

**The original documents are located in Box 48, folder “6/30/76 HR10051 Extension of 1976 Tax Withholding Rates and for Other Purposes” of the White House Records Office: Legislation Case Files at the Gerald R. Ford Presidential Library.**

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APPROVED

8/6/30/76

THE WHITE HOUSE  
WASHINGTON  
June 30, 1976

ACTION

JUN 30 1976  
Remarks issued  
6/30/76  
Signed in Ceremony,  
Oval Office,  
approx 6:30pm

To ARCHIVES  
7/1/76

MEMORANDUM FOR

THE PRESIDENT

FROM:

JIM CANNON *JPC*

SUBJECT:

H.R. 10051 - Extension of 1976  
tax withholding rates and for other  
purposes

Attached for your consideration is H.R. 10051, sponsored by Representative Waggoner, The enrolled bill would continue until September 1, 1976, the individual income tax withholding rates and related individual and corporate estimated tax provisions of the Tax Reduction Act of 1975 which would otherwise expire on June 30, 1976.

This extension and additional provisions of the enrolled bill are detailed in OMB's enrolled bill report at Tab A.

OMB, Bill Seidman, Alan Greenspan, Max Friedersdorf, Counsel's Office (Lazarus) and I recommend approval of the enrolled bill.

RECOMMENDATION

That you sign H.R. 10051 at Tab B.





EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

JUN 30 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 10051 - Extension of 1976  
tax withholding rates and for other purposes  
Sponsor - Rep. Waggonner (D) Louisiana

Last Day for Action

Recommend action on  
June 30, 1976 - Wednesday

Purpose

To extend to September 1, 1976, certain provisions of the Tax Reduction Act of 1975; to exempt life insurance companies from tax liability in the event of an inadvertent distribution and prompt return of funds from a "policy holders surplus account"; and to exempt Supplemental Security Income (SSI) beneficiaries who are victims of a major disaster occurring between June 1 and December 31, 1976 from a curtailment in SSI benefits when temporarily displaced from their homes and from the inclusion of disaster assistance as income in the determination of their SSI benefits.

Agency Recommendations

Office of Management and Budget	Approval
Department of the Treasury	Approval
Department of Health, Education, and Welfare	No objection (disaster provisions) (Informally)
Department of Housing and Urban Development	No objection (disaster provisions) (Informally)

Discussion

The enrolled bill would continue until September 1, 1976, the individual income tax withholding rates and related individual and corporate estimated tax provisions which will otherwise expire on June 30, 1976. The proposed two-month extension of these rates and related provisions is

required because Congress has failed to complete action on the comprehensive Tax Reform Bill (H.R. 10612) now pending before the Senate, which includes provisions for extending beyond June 30, 1976, the tax reductions which were voted last December. In the absence of the proposed extension, individual withholding rates would return to the higher levels in effect prior to enactment of the 1975 Tax Reduction Act.

The enrolled bill would also make a minor amendment to Section 815 of the Tax Code to exempt life insurance companies from tax liability when amounts inadvertently distributed to a shareholder from a "policyholders surplus account" are promptly returned to the company and put back into such account. This measure is intended to provide relief to the Business Men's Insurance Company of America, which mistakenly made a distribution from its policyholders surplus account in 1969. Under existing law, one-half of a life insurance company's underwriting income is treated as deferred tax liability if such income is placed in a policyholders surplus account. However, in the event of a distribution to shareholders out of this account, the tax deferral terminates and the tax on that distribution becomes due and payable by the insurance company at that time. In the case of the Business Men's Insurance Company, the firm had publicly declared its intention to make a distribution only from its "shareholders surplus account" (which must first be exhausted before any distribution can be made from the policyholders surplus account). Recognizing the mistake, the principal stockholder of the company promptly returned the unintentional distribution to the company for deposit in the policyholders surplus account. Despite his action, a tax of \$5 million, which constitutes over 100 percent of the actual distribution, is otherwise due and payable without the relief provided in this bill.

The attached Treasury views letter notes the Department's customary opposition to retroactive relief provisions of this sort. However, Treasury does not object to the enactment of this provision because of the steepness of the tax assessed against, and the clearly unintentional error made by, Business Men's Insurance.

SSI-related amendments--The enrolled bill contains two amendments aimed at alleviating hardships for victims of the Teton Dam disaster in Idaho who are beneficiaries under the Supplemental Security Income (SSI) program.

Under current law, SSI recipients have their benefits reduced by one-third if they reside in another person's household and receive support and maintenance from that person. The first amendment would allow SSI recipients to continue to receive their full benefits for up to six months if they

are forced because of a major disaster (declared under the Disaster Relief Assistance Act) to leave their individually maintained residence and to receive support and maintenance while living in another person's residence.

Under current law, virtually any funds received by an SSI beneficiary are considered as income in determining the amount of the benefit paid by the Social Security Administration. The second amendment would exclude from income for SSI purposes assistance provided under the Disaster Relief Assistance Act or assistance provided pursuant to other Federal statutes in response to a major disaster.

The Administration did not have an opportunity to comment on these two amendments before their passage. HEW, HUD, and Labor have no objection to them, but note one undesirable aspect of the second amendment--its failure to distinguish between the payment of special unemployment benefits to individuals who are unemployed as a consequence of a major disaster and the payment of other benefits under the Disaster Relief Assistance Act. Exempting Disaster Relief Assistance Act unemployment compensation payments from income for SSI purposes conflicts with current law and policy, which stipulates that unemployment insurance benefits be considered as income. Had there been time, it would have been preferable to amend the provision so as not to violate this policy.

The amendments as originally proposed would have been applicable to all catastrophes occurring after June 1, 1976. They were revised in the Senate to apply only to catastrophes occurring after June 1, 1976 and before December 31, 1976. This revision was explained by Senator Long as designed "to give us some time to study this problem with regard to future disasters." This time limit will provide an opportunity for appropriate corrective amendments to be proposed.

