTION OF STOCK TO PAY DEATH TAXES.

(a) AMENDMENT OF SECTION 115 (g) (3).—Section 115 (g) (3) (relating to redemption of stock to pay death taxes) is hereby amended by striking out "50 per centum of the value of the net estate" and inserting in lieu thereof "35 per centum of the value of the gross estate".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall be applicable to taxable years ending on or after the date of the enactment of this Act, but shall apply only to amounts distributed on or after such date.

SEC. 321. EARNED INCOME FROM SOURCES WITHOUT THE UNITED STATES.

(a) EXCLUSION FROM GROSS INCOME.—Section 116 (a) (relating to earned income from sources without the United States) is hereby amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

"(1) BONA FIDE RESIDENT OF FOREIGN COUNTRY.—In the case of an individual citizen of the United States, who establishes to the satisfaction of the Secretary that he has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts constitute earned income (as defined in paragraph (3)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

"(2) PRESENCE IN FOREIGN COUNTRY FOR 17 MONTHS.—In the case of an individual citizen of the United States, who during any period of 18 consecutive months is present in a foreign country or countries during at least 510 full days in such period, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts constitute earned income (as defined in paragraph (3)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this paragraph."

(b) WITHHOLDING OF TAX ON WAGES.—Section 1621 (a) (8) (A) (relating to definition of wages) is hereby amended to read as follows:

"(A) for services for an employer (other than the United States or any agency thereof) performed in a foreign country by a citizen of the United States, if at the time of the pay-

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ment of such remuneration the employer is required by the law of any foreign country to withhold income tax upon such remuneration, or it is reasonable to believe that such remuneration will be excluded from gross income under the provisions of section 116 (a) (1) or (2), or".

(c) EFFECTIVE DATES.—The amendment made by subsection (a) shall be applicable to taxable years beginning after December 31, 1950. The amendment made by subsection (b) shall be applicable with respect to wages paid on or after January 1, 1952.

SEC. 322. CAPITAL GAINS AND LOSSES.

(a) TREATMENT OF LONG-TERM CAPITAL GAINS AND LOSSES.—

(1) AMENDMENT OF SECTION 23.—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(ee) LONG-TERM CAPITAL GAINS.—In the case of a taxpayer other than a corporation, the deduction for long-term capital gains provided in section 117 (b)."

(2) AMENDMENT OF SECTION 117 (b).—Section 117 (b) (relating to treatment of long-term capital gains and losses) is hereby amended to read as follows:

"(b) DEDUCTION FROM GROSS INCOME.—In the case of a taxpayer other than a corporation, if for any taxable year the net long-term capital gain exceeds the net short-term capital loss, 50 per centum of the amount of such excess shall be a deduction from gross income. In the case of an estate or trust, the deduction shall be computed by excluding the portion (if any), of the gains for the taxable year from sales or exchanges of capital assets, which, under section 162 (b) or (c), is includible by the income beneficiaries as gain derived from the sale or exchange of capital assets."

(b) ALTERNATIVE TAX.—Section 117 (c) (2) (relating to alternative tax) is hereby amended to read as follows:

"(2) OTHER TAXPAYERS.—If for any taxable year the net long-term capital gain of any taxpayer (other than a corporation) exceeds the net short-term capital loss, there shall be levied, collected, and paid, in lieu of the tax imposed by sections 11 and 12 (or, in the case of certain tax-exempt trusts, in lieu of the tax imposed by section 421), a tax determined as follows, if and only if such tax is less than the tax imposed by such sections:

"(A) A partial tax shall first be computed upon the net income reduced by an amount equal to 50 per centum of such excess, at the rates and in the manner as if this subsection had not been enacted.

"(B) There shall then be ascertained an amount equal to 25 per centum of the excess of the net long-term capital gain over the net short-term capital loss. In the case of any taxable year beginning after October 31, 1951, and before November 1, 1953, there shall be ascertained, in lieu of the amount computed under the preceding sentence, an amount equal to 26 per centum of the excess of the net long-term capital gain over the net short-term capital loss.

"(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B)."

(c) TECHNICAL AMENDMENTS.—

(1) AMENDMENT OF SECTION 22 (n).—Section 22 (n) (relating to the definition of adjusted gross income) is hereby amended by striking out the word "and" at the end of paragraph (5), by striking out the period at the end of paragraph (6) and inserting in lieu thereof "; and", and by inserting after paragraph (6) the following new paragraph:

"(7) LONG-TERM CAPITAL GAINS.—The deduction allowed by section 23 (ee)."

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(2) AMENDMENT OF SECTION 117 (a).—Paragraphs (2) and (4) of section 117 (a) (relating to definitions of short-term capital gain and long-term capital gain) are each hereby amended by striking out "net income" and inserting in lieu thereof "gross income".

(3) AMENDMENT OF SECTION 117 (j).—Section 117 (j) (2) (A) (relating to gains and losses from involuntary conversion and from the sale or exchange of certain property used in the trade or business) is hereby amended to read as follows:

"(A) In determining under this paragraph whether gains exceed losses, the gains described therein shall be included only if and to the extent taken into account in computing gross income and the losses described therein shall be included only if and to the extent taken into account in computing net income, except that subsection (d) shall not apply."

