

Public Law 89-570

AN ACT

September 12, 1966
[H. R. 4665]

Relating to the income tax treatment of exploration expenditures in the case of mining.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) part I of subchapter I of chapter 1 of the Internal Revenue Code of 1954 (relating to natural resources) is amended by adding at the end thereof the following new section:

Income taxes.
Mining exploration
expenditures.
68A Stat. 207.
26 USC 611-616.

“SEC. 617. ADDITIONAL EXPLORATION EXPENDITURES IN THE CASE OF DOMESTIC MINING.

“(a) ALLOWANCE OF DEDUCTION.—

“(1) GENERAL RULE.—At the election of the taxpayer, 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 mineral in the United States or on the Outer Continental Shelf (within the meaning of section 2 of the Outer Continental Shelf Lands Act, as amended and supplemented; 43 U.S.C. 1331), and paid or incurred before the beginning of the development stage of the mine, shall be allowed as a deduction in computing taxable income. This subsection shall apply only with respect to the amount of such expenditures which, but for this subsection, would not be allowable as a deduction for the taxable year. 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 167, but allowances for depreciation shall be considered, for purposes of this subsection, as expenditures paid or incurred. In no case shall this subsection apply with respect to amounts paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of oil or gas or of any mineral with respect to which a deduction for percentage depletion is not allowable under section 613.

67 Stat. 462.

68A Stat. 51.

68A Stat. 208.

“(2) ELECTIONS.—

“(A) METHOD.—Any election under this subsection shall be made in such manner as the Secretary or his delegate may by regulations prescribe.

Regulations.

“(B) TIME AND SCOPE.—The election provided by paragraph (1) for the taxable year may be made at any time before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by this chapter for the taxable year. Such an election for the taxable year shall apply to all expenditures described in paragraph (1) paid or incurred by the taxpayer during the taxable year or during any subsequent taxable year. Such an election may not be revoked after the last day of the third month following the month in which the final regulations issued under the authority of this subsection are published in the Federal Register, unless the Secretary or his delegate consents to such revocation.

Publication in
Federal Register.

“(C) DEFICIENCIES.—The statutory period for the assessment of any deficiency for any taxable year, to the extent such deficiency is attributable to an election or revocation of an election under this subsection, shall not expire before the last day of the 2-year period beginning on the day after the date on which such election or revocation of election is

made; and such deficiency may be assessed at any time before the expiration of such 2-year period, notwithstanding any law or rule of law which would otherwise prevent such assessment.

“(b) RECAPTURE ON REACHING PRODUCING STAGE.—

“(1) RECAPTURE.—If, in any taxable year, any mine with respect to which expenditures were deducted pursuant to subsection (a) reaches the producing stage, then—

“(A) If the taxpayer so elects with respect to all such mines reaching the producing stage during the taxable year, he shall include in gross income for the taxable year an amount equal to the adjusted exploration expenditures with respect to such mines, and the amount so included in income shall be treated for purposes of this subtitle as expenditures which (i) are paid or incurred on the respective dates on which the mines reach the producing stage, and (ii) are properly chargeable to capital account.

“(B) If subparagraph (A) does not apply with respect to any such mine, then the deduction for depletion under section 611 with respect to the property shall be disallowed until the amount of depletion which would be allowable but for this subparagraph equals the amount of the adjusted exploration expenditures with respect to such mine.

“(2) ELECTIONS.—

“(A) METHOD.—Any election under this subsection shall be made in such manner as the Secretary or his delegate may by regulations prescribe.

“(B) TIME AND SCOPE.—The election provided by paragraph (1) for any taxable year may be made or changed not later than the time prescribed by law for filing the return (including extensions thereof) for such taxable year.

“(c) RECAPTURE IN CASE OF BONUS OR ROYALTY.—If an election has been made under subsection (a) with respect to expenditures relating to a mining property and the taxpayer receives or accrues a bonus or a royalty with respect to such property, then the deduction for depletion under section 611 with respect to the bonus or royalty shall be disallowed until the amount of depletion which would be allowable but for this subsection equals the amount of the adjusted exploration expenditures with respect to the property to which the bonus or royalty relates.