*Naomi R. Sweeney*

Acting Assistant Director for  
Legislative Reference

Enclosures

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: June 30

Time: 1115am

FOR ACTION: Bill Seidman *oh*  
Alan Greenspan *oh*  
Ken Lazarus *oh*  
Paul Beach *oh*  
Max Friedersdorf *oh*

cc (for information): Jack Marsh *oh*  
Jim Cavanaugh  
Ed Schmults

FROM THE STAFF SECRETARY

DUE: Date: June 30

Time: asap

SUBJECT:

H.R. 10051 - Extension of 1976 tax withholding rates  
and for other purposes

ACTION REQUESTED:

- |   |   |
|---|---|
| <input type="checkbox"/> For Necessary Action         | <input type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief     | <input type="checkbox"/> Draft Reply              |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks            |

REMARKS:

please return to Judy Johnston, Ground Floor West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

\_\_\_\_\_  
K. R. COLE, JR.  
For the President



THE DEPUTY SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

**JUN 29 1976**

Dear Sir:

This is in response to your request for the views of the Treasury Department on the enrolled bill H.R. 10051.

The second section of the enrolled bill would extend until September 1 the individual income tax withholding tables presently scheduled to expire on June 30. Due to the failure of the Congress to complete action on the pending Tax Reform Bill (H.R. 10612), which includes provisions for extending the tax cuts voted last December, a temporary extension of the withholding tables is necessary to prevent an increase in withholding taxes at this time. The withholding tax extension is being adopted without accompanying tax liability changes and, should Congress fail to enact an extension of the tax cuts, this action could result in some increased mismatching of withholding taxes and the tax liabilities of individual taxpayers. However, the Treasury Department believes that the resulting increased disparity between withholding tax collections and tax liabilities would be manageable. Of course, it is expected that Congress will enact an extension of the tax cuts, so that an extension of the present withholding tax rates will in the long run facilitate a correct matching of withholding tax collections and tax liabilities. Section two of the bill also makes necessary technical changes in the individual and corporate estimated tax provisions. In the judgment of the Treasury Department, an extension of the withholding tax tables is the most appropriate action at the present time.

The first section of the enrolled bill would make a minor amendment to section 815 of the Internal Revenue Code. Under present law, a life insurance company is permitted to defer taxation on one-half of its underwriting income, if such income is placed in the policyholders surplus account. If the company later makes a distribution out of such account (which can occur only after the shareholders surplus account has been exhausted), the tax deferral is terminated and the distribution is taxed to the company at that time. Section one of the enrolled bill would amend section 815 to allow a

life insurance company to disregard (for purposes of that section) a distribution during the last month of its taxable year, determined to have been made out of the policyholders surplus account, if such distribution is returned to the company not later than the due date for filing its income tax return (including extensions thereof) for that year.

The amendment is designed to provide relief to a particular corporation, Business Men's Insurance Company of America, which inadvertently made a distribution in 1969 out of the policyholders surplus account. The company had had a long-standing policy of making distributions to stockholders only out of the shareholders surplus account and had footnoted its published financial statements with an assurance that the company had "no present plans for distributing the amounts in policyholders surplus." In view of that commitment, the principal shareholder of the company, which owned 98.8 percent of the stock, promptly returned the distribution upon learning of the error. Without the relief provided in the bill, the distribution would result in a tax of more than 100 percent of the amount of the distribution under the complicated statutory formula for determining the amount of tax in such cases. The amount of tax involved, and the revenue loss that would result from the enactment of this provision, is approximately \$5,000,000.

In general, the Treasury Department is opposed to retroactive relief provisions of this sort, but it has indicated that because this is a clear case of error and the tax would fall particularly harshly, it has no objection to the enactment of this provision.

The Treasury Department defers to the Department of Health, Education and Welfare respecting those sections



of the bill that amend the provisions of the Supplemental Security Income Program.

The Treasury Department recommends that the President approve H.R. 10015.

Sincerely yours,

A handwritten signature in black ink, appearing to read "G. H. Dixon". The signature is fluid and cursive, with a large initial "G" and "H" and a long, sweeping tail.

George H. Dixon  
Deputy Secretary

Director, Office of Management and Budget  
Attention: Assistant Director for  
Legislative Reference, Legislative  
Reference Division  
Washington, D.C. 20503

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

June 30, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Tax Legislation and Statement

The temporary tax cut passed last December expires on June 30. The Congress has sent you today a bill which would temporarily extend the current withholding rates to permit Congress to give further consideration to tax legislation.

The EPB Executive Committee has discussed this issue the past several days and recommends that you sign the legislation extending the withholding rates today in order to prevent confusion and uncertainty for employers and employees.

The EPB Executive Committee also recommends that you issue a statement reaffirming your position on deeper tax cuts and further moderation of government spending. A statement approved by the EPB Executive Committee is attached.

This statement has been cleared by the Editorial Office and approved by Jim Cannon, John Marsh and Max Friedersdorf.

Attachment

## Presidential Statement

As in December, the Congress has again waited until the last minute to act on tax cut legislation. They have passed a temporary extension of withholding rates, thereby delaying permanent action on this critical issue for several more months. By doing this, the Congress adds uncertainty and confusion to the present economic situation, leaving all Americans unsure of what effect taxes will have on their income in the weeks and months ahead. The nation can ill afford the effects of this type of congressional brinksmanship on taxes.

Nine months ago, I asked the Congress to cut income taxes by \$10 billion. My proposal would provide for a tax cut of \$227 in 1977 for a typical family of four with an annual income of \$15,000. Nine months ago, I also urged additional spending cuts as part of my plan to achieve a balanced budget within three years. The purpose of my proposal was to permit the American people to decide how more of their money should be spent rather than allowing the Federal government to make these decisions.

Throughout the fall, the Congress talked about tax and spending cuts, but they delayed action on these critical issues until the last days of their session in December, finally passing a six-month extension of the 1975 cuts.

Now, the Congress has again chosen to wait until the last possible moment to act. They have tentatively decided not to provide the additional \$10 billion in permanent tax cuts which I recommended, preferring instead to spend this money themselves. They adopted a spending target for the next fiscal year which is \$17 billion above the spending level that I recommended. This excessive spending, with its potential inflationary impact, threatens the economic growth now underway and the new jobs it is producing. I continue to oppose Congress playing politics with your pocketbook.

I will sign the 60-day extension to prevent withholding rates from going up tomorrow. But, I will continue to urge support for the position which I clearly stated last fall calling for increased tax cuts and reduced spending. I want to give the American people more control of their own lives by reducing what the Federal government takes in taxes.