(4) AMENDMENT OF SECTION 122 (d) (4).—Section 122 (d) (4) (relating to computation of net operating loss deduction) is hereby amended to read as follows:

"(4) The amount deductible on account of losses from sales or exchanges of capital assets shall not exceed the amount includible on account of gains from such sales or exchanges. The deduction provided in section 23 (ee) shall not be allowed."

(5) AMENDMENT OF SECTION 162 (a).—Section 162 (a) (relating to computation of net income of estates and trusts) is hereby amended by striking out the semicolon and inserting in lieu thereof a period and the following: "Where any amount of the income so paid or set aside is attributable to gain from the sale or exchange of capital assets held for more than six months, proper adjustment of the deduction otherwise allowable under this subsection shall be made for any deduction allowable to the trust under section 23 (ee);".

(d) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning on or after the date of the enactment of this Act. In determining under section 117 (e) of the Internal Revenue Code the amount of the carryover to a taxable year beginning on or after such date, of the capital loss for a taxable year beginning before such date, such amendments shall not affect the computation of the amount of the net capital loss or of the net capital gain for any taxable year beginning before such date.

SEC. 323. SALE OF LAND WITH UNHARVESTED CROP.

(a) TREATMENT OF GAIN OR LOSS.—Section 117 (j) (relating to sale or exchange of property used in the trade or business) is hereby amended—

(1) By inserting immediately before the period at the end of the second sentence of paragraph (1) thereof the following: "and unharvested crops to which paragraph (3) is applicable"; and

(2) By adding at the end thereof a new paragraph to read as follows:

"(3) SALE OF LAND WITH UNHARVESTED CROP.—In the case of an unharvested crop on land used in the trade or business and held for more than 6 months, if the crop and the land are sold or exchanged (or compulsorily or involuntarily converted as described in paragraph (2)) at the same time and to the same person, the crop shall be considered as 'property used in the trade or business'."

(b) TREATMENT OF DEDUCTIONS.—

(1) AMENDMENT OF SECTION 24.—Section 24 (relating to items not deductible) is hereby amended by adding at the end thereof a new subsection to read as follows:

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"(f) SALE OF LAND WITH UNHARVESTED CROP.—Where an unharvested crop sold by the taxpayer is considered under the provisions of section 117 (j) (3) as 'property used in the trade or business', in computing net income no deduction (whether or not for the taxable year of the sale and whether for expenses, depreciation, or otherwise) attributable to the production of such crop shall be allowed."

(2) AMENDMENT OF SECTION 113 (b) (1).—Section 113 (b) (1) (relating to adjustments to basis) is hereby amended by adding at the end thereof a new subparagraph to read as follows:

"(L) for deductions to the extent disallowed under section 24 (f), notwithstanding the provisions of any other subparagraph of this paragraph."

(c) EFFECTIVE DATE.—The amendment made by subsection (a) shall be applicable only with respect to sales, exchanges, and conversions, occurring in taxable years beginning after December 31, 1950. The amendments made by subsection (b) shall be applicable to any taxable year for which a deduction is disallowed by reason of sales, exchanges, or conversions to which subsection (a) is applicable.

SEC. 324. SALES OF LIVESTOCK.

Section 117 (j) (1) is hereby amended by adding at the end thereof the following new sentences: "Such term also includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. Such term does not include poultry." The first sentence added to section 117 (j) (1) by the amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1941, except that the extension of the holding period from 6 to 12 months shall be applicable only with respect to taxable years beginning after December 31, 1950. The second sentence added to section 117 (j) (1) by the amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 325. TAX TREATMENT OF COAL ROYALTIES.

(a) DEFINITION OF PROPERTY USED IN THE TRADE OR BUSINESS.—Section 117 (j) (1) (relating to the definition of property used in the trade or business) is hereby amended by adding after the word "timber" in the second sentence thereof the following: "or coal".

(b) GAIN OR LOSS UPON CERTAIN DISPOSALS OF TIMBER OR COAL.—Section 117 (k) (2) (relating to the disposal of timber) is hereby amended to read as follows:

"(2). In the case of the disposal of timber or coal (including lignite), held for more than 6 months prior to such disposal, by the owner thereof under any form or type of contract by virtue of which the owner retains an economic interest in such timber or coal, the difference between the amount received for such timber or coal and the adjusted depletion basis thereof shall be considered as though it were a gain or loss, as the case may be, upon the sale of such timber or coal. Such owner shall not be entitled to the allowance for percentage depletion provided for in section 114 (b) (4) with respect to such coal. This paragraph shall not apply to income realized by the owner as a co-adventurer, partner, or principal in the mining of such coal. The date of disposal of such coal shall be deemed to be the date such coal is mined. In determining the gross income, the adjusted gross income, or the net income of the lessee, the deductions allowable with respect to rents and royalties shall be determined without regard to the provisions of this paragraph. This paragraph shall have no application, in the case of coal, for the purposes of applying sec-

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tion 102 or subchapter A of chapter 2 (including the computation under section 117 (c) (1) of a tax in lieu of the tax imposed by section 500)."

(c) CLERICAL AMENDMENT.—The heading to section 117 (k) (relating to the gain or loss upon the cutting of timber) is hereby amended to read as follows: "(k) GAIN OR LOSS IN THE CASE OF TIMBER OR COAL.—".

