

1 *nected with the conduct by such corporation of a*
 2 *trade or business within the United States.*

3 *This paragraph shall not apply with respect to any*
 4 *item which is exempt from taxation (or is subject to*
 5 *a reduced rate of tax) pursuant to a treaty obligation*
 6 *of the United States.”*

7 *(l) DECLARATION OF ESTIMATED INCOME TAX BY*
 8 *CORPORATIONS.—Section 6016 (relating to declarations of*
 9 *estimated income tax by corporations) is amended by redes-*
 10 *ignating subsection (f) as subsection (g) and by inserting*
 11 *after subsection (e) the following new subsection:*

12 *“(f) CERTAIN FOREIGN CORPORATIONS.—For pur-*
 13 *poses of this section and section 6655, in the case of a foreign*
 14 *corporation subject to taxation under section 11 or 1201(a),*
 15 *or under subchapter L of chapter 1, the tax imposed by*
 16 *section 881 shall be treated as a tax imposed by section 11.”*

17 *(m) TECHNICAL AMENDMENTS.—*

18 *(1) Section 884 is amended to read as follows:*

19 *“SEC. 884. CROSS REFERENCES.*

“(1) For special provisions relating to unrelated business income of foreign educational, charitable, and certain other exempt organizations, see section 512(a).

“(2) For special provisions relating to foreign corporations carrying on an insurance business within the United States, see section 842.

“(3) For rules applicable in determining whether any foreign corporation is engaged in trade or business within the United States, see section 864(b).

“(4) For adjustment of tax in case of corporations of certain foreign countries, see section 896.

“(5) For allowance of credit against the tax in case of a foreign corporation having income effectively connected with the conduct of a trade or business within the United States, see section 906.

“(6) For withholding at source of tax on income of foreign corporations, see section 1442.”

1 (2) Section 953(b)(3)(F) is amended by strik-
2 ing out “832(b)(5)” and inserting in lieu thereof
3 “832(c)(5)”.

4 (3) Section 1249(a) is amended by striking out
5 “Except as provided in subsection (c), gain” and in-
6 serting in lieu thereof “Gain”.

7 (n) *EFFECTIVE DATES.*—The amendments made by
8 this section (other than subsection (k)) shall apply with
9 respect to taxable years beginning after December 31, 1966.
10 The amendment made by subsection (k) shall apply with
11 respect to sales or exchanges occurring after December 31,
12 1966.

13 SEC. 105. SPECIAL TAX PROVISIONS.

14 (a) *INCOME AFFECTED BY TREATY.*—Section 894 (re-
15 lating to income exempt under treaties) is amended to read
16 as follows:

17 “SEC. 894. INCOME AFFECTED BY TREATY.

18 “(a) *INCOME EXEMPT UNDER TREATY.*—Income of
19 any kind, to the extent required by any treaty obligation of
20 the United States, shall not be included in gross income and
21 shall be exempt from taxation under this subtitle.

1 “(b) *PERMANENT ESTABLISHMENT IN UNITED*
 2 *STATES.*—For purposes of applying any exemption from, or
 3 reduction of, any tax provided by any treaty to which the
 4 United States is a party with respect to income which is not
 5 effectively connected with the conduct of a trade or business
 6 within the United States, a nonresident alien individual or a
 7 foreign corporation shall be deemed not to have a permanent
 8 establishment in the United States at any time during the
 9 taxable year. This subsection shall not apply in respect of
 10 the tax computed under section 877(b).”

11 (b) *ADJUSTMENT OF TAX BECAUSE OF BURDENSOME*
 12 *OR DISCRIMINATORY FOREIGN TAXES.*—Subpart C of part
 13 II of subchapter N of chapter 1 (relating to miscellaneous
 14 provisions applicable to nonresident aliens and foreign corpo-
 15 rations) is amended by adding at the end thereof the follow-
 16 ing new section:

17 “SEC. 896. *ADJUSTMENT OF TAX ON NATIONALS, RESI-*
 18 *DENTS, AND CORPORATIONS OF CERTAIN*
 19 *FOREIGN COUNTRIES.*

20 “(a) *IMPOSITION OF MORE BURDENSOME TAXES BY*
 21 *FOREIGN COUNTRY.*—Whenever the President finds that—

22 “(1) under the laws of any foreign country, con-
 23 sidering the tax system of such foreign country, citizens
 24 of the United States not residents of such foreign coun-

1 *try or domestic corporations are being subjected to more*
 2 *burdensome taxes, on any item of income received by*
 3 *such citizens or corporations from sources within such*
 4 *foreign country, than taxes imposed by the provisions of*
 5 *this subtitle on similar income derived from sources*
 6 *within the United States by residents or corporations of*
 7 *such foreign country,*

8 *“(2) such foreign country, when requested by the*
 9 *United States to do so, has not acted to revise or reduce*
 10 *such taxes so that they are no more burdensome than*
 11 *taxes imposed by the provisions of this subtitle on similar*
 12 *income derived from sources within the United States by*
 13 *residents or corporations of such foreign country, and*

14 *“(3) it is in the public interest to apply pre-1967*
 15 *tax provisions in accordance with the provisions of this*
 16 *subsection to residents or corporations of such foreign*
 17 *country,*

18 *the President shall proclaim that the tax on such similar in-*
 19 *come derived from sources within the United States by resi-*
 20 *dents or corporations of such foreign country shall, for tax-*
 21 *able years beginning after such proclamation, be determined*
 22 *under this subtitle without regard to amendments made to*
 23 *this subchapter and chapter 3 on or after the date of enact-*
 24 *ment of this section.*

1 “(b) *IMPOSITION OF DISCRIMINATORY TAXES BY*
 2 *FOREIGN COUNTRY.*—*Whenever the President finds that—*

3 “(1) *under the laws of any foreign country, citizens*
 4 *of the United States or domestic corporations (or any*
 5 *class of such citizens or corporations) are, with respect to*
 6 *any item of income, being subjected to a higher effective*
 7 *rate of tax than are nationals, residents, or corporations*
 8 *of such foreign country (or a similar class of such na-*
 9 *tionals, residents, or corporations) under similar cir-*
 10 *cumstances;*

11 “(2) *such foreign country, when requested by the*
 12 *United States to do so, has not acted to eliminate such*
 13 *higher effective rate of tax; and*

14 “(3) *it is in the public interest to adjust, in accord-*
 15 *ance with the provisions of this subsection, the effective*
 16 *rate of tax imposed by this subtitle on similar income of*
 17 *nationals, residents, or corporations of such foreign*
 18 *country (or such similar class of such nationals, resi-*
 19 *dents, or corporations),*
 20 *the President shall proclaim that the tax on similar income*
 21 *of nationals, residents, or corporations of such foreign country*
 22 *(or such similar class of such nationals, residents, or corpo-*
 23 *rations) shall, for taxable years beginning after such proc-*
 24 *lamation, be adjusted so as to cause the effective rate of tax*

1 *imposed by this subtitle on such similar income to be sub-*
 2 *stantially equal to the effective rate of tax imposed by such*
 3 *foreign country on such item of income of citizens of the*
 4 *United States or domestic corporations (or such class of*
 5 *citizens or corporations). In implementing a proclamation*
 6 *made under this subsection, the effective rate of tax imposed by*
 7 *this subtitle on an item of income may be adjusted by the dis-*
 8 *allowance, in whole or in part, of any deduction, credit, or*
 9 *exemption which would otherwise be allowed with respect to*
 10 *that item of income or by increasing the rate of tax otherwise*
 11 *applicable to that item of income.*

12 “(c) *ALLEVIATION OF MORE BURDENSOME OR DIS-*
 13 *CRIMINATORY TAXES.*—*Whenever the President finds that—*

14 “(1) *the laws of any foreign country with respect*
 15 *to which the President has made a proclamation under*
 16 *subsection (a) have been modified so that citizens of the*
 17 *United States not residents of such foreign country or*
 18 *domestic corporations are no longer subject to more bur-*
 19 *densome taxes on the item of income derived by such*
 20 *citizens or corporations from sources within such foreign*
 21 *country, or*

22 “(2) *the laws of any foreign country with respect*
 23 *to which the President has made a proclamation under*
 24 *subsection (b) have been modified so that citizens of the*
 25 *United States or domestic corporations (or any class of*

1 *such citizens or corporations) are no longer subject to*
 2 *a higher effective rate of tax on the item of income.*
 3 *he shall proclaim that the tax imposed by this subtitle on the*
 4 *similar income of nationals, residents, or corporations of*
 5 *such foreign country shall, for any taxable year beginning*
 6 *after such proclamation, be determined under this subtitle*
 7 *without regard to such subsection.*

8 “(d) NOTIFICATION OF CONGRESS REQUIRED.—No
 9 proclamation shall be issued by the President pursuant to
 10 this section unless, at least 30 days prior to such procla-
 11 mation, he has notified the Senate and the House of Repre-
 12 sentatives of his intention to issue such proclamation.

13 “(e) IMPLEMENTATION BY REGULATIONS.—The Sec-
 14 retary or his delegate shall prescribe such regulations as he
 15 deems necessary or appropriate to implement this section.”

16 (c) CLERICAL AMENDMENTS.—The table of sections
 17 for subpart C of part II of subchapter N of chapter 1 is
 18 amended—

19 (1) by striking out the item relating to section 894
 20 and inserting in lieu thereof

 “Sec. 894. Income affected by treaty.”;

21 (2) by adding at the end of such table the following:

 “Sec. 896. Adjustment of tax on nationals, residents, and
 corporations of certain foreign countries.”