Bill is not here yet --

2:30

THE WHITE HOUSE  
WASHINGTON

June 30, 1976

TO JIM CONNOR

FROM BILL GOROG *efb*

The attached remarks for the President have been reviewed and edited by Bob Orben, Paul O'Neill, Jim Lynn, and Roger Porter.

Presidential Remarks  
June 30, 1976 3:00 p.m.

I am signing today a bill which will prevent your withholding taxes from going up tomorrow.

Last October, I asked the Congress to reduce Federal income taxes by an additional \$10 billion, which would represent a tax saving of more than \$225 for a family of four earning \$15,000 a year.

I also asked the Congress to restrain the growth of Federal spending -- an essential step toward balancing the Federal budget.

Now, nine months later, the response from the Democratic Congress is typical of their repeated failure to face the issues. The Congress, after waiting until the last possible day, has enacted a two-month freeze of withholding rates rather than cutting taxes another \$10 billion as I had requested.

Furthermore, the Democratic majority has adopted a spending ceiling for the next fiscal year that exceeds my recommendations by \$17 billion.

These actions by the Democratic Congress are wrong for the people and wrong for our economy.

My proposals would ensure greater prosperity, and more and better jobs, without inflation. We need greater tax cuts and less Federal spending. The American people should have more control over what they earn, rather than government constantly dipping further into their pocketbook. I will continue to press the Congress to enact the comprehensive program of tax and spending reductions I proposed last October, and I urge all Americans to join me in that effort.

THE WHITE HOUSE  
WASHINGTON

June 30, 1976

*Revised*

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*  
SUBJECT: Tax Legislation and Statement

The temporary tax cut passed last December expires on June 30. The Congress has sent you today a bill which would temporarily extend the current withholding rates to permit Congress to give further consideration to tax legislation.

The EPB Executive Committee has discussed this issue the past several days and recommends that you sign the legislation extending the withholding rates today in order to prevent confusion and uncertainty for employers and employees.

The EPB Executive Committee also recommends that you issue a statement reaffirming your position on deeper tax cuts and further moderation of government spending. A statement approved by the EPB Executive Committee is attached.

This statement has been cleared by the Editorial Office and approved by Jim Cannon, John Marsh and Max Friedersdorf. Friedersdorf and Marsh recommend that the final paragraph of the statement be placed first followed by the second paragraph and then the first paragraph of the statement as it now stands.

Attachment



## Presidential Statement

As in December, the Congress has again waited until the last minute to act on tax cut legislation. They have passed a temporary extension of withholding rates, thereby delaying permanent action on this critical issue for several more months. By doing this, the Congress only adds uncertainty and confusion to the present economic situation, leaving all Americans unsure of what effect taxes will have on their income in the weeks and months ahead. The Nation can ill afford the effects of this type of fiscal brinksmanship which the Congress has chosen to practice.

Nine months ago, I asked the Congress to decrease income taxes by ten billion dollars. My proposal would provide for a tax cut of \$227 in 1977 for a typical family of four with an annual income of \$15,000. Nine months ago, I also urged additional spending cuts as part of my plan to achieve a balanced budget within three years. The purpose of my proposal was to permit the American people to decide how their money should be spent rather than allowing the Federal government to make these decisions.

Throughout the fall, the Congress talked about tax and spending cuts, but they delayed action on these critical issues until the last days of their session in December, finally passing a six-month extension of the 1975 cuts.

Now, the Congress has again chosen to wait until the last possible moment to act. They also have tentatively decided not to provide the additional \$10 billion in permanent tax cuts which I recommended, preferring instead to spend this money themselves. They adopted a spending target for the next fiscal year which is \$17 billion above the spending level that I recommended. This excessive spending, with its potential inflationary impact, threatens the jobs of those who are employed. The Democratic Congress continues to play games with the economy for political purposes.

I continue to oppose Congress playing politics with your pocketbook. I will sign the 60-day extension to prevent withholding rates from going up tomorrow. I continue to urge support for the position which I clearly stated last fall calling for increased tax cuts and reduced spending. I want to give the American people more control of their own lives by reducing what the Federal government takes in taxes.

THE WHITE HOUSE  
WASHINGTON

*Renewed*

June 30, 1976

ACTION

MEMORANDUM FOR: THE PRESIDENT  
FROM: WILLIAM F. GOROG *wfb*  
SUBJECT: Proposed Press Statement  
on Tax Legislation

Due to Congressional inaction, the temporary tax cut passed in December will expire on June 30.

It is suggested that you issue the attached statements today to remind the public of your position on deeper tax cuts and moderation of government spending.

This statement has been coordinated with Bill Seidman, Mike Duval, Bill Simon, Jim Lynn and Doug Smith.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

Attachment

*Revised*

Presidential Statement

As in December, the Congress has again, waited until the last minute to act on tax cut legislation. They passed a temporary extension of withholding rates, thereby delaying permanent action on this critical issue for several more months. By doing this, the Congress only adds uncertainty and confusion to the present economic situation, leaving all Americans unsure of what effect taxes will have on their income in the weeks and months ahead. The Nation can ill afford the effects of this type of fiscal brinkmanship which the Congress has chosen to practice.

Nine months ago, I asked Congress to decrease income taxes by ten billion dollars. My proposal would provide for a tax cut of \$227 in 1977 for a typical family of four with an annual income of \$15,000. Nine months ago, I also urged additional spending cuts as part of my plan to achieve a balanced budget within three years. The purpose of my proposal was to permit the American people to decide how their money should be spent rather than allowing the Federal government to make these decisions.

Throughout the fall, the Congress talked about tax and spending cuts, but they delayed action on these critical issues until the last days of their Session in December. When they finally submitted a bill to me, I vetoed it because the Congress refused to establish a ceiling on Government spending.

Following this veto, the Congress responded by submitting a bill which provided for a six-month extension of the 1975 tax cuts. At the same time, the Congress adopted my proposed principle that any extended or expanded future tax cuts should be coupled with cuts in Federal spending.

Now, six months later, the Congress has done nothing on the matter. They have not acted upon my request for expanded tax cuts, and they have broken their agreement to link tax cut extensions to corresponding spending cuts.

