

## Public Law 86-346

## AN ACT

To permit the issuance of series E and H United States savings bonds at interest rates above the existing maximum, to permit the Secretary of the Treasury to designate certain exchanges of Government securities to be made without recognition of gain or loss, and for other purposes.

September 22, 1959  
[H. R. 9035]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

## TITLE I—IN GENERAL

SEC. 101. (a) The Second Liberty Bond Act, as amended, is amended by adding at the end thereof the following new section:

“SEC. 25. In the case of any offering of United States savings bonds issued or to be issued under section 22 of this Act, the maximum limits on the interest rate or the investment yield or both may be exceeded upon a finding by the President with respect to such offering that the national interest requires that such maximum limits be exceeded: *Provided, however,* That in no event may the interest rate or the investment yield exceed  $4\frac{1}{4}$  per centum per annum.”

(b) Paragraph (2) of section 22(b) of the Second Liberty Bond Act, as amended (31 U.S.C., sec. 757c(b)(2)), is amended to read as follows:

“(2) The Secretary of the Treasury, with the approval of the President, is authorized to provide by regulations:

“(A) That owners of series E and H savings bonds may, at their option, retain the bonds after maturity, or after any period beyond maturity during which such bonds have earned interest, and continue to earn interest upon them at rates which (subject to section 25) are consistent with the provisions of paragraph (1).

“(B) That series E and H savings bonds on which the rates of interest have been fixed prior to such regulations will earn interest at higher rates which (subject to section 25) are consistent with the provisions of paragraph (1).”

(c) The authority granted by the amendments made by subsections (a) and (b) may be exercised with respect to United States savings bonds bearing issue dates of June 1, 1959, or thereafter. Such authority may also be exercised with respect to United States savings bonds issued before June 1, 1959, but in no case shall the interest rate, or investment yield, on any bond be changed pursuant to such authority for any period which begins before June 1, 1959.

SEC. 102. The heading and first sentence of section 454(c) of the Internal Revenue Code of 1954 (relating to matured United States savings bonds) are amended to read as follows:

“(c) MATURED UNITED STATES SAVINGS BONDS.—In the case of a taxpayer who—

“(1) holds a series E United States savings bond at the date of maturity, and

“(2) pursuant to regulations prescribed under the Second Liberty Bond Act (A) retains his investment in such series E bond in an obligation of the United States, other than a current income obligation, or (B) exchanges such series E bond for another nontransferable obligation of the United States in an exchange upon which gain or loss is not recognized because of section 1037 (or so much of section 1031 as relates to section 1037),

the increase in redemption value (to the extent not previously includable in gross income) in excess of the amount paid for such series E

U. S. savings bonds.  
Interest rates increase.  
40 Stat. 288.  
31 USC 774(2).

65 Stat. 26.

Retention of matured bonds.

68A Stat. 156.

31 USC 774(2).

Post, p. 623.  
68A Stat. 302.

bond shall be includable in gross income in the taxable year in which the obligation is finally redeemed or in the taxable year of final maturity, whichever is earlier."

Paying agents.  
Relief from liability.  
57 Stat. 63.

SEC. 103. Subsection (i) of section 22 of the Second Liberty Bond Act, as amended (31 U.S.C., sec. 757c(i)), is amended by inserting after the third sentence thereof the following: "Relief from liability shall be granted in all cases where the Secretary of the Treasury shall determine, under regulations prescribed by him, that written notice of liability or potential liability has not been given by the United States, within ten years from the date of the erroneous payment, to any of the foregoing agents or agencies whose liability is to be determined: *Provided*, That no relief shall be granted in any case in which a qualified paying agent has assumed unconditional liability to the United States."

SEC. 104. The following provisions of law are amended by striking out the words "on original issue at par" and inserting in lieu thereof the words "on original issue at the issue price":

53 Stat. 1226.

(1) Section 6(g)(5) of the Act of March 24, 1934, as amended (22 U.S.C., sec. 1393 (g)(5)), relating to the trust account for the payment of pre-1934 bonds of the Government of the Philippines.

(2) Section 201(d) of the Social Security Act (42 U.S.C., sec. 401(d)), relating to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund.

(3) Section 904(b) of the Social Security Act (42 U.S.C., sec. 1104(b)), relating to the Unemployment Trust Fund.

(4) Section 15(b) of the Railroad Retirement Act of 1937 (45 U.S.C., sec. 2280(b)), relating to the Railroad Retirement Account.

(5) Section 209(e)(2) of the Highway Revenue Act of 1956 (23 U.S.C., sec. 173(e)(2)), relating to the Highway Trust Fund.

70 Stat. 397.

23 USC 120 note.  
Tax exemption.

SEC. 105. (a) Section 3701 of the Revised Statutes (31 U.S.C., sec. 742) is amended by adding at the end thereof the following: "This exemption extends to every form of taxation that would require that either the obligations or the interest thereon, or both, be considered, directly or indirectly, in the computation of the tax, except nondiscriminatory franchise or other nonproperty taxes in lieu thereof imposed on corporations and except estate taxes or inheritance taxes."

(b) The following provisions of the Second Liberty Bond Act, as amended, relating to the tax-exempt status of obligations of the United States, are repealed, without changing the status of any outstanding obligation:

46 Stat. 19, 775.

(1) Subsections (b) and (d) of section 5 (31 U.S.C., sec. 754 (b) and (d));

(2) The second and third sentences of section 7 (31 U.S.C., sec. 747);

(3) Subsection (b) of section 18 (31 U.S.C., sec. 753(b));

(4) The first sentence of subsection (d) of section 22 (31 U.S.C., sec. 757c(d)).