(d) TECHNICAL AMENDMENT.—Section 481 (a) (4) is hereby amended by striking out "cutting or disposal of timber" and inserting in lieu thereof "cutting of timber, or the disposal of timber or coal,".

(e) CONFORMING AMENDMENTS.—

(1) Section 433 (relating to computation of excess profits net income) is hereby amended by inserting at the end thereof the following new subsection:

"(d) GAIN OR LOSS UPON CERTAIN DISPOSALS OF COAL IN BASE PERIOD.—For the purpose of subsection (b), the excess profits net income shall be computed as if the provisions of section 117 (j) and (k) (2) which relate to disposals of coal were a part of the law applicable to the taxable year for which excess profits net income is computed."

(2) Section 440 (a) (1) (relating to definition of "inadmissible assets") is hereby amended by striking out "and" at the end of subparagraph (A); by striking out the period at the end of subparagraph (B) and inserting in lieu thereof "; and"; and by adding at the end thereof the following new subparagraph:

"(C) The economic interest referred to in the provisions of section 117 (k) (2) relating to coal if the taxpayer is subject to such provisions with respect to the income from such coal."

(3) The amendments made by this subsection shall be applicable in computing the tax under subchapter D of chapter 1 for taxable years ending after December 31, 1950.

(f) EFFECTIVE DATE.—Except as provided in subsection (e), the amendments made by this section shall be applicable only with respect to taxable years ending after December 31, 1950 (whether the contract was made on, before, or after such date), but shall apply only with respect to amounts received or accrued after such date.

SEC. 326. COLLAPSIBLE CORPORATIONS.

(a) Definitions with Respect to Collapsible Corporations.—Section 117 (m) (2) (relating to definitions with respect to collapsible corporations) is hereby amended to read as follows:

"(2) DEFINITIONS.—

"(A) For the purposes of this subsection, the term 'collapsible corporation' means a corporation formed or availed of principally for the manufacture, construction, or production of property, for the purchase of property which (in the hands of the corporation) is property described in subsection (a) (1) (A), or for the holding of stock in a corporation so formed or availed of, with a view to—

"(i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation manufacturing, constructing, producing, or purchasing the property of a substantial part of the net income to be derived from such property, and

"(ii) the realization by such shareholders of gain attributable to such property.

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"(B) For the purposes of subparagraph (A), a corporation shall be deemed to have manufactured, constructed, produced, or purchased property, if—

"(i) it engaged in the manufacture, construction, or production of such property to any extent,

"(ii) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in the hands of a person who manufactured, constructed, produced, or purchased the property, or

"(iii) it holds property having a basis determined, in whole or in part, by reference to the cost of property manufactured, constructed, produced, or purchased by the corporation."

(b) LIMITATIONS ON APPLICATION OF SECTION 117 (m).—Subparagraphs (A), (B), and (C) of section 117 (m) (3) (relating to the limitations on the application of section 117 (m)) are hereby amended to read as follows:

"(A) this subsection shall not apply unless, at any time after the commencement of the manufacture, construction, or production of the property, or at the time of the purchase of the property described in subsection (a) (1) (A) or at any time thereafter, such shareholder (i) owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation, or (ii) owned stock which was considered as owned at such time by another shareholder who then owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation;

"(B) this subsection shall not apply to the gain recognized during a taxable year unless more than 70 per centum of such gain is attributable to the property so manufactured, constructed, produced, or purchased; and

"(C) this subsection shall not apply to gain realized after the expiration of three years following the completion of such manufacture, construction, production, or purchase."

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable to taxable years ending after August 31, 1951, but shall be applicable only with respect to gains realized after such date. The determination of the tax treatment of gains realized prior to September 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that the amendments to section 117 (m) made by this section are not expressly made applicable to gains realized prior to September 1, 1951, and without inferences drawn from the limitations contained in section 117 (m), as amended by this section.

SEC. 327. DEALERS IN SECURITIES—CAPITAL GAINS AND ORDINARY LOSSES.

Effective with respect to sales or exchanges made after the expiration of the thirtieth day after the date of the enactment of this Act, section 117 is hereby amended by adding at the end thereof the following new subsection:

"(n) DEALERS IN SECURITIES.—

"(1) CAPITAL GAINS.—Gain by a dealer in securities from the sale or exchange of any security shall in no event be considered as gain from the sale or exchange of a capital asset unless—

"(A) the security was, prior to the expiration of the thirtieth day after the date of its acquisition or after the date of the enactment of the Revenue Act of 1951 (whichever is

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the later), clearly identified in the dealer's records as a security held for investment; and

"(B) the security was not, at any time after the expiration of such thirtieth day, held by such dealer primarily for sale to customers in the ordinary course of his trade or business.

"(2) ORDINARY LOSSES.—Loss by a dealer in securities from the sale or exchange of any security shall, except as otherwise provided in subsection (i) (relating to bond, etc., losses of banks), in no event be considered as loss from the sale or exchange of property which is not a capital asset if at any time after the thirtieth day following the date of the enactment of the Revenue Act of 1951 the security was clearly identified in the dealer's records as a security held for investment.