The Congress again chose to wait until the last possible moment to act. They also tentatively decided not to provide the additional \$10 billion in permanent tax cuts which I recommended, preferring instead to spend this money themselves. They adopted a spending target for

the next fiscal year which is \$17 billion above the spending level that I recommended. This excessive spending, with its potential inflationary impact, threatens the jobs of those who are employed. The Democratic Congress continues to play games with the economy for political purposes.

I say to all Americans: Don't let Congress play politics with your pocketbook. I will reluctantly sign the 60-day extension of withholding rates so that the American people will know with certainty how much of their pay checks is being taken by the Federal Government. However, I continue to urge support for the position which I clearly stated last fall, which calls for increased tax cuts and reduced spending. I want to give the American people more control of their own lives by reducing what the Federal government taxes away.

6/30

Mr. J. -

To add to the

file.

Kate

15/ 6/30/76

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

JUN 30 1976

To-  
J. Cunningham  
6-30-76  
11:00 a.m.



MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 10051 - Extension of 1976  
tax withholding rates and for other purposes  
Sponsor - Rep. Waggoner (D) Louisiana

Last Day for Action

Recommend action on  
June 30, 1976 - Wednesday

Purpose

To extend to September 1, 1976, certain provisions of the Tax Reduction Act of 1975; to exempt life insurance companies from tax liability in the event of an inadvertent distribution and prompt return of funds from a "policy holders surplus account"; and to exempt Supplemental Security Income (SSI) beneficiaries who are victims of a major disaster occurring between June 1 and December 31, 1976 from a curtailment in SSI benefits when temporarily displaced from their homes and from the inclusion of disaster assistance as income in the determination of their SSI benefits.

Agency Recommendations

Office of Management and Budget

Approval

Department of the Treasury  
Department of Health, Education,  
and Welfare

Approval

No objection (disaster provisions)(Informally)

Department of Housing and Urban  
Development

No objection (disaster provisions)(Informally)

Discussion

The enrolled bill would continue until September 1, 1976, the individual income tax withholding rates and related individual and corporate estimated tax provisions which will otherwise expire on June 30, 1976. The proposed two-month extension of these rates and related provisions is

11:35 A.M.  
THE WHITE HOUSE

*LWS copy*

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: June 30

Time: 1115am

FOR ACTION: Bill Seidman ✓  
Alan Greenspan  
Ken Lazarus  
Paul Leach  
Max Friedersdorf

cc (for information): Jack Marsh  
Jim Cavanaugh  
Ed Schmults

FROM THE STAFF SECRETARY

DUE: Date: June 30

Time: asap

SUBJECT:

H.R. 10051 - Extension of 1976 tax withholding rates  
and for other purposes

ACTION REQUESTED:

- |   |   |
|---|---|
| <input type="checkbox"/> For Necessary Action         | <input type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief     | <input type="checkbox"/> Draft Reply              |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks            |

REMARKS:

please return to Judy Johnston, Ground Floor West Wing

*Approved  
RWS*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James M. Cannon  
For the President



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

DATE: 6-30-76

TO: Bob Linder

FROM: J. Frey

The attached facsimile and House Report are for inclusion in the enrolled bill file on H.R. 10051 tax withholding rates extension.



## TAX TREATMENT OF CERTAIN DISTRIBUTIONS OF LIFE INSURANCE COMPANIES

JUNE 14, 1976.—Committed to the Committee of the Whole House on the State  
of the Union and ordered to be printed

Mr. ULLMAN, from the Committee on Ways and Means,  
submitted the following

### REPORT

[To accompany H.R. 10051]

The Committee on Ways and Means, to whom was referred the bill (H.R. 10051) to amend section 815 of the Internal Revenue Code to allow a life insurance company to disregard (for purposes of that section) a distribution during the last month of its taxable year, determined to have been made out of the policyholders surplus account, if such distribution is returned to the company not later than the due date for filing its income tax return (including extensions thereof) for that year, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Page 1, strike out lines 3 to 5, inclusive, and insert:

That (a) section 815(d) of the Internal Revenue Code of 1954 (relating to special rules for distributions to shareholders) is amended by adding at the end thereof the following new paragraph:

Page 2, line 20, strike out "The" and insert:

Nothing in this paragraph shall affect the tax treatment of the receipt of the distribution by any shareholder, and the

Page 2, line 22, strike out "extent that" and insert in lieu thereof "extent that a".

Page 3, strike out lines 1 to 4, inclusive, and insert:

(b) The amendment made by this section shall apply with respect to taxable years ending after December 31, 1957.

## I. SUMMARY

The bill (H.R. 10051) prevents imposition of a special tax on life insurance companies (the so-called "phase III tax") in the case of an inadvertent distribution by the company from the policyholders surplus account, where the amount distributed is promptly returned to the company.

## II. GENERAL STATEMENT

### *Present law*

Under present law, the taxable income of a stock life insurance company for a taxable year consists of three elements referred to as phase I, phase II, and phase III (sec. 802). Phase I consists of the lesser of the taxable investment income<sup>1</sup> of the life insurance company for that year or its gain from operations for that year; phase II consists of one-half of the excess, if any, of the company's gain from operations over its taxable investment income for that year; and phase III generally consists of the portion of the other half of such excess which is treated as distributed to shareholders of the company for the year. Thus, a stock life insurance company's taxable investment income for a particular year and one-half of its underwriting income (the excess of its gains from operations over its taxable investment income) are taxed on a current basis. The portion of its underwriting income which is not taxed currently is generally taxed as phase III income when it is treated as distributed to shareholders.

Under the Internal Revenue Code, a stock life insurance company credits the tax-deferred half of its underwriting gains to a policyholders surplus account.<sup>2</sup> Amounts may be subtracted from the policyholders surplus account, credit to the shareholders surplus account, and distributed to shareholders (sec. 815). Under these rules, however, amounts subtracted from the policyholders surplus account for a taxable year are includable in the life insurance company's taxable income for that year.

In order to determine the amount of phase III income for a particular taxable year, the amount actually distributed from the policyholders surplus account is "grossed-up". The gross-up is necessary to equate the insurance company with an ordinary corporation.

### *Reasons for change*

The life insurance company tax rules provide a priority system for determining whether a distribution to shareholders is derived from the shareholders surplus account, the policyholders surplus, or other accounts. Under this system, distributions to shareholders are considered to be made from the policyholders surplus account only after the balance of the shareholders surplus account has been reduced to zero. Thus, if a life insurance company makes a distribution to shareholders in excess of the balance of its shareholders surplus account, the excess is considered to be from the policyholders surplus account (limited to the balance of that account).