22 (d) EFFECTIVE DATE.—The amendments made by this

1 section (other than subsections (e) and (f)) shall apply
 2 with respect to taxable years beginning after December 31,
 3 1966.

4 (e) *ELECTIONS BY NONRESIDENT UNITED STATES*
 5 *CITIZENS WHO ARE SUBJECT TO FOREIGN COMMUNITY*
 6 *PROPERTY LAWS.*—

7 (1) Part III of subchapter N of chapter 1 (relat-
 8 ing to income from sources without the United States)
 9 is amended by adding at the end thereof the following
 10 new subpart:

11 “Subpart H—Income of Certain Nonresident United States
 12 Citizens Subject to Foreign Community Property Laws

“Sec. 981. Elections as to treatment of income subject to
 foreign community property laws.

13 “SEC. 981. ELECTION AS TO TREATMENT OF INCOME SUB-
 14 JECT TO FOREIGN COMMUNITY PROPERTY
 15 LAWS.

16 “(a) *GENERAL RULE.*—In the case of any taxable year
 17 beginning after December 31, 1966, if—

18 “(1) an individual is (A) a citizen of the United
 19 States, (B) a bona fide resident of a foreign country
 20 or countries during the entire taxable year, and (C)
 21 married at the close of the taxable year to a spouse who is
 22 a nonresident alien during the entire taxable year, and

23 “(2) such individual and his spouse elect to have

subsection (b) apply to their community income under foreign community property laws, then subsection (b) shall apply to such income of such individual and such spouse for the taxable year and for all subsequent taxable years for which the requirements of paragraph (1) are met, unless the Secretary or his delegate consents to a termination of the election.

“(b) *TREATMENT OF COMMUNITY INCOME.*—For any taxable year to which an election made under subsection (a) applies, the community income under foreign community property laws of the husband and wife making the election shall be treated as follows:

“(1) *Earned income* (within the meaning of the first sentence of section 911(b)), other than trade or business income and a partner’s distributive share of partnership income, shall be treated as the income of the spouse who rendered the personal services.

“(2) *Trade or business income*, and a partner’s distributive share of partnership income, shall be treated as provided in section 1402(a)(5).

“(3) *Community income* not described in paragraph (1) or (2) which is derived from the separate property (as determined under the applicable foreign community property law) of one spouse shall be treated as the income of such spouse.

1 “(4) *All other such community income shall be*
 2 *treated as provided in the applicable foreign community*
 3 *property law.*

4 “(c) *ELECTION FOR PRE-1967 YEARS.—*

5 “(1) *ELECTION.—If an individual meets the re-*
 6 *quirements of subsections (a)(1) (A) and (C) for any*
 7 *taxable year beginning before January 1, 1967, and if*
 8 *such individual and the spouse referred to in subsection*
 9 *(a)(1)(C) elect under this subsection, then paragraph*
 10 *(2) of this subsection shall apply to their community in-*
 11 *come under foreign community property laws for all*
 12 *open taxable years beginning before January 1, 1967*
 13 *(whether under this chapter, the corresponding provi-*
 14 *sions of the Internal Revenue Code of 1939, or the cor-*
 15 *responding provisions of prior revenue laws), for which*
 16 *the requirements of subsection (a)(1) (A) and (C)*
 17 *are met.*

18 “(2) *EFFECT OF ELECTION.—For any taxable*
 19 *year to which an election made under this subsection*
 20 *applies, the community income under foreign community*
 21 *property laws of the husband and wife making the*
 22 *election shall be treated as provided by subsection (b),*
 23 *except that the other community income described in*
 24 *paragraph (4) of subsection (b) shall be treated as the*
 25 *income of the spouse who, for such taxable year, had*

gross income under paragraphs (1), (2), and (3) of subsection (b), plus separate gross income, greater than that of the other spouse.

“(d) *TIME FOR MAKING ELECTIONS; PERIOD OF LIMITATIONS; ETC.*—

“(1) *TIME.*—An election under subsection (a) or (c) for a taxable year may be made at any time while such year is still open, and shall be made in such manner as the Secretary or his delegate shall by regulations prescribe.

“(2) *EXTENSION OF PERIOD FOR ASSESSING DEFICIENCIES AND MAKING REFUNDS.*—If any taxable year to which an election under subsection (a) or (c) applies is open at the time such election is made, the period for assessing a deficiency against, and the period for filing claim for credit or refund of any overpayment by, the husband and wife for such taxable year, to the extent such deficiency or overpayment is attributable to such an election, shall not expire before 1 year after the date of such election.

“(3) *ALIEN SPOUSE NEED NOT JOIN IN SUBSECTION (c) ELECTION IN CERTAIN CASES.*—If the Secretary or his delegate determines—

“(A) that an election under subsection (c) would not affect the liability for Federal income

1 *tax of the spouse referred to in subsection (a)(1)*
 2 *(C) for any taxable year, or*

3 *“(B) that the effect on such liability for tax*
 4 *cannot be ascertained and that to deny the election*
 5 *to the citizen of the United States would be inequita-*
 6 *ble and cause undue hardship,*
 7 *such spouse shall not be required to join in such election,*
 8 *and paragraph (2) of this subsection shall not apply*
 9 *with respect to such spouse.*

10 *“(4) INTEREST.—To the extent that any overpay-*
 11 *ment or deficiency for a taxable year is attributable to*
 12 *an election made under this section, no interest shall be*
 13 *allowed or paid for any period before the day which is 1*
 14 *year after the date of such election.*

15 *“(e) DEFINITIONS AND SPECIAL RULES.—For pur-*
 16 *poses of this section—*

17 *“(1) DEDUCTIONS.—Deductions shall be treated in*
 18 *a manner consistent with the manner provided by this*
 19 *section for the income to which they relate.*

20 *“(2) OPEN YEARS.—A taxable year of a citizen*
 21 *of the United States and his spouse shall be treated as*
 22 *‘open’ if the period for assessing a deficiency against*
 23 *such citizen for such year has not expired before the*
 24 *date of the election under subsection (a) or (c), as the*
 25 *case may be.*

“(3) *ELECTIONS IN CASE OF DECEDENTS.*—If a husband or wife is deceased his election under this section may be made by his executor, administrator, or other person charged with his property.

“(4) *DEATH OF SPOUSE DURING TAXABLE YEAR.*—In applying subsection (a)(1)(C), and in determining under subsection (c)(2) which spouse has the greater income for a taxable year, if a husband or wife dies the taxable year of the surviving spouse shall be treated as ending on the date of such death.”

(2) The table of subparts for such part III is amended by adding at the end thereof the following:

“Subpart H. *Income of certain nonresident United States citizens subject to foreign community property laws.*”

(3) Section 911(d) (relating to earned income from sources without the United States) is amended—

(A) by striking out “For administrative” and inserting in lieu thereof the following: “(1) For administrative”; and

(B) by adding at the end thereof the following:

“(2) For elections as to treatment of income subject to foreign community property laws, see section 981.”

(f) *PRESUMPTIVE DATE OF PAYMENT FOR TAX WITHHELD UNDER CHAPTER 3.*—

(1) Section 6513(b) (relating to time tax is consid-

1 *ered paid in the case of prepaid income tax) is amended*
 2 *to read as follows:*

3 *“(b) PREPAID INCOME TAX.—For purposes of section*
 4 *6511 or 6512—*

5 *“(1) Any tax actually deducted and withheld at*
 6 *the source during any calendar year under chapter 24*
 7 *shall, in respect of the recipient of the income, be deemed*
 8 *to have been paid by him on the 15th day of the fourth*
 9 *month following the close of his taxable year with respect*
 10 *to which such tax is allowable as a credit under section*
 11 *31.*

12 *“(2) Any amount paid as estimated income tax for*
 13 *any taxable year shall be deemed to have been paid on*
 14 *the last day prescribed for filing the return under sec-*
 15 *tion 6012 for such taxable year (determined without*
 16 *regard to any extension of time for filing such return).*

17 *“(3) Any tax withheld at the source under chapter*
 18 *3 shall, in respect of the recipient of the income, be*
 19 *deemed to have been paid by such recipient on the last*
 20 *day prescribed for filing the return under section 6012*
 21 *for the taxable year (determined without regard to any*
 22 *extension of time for filing) with respect to which such*
 23 *tax is allowable as a credit under section 1462. For*
 24 *this purpose, any exemption granted under section 6012*

1 from the requirement of filing a return shall be disre-
 2 garded.”

3 (2) Section 6513(c) (relating to return and pay-
 4 ment of Social Security taxes and income tax withhold-
 5 ing) is amended—

6 (A) by striking out “chapter 21 or 24” and
 7 inserting in lieu thereof “chapter 3, 21, or 24”; and

8 (B) by striking out “remuneration” in para-
 9 graph (2) and inserting in lieu thereof “remunera-
 10 tion or other amount”.

11 (3) Section 6501(b) (relating to time returns
 12 deemed filed) is amended—

13 (A) by striking out “chapter 21 or 24” in para-
 14 graphs (1) and (2) and inserting in lieu thereof
 15 “chapter 3, 21, or 24”; and

16 (B) by inserting after “taxes” in the heading
 17 of paragraph (2) “and tax imposed by chapter 3”.

18 (4) The amendments made by this subsection shall
 19 take effect on the date of the enactment of this Act.

