G. Other Changes

(1) House changes

In addition to the revisions involving foreign income which have already been described, the House bill made a number of minor changes affecting nonresident aliens employed abroad by American firms who come to the United States for temporary periods, China Trade Act corporations, royalties received under certain conditions from a foreign subsidiary, and the statute of limitations applicable to claims for refunds by taxpayers assessed abroad for additional taxes.

(2) Changes made by committee

Your committee has approved these provisions with changes in some instances. The details of your committee's action is explained in the technical discussion of the bill in a later section of this report.

H. Revenue Effect

It is estimated that the provisions dealing with foreign income would involve a revenue loss of $2 million in the fiscal year 1955. This is attributable to the removal of the overall limitation.

XXVII. GAIN OR LOSS ON SALE OF PROPERTY

A. Change in Basis of Property Acquired From a Decedent (sec. 1014)

(1) House changes accepted by committee

Under existing law most property transferred as a result of the death of an individual receives a new basis at the date of death equal to its then market value (or value 1 year later if the estate-tax optional valuation date is used). This is presently true in the case of property acquired directly from the probate estate of the decedent as well as to property transferred by certain other specifically described transfers. This change in basis is not available, however, with respect to property included in the decedent's gross estate for estate-tax purposes if the property was transferred in contemplation of death, was acquired by the surviving tenant of a joint tenancy or tenancy by the entirety, or was included in the gross estate as a reserved income transfer.

There appears to be no justification for denying some property included in a decedent's gross estate for estate-tax purposes a new basis at date of death while giving this new basis in most other cases.

The House and your committee's bill remove this discrimination by providing a new basis at date of death (or 1 year later if the optional valuation date is used) for nearly all property includible in the decedent's gross estate for estate-tax purposes. The only exceptions to this general rule are income in respect of a decedent, including unexercised restricted stock options and the interest element in a survivor's interest in a joint and survivor annuity accruing since the annuity was purchased. Under that provision when the income is reported for income-tax purposes by the estate or beneficiary, a deduction is allowed for any estate tax attributable to the values included in the decedent's gross estate. This is a substitute for the new basis at death.

The changes made by the House and your committee in this provision are applicable to property received from an individual dying after December 31, 1953.

(2) Changes made by committee

Your committee made substantive amendments to this provision as passed by the House as well as several technical changes. Your committee added a specific rule for determining the basis of property transferred before the death of the decedent. So that the donee will not receive a double deduction it is provided that his new basis will be the value of the property at the date of the decedent's death (or alternative valuation date if applicable) less the total of his deductions for depreciation, depletion, and amortization of property he received by gift. This rule will not involve the recomputation of the deductions already taken for the period prior to the decedent's death.

B. Adjustment to Basis (sec. 1016)

(1) House changes accepted by committee

Where a tax-exempt organization which has held a property for a number of years becomes taxable (as in the case of the application of the unrelated business income tax since the Revenue Act of 1950) questions have been raised as to what basis the property should have for purposes of computing depreciation for income-tax purposes. The alternatives available are the original cost of the property, its fair market value at the time the organization becomes taxable, or its cost less depreciation and obsolescence which has taken place during the interval prior to the time when the organization becomes taxable.

The present code does not deal specifically with this problem. The rule presently followed by the Internal Revenue Service is the third alternative described above. The House and your committee have endorsed the position taken by the Service by specifically providing in the new code that the basis of the property, for purposes of computing taxable income, is reduced for exhaustion, wear, tear, obsolescence, amortization, and depletion to the extent sustained during any period since 1913 when the property was held by an organization not subject to income taxation.

(2) Changes made by committee

The committee made no substantive changes in this provision.

C. Sale of an Annuity Contract (sec. 1021)

(1) House changes accepted by committee

The House and your committee have added a provision to prevent the operation of the new rule for taxing annuities from resulting in a basis of less than zero in the case of a sale of an annuity contract.

(2) Changes made by your committee

No changes were made by your committee.

D. Exchange of Property Held for Productive Use or Investment (sec. 1031)

Your committee added section 112(b) (2) of present law which provides for tax-free exchanges of common stock for common, and of preferred