<sup>1</sup> Generally, the taxable investment income of a life insurance company is the life insurance company's share of the yield on its investments, reduced by investment expenses, depreciation, depletion, certain real estate expenses and trade or business expenses. The policyholder's share of investment yield is not taxed to the company.

<sup>2</sup> Section 815 provides limitations on the amount which may be credited to the policyholder's surplus account.

It has been pointed out that the phase III tax may be approximately half of the gross amount or may exceed 90 percent of the amount actually distributed from the policyholders surplus account (in the case of distributions made in the period when the 10-percent surtax was in effect (1968 and 1969), the phase III tax could exceed 110 percent of that amount) and that such a tax may be irrevocably triggered by a distribution which results from an inadvertent error in making complex computations.

The Internal Revenue Service has interpreted present law to require a life insurance company to pay the phase III tax on a wholly unintentional distribution out of the policyholders surplus account even though the shareholders of the company promptly return the distribution upon learning of the error, and even though the company has a long-standing policy of limiting its distributions to stockholders to amounts in the shareholders surplus account and footnoting its published financial statements with a statement that the company has "no present plans for distributing the amounts in policyholders surplus". Under this interpretation, amounts distributed out of the policyholders surplus account by mistake are held subject to the phase III tax even though they were restored to the company before its return for the year was due.

### *Explanation of the bill*

Your committee's bill prevents the imposition of the phase III tax on amounts inadvertently distributed by a life insurance company from the policyholders surplus account. It provides that no amount is to be subtracted from an insurance company's policyholder surplus account with respect to a distribution made during the last month of the company's taxable year (which distribution would otherwise be treated as a distribution out of the policyholders surplus account) to the extent the amounts so distributed are returned to the company no later than the time prescribed by law (including extensions thereof) for filing the company's return for the taxable year in which the distribution was made.

Under the bill, the amounts so returned are to be applied first to restore the amounts which would otherwise be treated as distributed out of the policyholders surplus account.

The relief provided by the bill is not to be available if at the time the distribution was made by the company, it intended to avail itself of the provisions of the bill by having its shareholders return all or a part of the distribution.

The distribution is to be taxed to the shareholders under the usual rules. Under the bill, the basis to a shareholder of his stock in the company is not to be increased by reason of amounts returned under these rules to the extent that a dividends received deduction or exclusion is allowable with respect to the distribution.

The bill provides relief for the Business Men's Assurance Company of America (BMA) with respect to a distribution made in December 1969. The amount of the inadvertent BMA distribution was nearly \$5.5 million. When grossed up, the amount subject to tax was about \$11.5 million. In this case, the principal shareholder of the company promptly returned the distribution upon learning of the error.

*Effective date*

The bill applies with respect to taxable years ending after December 31, 1957 (the effective date of the Life Insurance Company Tax Act of 1959, which established the three-phase system of taxing life insurance companies).

### III. EFFECT OF THE BILL ON THE REVENUES AND VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with clause 7 of rule XIII of the Rules of the House of Representatives, the following statement is made relative to the effect of this bill on the revenues. Your committee estimates that, other than the revenue loss involved with respect to BMA (approximately \$6 million), the bill is not expected to have any significant effect on the revenues in the future. The Treasury Department agrees with this statement.

In compliance with clause 2(1)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote of the Committee on reporting the bill. This bill, as amended, was ordered reported by voice vote.

### IV. OTHER MATTERS REQUIRED TO BE DISCUSSED UNDER HOUSE RULES

In compliance with clause 2(1)(3) of the rule XI of the Rules of the House of Representatives, the following statements are made:

With respect to subdivision (A), relating to oversight findings, it was a result of your committee's oversight activity concerning the application of the life insurance company tax provisions that the committee concluded that the phase III tax should not be applied under the circumstances provided in the bill.

With respect to subdivision (B), your committee states that the changes made to existing law by this bill involve no new budget authority or new or increased tax expenditures.

With respect to subdivisions (C) and (D), your committee advises that no estimate or comparison has been submitted to your committee by the Director of the Congressional Budget Office relative to any of the provisions of H.R. 10051 nor have any oversight findings or recommendations been submitted to your committee by the Committee on Government Operations with respect to the subject matter of H.R. 10051.

In compliance with clause 2(1)(4) of rule XI of the Rules of the House of Representatives, your committee states that the enactment of this bill is not expected to have an inflationary impact on prices and costs in the operation of the national economy.

### V. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italics*, existing law in which no change is proposed is shown in *roman*):

## INTERNAL REVENUE CODE OF 1954

\* \* \* \* \*

### Subtitle A—Income Taxes

\* \* \* \* \*

### CHAPTER 1—NORMAL TAXES AND SURTAXES

\* \* \* \* \*

### Subchapter L—Insurance Companies

\* \* \* \* \*

### PART I—LIFE INSURANCE COMPANIES

\* \* \* \* \*

### Subpart D—Distributions to Shareholders

\* \* \* \* \*

#### SEC. 815. DISTRIBUTIONS TO SHAREHOLDERS.

(a) **GENERAL RULE.**—For purposes of this section and section 802(b)(3), any distribution to shareholders after December 31, 1958, shall be treated as made—

(1) first out of the shareholders surplus account, to the extent thereof,

(2) then out of the policyholders surplus account, to the extent thereof, and

(3) finally out of other accounts.

(b) **SHAREHOLDERS SURPLUS ACCOUNT.**—

(1) **IN GENERAL.**—Each stock life insurance company shall, for purposes of this part, establish and maintain a shareholders surplus account. The amount in such account on January 1, 1958, shall be zero.