20 **SEC. 106. FOREIGN TAX CREDIT.**

21 (a) **ALLOWANCE OF CREDIT TO CERTAIN NONRESI-**
 22 **DENT ALIENS AND FOREIGN CORPORATIONS.—**

23 (1) Subpart A of part III of subchapter N of
 24 chapter 1 (relating to foreign tax credit) is amended

1 *by adding at the end thereof the following new section:*

2 **"SEC. 906. NONRESIDENT ALIEN INDIVIDUALS AND FOR-**
 3 **EIGN CORPORATIONS.**

4 *"(a) ALLOWANCE OF CREDIT.—A nonresident alien*
 5 *individual or a foreign corporation engaged in trade or*
 6 *business within the United States during the taxable year*
 7 *shall be allowed a credit under section 901 for the amount*
 8 *of any income, war profits, and excess profits taxes paid or*
 9 *accrued during the taxable year (or deemed, under section*
 10 *902, paid or accrued during the taxable year) to any foreign*
 11 *country or possession of the United States with respect to*
 12 *income effectively connected with the conduct of a trade or*
 13 *business within the United States.*

14 *"(b) SPECIAL RULES.—*

15 *"(1) For purposes of subsection (a) and for pur-*
 16 *poses of determining the deductions allowable under sec-*
 17 *tions 873(a) and 882(c), in determining the amount of*
 18 *any tax paid or accrued to any foreign country or posses-*
 19 *sion there shall not be taken into account any amount of*
 20 *tax to the extent the tax so paid or accrued is imposed*
 21 *with respect to income from sources within the United*
 22 *States which would not be taxed by such foreign country*
 23 *or possession but for the fact that—*

1 “(A) in the case of a nonresident alien indi-
2 vidual, such individual is a citizen or resident of such
3 foreign country or possession, or

4 “(B) in the case of a foreign corporation, such
5 corporation was created or organized under the law
6 of such foreign country or possession or is domiciled
7 for tax purposes in such country or possession.

8 “(2) For purposes of subsection (a), in applying
9 section 904 the taxpayer's taxable income shall be treated
10 as consisting only of the taxable income effectively con-
11 nected with the taxpayer's conduct of a trade or business
12 within the United States.

13 “(3) The credit allowed pursuant to subsection (a)
14 shall not be allowed against any tax imposed by section
15 871(a) (relating to income of nonresident alien individ-
16 ual not connected with United States business) or 881
17 (relating to income of foreign corporations not connected
18 with United States business).

19 “(4) For purposes of sections 902(a) and 78, a
20 foreign corporation choosing the benefits of this subpart
21 which receives dividends shall, with respect to such divi-
22 dends, be treated as a domestic corporation.”

1 (2) The table of sections for such subpart A is
2 amended by adding at the end thereof the following:

"Sec. 906. Nonresident alien individuals and foreign corporations."

3 (3) Section 874(c) is amended by striking out
4 “(c) FOREIGN TAX CREDIT NOT ALLOWED.—A non-
5 resident” and inserting in lieu thereof the following:

6 “(c) FOREIGN TAX CREDIT.—Except as provided in
7 section 906, a nonresident”.

8 (4) Subsection (b) of section 901 (relating to
9 amount allowed) is amended by redesignating para-
10 graph (4) as paragraph (5), and by inserting after
11 paragraph (3) the following new paragraph:

12 “(4) NONRESIDENT ALIEN INDIVIDUALS AND FOR-
13 EIGN CORPORATIONS.—In the case of any nonresident
14 alien individual not described in section 876 and in the
15 case of any foreign corporation, the amount determined
16 pursuant to section 906; and ”.

17 (5) Paragraph (5) (as redesignated) of section
18 901(b) is amended by striking out “or (3),” and in-
19 serting in lieu thereof “(3), or (4),”.

20 (6) The amendments made by this subsection shall
21 apply with respect to taxable years beginning after
22 December 31, 1966. In applying section 904 of the
23 Internal Revenue Code of 1954 with respect to section

1 906 of such Code, no amount may be carried from or to
 2 any taxable year beginning before January 1, 1967, and
 3 no such year shall be taken into account.

4 (b) *ALIEN RESIDENTS OF THE UNITED STATES OR*
 5 *PUERTO RICO.*—

6 (1) Paragraph (3) of section 901(b) (relating
 7 to amount of foreign tax credit allowed in case of alien
 8 resident of the United States or Puerto Rico) is amended
 9 by striking out “, if the foreign country of which such
 10 alien resident is a citizen or subject, in imposing such
 11 taxes, allows a similar credit to citizens of the United
 12 States residing in such country”.

13 (2) Section 901 is amended by redesignating sub-
 14 sections (c) and (d) as subsections (d) and (e), and
 15 by inserting after subsection (b) the following new
 16 subsection:

17 “(c) *SIMILAR CREDIT REQUIRED FOR CERTAIN ALIEN*
 18 *RESIDENTS.*—Whenever the President finds that—

19 “(1) a foreign country, in imposing income, war
 20 profits, and excess profits taxes, does not allow to
 21 citizens of the United States residing in such foreign
 22 country a credit for any such taxes paid or accrued to
 23 the United States or any foreign country, as the case

1 *may be, similar to the credit allowed under subsection*
 2 *(b)(3),*

3 *“(2) such foreign country, when requested by the*
 4 *United States to do so, has not acted to provide such a*
 5 *similar credit to citizens of the United States residing*
 6 *in such foreign country, and*

7 *“(3) it is in the public interest to allow the credit*
 8 *under subsection (b)(3) to citizens or subjects of such*
 9 *foreign country only if it allows such a similar credit to*
 10 *citizens of the United States residing in such foreign*
 11 *country,*

12 *the President shall proclaim that, for taxable years begin-*
 13 *ning while the proclamation remains in effect, the credit*
 14 *under subsection (b)(3) shall be allowed to citizens or*
 15 *subjects of such foreign country only if such foreign country,*
 16 *in imposing income, war profits, and excess profits taxes,*
 17 *allows to citizens of the United States residing in such foreign*
 18 *country such a similar credit.”*

19 *(3) Section 2014 (relating to credit for foreign*
 20 *death taxes) is amended by striking out the second sen-*
 21 *tence of subsection (a), and by adding at the end of*
 22 *such section the following new subsection:*

23 *“(h) SIMILAR CREDIT REQUIRED FOR CERTAIN*
 24 *ALIEN RESIDENTS.—Whenever the President finds that—*

25 *“(1) a foreign country, in imposing estate, inherit-*

ance, legacy, or succession taxes, does not allow to citizens of the United States resident in such foreign country at the time of death a credit similar to the credit allowed under subsection (a),

“(2) such foreign country, when requested by the United States to do so has not acted to provide such a similar credit in the case of citizens of the United States resident in such foreign country at the time of death, and

“(3) it is in the public interest to allow the credit under subsection (a) in the case of citizens or subjects of such foreign country only if it allows such a similar credit in the case of citizens of the United States resident in such foreign country at the time of death, the President shall proclaim that, in the case of citizens or subjects of such foreign country dying while the proclamation remains in effect, the credit under subsection (a) shall be allowed only if such foreign country allows such a similar credit in the case of citizens of the United States resident in such foreign country at the time of death.”

(4) The amendments made by this subsection (other than paragraph (3)) shall apply with respect to taxable years beginning after December 31, 1966. The amendment made by paragraph (3) shall apply with respect to estates of decedents dying after the date of the enactment of this Act.

1 (c) *FOREIGN TAX CREDIT IN RESPECT OF INTEREST*
 2 *RECEIVED FROM FOREIGN SUBSIDIARIES.*—

3 (1) *Section 904(f)(2) (relating to application of*
 4 *limitations on foreign tax credit in case of certain interest*
 5 *income) is amended—*

6 (A) *by striking out subparagraph (C) and*
 7 *inserting in lieu thereof the following:*

8 “(C) *received from a corporation in which the*
 9 *taxpayer (or one or more includible corporations in*
 10 *an affiliated group, as defined in section 1504, of*
 11 *which the taxpayer is a member) owns, directly or*
 12 *indirectly, at least 10 percent of the voting stock,”.*

13 (B) *by adding at the end thereof the following*
 14 *new sentence:*

15 “*For purposes of subparagraph (C), stock owned, di-*
 16 *rectly or indirectly, by or for a foreign corporation*
 17 *shall be considered as being proportionately owned by*
 18 *its shareholders.”*

19 (2) *The amendments made by paragraph (1) shall*
 20 *apply to interest received after December 31, 1965,*
 21 *in taxable years ending after such date.*

1 SEC. 107. AMENDMENT TO PRESERVE EXISTING LAW ON
 2 DEDUCTIONS UNDER SECTION 931.

3 (a) DEDUCTIONS.—Subsection (d) of section 931 (re-
 4 lating to deductions) is amended to read as follows:

5 “(d) DEDUCTIONS.—

6 “(1) GENERAL RULE.—Except as otherwise pro-
 7 vided in this subsection and subsection (e), in the case
 8 of persons entitled to the benefits of this section the
 9 deductions shall be allowed only if and to the extent
 10 that they are connected with income from sources within
 11 the United States; and the proper apportionment and
 12 allocation of the deductions with respect to sources of
 13 income within and without the United States shall be
 14 determined as provided in part I, under regulations
 15 prescribed by the Secretary or his delegate.