“(d) GAIN FROM DISPOSITIONS OF CERTAIN MINING PROPERTY.—

“(1) GENERAL RULE.—Except as otherwise provided in this subsection, if mining property is disposed of the lower of—

“(A) the adjusted exploration expenditures with respect to such property, or

“(B) the excess of—

“(i) the amount realized (in the case of a sale, exchange, or involuntary conversion), or the fair market value (in the case of any other disposition), over

“(ii) the adjusted basis of such property,

shall be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231. Such gain shall be recognized notwithstanding any other provision of this subtitle.

“(2) DISPOSITION OF PORTION OF PROPERTY.—For purposes of paragraph (1)—

“(A) In the case of the disposition of a portion of a mining property (other than an undivided interest), the entire amount of the adjusted exploration expenditures with respect

to such property shall be treated as attributable to such portion to the extent of the amount of the gain to which paragraph (1) applies.

“(B) In the case of the disposition of an undivided interest in a mining property (or a portion thereof), a proportionate part of the adjusted exploration expenditures with respect to such property shall be treated as attributable to such undivided interest to the extent of the amount of the gain to which paragraph (1) applies.

This paragraph shall not apply to any expenditure to the extent the taxpayer establishes to the satisfaction of the Secretary or his delegate that such expenditure relates neither to the portion (or interest therein) disposed of nor to any mine, in the property held by the taxpayer before the disposition, which has reached the producing stage.

“(3) EXCEPTIONS AND LIMITATIONS.—Paragraphs (1), (2), and (3) of section 1245 (b) (relating to exceptions and limitations with respect to gain from disposition of certain depreciable property) shall apply in respect of this subsection in the same manner and with the same effect as if references in section 1245 (b) to section 1245 or any provision thereof were references to this subsection or the corresponding provisions of this subsection and as if references to section 1245 property were references to mining property.

76 Stat. 1032.

“(4) APPLICATION OF SUBSECTION.—This subsection shall apply notwithstanding any other provision of this subtitle.

“(e) BASIS OF PROPERTY.—

“(1) BASIS.—The basis of any property shall not be reduced by the amount of any depletion which would be allowable but for the application of this section.

“(2) ADJUSTMENTS.—The Secretary or his delegate shall prescribe such regulations as he may deem necessary to provide for adjustments to the basis of property to reflect gain recognized under subsection (d) (1).

“(f) DEFINITIONS.—For purposes of this section—

“(1) ADJUSTED EXPLORATION EXPENDITURES.—The term ‘adjusted exploration expenditures’ means, with respect to any property or mine—

“(A) the amount of the expenditures allowed for the taxable year and all preceding taxable years as deductions under subsection (a) to the taxpayer or any other person which are properly chargeable to such property or mine and which (but for the election under subsection (a)) would be reflected in the adjusted basis of such property or mine, reduced by

“(B) for the taxable year and for each preceding taxable year, the amount (if any) by which (i) the amount which would have been allowable for percentage depletion under section 613 but for the deduction of such expenditures, exceeds (ii) the amount allowable for depletion under section 611,

68A Stat. 208.

68A Stat. 207.

properly adjusted for any amounts included in gross income under subsection (b) or (c) and for any amounts of gain to which subsection (d) applied.

“(2) MINING PROPERTY.—The term ‘mining property’ means any property (within the meaning of section 614 after the application of subsections (c) and (e) thereof) with respect to which any expenditures allowed as a deduction under subsection (a) (1) are properly chargeable.

68A Stat. 210;
72 Stat. 1634.

“(3) DISPOSAL OF COAL OR DOMESTIC IRON ORE WITH A RETAINED ECONOMIC INTEREST.—A transaction which constitutes a disposal of coal or iron ore under section 631(c) shall be treated as a disposition. In such a case, the excess referred to in subsection (d) (1) (B) shall be treated as equal to the gain (if any) referred to in section 631(c).”