(2) **ADDITIONS TO ACCOUNT.**—The amount added to the shareholders surplus account for any taxable year beginning after December 31, 1957, shall be the amount by which—

(A) the sum of—

(i) the life insurance company taxable income (computed without regard to section 802(b)(3)),

(ii) in the case of a taxable year beginning after December 31, 1958, the amount (if any) by which the net long-term capital gain exceeds the net short-term capital loss, reduced (in the case of a taxable year beginning after December 31, 1961) by the amount referred to in clause (i),

(iii) the deduction for partially tax-exempt interest provided by section 242 (as modified by section 804(a)(3)), the deductions for dividends received provided by sections 243, 244, and 245 (as modified by section 809(d)(8)(B)), and the amount of interest excluded from gross income under section 103, and

(iv) the small business deduction provided by section 809(d)(10), exceeds

- (B) the taxes imposed for the taxable year by section 802(a), determined without regard to section 802(b)(3).
- (3) **SUBTRACTIONS FROM ACCOUNT.**—
- (A) **IN GENERAL.**—There shall be subtracted from the shareholders surplus account for any taxable year the amount which is treated under this section as distributed out of such account.
- (B) **DISTRIBUTIONS IN 1958.**—There shall be subtracted from the shareholders surplus account (to the extent thereof) for any taxable year beginning in 1958 the amount of distributions to shareholders made during 1958.
- (c) **POLICYHOLDERS SURPLUS ACCOUNT.**—
- (1) **IN GENERAL.**—Each stock life insurance company shall, for purposes of this part, establish and maintain a policyholders surplus account. The amount in such account on January 1, 1959, shall be zero.
- (2) **ADDITIONS TO ACCOUNT.**—The amount added to the policyholders surplus account for any taxable year beginning after December 31, 1958, shall be the sum of—
- (A) an amount equal to 50 percent of the amount by which the gain from operations exceeds the taxable investment income,
- (B) the deduction for certain nonparticipating contracts provided by section 809(d)(5) (as limited by section 809(f)), and
- (C) the deduction for accident and health insurance and group life insurance contracts provided by section 809(d)(6) (as limited by section 809(f)).
- (3) **SUBTRACTIONS FROM ACCOUNT.**—There shall be subtracted from the policyholders surplus account for any taxable year an amount equal to the sum of—
- (A) the amount which (without regard to subparagraph (B)) is treated under this section as distributed out of the policyholders surplus account, and
- (B) the amount (determined without regard to section 802(a)(3)) by which the tax imposed for the taxable year by section 802(a) is increased by reason of section 802(b)(3).
- (d) **SPECIAL RULES.**—
- (1) **ELECTION TO TRANSFER AMOUNTS FROM POLICYHOLDERS SURPLUS ACCOUNT TO SHAREHOLDERS SURPLUS ACCOUNT.**—
- (A) **IN GENERAL.**—A taxpayer may elect for any taxable year for which it is a life insurance company to subtract from its policyholders surplus account any amount in such account as of the close of such taxable year. The amount so subtracted, less the amount of the tax imposed with respect to such amount by reason of section 802(b)(3), shall be added to the shareholders surplus account as of the beginning of the succeeding taxable year.
- (B) **MANNER AND EFFECT OF ELECTION.**—The election provided by subparagraph (A) shall be made (in such manner and in such form as the Secretary or his delegate may by regulations prescribe) after the close of the taxable year

and not later than the time prescribed by law for filing the return (including extensions thereof) for the taxable year. Such an election, once made, may not be revoked.

(2) **TERMINATION AS LIFE INSURANCE COMPANY.**—

(A) **EFFECT OF TERMINATION.**—Except as provided in section 381(c)(22) (relating to carryovers in certain corporate readjustments), if—

(i) for any taxable year the taxpayer is not an insurance company, or

(ii) for any two successive taxable years the taxpayer is not a life insurance company,

then the amount taken into account under section 802(b)(3) for the last preceding taxable year for which it was a life insurance company shall be increased (after the application of subparagraph (B)) by the amount remaining in its policyholders surplus account at the close of such last preceding taxable year.

(B) **EFFECT OF CERTAIN DISTRIBUTIONS.**—If for any taxable year the taxpayer is an insurance company but not a life insurance company, then any distribution to shareholders during such taxable year shall be treated as made on the last day of the last preceding taxable year for which the taxpayer was a life insurance company.

(3) **TREATMENT OF CERTAIN INDEBTEDNESS.**—If—

(A) the taxpayer makes any payment in discharge of its indebtedness, and

(B) such indebtedness is attributable to a distribution by the taxpayer to its shareholders after February 9, 1959, then the amount of such payment shall, for purposes of this section and section 802(b)(3), be treated as a distribution in cash to shareholders, but only to the extent that the distribution referred to in subparagraph (B) was treated as made out of accounts other than the shareholders and policyholders surplus accounts.

(4) **LIMITATION ON AMOUNT IN POLICYHOLDERS SURPLUS ACCOUNT.**—There shall be treated as a subtraction from the policyholders surplus account for a taxable year for which the taxpayer is a life insurance company the amount by which the policyholders surplus account (computed at the end of the taxable year without regard to this paragraph) exceeds whichever of the following is the greatest—

(A) 15 percent of life insurance reserves at the end of the taxable year,

(B) 25 percent of the amount by which the life insurance reserves at the end of the taxable year exceed the life insurance reserves at the end of 1958, or

(C) 50 percent of the net amount of the premiums and other consideration taken into account for the taxable year under section 809(c)(1).

The amount so treated as subtracted, less the amount of the tax imposed with respect to such amount by reason of section 802(b)(3), shall be added to the shareholders surplus account as of the beginning of the succeeding taxable year.

(5) REDUCTION OF POLICYHOLDERS SURPLUS ACCOUNT FOR CERTAIN UNUSED DEDUCTIONS.—If—

(A) an amount added to the policyholders surplus account for any taxable year increased (or created) a loss from operations for such year, and

(B) any portion of the increase (or amount created) in the loss from operations referred to in subparagraph (A) did not reduce the life insurance company taxable income for any taxable year to which such loss was carried,

the policyholders surplus account for the taxable year referred to in subparagraph (A) shall be reduced by the amount described in subparagraph (B).