16 “(2) EXCEPTIONS.—The following deductions shall
 17 be allowed whether or not they are connected with in-
 18 come from sources within the United States:

19 “(A) The deduction, for losses not connected
 20 with the trade or business if incurred in transactions
 21 entered into for profit, allowed by section 165(c)

1 (2), but only if the profit, if such transaction had
 2 resulted in a profit, would be taxable under this
 3 subtitle.

4 “(B) The deduction, for losses of property not
 5 connected with the trade or business if arising from
 6 certain casualties or theft, allowed by section 165
 7 (c)(3), but only if the loss is of property within
 8 the United States.

9 “(C) The deduction for charitable contribu-
 10 tions and gifts allowed by section 170.

11 “(3) DEDUCTION DISALLOWED.—

*“For disallowance of standard deduction, see section
 142(b)(2).”*

12 (b) *EFFECTIVE DATE.*—The amendment made by this
 13 section shall apply with respect to taxable years beginning
 14 after December 31, 1966.

15 SEC. 108. ESTATES OF NONRESIDENTS NOT CITIZENS.

16 (a) *RATE OF TAX.*—Subsection (a) of section 2101
 17 (relating to tax imposed in case of estates of nonresidents
 18 not citizens) is amended to read as follows:

19 “(a) *RATE OF TAX.*—Except as provided in section
 20 2107, a tax computed in accordance with the following table
 21 is hereby imposed on the transfer of the taxable estate, de-

- 1 *terminated as provided in section 2106, of every decedent non-*
 2 *resident not a citizen of the United States:*

"If the taxable estate is:

The tax shall be:

<i>Not over \$100,000-----</i>	<i>5% of the taxable estate.</i>
<i>Over \$100,000 but not over</i> <i>\$500,000-----</i>	<i>\$5,000, plus 10% of excess over</i> <i>\$100,000.</i>
<i>Over \$500,000 but not over</i> <i>\$1,000,000-----</i>	<i>\$45,000, plus 15% of excess over</i> <i>\$500,000.</i>
<i>Over \$1,000,000 but not over</i> <i>\$2,000,000-----</i>	<i>\$120,000, plus 20% of excess over</i> <i>\$1,000,000.</i>
<i>Over \$2,000,000-----</i>	<i>\$320,000, plus 25% of excess over</i> <i>\$2,000,000."</i>

- 3 ***(b) CREDITS AGAINST TAX.***—Section 2102 (relating
 4 *to credits allowed against estate tax) is amended to read as*
 5 *follows:*

6 ***"SEC. 2102. CREDITS AGAINST TAX.***

- 7 ***"(a) IN GENERAL.***—The tax imposed by section 2101
 8 *shall be credited with the amounts determined in accordance*
 9 *with sections 2011 to 2013, inclusive (relating to State death*
 10 *taxes, gift tax, and tax on prior transfers), subject to the*
 11 *special limitation provided in subsection (b).*

- 12 ***"(b) SPECIAL LIMITATION.***—The maximum credit
 13 *allowed under section 2011 against the tax imposed by sec-*
 14 *tion 2101 for State death taxes paid shall be an amount*
 15 *which bears the same ratio to the credit computed as pro-*
 16 *vided in section 2011(b) as the value of the property, as*
 17 *determined for purposes of this chapter, upon which State*

1 death taxes were paid and which is included in the gross
 2 estate under section 2103 bears to the value of the total gross
 3 estate under section 2103. For purposes of this subsection,
 4 the term 'State death taxes' means the taxes described in
 5 section 2011(a)."

6 (c) *PROPERTY WITHIN THE UNITED STATES.*—Sec-
 7 tion 2104 (relating to property within the United States) is
 8 amended by adding at the end thereof the following new
 9 subsection:

10 "(c) *DEBT OBLIGATIONS.*—For purposes of this sub-
 11 chapter, debt obligations of—

12 "(1) a United States person, or

13 "(2) the United States, a State or any political
 14 subdivision thereof, or the District of Columbia.

15 owned and held by a nonresident not a citizen of the United
 16 States shall be deemed property within the United States.
 17 This subsection shall not apply to a debt obligation to which
 18 section 2105(b) applies or to a debt obligation of a domestic
 19 corporation if any interest on such obligation, were such
 20 interest received by the decedent at the time of his death,
 21 would be treated by reason of section 861(a)(1)(B) as
 22 income from sources without the United States."

1 (d) *PROPERTY WITHOUT THE UNITED STATES.*—Sub-
2 section (b) of section 2105 (relating to bank deposits) is
3 amended to read as follows:

4 “(b) *CERTAIN BANK DEPOSITS, ETC.*—For purposes
5 of this subchapter—

6 “(1) amounts described in section 861(c) if any
7 interest thereon, were such interest received by the dece-
8 dent at the time of his death, would be treated by reason of
9 section 861(a)(1)(A) as income from sources without
10 the United States, and

11 “(2) deposits with a foreign branch of a domestic
12 corporation or domestic partnership, if such branch is
13 engaged in the commercial banking business,
14 shall not be deemed property within the United States.”

15 (e) *DEFINITION OF TAXABLE ESTATE.*—Paragraph
16 (3) section 2106(a) (relating to deduction of exemption
17 from gross estate) is amended to read as follows:

18 “(3) *EXEMPTION.*—

19 “(A) *GENERAL RULE.*—An exemption of
20 \$30,000.

21 “(B) *RESIDENTS OF POSSESSIONS OF THE*
22 *UNITED STATES.*—In the case of a decedent who is

considered to be a 'nonresident not a citizen of the United States' under the provisions of section 2209, the exemption shall be the greater of (i) \$30,000, or (ii) that proportion of the exemption authorized by section 2052 which the value of that part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated."

(f) *SPECIAL METHODS OF COMPUTING TAX.*—Subchapter B of chapter 11 (relating to estates of nonresidents not citizens) is amended by adding at the end thereof the following new sections:

"SEC. 2107. *EXPATRIATION TO AVOID TAX.*

"(a) *RATE OF TAX.*—A tax computed in accordance with the table contained in section 2001 is hereby imposed on the transfer of the taxable estate, determined as provided in section 2106, of every decedent nonresident not a citizen of the United States dying after the date of enactment of this section, if after March 8, 1965, and within the 10-year period ending with the date of death such decedent lost United States citizenship, unless such loss did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle A.

"(b) *GROSS ESTATE.*—For purposes of the tax imposed

1 by subsection (a), the value of the gross estate of every
 2 decedent to whom subsection (a) applies shall be determined
 3 as provided in section 2103, except that—

4 “(1) if such decedent owned (within the meaning
 5 of section 958(a)) at the time of his death 10 percent
 6 or more of the total combined voting power of all classes
 7 of stock entitled to vote of a foreign corporation, and

8 “(2) if such decedent owned (within the meaning
 9 of section 958(a)), or is considered to have owned
 10 (by applying the ownership rules of section 958(b)),
 11 at the time of his death, more than 50 percent of the
 12 total combined voting power of all classes of stock en-
 13 titled to vote of such foreign corporation,

14 then that proportion of the fair market value of the stock of
 15 such foreign corporation owned (within the meaning of sec-
 16 tion 958(a)) by such decedent at the time of his death,
 17 which the fair market value of any assets owned by such for-
 18 eign corporation and situated in the United States, at the time
 19 of his death, bears to the total fair market value of all assets
 20 owned by such foreign corporation at the time of his death,
 21 shall be included in the gross estate of such decedent. For
 22 purposes of the preceding sentence, a decedent shall be
 23 treated as owning stock of a foreign corporation at the time

1 of his death if, at the time of a transfer, by trust or otherwise,
 2 within the meaning of sections 2035 to 2038, inclusive, he
 3 owned such stock.

4 “(c) *CREDITS*.—The tax imposed by subsection (a) shall
 5 be credited with the amounts determined in accordance with
 6 section 2102.

7 “(d) *EXCEPTION FOR LOSS OF CITIZENSHIP FOR CER-*
 8 *TAIN CAUSES*.—Subsection (a) shall not apply to the trans-
 9 fer of the estate of a decedent whose loss of United States
 10 citizenship resulted from the application of section 301(b),
 11 350, or 355 of the Immigration and Nationality Act, as
 12 amended (8 U.S.C. 1401 (b), 1482, or 1487).

13 “(e) *BURDEN OF PROOF*.—If the Secretary or his dele-
 14 gate establishes that it is reasonable to believe that an indi-
 15 vidual's loss of United States citizenship would, but for this
 16 section, result in a substantial reduction in the estate, in-
 17 heritance, legacy, and succession taxes in respect of the
 18 transfer of his estate, the burden of proving that such loss of
 19 citizenship did not have for one of its principal purposes the
 20 avoidance of taxes under this subtitle or subtitle A shall be
 21 on the executor of such individual's estate.

22 “SEC. 2108. *APPLICATION OF PRE-1967 ESTATE TAX PRO-*
 23 *VISIONS*.