"(3) DEFINITION OF SECURITY.—For the purposes of this subsection the term 'security' means any share of stock in any corporation, certificate of stock or interest in any corporation, note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to or purchase any of the foregoing."

SEC. 328. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.

(a) DISALLOWANCE OF CAPITAL GAIN TREATMENT.—Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

"(o) GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.—

"(1) TREATMENT OF GAIN AS ORDINARY INCOME.—In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2)—

"(A) between a husband and wife; or

"(B) between an individual and a corporation more than 80 per centum in value of the outstanding stock of which is owned by such individual, his spouse, and his minor children and minor grandchildren;

any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in subsection (j).

"(2) SUBSECTION APPLICABLE ONLY TO SALES OR EXCHANGES OF DEPRECIABLE PROPERTY.—This subsection shall apply only in the case of a sale or exchange of property by a transferor which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (l)."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951.

SEC. 329. RECEIPTS OF CERTAIN TERMINATION PAYMENTS BY EMPLOYEE.

(a) TAXABILITY TO EMPLOYEE AS CAPITAL GAIN.—Section 117 of the Internal Revenue Code is hereby amended by adding at the end thereof the following subsection:

"(p) TAXABILITY TO EMPLOYEE OF TERMINATION PAYMENTS.—Amounts received from the assignment or release by an employee, after more than twenty years' employment, of all his rights to receive, after termination of his employment and for a period of not less than five years (or for a period ending with his death), a percentage of future profits or receipts of his employer shall be considered an amount

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received from the sale or exchange of a capital asset held for more than six months, if such rights were included in the terms of the employment of such employee for not less than twelve years, and if the total of the amounts received for such assignment or release are received in one taxable year and after the termination of such employment."

(b) EFFECTIVE DATE.—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950.

SEC. 330. NET OPERATING LOSS CARRY-OVER.

(a) LOSS FOR TAXABLE YEAR BEGINNING BEFORE 1948.—So much of subparagraph (A) of section 122 (b) (2) (relating to the amount of carry-overs) as precedes "the taxpayer" is hereby amended to read as follows:

"(A) Loss for Taxable Year Beginning Before 1948.—Except as provided in subparagraph (D), if for any taxable year beginning before January 1, 1948,".

(b) ALLOWANCE OF THREE-YEAR LOSS CARRY-OVER FROM TAXABLE YEARS 1948–1949.—Section 122 (b) (2) (relating to the amount of carry-over) is hereby amended by adding after subparagraph (B) the following new subparagraphs:

"(C) Loss for Taxable Year Beginning After December 31, 1947, and Before January 1, 1950.—If for any taxable year beginning after December 31, 1947, and before January 1, 1950, the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

"(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1947, and before January 1, 1950, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

"(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).

"(D) Loss for Taxable Year Beginning After December 31, 1946, and Before January 1, 1948, in the Case of a Corporation Which Commenced Business After December 31, 1945.—If for any taxable year beginning after December 31, 1946, and before January 1, 1948, a corporation which commenced business after December 31, 1945, has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the three succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year)

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shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

"(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1946, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

"(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c)."

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable in computing the net operating loss deduction for taxable years beginning after December 31, 1948.

SEC. 331. STOCK OPTIONS.

(a) OPTION SUBJECT TO STOCKHOLDER APPROVAL.—Section 130A (d) (relating to definition of restricted stock option) is hereby amended by striking out "As used in" and inserting "For the purposes of" and by adding at the end thereof the following:

"(5) STOCKHOLDER APPROVAL.—If the grant of an option is subject to approval by stockholders, the date of grant of the option shall be determined as if the option had not been subject to such approval."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall be effective as if it had been enacted as part of section 218 of the Revenue Act of 1950.

SEC. 332. CREDIT FOR TAXES OF FOREIGN CORPORATIONS.

(a) FOREIGN SUBSIDIARY OF A DOMESTIC CORPORATION.—Effective with respect to dividends received by a domestic corporation from a foreign corporation during taxable years beginning after December 31, 1950, the first sentence of section 131 (f) (1) is hereby amended by striking out "a majority" and inserting in lieu thereof "at least 10 per centum".

(b) FOREIGN SUBSIDIARY OF A FOREIGN CORPORATION.—Effective with respect to dividends received by a foreign corporation from another foreign corporation in taxable years beginning after December 31, 1950, section 131 (f) (2) is hereby amended by striking out "all the voting stock (except qualifying shares)" and inserting in lieu thereof "50 per centum or more of the voting stock".

(c) CLERICAL AMENDMENT.—So much of section 131 (f) (1) as precedes the first sentence thereof is hereby amended to read as follows:

"(f) TAXES OF FOREIGN CORPORATION.—

"(1) TREATMENT OF TAXES PAID BY FOREIGN CORPORATION.—".

SEC. 333. INFORMATION AT SOURCE ON PAYMENTS OF INTEREST.

Section 147 (a) is hereby amended by striking out "interest," in the first sentence. Section 147 (b) is hereby amended to read as follows:

"(b) RETURNS REGARDLESS OF AMOUNT OF PAYMENT.—Such returns may be required, regardless of amounts, (1) in the case of payments of

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interest, and (2) in the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest upon the bonds of and dividends from foreign corporations by persons undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange."