(g) SPECIAL RULES RELATING TO PARTNERSHIP PROPERTY.—

“(1) PROPERTY DISTRIBUTED TO PARTNER.—In the case of any property or mine received by the taxpayer in a distribution with respect to part or all of his interest in a partnership, the adjusted exploration expenditures with respect to such property or mine include the adjusted exploration expenditures (not otherwise included under subsection (f) (1)) with respect to such property or mine immediately prior to such distribution, but the adjusted exploration expenditures with respect to any such property or mine shall be reduced by the amount of gain to which section 751 (b) applied realized by the partnership (as constituted after the distribution) on the distribution of such property or mine.

“(2) PROPERTY RETAINED BY PARTNERSHIP.—In the case of any property or mine held by a partnership after a distribution to a partner to which section 751(b) applied, the adjusted exploration expenditures with respect to such property or mine shall, under regulations prescribed by the Secretary or his delegate, be reduced by the amount of gain to which section 751(b) applied realized by such partner with respect to such distribution on account of such property or mine.

“(h) CROSS REFERENCE.—

“For additional rules applicable for purposes of this section, see subsections (f) and (g) of section 615.”

(b) The following provisions of the Internal Revenue Code of 1954 are each amended by striking out “section 1245(a)” and inserting in lieu thereof “section 617(d) (1), 1245(a),”:

(1) Section 170(e) (relating to charitable contributions).

(2) Subsections (b) (1) (B) (ii) and (d) (2) (B) of section 301 (relating to amount distributed).

(3) Paragraph (3) of section 312(c) (relating to adjustments of earnings and profits).

(4) Paragraph (12) of section 341(e) (relating to collapsible corporations).

(5) Subparagraphs (A) and (B) of section 453(d) (4) (relating to distribution of installment obligations in certain corporate liquidations).

(c) The last sentence of section 751(c) of such Code (relating to definition of “unrealized receivables” for purposes of subchapter K) is amended—

(1) by striking out “section 1245 property (as defined in section 1245(a) (3))” and inserting in lieu thereof “mining property (as defined in section 617(f) (2)), section 1245 property (as defined in section 1245(a) (3)),”, and

(2) by striking out “section 1245(a)” and inserting in lieu thereof “section 617(d) (1), 1245(a),”.

(d) The table of sections for part I of subchapter I of chapter 1 of such Code is amended by adding after the item relating to section 616 the following new item:

“SEC. 617. Additional exploration expenditures in the case of domestic mining.”

68A Stat. 213;
78 Stat. 97.

68A Stat. 250.

76 Stat. 1034.
76 Stat. 1035.

26 USC 611-
616.

SEC. 2. (a) Section 615 of the Internal Revenue Code of 1954 (relating to exploration expenditures) is amended by adding at the end thereof the following new subsections:

68A Stat. 211;
74 Stat. 333.

“(e) ELECTION TO HAVE SECTION APPLY.—This section (other than subsections (f) and (g)) shall apply only if the taxpayer so elects in such manner as the Secretary or his delegate may by regulations prescribe. Such election shall be made before the expiration of 3 years after the time prescribed by law (determined without any extension thereof) for filing the return for the first taxable year ending after the date of the enactment of this subsection in which expenditures described in subsection (a) are paid or incurred after such date. Such election may not be revoked after the expiration of such 3 years.

“(f) SECTION 615 AND SECTION 617 ELECTIONS TO BE MUTUALLY EXCLUSIVE.—A taxpayer who has made an election under subsection (e) (which he has not revoked) may not make an election under section 617 (a). A taxpayer who has made an election under section 617 (a) (which he has not revoked) may not make an election under subsection (e) of this section.