24 “(a) *IMPOSITION OF MORE BURDENSOME TAX BY*
 25 *FOREIGN COUNTRY*.—Whenever the President finds that—

1 “(1) under the laws of any foreign country, con-
2 sidering the tax system of such foreign country, a more
3 burdensome tax is imposed by such foreign country on
4 the transfer of estates of decedents who were citizens of
5 the United States and not residents of such foreign
6 country than the tax imposed by this subchapter on the
7 transfer of estates of decedents who were residents of
8 such foreign country,

9 “(2) such foreign country, when requested by the
10 United States to do so, has not acted to revise or reduce
11 such tax so that it is no more burdensome than the tax
12 imposed by this subchapter on the transfer of estates
13 of decedents who were residents of such foreign country,
14 and

15 “(3) it is in the public interest to apply pre-1967
16 tax provisions in accordance with this section to the
17 transfer of estates of decedents who were residents of
18 such foreign country,

19 the President shall proclaim that the tax on the transfer of
20 the estate of every decedent who was a resident of such for-
21 eign country at the time of his death shall, in the case of
22 decedents dying after the date of such proclamation, be
23 determined under this subchapter without regard to amend-
24 ments made to sections 2101 (relating to tax imposed),
25 2102 (relating to credits against tax), 2106 (relating to

1 *taxable estate), and 6018 (relating to estate tax returns)*
 2 *on or after the date of enactment of this section.*

3 “(b) *ALLEVIATION OF MORE BURDENSOME TAX.—*
 4 *Whenever the President finds that the laws of any foreign*
 5 *country with respect to which the President has made a proc-*
 6 *lamation under subsection (a) have been modified so that*
 7 *the tax on the transfer of estates of decedents who were*
 8 *citizens of the United States and not residents of such*
 9 *foreign country is no longer more burdensome than the*
 10 *tax imposed by this subchapter on the transfer of estates*
 11 *of decedents who were residents of such foreign country,*
 12 *he shall proclaim that the tax on the transfer of the*
 13 *estate of every decedent who was a resident of such*
 14 *foreign country at the time of his death shall, in the case*
 15 *of decedents dying after the date of such proclamation, be*
 16 *determined under this subchapter without regard to sub-*
 17 *section (a).*

18 “(c) *NOTIFICATION OF CONGRESS REQUIRED.—No*
 19 *proclamation shall be issued by the President pursuant to*
 20 *this section unless, at least 30 days prior to such proclama-*
 21 *tion, he has notified the Senate and the House of Repre-*
 22 *sentatives of his intention to issue such proclamation.*

23 “(d) *IMPLEMENTATION BY REGULATIONS.—The Sec-*
 24 *retary or his delegate shall prescribe such regulations as may*
 25 *be necessary or appropriate to implement this section.”*

1 (g) *ESTATE TAX RETURNS*.—Paragraph (2) of sec-
 2 tion 6018(a) (relating to estates of nonresidents not citi-
 3 zens) is amended by striking out “\$2,000” and inserting in
 4 lieu thereof “\$30,000”.

5 (h) *CLERICAL AMENDMENT*.—The table of sections for
 6 subchapter B of chapter 11 (relating to estates of nonresi-
 7 dents not citizens) is amended by adding at the end thereof
 8 the following:

“Sec. 2107. *Expatriation to avoid tax.*

“Sec. 2108. *Application of pre-1967 estate tax provisions.*”

9 (i) *EFFECTIVE DATE*.—The amendments made by this
 10 section shall apply with respect to estates of decedents dying
 11 after the date of the enactment of this Act.

12 **SEC. 109. TAX ON GIFTS OF NONRESIDENTS NOT CITI-**
 13 **ZENS.**

14 (a) *IMPOSITION OF TAX*.—Subsection (a) of section
 15 2501 (relating to general rule for imposition of tax) is
 16 amended to read as follows:

17 “(a) *TAXABLE TRANSFERS*.—

18 “(1) *GENERAL RULE*.—For the calendar year
 19 1955 and each calendar year thereafter a tax, computed
 20 as provided in section 2502, is hereby imposed on the
 21 transfer of property by gift during such calendar year by
 22 any individual, resident or nonresident.

23 “(2) *TRANSFERS OF INTANGIBLE PROPERTY*.—
 24 Except as provided in paragraph (3), paragraph (1)

1 shall not apply to the transfer of intangible property by
 2 a nonresident not a citizen of the United States.

3 “(3) *EXCEPTIONS.*—Paragraph (2) shall not
 4 apply in the case of a donor who at any time after
 5 March 8, 1965, and within the 10-year period ending
 6 with the date of transfer lost United States citizenship
 7 unless—

8 “(A) such donor’s loss of United States citi-
 9 zenship resulted from the application of section
 10 301(b), 350, or 355 of the Immigration and Na-
 11 tionality Act, as amended (8 U.S.C. 1401(b),
 12 1482, or 1487), or

13 “(B) such loss did not have for one of its prin-
 14 cipal purposes the avoidance of taxes under this
 15 subtitle or subtitle A.

16 “(4) *BURDEN OF PROOF.*—If the Secretary or his
 17 delegate establishes that it is reasonable to believe that
 18 an individual’s loss of United States citizenship would,
 19 but for paragraph (3), result in a substantial reduction
 20 for the calendar year in the taxes on the transfer of
 21 property by gift, the burden of proving that such loss
 22 of citizenship did not have for one of its principal pur-
 23 poses the avoidance of taxes under this subtitle or subtitle
 24 A shall be on such individual.”

25 (b) *TRANSFERS IN GENERAL.*—Subsection (b) of sec-

1 *tion 2511 (relating to situs rule for stock in a corporation)*
 2 *is amended to read as follows:*

3 “(b) *INTANGIBLE PROPERTY.*—*For purposes of this*
 4 *chapter, in the case of a nonresident not a citizen of the*
 5 *United States who is excepted from the application of section*
 6 *2501(a)(2)—*

7 “(1) *shares of stock issued by a domestic corpora-*
 8 *tion, and*

9 “(2) *debt obligations of—*

10 “(A) *a United States person, or*

11 “(B) *the United States, a State or any political*
 12 *subdivision thereof, or the District of Columbia,*
 13 *which are owned by such nonresident shall be deemed to be*
 14 *property situated within the United States.”*

15 “(c) *EFFECTIVE DATE.*—*The amendments made by this*
 16 *section shall apply with respect to the calendar year 1967*
 17 *and all calendar years thereafter.*

18 **SEC. 110. TREATY OBLIGATIONS.**

19 *No amendment made by this title shall apply in any case*
 20 *where its application would be contrary to any treaty obliga-*
 21 *tion of the United States. For purposes of the preceding*
 22 *sentence, the extension of a benefit provided by any amend-*
 23 *ment made by this title shall not be deemed to be contrary*
 24 *to a treaty obligation of the United States.*

1 TITLE II—OTHER AMENDMENTS
2 TO INTERNAL REVENUE CODE

3 SEC. 201. APPLICATION OF INVESTMENT CREDIT TO
4 PROPERTY USED IN POSSESSIONS OF THE
5 UNITED STATES.

6 (a) PROPERTY USED BY DOMESTIC CORPORATIONS,
7 ETC.—Section 48(a)(2)(B) (relating to property used out-
8 side the United States) is amended—

9 (1) by striking out “and” at the end of clause (v);

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

12 (3) by adding at the end thereof the following new
13 clause:

14 “(vii) any property which is owned by a
15 domestic corporation (other than a corporation
16 entitled to the benefits of section 931 or 934(b))
17 or by a United States citizen (other than a citi-
18 zen entitled to the benefits of section 931, 932,
19 933, or 934(b)) and which is used predomi-
20 nantly in a possession of the United States by
21 such a corporation or such a citizen, or by a
22 corporation created or organized in, or under
23 the law of, a possession of the United States.”

24 (b) EFFECTIVE DATE.—The amendments made by sub-

1 section (a) shall apply to taxable years ending after Decem-
 2 ber 31, 1965, but only with respect to property placed in
 3 service after such date. In applying section 46(b) of the
 4 Internal Revenue Code of 1954 (relating to carryback and
 5 carryover of unused credits), the amount of any investment
 6 credit carryback to any taxable year ending on or before
 7 December 31, 1965, shall be determined without regard to the
 8 amendments made by this section.

9 **SEC. 202. DEDUCTION OF MEDICAL EXPENSES OF INDIVIDUALS AGE 65 OR OVER.**

11 (a) **REPEAL OF AMENDMENTS MADE BY SOCIAL SECURITY AMENDMENTS OF 1965.**—Subsections (a) and (b)
 12 of section 106 of the Social Security Amendments of 1965
 13 are repealed.
 14

15 (b) **COST OF MEDICAL INSURANCE.**—Section 213(a)
 16 (relating to allowance of deduction for medical, dental, etc.,
 17 expenses) is amended—

18 (1) by striking out “and” at the end of paragraph
 19 (1)(A);

20 (2) by inserting after “such expenses” in paragraph
 21 (1)(B) “(reduced by any amount deductible under sub-
 22 paragraph (C))”;

23 (3) by striking out the period at the end of para-
 24 graph (1)(B) and inserting in lieu thereof “, and”;

1 (4) by adding at the end of paragraph (1) the fol-
2 lowing new subparagraph:

3 “(C) an amount (not in excess of \$150) equal
4 to one-half of the expenses paid during the taxable
5 year for insurance which constitutes medical care
6 for the taxpayer, his spouse, and dependents (other
7 than any dependent described in subparagraph
8 (A)).”;

9 (5) by striking out “and” at the end of paragraph
10 (2)(B);

11 (6) by inserting after “such expenses” in para-
12 graph (2)(C) “(reduced by any amount deductible
13 under subparagraph (D))”;

14 (7) by striking out the period at the end of para-
15 graph (2)(C) and inserting in lieu thereof “, and”;
16 and

17 (8) by adding at the end of paragraph (2) the
18 following new subparagraph:

19 “(D) an amount (not in excess of \$150) equal
20 to one-half of the expenses paid during the taxable
21 year for insurance which constitutes medical care
22 for such dependents (other than any dependent de-
23 scribed in paragraph (1)(A)).”