55 Stat. 7.

## TITLE II—INCOME TAX TREATMENT OF CERTAIN EX- CHANGES OF UNITED STATES OBLIGATIONS

SEC. 201. (a) Part III of subchapter O of chapter 1 of the Internal Revenue Code of 1954 (relating to common nontaxable exchanges) is amended by adding at the end thereof the following new section:

68A Stat. 302.  
26 USC 1031.  
1036.

**"SEC. 1037. CERTAIN EXCHANGES OF UNITED STATES OBLIGATIONS.**

"(a) **GENERAL RULE.**—When so provided by regulations promulgated by the Secretary in connection with the issue of obligations of the United States, no gain or loss shall be recognized on the surrender to the United States of obligations of the United States issued under the Second Liberty Bond Act in exchange solely for other obligations issued under such Act.

40 Stat. 288.  
31 USC 774(2).

"(b) **APPLICATION OF SECTION 1232.**—

"(1) **EXCHANGES INVOLVING OBLIGATIONS ISSUED AT A DISCOUNT.**—In any case in which gain has been realized but not recognized because of the provisions of subsection (a) (or so much of section 1031(b) as relates to subsection (a) of this section), to the extent such gain is later recognized by reason of a disposition or redemption of an obligation received in an exchange subject to such provisions, the first sentence of section 1232(a)(2)(A) shall apply to such gain as though the obligation disposed of or redeemed were the obligation surrendered to the Government in the exchange rather than the obligation actually disposed of or redeemed. For purposes of this paragraph and section 1232, if the obligation surrendered in the exchange is a nontransferable obligation described in subsection (a) or (c) of section 454—

"(A) the aggregate amount considered, with respect to the obligation surrendered, as gain from the sale or exchange of property which is not a capital asset shall not exceed the difference between the issue price and the stated redemption price which applies at the time of the exchange, and

"(B) the issue price of the obligation received in the exchange shall be considered to be the stated redemption price of the obligation surrendered in the exchange, increased by the amount of other consideration (if any) paid to the United States as a part of the exchange.

"(2) **EXCHANGES OF TRANSFERABLE OBLIGATIONS ISSUED AT NOT LESS THAN PAR.**—In any case in which subsection (a) (or so much of section 1031 (b) or (c) as relates to subsection (a) of this section) has applied to the exchange of a transferable obligation which was issued at not less than par for another transferable obligation, the issue price of the obligation received from the Government in the exchange shall be considered for purposes of applying section 1232 to be the same as the issue price of the obligation surrendered to the Government in the exchange, increased by the amount of other consideration (if any) paid to the United States as a part of the exchange.

"(c) **CROSS REFERENCES.**—

"(1) For rules relating to the recognition of gain or loss in a case where subsection (a) would apply except for the fact that the exchange was not made solely for other obligations of the United States, see subsections (b) and (c) of section 1031.

"(2) For rules relating to the basis of obligations of the United States acquired in an exchange for other obligations described in subsection (a), see subsection (d) of section 1031."

(b) The table of sections for part III of subchapter O of chapter 1 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following:

"Sec. 1037. Certain exchanges of United States obligations."

68A Stat. 302.

(c) Section 1031(b) of such Code (relating to gain from exchanges of property not solely in kind) is amended by striking out "the provisions of subsection (a), of section 1035(a), or of section 1036(a)," and inserting in lieu thereof "the provisions of subsection (a), of section 1035(a), of section 1036(a), or of section 1037(a)."

68A Stat. 302.

(d) Section 1031(c) of such Code (relating to loss from exchanges of property not solely in kind) is amended by striking out "the provisions of subsection (a), of section 1035(a), or of section 1036(a)," and inserting in lieu thereof "the provisions of subsection (a), of section 1035(a), of section 1036(a), or of section 1037(a)."

72 Stat. 1641.

(e) Section 1031(d) of such Code (relating to basis in the case of exchanges of property held for productive use or investment) is amended by striking out "this section, section 1035(a), or section 1036(a)," each place it appears in the first and second sentences thereof and inserting in lieu thereof "this section, section 1035(a), section 1036(a), or section 1037(a)."

61 Stat. 180.

SEC. 202. Section 4(a) of the Public Debt Act of 1941, as amended (31 U.S.C., sec. 742a), is amended by striking out "under the Internal Revenue Code, or laws amendatory or supplementary thereto" and inserting in lieu thereof "except as provided under the Internal Revenue Code of 1954".

Effective date.

SEC. 203. The amendments made by this title shall be effective for taxable years ending after the date of enactment of this Act.

Approved September 22, 1959.

### Public Law 86-347

#### AN ACT

September 22, 1959  
[S. 1473]

To repeal the Act of May 27, 1912, which authorized and directed the Secretary of the Treasury to sell certain land to the First Baptist Church of Plymouth, Massachusetts.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act of May 27, 1912 (37 Stat. 117, ch. 134) is hereby repealed.*

Approved September 22, 1959.

### Public Law 86-348

#### AN ACT

September 22, 1959  
[S. 2362]

To authorize the Secretary of the Army to convey to the city of Arlington, Oregon, certain lands at the John Day lock and dam project.

Arlington, Oreg.  
Conveyance.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever the Secretary of the Army determines that any land within the corporate limits of the city of Arlington, Oregon, acquired for construction of the John Day lock and dam as authorized by the River and Harbor Act of May 17, 1950 (64 Stat. 163, 167), is no longer required for project purposes, he is authorized and directed, subject to the further provisions of this Act, to convey to the city of Arlington all right, title, and interest of the United States therein.*