SEC. 334. ABATEMENT OF INCOME TAX FOR CERTAIN MEMBERS OF ARMED FORCES UPON DEATH.

Supplement D of chapter 1 of the Internal Revenue Code (relating to returns and payment of tax) is hereby amended by adding at the end thereof the following new section:

"SEC. 154. INCOME TAXES OF MEMBERS OF ARMED FORCES UPON DEATH.

"In the case of any individual who dies after June 24, 1950, and prior to January 1, 1954, while in active service as a member of the Armed Forces of the United States, if such death occurred while serving in a combat zone (as determined under section 22 (b) (13)) or as a result of wounds, disease, or injury incurred while so serving—

"(a) the tax imposed by this chapter shall not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year ending on or after the first day he so served in a combat zone after June 24, 1950; and

"(b) the tax under this chapter and under the corresponding title of each prior revenue law for taxable years preceding those specified in clause (a) which is unpaid at the date of his death (including interest, additions to the tax, and additional amounts) shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment."

SEC. 335. EMPLOYEES' TRUSTS.

(a) AMENDMENT OF SECTION 165 (b).—Section 165 (b) (relating to taxability of beneficiary on distributions from an employees' trust) is hereby amended by adding at the end thereof the following new sentence: "Where such total distributions include securities of the employer corporation, there shall be excluded from such excess the net unrealized appreciation attributable to that part of the total distributions which consists of the securities of the employer corporation so distributed. The amount of such net unrealized appreciation and the resulting adjustments to basis of the securities of the employer corporation so distributed shall be determined in accordance with regulations which shall be prescribed by the Secretary. For purposes of this subsection, the term 'securities' means only shares of stock and bonds or debentures issued by a corporation with interest coupons or in registered form, and the term 'securities of the employer corporation' includes securities of a parent or subsidiary corporation (as defined in section 130A (d) (2) and (3)) of the employer corporation."

(b) EFFECTIVE DATE.—The amendment made by this section shall be applicable with respect to distributions made after December 31, 1950.

SEC. 336. LIFE INSURANCE COMPANIES.

(a) TAX FOR 1951.—Section 201 (a) (1) (relating to imposition of tax on life insurance companies) is hereby amended by adding at the end thereof the following: "In lieu of the taxes imposed by the preceding sentence, there shall be levied, collected, and paid for taxable years beginning in 1951 upon the 1951 adjusted normal-tax net income (as defined in section 203A) of every life insurance company a tax equal to the sum of the following:

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"3¾ per centum of the amount thereof not in excess of $200,000, plus

"6½ per centum of the amount thereof in excess of $200,000."

(b) ADJUSTED NORMAL-TAX NET INCOME FOR 1951.—Chapter 1 is hereby amended by inserting after section 203 the following new section:

"SEC. 203A. 1951 ADJUSTED NORMAL-TAX NET INCOME.

"(a) 1951 ADJUSTED NORMAL-TAX NET INCOME.—For the purposes of section 201, the term '1951 adjusted normal-tax net income' means the normal-tax net income plus eight times the amount of the adjustment for certain reserves provided in section 202 (c) and minus the reserve interest credit, if any, provided in subsection (b) of this section.

"(b) RESERVE INTEREST CREDIT.—For the purposes of subsection (a), the reserve interest credit shall be an amount determined as follows:

"(1) Divide the amount of the adjusted net income (as defined in subsection (c)) by the amount of the required interest (as defined in subsection (d)).

"(2) If the quotient obtained in paragraph (1) is 1.05 or more, the reserve interest credit shall be zero.

"(3) If the quotient obtained in paragraph (1) is 1.00 or less, the reserve interest credit shall be an amount equal to 50 per centum of the normal-tax net income.

"(4) If the quotient obtained in paragraph (1) is more than 1.00 but less than 1.05, the reserve interest credit shall be the amount obtained by multiplying the normal-tax net income by 10 times the difference between the figures 1.05 and such quotient.

"(c) ADJUSTED NET INCOME.—For the purposes of subsection (b) (1), the term 'adjusted net income' means the net income computed without any deduction for tax-free interest minus 50 per centum of the amount of the adjustment for certain reserves provided in section 202 (c).

"(d) REQUIRED INTEREST.—For the purposes of subsection (b) (1), the term 'required interest' means the total of—

"(1) The sum of the amounts obtained by multiplying (A) each rate of interest assumed in computing the taxpayer's life insurance reserves by (B) the means of the amounts of the taxpayer's adjusted reserves computed at that rate at the beginning and end of the taxable year,

"(2) 2 per centum of the reserve for deferred dividends, and

"(3) Interest paid."

(c) TECHNICAL AMENDMENTS.—

(1) Section 433 (a) (1) (H) (relating to excess profits net income of life insurance companies) is hereby amended by changing the semicolon at the end thereof to a period and by inserting thereafter the following: "In the case of taxable years beginning in 1951, there shall be used, in lieu of the figure referred to in clause (i) of the first sentence of this subparagraph, the figure .87;".

(2) Section 201 (f) (relating to disallowance of double deductions) is hereby amended by striking out "or 203" and inserting in lieu thereof ", 203, or 203A".

(d) EFFECTIVE DATE.—The amendments made by this section shall be applicable to taxable years beginning in 1951.