24 (c) *EFFECTIVE DATE.*—The repeal and amendments

1 *made by this section shall apply to taxable years beginning*
 2 *after December 31, 1966.*

3 **SEC. 203. BASIS OF PROPERTY RECEIVED ON LIQUIDA-**
 4 **TION OF SUBSIDIARY.**

5 (a) *DEFINITION OF PURCHASE.*—Section 334(b)(3)
 6 (relating to definition of purchase) is amended by adding at
 7 the end thereof the following new sentence:

8 “Notwithstanding subparagraph (C) of this para-
 9 graph, for purposes of paragraph (2)(B), the term
 10 ‘purchase’ also means an acquisition of stock from a cor-
 11 poration when ownership of such stock would be attributed
 12 under section 318(a) to the person acquiring such
 13 stock, if the stock of such corporation by reason of which
 14 such ownership would be attributed was acquired by
 15 purchase (within the meaning of the preceding sen-
 16 tence).”

17 (b) *PERIOD OF ACQUISITION.*—Section 334(b)(2)
 18 (B) (relating to exception) is amended by striking out “dur-
 19 ing a period of not more than 12 months,” and inserting in
 20 lieu thereof “during a 12-month period beginning with the
 21 earlier of—

22 “(i) the date of the first acquisition by pur-
 23 chase of such stock, or

24 “(ii) if any of such stock was acquired in

an acquisition which is a purchase within the meaning of the second sentence of paragraph (3), the date on which the distributee is first considered under section 318(a) as owning stock owned by the corporation from which such acquisition was made.”.

(c) *DISTRIBUTION OF INSTALLMENT OBLIGATIONS.*—

Section 453(d)(4)(A) (relating to distribution of installment obligations in certain liquidations) is amended to read as follows:

“(A) *LIQUIDATIONS TO WHICH SECTION 332 APPLIES.*—If—

“(i) an installment obligation is distributed in a liquidation to which section 332 (relating to complete liquidations of subsidiaries) applies, and

“(ii) the basis of such obligation in the hands of the distributee is determined under section 334(b)(1),

then no gain or loss with respect to the distribution of such obligation shall be recognized by the distributing corporation.”

(d) *EFFECTIVE DATES.*—The amendment made by subsection (a) shall apply only with respect to acquisitions of stock after December 31, 1965. The amendments made by

1 subsections (b) and (c) shall apply only with respect to dis-
 2 tributions made after the date of the enactment of this Act.

3 **SEC. 204. TRANSFERS OF STOCK AND SECURITIES TO**
 4 **CORPORATIONS CONTROLLED BY TRANS-**
 5 **FERORS.**

6 (a) **TRANSFERS TO INVESTMENT COMPANIES.**—The
 7 first sentence of section 351(a) (relating to transfers to cor-
 8 porations controlled by transferor) is amended by striking out
 9 “to a corporation” and inserting in lieu thereof “to a corpora-
 10 tion (including an investment company)”.

11 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 12 section (a) shall apply with respect to transfers of property
 13 whether made before, on, or after the date of the enactment
 14 of this Act.

15 **SEC. 205. MINIMUM AMOUNT TREATED AS EARNED IN-**
 16 **COME FOR RETIREMENT PLANS OF CERTAIN**
 17 **SELF-EMPLOYED INDIVIDUALS.**

18 (a) **INCREASE TO \$6,600.**—Section 401(c)(2)(B) (re-
 19 lating to earned income when both personal services and capi-
 20 tal are material income-producing factors) is amended by
 21 striking out “\$2,500” each place it appears therein and in-
 22 serting in lieu thereof “\$6,600”.

23 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 24 section (a) shall apply to taxable years beginning after De-
 25 cember 31, 1965.

1 SEC. 206. REMOVAL OF SPECIAL LIMITATIONS WITH RE-
 2 SPECT TO DEDUCTIBILITY OF CONTRIBU-
 3 TIONS TO PENSION PLANS BY SELF-EM-
 4 PLOYED INDIVIDUALS.

5 (a) REMOVAL OF SPECIAL LIMITATIONS.—Paragraph
 6 (10) of section 404(a) (relating to special limitation on
 7 amount allowed as deduction for self-employed individuals
 8 for contributions to certain pension, etc., plans) is repealed.

9 (b) (1) Each of the following provisions of section 401
 10 is amended by striking out “(determined without regard to
 11 section 404(a)(10))” each place it appears:

12 (A) Subsection (a)(10)(A)(ii).

13 (B) Subparagraphs (A) and (B) of subsection
 14 (d)(5).

15 (C) Subparagraph (A) of subsection (d)(6).

16 (D) Subparagraphs (A) and (B)(i) of subsec-
 17 tion (e)(1).

18 (E) Subparagraphs (B) and (C) and the last
 19 sentence of subsection (e)(3).

20 (2) Subparagraph (A) of section 404(e)(2) is
 21 amended by striking out “(determined without regard to
 22 subsection (a)(10))”.

23 (3) Paragraph (1) and subparagraph (B) of para-
 24 graph (2) of section 404(e) are each amended by striking

1 out “(determined without regard to paragraph (10)
2 thereof)”.

3 (c) *DEFINITION OF EARNED INCOME.*—Section 401

4 (c)(2) (relating to definition of earned income for certain
5 pension and profit-sharing plans) is amended by striking out
6 subparagraphs (A) and (B) and inserting in lieu thereof
7 the following:

8 “(A) *IN GENERAL.*—The term ‘earned income’
9 means the net earnings from self-employment (as de-
10 fined in section 1402(a)), but such net earnings
11 shall be determined—

12 “(i) only with respect to a trade or busi-
13 ness in which personal services of the taxpayer
14 are a material income-producing factor,

15 “(ii) without regard to paragraphs (4)
16 and (5) of section 1402(c),

17 “(iii) in the case of any individual who is
18 treated as an employee under sections 3121(d)
19 (3) (A), (C), or (D), without regard to
20 paragraph (2) of section 1402(c), and

21 “(iv) without regard to items which are
22 not included in gross income for purposes of this
23 chapter, and the deductions properly allocable
24 to or chargeable against such items.

25 For purposes of this subparagraph, section 1402, as

1 in effect for a taxable year ending on December 31,
2 1962, shall be treated as having been in effect for all
3 taxable years ending before such date."

4 (d) *EFFECTIVE DATE.*—The amendments made by
5 subsections (a) and (b) shall apply with respect to taxable
6 years beginning after December 31, 1967.

7 SEC. 207. TREATMENT OF CERTAIN INCOME OF AU-
8 THORS, INVENTORS, ETC., AS EARNED IN-
9 COME FOR RETIREMENT PLAN PURPOSES.

10 (a) *INCOME FROM DISPOSITION OF PROPERTY CRE-*
11 *ATED BY TAXPAYER.*—Section 401(c)(2) (relating to defi-
12 nition of earned income) is amended by adding at the end
13 thereof the following new subparagraph:

14 “(C) *INCOME FROM DISPOSITION OF CER-*
15 *TAIN PROPERTY.*—For purposes of this section, the
16 term ‘earned income’ includes gains (other than any
17 gain which is treated under any provision of this
18 chapter as gain from the sale or exchange of a
19 capital asset) and net earnings derived from the
20 sale or other disposition of, the transfer of any in-
21 terest in, or the licensing of the use of property
22 (other than good will) by an individual whose per-
23 sonal efforts created such property.”

24 (b) *EFFECTIVE DATE.*—The amendment made by sub-

1 *section (a) shall apply to taxable years ending after the date*
 2 *of the enactment of this Act.*

3 **SEC. 208. EXCLUSION OF CERTAIN RENTS FROM PER-**
 4 **SONAL HOLDING COMPANY INCOME.**

5 *(a) RENTS FROM LEASES OF CERTAIN TANGIBLE*
 6 *PERSONAL PROPERTY.—Section 543(b)(3) (relating to*
 7 *adjusted income from rents) is amended by striking out “but*
 8 *does not include amounts constituting personal holding com-*
 9 *pany income under subsection (a)(6), nor copyright royal-*
 10 *ties (as defined in subsection (a)(4) nor produced film rents*
 11 *(as defined in subsection (a)(5)(B)).” and inserting in*
 12 *lieu thereof the following: “but such term does not include—*

13 *“(A) amounts constituting personal holding*
 14 *company income under subsection (a)(6),*

15 *“(B) copyright royalties (as defined in sub-*
 16 *section (a)(4)),*

17 *“(C) produced film rents (as defined in sub-*
 18 *section (a)(5)(B)), or*

19 *“(D) compensation, however designated, for the*
 20 *use of, or the right to use, any tangible personal*
 21 *property manufactured or produced by the taxpayer,*
 22 *if during the taxable year the taxpayer is engaged*
 23 *in substantial manufacturing or production of*
 24 *tangible personal property of the same type.”*

1 (b) *TECHNICAL AMENDMENTS.*—

2 (1) *Section 543(a)(2) (relating to adjusted in-*
 3 *come from rents included in personal holding company*
 4 *income) is amended by striking out the last sentence*
 5 *thereof.*

6 (2) *Section 543(b)(2) (relating to definition of*
 7 *adjusted ordinary gross income) is amended by adding*
 8 *at the end thereof the following new subparagraph:*