(6) RESTORATION OF AMOUNTS DISTRIBUTED OUT OF POLICYHOLDERS SURPLUS ACCOUNT.—*Notwithstanding any other provision of this subchapter, no amount shall be subtracted from a taxpayer's policyholders surplus account with respect to a distribution made during the last month of the taxable year which, without regard to this paragraph, would be treated in whole or in part as a distribution out of the policyholders surplus account, to the extent that amounts so distributed are returned to the taxpayer no later than the time prescribed by law (including extensions thereof) for filing the taxpayer's return for the taxable year in which the distribution was made. For purposes of this paragraph, amounts returned to a taxpayer with respect to a distribution shall be first applied to the return of amounts which, without regard to this paragraph, would have been treated as distributed out of the policyholders surplus account. This paragraph shall not apply if, at the time such distribution was made, the taxpayer intended to avail itself of the provisions of this paragraph by having its shareholders return all or a part of such distribution. Nothing in this paragraph shall affect the tax treatment of the receipt of the distribution by any shareholder, and the basis to a shareholder of his stock in the taxpayer shall not be increased by reason of amounts returned under this paragraph to the extent that a dividends received deduction or exclusion was allowable in respect of the distribution of such amount under any provision of this title.*

(e) SPECIAL RULE FOR CERTAIN MUTUALIZATIONS.—

(1) IN GENERAL.—For purposes of this section and section 802(b)(3), any distribution to shareholders after December 31, 1958, in acquisition of stock pursuant to a plan of mutualization shall be treated—

(A) first, as made out of paid-in capital and paid-in surplus, to the extent thereof,

(B) thereafter, as made in two allocable parts—

(i) one part of which is made out of the other accounts referred to in subsection (a)(3), and

(ii) the remainder of which is a distribution to which subsection (a) applies.

(2) SPECIAL RULES.—

(A) ALLOCATION RATIO.—The part referred to in paragraph

(1)(B)(i) is the amount which bears the same ratio to the amount to which paragraph (1)(B) applies as—

(i) the excess (determined as of December 31, 1958, and adjusted to the beginning of the year of the distribution as provided in subparagraph (B)) of the assets over the total liabilities, bears to

(ii) the sum (determined as of the beginning of the year of the distribution) of the excess described in clause

(i), the amount in the shareholders surplus account, plus the amount in the policyholders surplus account.

(B) ADJUSTMENT FOR CERTAIN DISTRIBUTIONS.—The excess described in subparagraph (A)(i) shall be reduced by the aggregate of the prior distributions which have been treated under subsection (a)(3) as made out of accounts other than the shareholders surplus account and the policyholders surplus account.

(f) DISTRIBUTION DEFINED.—For purposes of this section, the term "distribution" includes any distribution in redemption of stock or in partial or complete liquidation of the corporation, but does not include—

(1) any distribution made by the corporation in its stock or in rights to acquire its stock;

(2) except for purposes of subsection (a)(3) and subsection (e)(2)(B), any distribution in redemption of stock issued before 1958 which at all times on and after the date of issuance and on and before the date of redemption is limited as to dividends and is callable, at the option of the issuer, at a price not in excess of 105 percent of the sum of the issue price and the amount of any contribution to surplus made by the original purchaser at the time of his purchase;

(3) any distribution after December 31, 1963, of the stock of a controlled corporation to which section 355 applies, if such controlled corporation is an insurance company subject to the tax imposed by section 381 and if—

(A) control was acquired prior to January 1, 1958, or

(B) control has been acquired after December 31, 1957—

(i) in a transaction qualifying as a reorganization under section 368(a)(1)(B), if the distributing corporation has at all times since December 31, 1957, owned stock representing not less than 50 percent of the total combined voting power of all classes of stock entitled to vote, and not less than 50 percent of the value of all classes of stock, of the controlled corporation, or

(ii) solely in exchange for stock of the distributing corporation which stock is immediately exchanged by the controlled corporation in a transaction qualifying as a reorganization under section 368(a)(1)(A) or (C), if the controlled corporation has at all times since its organization been wholly owned by the distributing cor-

poration and the distributing corporation has at all times since December 31, 1957, owned stock representing not less than 50 percent of the total combined voting power of all classes of stock entitled to vote, and not less than 50 percent of the value of all classes of stock, of the corporation the assets of which have been transferred to the controlled corporation in section 368(a)(1)(A) or (C) reorganization;

(4) any distribution after December 31, 1966, of the stock of a controlled corporation to which section 355 applies, if such distribution is made to a corporation which immediately after the distribution is in control (within the meaning of section 368(c)) of both the distributing corporation and such controlled corporation and if such controlled corporation is a life insurance company of which the distributing corporation has been in control at all times since December 31, 1957; or

(5) any distribution after December 31, 1968, of the stock of a controlled corporation to which section 355 applies, if such distribution is made to a corporation which immediately after the distribution is the owner of all of the stock of all classes of both the distributing corporation and such controlled corporation and if, immediately before the distribution, the distributing corporation had been the owner of all of the stock of all classes of such controlled corporation at all times since December 31, 1957.

Paragraphs (3), (4), and (5) shall not apply to that portion of the distribution of stock of the controlled corporation equal to the increase in the aggregate adjusted basis of such stock after December 31, 1957, except to the extent such increase results from an acquisition of stock in the controlled corporation in a transaction described in paragraph (3)(B). If any part of the increase in the aggregate adjusted basis of stock of the controlled corporation after December 31, 1957, results from the transfer (other than as part of a transaction described in paragraph (3)(B)) by the distributing corporation to the controlled corporation of property which has a fair market value in excess of its adjusted basis at the time of the transfer, paragraphs (3), (4), and (5) also shall not apply to that portion of the distribution equal to such excess.

(g) CERTAIN DISTRIBUTIONS RELATED TO FORMER SUBSIDIARIES.—If subsection (f)(5) applied to the distribution by a life insurance company of the stock of a corporation which was a controlled corporation—

(1) any distribution by such corporation to its shareholders (after the date of the distribution of its stock by the life insurance company), and

(2) any disposition of the stock of such corporation by the distributee corporation,

shall, for purposes of this section, be treated as a distribution to its shareholders by such life insurance company, until the amounts so treated equal the amount of the distribution of such stock which by reason of subsection (f)(5) was not included as a distribution for purposes of this section.