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SEC. 337. TAX TREATMENT OF CERTAIN INVESTMENT COMPANIES.

(a) INCLUSION OF CERTAIN REGISTERED MANAGEMENT COMPANIES IN THE DEFINITION OF REGULATED INVESTMENT COMPANY.—Section 361 (relating to definition of regulated investment companies) is hereby amended by adding at the end thereof the following new subsection:

"(c) CERTAIN INVESTMENT COMPANIES.—If the Securities and Exchange Commission determines in accordance with regulations issued by it, and certifies to the Secretary not more than 60 days prior to the close of the taxable year of a registered management investment company, that such investment company is principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, such investment company may, in the computation of 50 per centum of the value of its assets under subparagraph (A) of subsection (b) (3) for any quarter of such taxable year, include the value of any securities of an issuer, notwithstanding the fact that such investment company holds more than 10 per centum of the outstanding voting securities of such issuer, but only if the investment company has not continuously held any security of such issuer (or of any predecessor company of such issuer as determined under regulations prescribed by the Secretary) for 10 or more years preceding such quarter of such taxable year. The provisions of this subsection shall not apply at the close of any quarter of a taxable year to an investment company if at the close of such quarter more than 25 per centum of the value of its total assets is represented by securities of issuers with respect to each of which the investment company holds more than 10 per centum of the outstanding voting securities of such issuer and in respect of each of which or any predecessor thereof the investment company has continuously held any security for 10 or more years preceding such quarter unless the value of its total assets so represented is reduced to 25 per centum or less within 30 days after the close of such quarter. The terms used in this subsection shall have the same meaning as in subsection (b) (3) of this section. For the purposes of this subsection, unless the Securities and Exchange Commission determines otherwise, a corporation shall be considered to be principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, for at least 10 years after the date of the first acquisition of any security in such corporation or any predecessor thereof by such investment company if at the date of such acquisition the corporation or its predecessor was principally so engaged, and an investment company shall be considered at any date to be furnishing capital to any company whose securities it holds if within 10 years prior to such date it has acquired any of such securities, or any securities surrendered in exchange therefor, from such other company or predecessor thereof. For the purposes of the certification hereunder, the Securities and Exchange Commission shall have authority to issue such rules, regulations and orders, and to conduct such investigations and hearings, either public or private, as it may deem appropriate."

(b) TECHNICAL AMENDMENT.—Section 361 (b) (3) (A) is hereby amended by inserting after "the total assets of the taxpayer and" the following: ", except and to the extent provided in subsection (c),".

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

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SEC. 338. EXCHANGES AND DISTRIBUTIONS IN OBEDIENCE TO ORDERS OF SECURITIES AND EXCHANGE COMMISSION.

(a) Definition of System Group.—Section 373 (d) (1) (relating to the definition of the term "system group") is hereby amended to read as follows:

"(1) At least 90 per centum of each class of the stock (other than (A) stock which is preferred as to both dividends and assets, and (B) stock which is limited and preferred as to dividends but which is not preferred as to assets but only if the total value of such stock is less than 1 per centum of the aggregate value of all classes of stock which are not preferred as to both dividends and assets) of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and".

(b) Effective Date.—The amendment made by subsection (a) shall be applicable with respect to taxable years affected by an exchange or distribution made after December 31, 1947.

SEC. 339. TAXATION OF BUSINESS INCOME OF STATE COLLEGES AND UNIVERSITIES.

(a) Amendment of Section 421 (b).—Section 421 (b) (1) (organizations subject to tax under Supplement U) is hereby amended to read as follows:

"(1) Organizations taxable as corporations.—

"(A) Organizations Exempt Under Section 101 (1), (6), (7) and (14).—The taxes imposed by subsection (a) (1) shall apply in the case of any organization (other than a church, a convention or association of churches, or a trust described in paragraph (2)) which is exempt, except as provided in this supplement, from taxation under this chapter by reason of paragraph (1), (6), or (7) of section 101. Such taxes shall also apply in the case of a corporation described in section 101 (14) if the income is payable to an organization which itself is subject to the tax imposed by subsection (a) or to a church or to a convention or association of churches.

"(B) State Colleges and Universities.—The taxes imposed by subsection (a) (1) shall apply in the case of any college or university which is an agency or instrumentality of any government or any political subdivision thereof, or which is owned or operated by a government or any political subdivision thereof or by any agency or instrumentality of any one or more governments or political subdivisions. Such taxes shall also apply in the case of any corporation wholly owned by one or more such colleges or universities."

(b) Unrelated Trade or Business.—Section 422 (b) (definition of unrelated trade or business) is hereby amended as follows:

(1) By inserting after "under section 101" the following: "(or, in the case of an organization described in section 421 (b) (1) (B), to the exercise or performance of any purpose or function described in section 101 (6))".

(2) By inserting in paragraph (2) thereof after "section 101 (6)" the following: "or in the case of a college or university described in section 421 (b) (1) (B)".

(c) Effective Date.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

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SEC. 340. FAMILY PARTNERSHIPS.