9 “(D) *CERTAIN EXCLUDED RENTS.*—*From the*
 10 *gross income consisting of compensation described*
 11 *in subparagraph (D) of paragraph (3) subtract*
 12 *the amount allowable as deductions for the items*
 13 *described in clauses (i), (ii), (iii), and (iv) of*
 14 *subparagraph (A) to the extent allocable, under*
 15 *regulations prescribed by the Secretary or his dele-*
 16 *gate, to such gross income. The amount subtracted*
 17 *under this subparagraph shall not exceed such gross*
 18 *income.”*

19 (c) *EFFECTIVE DATE.*—*The amendments made by*
 20 *subsections (a) and (b) shall apply to taxable years begin-*
 21 *ning after the date of the enactment of this Act. Such*
 22 *amendments shall also apply, at the election of the taxpayer*
 23 *(made at such time and in such manner as the Secretary or*

1 *his delegate may prescribe), to taxable years beginning on*
 2 *or before such date and ending after December 31, 1965.*

3 **SEC. 209. PERCENTAGE DEPLETION RATE FOR CERTAIN**
 4 **CLAY BEARING ALUMINA.**

5 *(a) 23 PERCENT RATE.—Section 613(b) (relating to*
 6 *percentage depletion rates) is amended—*

7 *(1) by inserting “clay, laterite, and nephelite sye-*
 8 *nite” after “anorthosite” in paragraph (2)(B); and*

9 *(2) by striking out “if paragraph (5)(B) does not*
 10 *apply” in paragraph (3)(B) and inserting in lieu*
 11 *thereof “if neither paragraph (2)(B) nor (5)(B) ap-*
 12 *plies”.*

13 *(b) TREATMENT PROCESSES.—Section 613(c)(4)*
 14 *(relating to treatment processes considered as mining) is*
 15 *amended—*

16 *(1) by striking out “and” at the end of subpara-*
 17 *graph (G),*

18 *(2) by redesignating subparagraph (H) as (I),*
 19 *and by inserting after subparagraph (G) the following*
 20 *new subparagraph:*

21 *“(H) in the case of clay, laterite, and nephelite*
 22 *syenite from deposits in the United States (to the*
 23 *extent that alumina and aluminum compounds are*

1 *extracted therefrom*)—all processes applied to derive
 2 *alumina or aluminum compounds therefrom; and*".

3 (c) *EFFECTIVE DATE*.—The amendments made by sub-
 4 sections (a) and (b) shall apply to taxable years beginning
 5 after the date of the enactment of this Act.

6 **SEC. 210. PERCENTAGE DEPLETION RATE FOR CLAM**
 7 **AND OYSTER SHELLS.**

8 (a) *15 PERCENT RATE*.—Section 613(b) (relating
 9 to percentage depletion rates) is amended—

10 (1) by striking out "*mollusk shells (including clam*
 11 *shells and oyster shells)*," in paragraph (5)(A), and

12 (2) by inserting "*mollusk shells (including clam*
 13 *shells and oyster shells)*," after "*marble*," in paragraph
 14 (6).

15 (b) *EFFECTIVE DATE*.—The amendments made by sub-
 16 section (a) shall apply to taxable years beginning after the
 17 date of the enactment of this Act.

18 **SEC. 211. SINTERING AND BURNING OF SHALE, CLAY,**
 19 **AND SLATE USED AS LIGHTWEIGHT AGGRE-**
 20 **GATES.**

21 (a) *TREATMENT PROCESSES*.—Section 613(c)(4)
 22 (relating to treatment processes considered as mining) is
 23 amended by striking out "*and the furnacing of quicksilver*

1 ores" in subparagraph (E) and inserting in lieu thereof
 2 "the furnacing of quicksilver ores, and the sintering or burn-
 3 ing of shale, clay, and slate used or sold for use as lightweight
 4 aggregates".

5 (b) *EFFECTIVE DATE.*—The amendment made by sub-
 6 section (a) shall apply to taxable years beginning after the
 7 date of the enactment of this Act.

8 *SEC. 212. STRADDLES.*

9 (a) *TREATMENT AS SHORT-TERM CAPITAL GAIN.*—
 10 Section 1234 (relating to options) is amended by redesign-
 11 ating subsection (c) as subsection (d) and by inserting after
 12 subsection (b) the following new subsection:

13 "(c) *SPECIAL RULE FOR GRANTORS OF STRADDLES.*—

14 "(1) *GAIN ON LAPSE.*—In the case of gain on lapse
 15 of an option granted by the taxpayer as part of a strad-
 16 dle, the gain shall be deemed to be gain from the sale or
 17 exchange of a capital asset held for not more than 6
 18 months on the day that the option expired.

19 "(2) *EXCEPTION.*—This subsection shall not apply
 20 to any person who holds securities for sale to customers
 21 in the ordinary course of his trade or business.

22 "(3) *DEFINITIONS.*—For purposes of this subsec-
 23 tion—

24 "(A) The term 'straddle' means a simultane-
 25 ously granted combination of an option to buy, and

1 an option to sell, the same quantity of a security at
2 the same price during the same period of time.

3 “(B) The term ‘security’ has the meaning as-
4 signed to such term by section 1236(c).”

5 (b) *EFFECTIVE DATE.*—The amendments made by sub-
6 section (a) shall apply to straddle transactions entered into
7 after January 25, 1965, in taxable years ending after such
8 date.

9 SEC. 213. TAX TREATMENT OF PER-UNIT RETAIN ALLO-
10 CATIONS.

11 (a) *TAX TREATMENT OF COOPERATIVES.*—

12 (1) Section 1382(a) (relating to gross income of
13 cooperatives) is amended by striking out the period at
14 the end thereof and inserting “or by reason of any amount
15 paid to a patron as a per-unit retain allocation (as de-
16 fined in section 1388(f)).”

17 (2) Section 1382(b) is amended—

18 (A) by striking out “(b) *PATRONAGE DIV-*
19 *IDENDS.*—” and inserting in lieu thereof “(b) *PA-*
20 *TRONAGE DIVIDENDS AND PER-UNIT RETAIN*
21 *ALLOCATIONS.*—”,

22 (B) by striking out “or” at the end of para-
23 graph (1),

24 (C) by striking out the period at the end of

1 paragraph (2) and inserting a semicolon in lieu
2 thereof,

3 (D) by striking out the sentence following para-
4 graph (2) and inserting in lieu thereof the following:

5 “(3) as per-unit retain allocations, to the extent paid
6 in qualified per-unit retain certificates (as defined in sec-
7 tion 1388(h)) with respect to marketing occurring dur-
8 ing such taxable year; or

9 “(4) in money or other property (except per-unit
10 retain certificates) in redemption of a nonqualified per-
11 unit retain certificate which was paid as a per-unit retain
12 allocation during the payment period for the taxable year
13 during which the marketing occurred.”

14 “For purposes of this title, any amount not taken into ac-
15 count under the preceding sentence shall, in the case of an
16 amount described in paragraph (1) or (2), be treated in
17 the same manner as an item of gross income and as a deduc-
18 tion therefrom, and in the case of an amount described in
19 paragraph (3) or (4), be treated as a deduction in arriving
20 at gross income.”

21 (3) Section 1382(e) is amended to read as fol-
22 lows:

23 “(e) PRODUCTS MARKETING UNDER POOLING AR-
24 RANGEMENTS.—For purposes of subsection (b), in the case
25 of a pooling arrangement for the marketing of products—

1 “(1) the patronage shall (to the extent provided
2 in regulations prescribed by the Secretary or his dele-
3 gate) be treated as patronage occurring during the tax-
4 able year in which the pool closes, and

5 “(2) the marketing of products shall be treated as
6 occurring during any of the taxable years in which the
7 pool is open.”

8 (4) Section 1382(f) is amended by striking out
9 “subsection (b)” and inserting in lieu thereof “para-
10 graphs (1) and (2) of subsection (b)”.

11 (5) The heading for section 1383 is amended by
12 striking out the period at the end thereof and inserting
13 “OR NONQUALIFIED PER-UNIT RETAIN CERTIFI-
14 CATES.”

15 (6) Section 1383(a) is amended—

16 (A) by striking out “section 1382(b)(2)” and
17 inserting in lieu thereof “section 1382(b)(2) or
18 (4),”,

19 (B) by striking out “nonqualified written no-
20 tices of allocation” each place it appears and in-
21 serting in lieu thereof “nonqualified written notices
22 of allocation or nonqualified per-unit retain certifi-
23 cates”, and

24 (C) by striking out “qualified written notices

1 of allocation” and inserting in lieu thereof “qual-
 2 ified written notices of allocation or qualified per-unit
 3 retain certificates (as the case may be)”.

4 (7) Section 1383(b)(2) is amended—

5 (A) by striking out “nonqualified written no-
 6 tice of allocation” and inserting in lieu thereof “non-
 7 qualified written notice of allocation or nonqualified
 8 per-unit retain certificate”,

9 (B) by striking out “qualified written notice of
 10 allocation” and inserting in lieu thereof “qualified
 11 written notice of allocation or qualified per-unit re-
 12 tain certificate (as the case may be”,

13 (C) by striking out “such written notice of
 14 ten notice of allocation or per-unit retain certificate”
 15 allocation” and inserting in lieu thereof “such writ-
 16 and

17 (D) by striking out “section 1382(b)(2)” and
 18 inserting in lieu thereof “section 1382(b) (2) or
 19 (4),”.