“(g) EFFECT OF TRANSFER OF MINERAL PROPERTY.—

“(1) TRANSFER BEFORE ELECTION.—If—

“(A) any person transfers any mineral property to another person in a transaction as a result of which the basis of such property in the hands of the transferee is determined by reference to the basis in the hands of the transferor, and

“(B) the transferor has not, at the time of the transfer, made an election under either subsection (a) of section 617 or subsection (e) of this section,

Ante, p. 759.

then no election by the transferor under either such subsection shall apply with respect to expenditures which are made by the transferor after the date of the enactment of this subsection and before the date of the transfer and which are properly chargeable to such property. For purposes of the preceding sentence, a transferor of mineral property who made an election under subsection (a) of section 617 or subsection (e) of this section before the transfer but who revokes such election after the transfer shall be treated with respect to such property as not having made an election under either such subsection.

“(2) EFFECT OF ELECTION BY TRANSFEREE UNDER SECTION 617.—If—

“(A) the taxpayer receives mineral property in a transaction described in paragraph (1) (A),

“(B) an election made by the transferor under subsection (e) applies with respect to expenditures which are made by him after the date of the enactment of this subsection and before the date of the transfer and which are properly chargeable to such property, and

“(C) the taxpayer has made or makes an election under section 617 (a),

then in applying section 617 with respect to the transferee, the amounts allowed as deductions under this section to the transferor, which (but for the transferor's election) would be reflected in the adjusted basis of such property in the hands of the transferee, shall be treated as expenditures allowed as deductions under section 617 (a) to the transferor. Notwithstanding subsections (b) and (d) of this section (and section 381 (c) (10)), any deferred expenses described in subsection (b) which are not allowed as deductions to the transferor for a period before the transfer may not be deducted by the transferee and in his hands shall be charged to capital account.”

68A Stat. 124.

68A Stat. 240.

(b) Section 703(b) of such Code (relating to elections of partnerships) is amended by inserting after "United States," the following: "and any election under section 615 (relating to exploration expenditures) or under section 617 (relating to additional exploration expenditures in the case of domestic mining)."

Effective date.

SEC. 3. The amendments made by this Act shall apply to taxable years ending after the date of the enactment of this Act but only in respect of expenditures paid or incurred after such date.

Approved September 12, 1966.

Public Law 89-571

September 12, 1966
[H. R. 3999]

AN ACT

To provide the same life tenure and retirement rights for judges hereafter appointed to the United States District Court for the District of Puerto Rico as the judges of all other United States district courts now have.

Puerto Rico.
Tenure of
judges.
68 Stat. 12.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (a) of section 134 of title 28, United States Code, is amended to read as follows:

"(a) The district judges shall hold office during good behavior."

73 Stat. 10.

SEC. 2. The first paragraph of section 373 of title 28, United States Code, is amended by striking out the words "the United States District Court for the District of Puerto Rico,".

73 Stat. 9.

SEC. 3. The second paragraph of section 451 of title 28, United States Code, is amended by striking out the words "the United States District Court for the District of Puerto Rico,".

SEC. 4. The amendments made by this section to sections 134 and 373 of title 28, United States Code, shall not affect the tenure of office or right to continue to receive salary after resignation, retirement, or failure of reappointment of any district judge for the district of Puerto Rico who is in office on the date of enactment of this Act.

Approved September 12, 1966.

Public Law 89-572

September 13, 1966
[S. 3418]

AN ACT

To amend the Peace Corps Act (75 Stat. 612), as amended, and for other purposes.

Peace Corps
Act, amendment.
Appropriation.
78 Stat. 166;
79 Stat. 549.
22 USC 2502.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3(b) of the Peace Corps Act, as amended, which authorizes appropriations to carry out the purposes of that Act, is amended as follows:

(a) Strike out "1966" and "\$115,000,000" and insert in lieu thereof "1967" and "\$110,000,000", respectively.

(b) Strike out "of which not to exceed \$500,000 shall be available for carrying out research" and insert in lieu thereof " : *Provided, however,* That not to exceed \$500,000 of funds made available hereunder for fiscal year 1967 shall be obligated under contracts or agreements to carry out research : *Provided further,* That no such contracts or agreements shall be executed unless the research in question relates to the basic responsibilities of the Peace Corps."