(a) DEFINITION OF PARTNER.—Section 3797 (a) (2) is hereby amended by adding at the end thereof the following: "A person shall be recognized as a partner for income tax purposes if he owns a capital interest in a partnership in which capital is a material income-producing factor, whether or not such interest was derived by purchase or gift from any other person."

(b) ALLOCATION OF PARTNERSHIP INCOME.—Supplement F of chapter 1 is hereby amended by adding at the end thereof the following new section:

"SEC. 191. FAMILY PARTNERSHIPS.

"In the case of any partnership interest created by gift, the distributive share of the donee under the partnership agreement shall be includible in his gross income, except to the extent that such share is determined without allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the portion of such share attributable to donated capital is proportionately greater than the share of the donor attributable to the donor's capital. The distributive share of a partner in the earnings of the partnership shall not be diminished because of absence due to military service. For the purpose of this section, an interest purchased by one member of a family from another shall be considered to be created by gift from the seller, and the fair market value of the purchased interest shall be considered to be donated capital. The 'family' of any individual shall include only his spouse, ancestors, and lineal descendants, and any trust for the primary benefit of such persons."

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1950. The determination as to whether a person shall be recognized as a partner for income tax purposes for any taxable year beginning before January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that this section is not expressly made applicable with respect to taxable years beginning before January 1, 1951. In applying this subsection where the taxable year of any family partner is different from the taxable year of the partnership—

(1) if a taxable year of the partnership beginning in 1950 ends within or with, as to all of the family partners, taxable years which begin in 1951, then the amendments made by this section shall be applicable with respect to all distributive shares of income derived by the family partners from such taxable year of the partnership beginning in 1950, and

(2) if a taxable year of the partnership ending in 1951 ends within or with a taxable year of any family partner which began in 1950, then the amendments made by this section shall not be applicable with respect to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.

SEC. 341. WAR LOSSES.

(a) TAX UPON WAR LOSS RECOVERY.—Section 127 (c) (relating to recoveries included in gross income) is hereby amended to read as follows:

"(c) RECOVERIES.—

"(1) GENERAL RULE.—Upon the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year,

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the amount of such recovery shall be included in gross income to the extent provided in paragraph (2), unless the provisions of paragraph (3) are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5).

"(2) INCLUSION IN GROSS INCOME.—

"(A) Amount of Recovery.—The amount of the recovery of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery.

"(B) Amount of Gain Includible.—To the extent that the amount of the recovery plus the aggregate of the amounts of previous such recoveries do not exceed that part of the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a) which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2, such amount shall not be includible in gross income and shall not be deemed gain upon the involuntary conversion of property as a result of its destruction or seizure. To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed that part of the aggregate of such deductions, which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2 and do not exceed that part of the aggregate of such deductions which did result in a reduction of any tax of the taxpayer under this chapter or chapter 2, such amount shall be included in gross income but shall not be deemed a gain upon the involuntary conversion of property as a result of its destruction or seizure. To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a), such amount shall be considered a gain upon the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f). If for any previous taxable year the taxpayer chooses under subsection (b) to treat any obligations and liabilities as discharged or satisfied out of the property or interest described in subsection (a), and if such obligations and liabilities were not so discharged or satisfied, the amount of such obligations and liabilities treated as discharged or satisfied under subsection (b) shall be considered for the purposes of this section as a deduction by reason of this section which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2. For the purposes of this paragraph an allowable deduction for any taxable year on account of the destruction or seizure of property described in subsection (a) shall, to the extent not allowed in computing the tax of the taxpayer for such taxable year, be considered an allowable deduction which did not result in a reduction of any tax for the taxpayer under this chapter or chapter 2.

"(3) TAX ADJUSTMENT MEASURED BY PRIOR BENEFITS.—If the provisions of this paragraph are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5)—

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"(A) Amount of Recovery.—The amount of the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery. For the purpose of this paragraph, in the case of the recovery of the same property or interest considered under subsection (a) as destroyed or seized, the fair market value of such property or interest shall, at the option of the taxpayer, be considered an amount equal to the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date such property or interest was considered under subsection (a) as destroyed or seized. The amount of the recovery determined under this subparagraph shall be reduced for the purposes of subparagraphs (B) and (C) by the amount of the obligations or liabilities with respect to the property considered under subsection (a) as destroyed or seized in respect of which the recovery was received, if the taxpayer for any previous taxable year chose under subsection (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

"(B) Adjustment for Prior Tax Benefits.—That part of the amount of the recovery, in respect of any property considered under subsection (a) as destroyed or seized, which is not in excess of the allowable deductions in prior taxable years on account of such destruction or seizure of the property (the amount of such allowable deductions being first reduced by the aggregate amount of any prior recoveries in respect of the same property) shall be excluded from gross income for the taxable year of the recovery for the purpose of computing the tax under this chapter and chapter 2; but there shall be added to, and assessed and collected as a part of, the tax under this chapter for the taxable year of the recovery the total increase in the tax under this chapter and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, such deductions allowable in the prior taxable years with respect to the destruction or seizure of the property. Such increase in the tax for each such year so resulting shall be computed in accordance with regulations prescribed by the Secretary. Such regulations shall give effect to previous recoveries of any kind (including recoveries described in section 22 (b) (12)) with respect to any prior year, and shall provide for the case where there was no tax for the prior year, but shall otherwise treat the tax previously determined for any year in accordance with the principles set forth in section 3801 (d). All credits allowable against the tax for any year and all carry-overs and carry-backs affected by so decreasing the allowable deductions shall be taken into account in computing the increase in the tax, except that the computation of the excess profits credit under chapter 2 E for any taxable year shall not be affected.