\* \* \* \* \*

# Ninety-fourth Congress of the United States of America

AT THE SECOND SESSION

*Begun and held at the City of Washington on Monday, the nineteenth day of January,  
one thousand nine hundred and seventy-six*

## An Act

To amend section 815 of the Internal Revenue Code to allow a life insurance company to disregard (for purposes of that section) a distribution during the last month of its taxable year, determined to have been made out of the policyholders surplus account, if such distribution is returned to the company not later than the due date for filing its income tax return (including extensions thereof) for that year, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That (a) section 815(d) of the Internal Revenue Code of 1954 (relating to special rules for distributions to shareholders) is amended by adding at the end thereof the following new paragraph:

“(6) RESTORATION OF AMOUNTS DISTRIBUTED OUT OF POLICYHOLDERS SURPLUS ACCOUNT.—Notwithstanding any other provision of this subchapter, no amount shall be subtracted from a taxpayer’s policyholders surplus account with respect to a distribution made during the last month of the taxable year which, without regard to this paragraph, would be treated in whole or in part as a distribution out of the policyholders surplus account, to the extent that amounts so distributed are returned to the taxpayer no later than the time prescribed by law (including extensions thereof) for filing the taxpayer’s return for the taxable year in which the distribution was made. For purposes of this paragraph, amounts returned to a taxpayer with respect to a distribution shall be first applied to the return of amounts which, without regard to this paragraph, would have been treated as distributed out of the policyholders surplus account. This paragraph shall not apply if, at the time such distribution was made, the taxpayer intended to avail itself of the provisions of this paragraph by having its shareholders return all or a part of such distribution. Nothing in this paragraph shall affect the tax treatment of the receipt of the distribution by any shareholder, and the basis to a shareholder of his stock in the taxpayer shall not be increased by reason of amounts returned under this paragraph to the extent that a dividends received deduction or exclusion was allowable in respect of the distribution of such amount under any provision of this title.”.

(b) The amendment made by this section shall apply with respect to taxable years ending after December 31, 1957.

### SEC. 2. EXCLUSION FROM INCOME UNDER THE SUPPLEMENTAL INCOME PROGRAM.

(a) IN GENERAL.—Section 1612(b) of the Social Security Act is amended—

(1) by striking out the word “and” which appears at the end of paragraph (9),

(2) by striking out the period at the end of paragraph (10) and by inserting in lieu thereof “; and”,

(3) by inserting the following new paragraph:

“(11) assistance received under the Disaster Relief Act of 1974 or other assistance provided pursuant to a Federal statute on account of a catastrophe which is declared to be a major disaster by the President.”.

(b) **EFFECTIVE DATE.**—The amendments made by this Act shall be applicable only in the case of catastrophes which occur on or after July 1, 1976 and before December 31, 1976.

**SEC. 3. WITHHOLDING; ESTIMATED TAX PAYMENTS.**

(a) **WITHHOLDING.**—

(1) **IN GENERAL.**—Section 3402(a) of the Internal Revenue Code of 1954 (relating to income tax collected at source) is amended by striking out “July 1, 1976” and inserting in lieu thereof “September 1, 1976”.

(2) **TECHNICAL AMENDMENT.**—Section 209(c) of the Tax Reduction Act of 1975 is amended by striking out “July 1, 1976” and inserting in lieu thereof “September 1, 1976”.

(b) **ESTIMATED TAX PAYMENTS BY INDIVIDUALS.**—Section 6153(g) of such Code (relating to installment payments of estimated income by individuals) is amended by striking out “July 1, 1976” and inserting in lieu thereof “September 1, 1976”.

(c) **ESTIMATED TAX PAYMENTS BY CORPORATIONS.**—Section 6154(h) of such Code (relating to installment payments of estimated income by corporations) is amended by striking out “July 1, 1976” and inserting in lieu thereof “September 1, 1976”.

**SEC. 4. AMENDMENT TO SUPPLEMENTAL SECURITY INCOME PROGRAM.**

(a) **IN GENERAL.**—Section 1612(a)(2)(A) of the Social Security Act is amended—

(1) by striking out the word “and” which appears at the end of clause (i) thereof and by inserting a comma in lieu of such word, and

(2) by inserting immediately before the semicolon at the end thereof the following: “, and (iii) support and maintenance shall not be included and the provisions of clause (i) shall not be applicable in the case of any individual (and his eligible spouse, if any) for the period which begins with the month in which such individual (or such individual and his eligible spouse) began to receive support and maintenance while living in a residential facility (including a private household) maintained by another person and ends with the close of the month in which such individual (or such individual and his eligible spouse) ceases to receive support and maintenance while living in such a residential facility (or, if earlier, with the close of the fifth month following the month in which such period began), if, not more than 30 days prior to the date on which such individual (or such individual and his eligible spouse) began to receive support and maintenance while living in such a residential facility, (I) such individual (or such individual and his eligible spouse) were residing in a household maintained by such individual (or by such individual and others) as his or their own home, (II) there occurred within the area in which such household is located (and while such individual, or such individual and his spouse, were residing in the household referred to in subclause (I)) a catastrophe on account of which the President declared a major disaster to exist therein



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for purposes of the Disaster Relief Act of 1974, and (III) such individual declares that he (or he and his eligible spouse) ceased to continue living in the household referred to in subclause (II) because of such catastrophe”.

(b) **EFFECTIVE DATE.**—The amendments made by this Act shall be applicable only in the case of catastrophes which occur on or after June 1, 1976 and before December 31, 1976.

*Speaker of the House of Representatives.*

*Vice President of the United States and  
President of the Senate.*

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE

REMARKS OF THE PRESIDENT  
UPON SIGNING THE  
TAX EXTENSION BILL

THE OVAL OFFICE

6:38 P.M. EDT

I am signing today a bill which will prevent your withholding taxes from going up tomorrow. Last October I asked the Congress to reduce Federal income taxes by an additional \$10 billion, which would represent a tax saving of more than \$225 for a family of four earning \$15,000 a year.

I also asked the Congress to restrain the growth of Federal spending, an essential step toward balancing the Federal budget.

Now, nine months later, the response from Congress is typical of their repeated failure to face the issues. The Congress, after waiting until the last possible day, has enacted a two-month freeze of withholding rates rather than cutting taxes another \$10 billion, as I requested.

Furthermore, the Democratic majority has adopted a spending ceiling for the next fiscal year that exceeds my recommendations by \$17 billion. These actions by the Democratic Congress are wrong for the people and wrong for our economy.

My proposals would insure greater prosperity and more and better jobs without inflation. We need greater tax cuts and less Federal spending. The American people should have more control over what they earn rather than the Government constantly dipping further into their pocketbook.

I will continue to press the Congress to enact the comprehensive program of tax and spending reductions that I proposed last October, and I urge all Americans to join me in that effort.

Thank you very much.

FND (AT 6:40 P.M. EDT)