"(C) Gain Upon Recovery.—The amount of any recovery or part thereof, in respect of property considered under subsection (a) as destroyed or seized, which is not excluded from gross income under the provisions of subparagraph (B) shall

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be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f).

"(D) Recoveries Treated as Gross Income for Certain Purposes.—For the purposes of sections 51, 52, and 3801 (b) the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be deemed to be an item includible in gross income for the taxable year in which the recovery is made.

"(4) Restoration of value of investments referable to destroyed or seized property.—For the purpose of this subsection the restoration in whole or in part of the value of any interest described in subsection (a) (3) by reason of any recovery of money or property in respect of property to which such interest related and which was considered under subsection (a) (1) or (2) as destroyed or seized shall be deemed a recovery of property in respect of property considered under subsection (a) as destroyed or seized. In applying paragraph (3) of this subsection such restoration shall be treated as the recovery of the same interest considered under subsection (a) as destroyed or seized.

"(5) Election by taxpayer for application of paragraph (3).—If the taxpayer elects to have the provisions of paragraph (3) applicable to any taxable year in which he recovered any money or property in respect of property considered under subsection (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941, and such election, once made, shall be irrevocable. The election shall be made in such manner and at such time as the Secretary may by regulations prescribe, except that no election under this paragraph may be made after December 31, 1952, unless the taxpayer recovers money or property (in respect of property considered under subsection (a) as destroyed or seized) during a taxable year ending after the date of the enactment of the Revenue Act of 1951. If pursuant to such election the provisions of paragraph (3) are applicable to any taxable year—

"(A) the period of limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall not, with respect to—

"(i) the amount to be added to the tax for such taxable year under the provisions of paragraph (3), and

"(ii) any deficiency for such taxable year or for any other taxable year, to the extent attributable to the basis of the recovered property being determined under the provisions of subsection (d) (2),

expire prior to the expiration of two years following the date of the making of such election, and such amount and such deficiency may be assessed at any time prior to the expiration of such period notwithstanding any law or rule of law which would otherwise prevent such assessment and collection, and

"(B) in case refund or credit of any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year is prevented on the date of the making of such election, or within one year from such date, by the operation of any law or rule of law (other than section 3761, relating to compromises), refund or credit of such overpay-

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ment may, nevertheless, be made or allowed if claim therefor is filed within one year from such date.

In the case of any taxable year ending before the date of the making by the taxpayer of an election under this paragraph, no interest shall be paid on any overpayment resulting from the application of the provisions of paragraph (3) to such taxable year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clause (A), for any period prior to the expiration of six months following the date of the making of such election by the taxpayer."

(b) BASIS OF RECOVERED PROPERTY.—Section 127 (d) (relating to basis of recovered property) is hereby amended to read as follows:

"(d) BASIS OF RECOVERED PROPERTY.—

"(1) IN GENERAL.—The unadjusted basis of property recovered in respect of property considered as destroyed or seized under subsection (a) shall be determined under this subsection. Such basis shall be an amount equal to the fair market value of such property, determined as of the date of the recovery, reduced by an amount equal to the excess of the aggregate of such fair market value and the amounts of previous recoveries of money or property in respect of property considered under subsection (a) as destroyed or seized over the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a), and increased by that portion of the amount of the recovery which under subsection (c) is treated as a recognized gain from the involuntary conversion of property. Upon application of the taxpayer, the aggregate of the bases (determined under the preceding sentence) of any properties recovered in respect of properties considered under subsection (a) as destroyed or seized may be allocated among the properties so recovered in such manner as the Secretary may determine under regulations prescribed by him, and the amounts so allocated to any such property so recovered shall be the unadjusted basis of such property in lieu of the unadjusted basis of such property determined under the preceding sentence.

"(2) PROPERTY RECOVERED IN TAXABLE YEAR TO WHICH SUBSECTION (c) (3) IS APPLICABLE.—In the case of a taxpayer who has made an election under the provisions of subsection (c) (5), the basis of property recovered shall be an amount equal to the value at which such property is included in the amount of the recovery under subsection (c) (3) (A) (determined without regard to the last sentence thereof), reduced by such part of the gain under subsection (c) (3) (C) which is not recognized as provided in section 112 (f)."

(c) CREDIT FOR FOREIGN TAXES.—Section 131 (a) (relating to allowance of credit for taxes of foreign countries and possessions of the United States)is hereby amended by inserting after "section 102" the following: "and except the additional tax imposed for the taxable year under the provisions of section 127 (c) (3)".

(d) EFFECTIVE DATES.—The amendments made by this section shall be applicable to taxable years beginning after December 31, 1941.

SEC. 342. DEDUCTION OF EXPENDITURES FOR MINE EXPLORATION.

(a) DEDUCTION OF MINE EXPLORATION EXPENDITURES.—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(ff) DEDUCTION OF EXPLORATION EXPENDITURES.—

"(1) IN GENERAL.—In the case of expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other

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