20 (8) The table of sections for part I of subchapter
 21 T of chapter 1 is amended by striking out—

 “Sec. 1383. Computation of tax where cooperative redeems
 nonqualified written notices of allocation.”

22 and inserting in lieu thereof—

 “Sec. 1383. Computation of tax where cooperative redeems
 nonqualified written notices of allocation or
 nonqualified per-unit retain certificates.”

1 (b) *TAX TREATMENT BY PATRONS.*—

2 (1) *Section 1385(a) is amended by striking out*
 3 *“and” at the end of paragraph (1), by striking out the*
 4 *period at the end of paragraph (2) and inserting in lieu*
 5 *thereof “, and”, and by adding at the end thereof the fol-*
 6 *lowing new paragraph:*

7 *“(3) the amount of any per-unit retain allocation*
 8 *which is paid in qualified per-unit retain certificates and*
 9 *which is received by him during the taxable year from an*
 10 *organization described in section 1381(a).”*

11 (2) *The heading for section 1385(c) is amended by*
 12 *striking out “ALLOCATION” and inserting in lieu thereof*
 13 *“ALLOCATION AND CERTAIN NONQUALIFIED PER-*
 14 *UNIT RETAIN CERTIFICATES”.*

15 (3) *Section 1385(c)(1) is amended to read as fol-*
 16 *lows:*

17 “(1) *APPLICATION OF SUBSECTION.*—*This subsec-*
 18 *tion shall apply to—*

19 “(A) *any nonqualified written notice of alloca-*
 20 *tion which—*

21 “(i) *was paid as a patronage dividend, or*

22 “(ii) *was paid by an organization described*
 23 *in section 1381(a)(1) on a patronage basis*
 24 *with respect to earnings derived from business*

1 or sources described in section 1382(c)(2)(A),
2 and

3 “(B) any nonqualified per-unit retain certif-
4 icate which was paid as a per-unit retain alloca-
5 tion.”

6 (4) Section 1385(c)(2) is amended—

7 (A) by striking out “nonqualified written notice
8 of allocation” and inserting in lieu thereof “non-
9 qualified written notice of allocation or nonqualified
10 per-unit retain certificate”, and

11 (B) by striking out “such written notice of al-
12 location” each place it appears and inserting in lieu
13 thereof “such written notice of allocation or per-unit
14 retain certificate”.

15 (5) The table of parts for subchapter T of chapter
16 1 is amended by striking out—

17 “Part II. Tax treatment by patrons of patronage dividends.”
18 and inserting in lieu thereof—

19 “Part II. Tax treatment by patrons of patronage dividends
20 and per-unit retain allocations.”

21 (c) DEFINITIONS.—

22 (1)(A) Section 1388(e)(1) is amended by strik-
ing out “allocation)” and inserting in lieu thereof “allo-
cation or a per-unit retain certificate)”.

(B) Section 1388(e)(2) is amended by striking

1 out "allocation" and inserting in lieu thereof "alloca-
2 tion or qualified per-unit retain certificate".

3 (2) Section 1388 is amended by adding at the end
4 thereof the following new subsections:

5 "(f) *PER-UNIT RETAIN ALLOCATION*.—For purposes
6 of this subchapter, the term 'per-unit retain allocation' means
7 any allocation, by an organization to which part I of this sub-
8 chapter applies, other than by payment in money or other
9 property (except per-unit retain certificates) to a patron with
10 respect to products marketed for him, the amount of which
11 is fixed without reference to the net earnings of the organiza-
12 tion pursuant to an agreement between the organization and
13 the patron.

14 "(g) *PER-UNIT RETAIN CERTIFICATE*.—For purposes
15 of this subchapter, the term 'per-unit retain certificate' means
16 any written notice which discloses to the recipient the stated
17 dollar amount of a per-unit retain allocation to him by the
18 organization.

19 "(h) *QUALIFIED PER-UNIT RETAIN CERTIFICATE*.—
20 "(1) *DEFINED*.—For purposes of this subchapter,
21 the term 'qualified per-unit retain certificate' means any
22 per-unit retain certificate which the distributee has agreed,
23 in the manner provided in paragraph (2), to take into
24 account at its stated dollar amount as provided in section
25 1385(a).

1 “(2) *MANNER OF OBTAINING AGREEMENT.*—A
 2 *distributee shall agree to take a per-unit retain certificate*
 3 *into account as provided in paragraph (1) only by—*

4 “(A) *making such agreement in writing, or*
 5 “(B) *obtaining or retaining membership in the*
 6 *organization after—*

7 “(i) *such organization has adopted (after*
 8 *the date of the enactment of this subsection) a*
 9 *bylaw providing that membership in the organi-*
 10 *zation constitutes such agreement, and*

11 “(ii) *he has received a written notification*
 12 *and copy of such bylaw.*

13 “(3) *PERIOD FOR WHICH AGREEMENT IS EFFECTIVE.*—

14 “(A) *GENERAL RULE.*—*Except as provided in*
 15 *subparagraph (B)—*

16 “(i) *an agreement described in paragraph*
 17 *(2)(A) shall be an agreement with respect to*
 18 *all products delivered by the distributee to the*
 19 *organization during the taxable year of the orga-*
 20 *nization during which such agreement is made*
 21 *and all subsequent taxable years of the organiza-*
 22 *tion; and*

23 “(ii) *an agreement described in paragraph*
 24 *(2)(B) shall be an agreement with respect to*
 25 *all products delivered by the distributee to the*

organization after he received the notification
and copy described in paragraph (2)(B)(ii).

“(B) REVOCATION, ETC.—

“(i) Any agreement described in paragraph (2)(A) may be revoked (in writing) by the distributee at any time. Any such revocation shall be effective with respect to products delivered by the distributee on or after the first day of the first taxable year of the organization beginning after the revocation is filed with the organization; except that in the case of a pooling arrangement described in section 1382(e) a revocation made by a distributee shall not be effective as to any products which were delivered to the organization by the distributee before such revocation.

“(ii) Any agreement described in paragraph (2)(B) shall not be effective with respect to any products delivered after the distributee ceases to be a member of the organization or after the bylaws of the organization cease to contain the provision described in paragraph (2)(B)(i).

“(i) NONQUALIFIED PER-UNIT RETAIN CERTIFI-

1 CATE.—For purposes of this subchapter, the term ‘nonquali-
 2 fied per-unit retain certificate’ means a per-unit retain cer-
 3 tificate which is not described in subsection (h).’

4 (d) INFORMATION REPORTING.—

5 (1) AMOUNTS SUBJECT TO REPORTING.—Section
 6 6044(b)(1) is amended by striking out “and” at the
 7 end of subparagraph (B), by striking out the period at
 8 the end of subparagraph (C) and inserting in lieu
 9 thereof “, and”, and by adding after subparagraph (C)
 10 the following new subparagraphs:

11 “(D) the amount of any per-unit retain al-
 12 location (as defined in section 1388(f)) which
 13 is paid in qualified per-unit retain certificates (as
 14 defined in section 1388(h)), and

15 “(E) any amount described in section 1382
 16 (b)(4) (relating to redemption of nonqualified per-
 17 unit retain certificates).”

18 (2) DETERMINATION OF AMOUNT PAID.—

19 (A) Section 6044(d)(1) is amended by strik-
 20 ing out “allocation)” and inserting in lieu thereof
 21 “allocation or a qualified per-unit retain certifi-
 22 cate)”.

23 (B) Section 6044(d)(2) is amended by strik-
 24 ing out “allocation” and inserting in lieu thereof
 25 “allocation or a qualified per-unit retain certificate”.

1 (e) *EFFECTIVE DATES.*—

2 (1) *The amendments made by subsections (a), (b),*
 3 *and (c) shall apply to per-unit retain allocations made*
 4 *during taxable years of an organization described in sec-*
 5 *tion 1381(a) (relating to organizations to which part I*
 6 *of subchapter T of chapter 1 applies) beginning after*
 7 *April 30, 1966, with respect to products delivered dur-*
 8 *ing such years.*

9 (2) *The amendments made by subsection (d) shall*
 10 *apply with respect to calendar years after 1966.*

11 (f) *TRANSITION RULE.*—

12 (1) *Except as provided in paragraph (2), a writ-*
 13 *ten agreement between a patron and a cooperative as-*
 14 *sociation—*

15 (A) *which clearly provides that the patron*
 16 *agrees to treat the stated dollar amounts of all per-*
 17 *unit retain certificates issued to him by the associa-*
 18 *tion as representing cash distributions which he has,*
 19 *of his own choice, reinvested in the cooperative*
 20 *association,*

21 (B) *which is revocable by the patron at any*
 22 *time after the close of the taxable year in which it*
 23 *was made,*

24 (C) *which was entered into after October 14,*

1 1965, and before the date of the enactment of this
2 Act, and

3 (D) which is in effect on the date of the enact-
4 ment of this Act, and with respect to which a written
5 notice of revocation has not been furnished to the
6 cooperative association,

7 shall be effective (for the period prescribed in the agree-
8 ment) for purposes of section 1388(h) of the Internal
9 Revenue Code of 1954 as if entered into, pursuant to
10 such section, after the date of the enactment of this Act.

11 (2) An agreement described in paragraphs (1) (A)
12 and (C) which was included in a by-law of the coopera-
13 tive association and which is in effect on the date of the
14 enactment of this Act shall be effective for purposes of sec-
15 tion 1388(h) of such Code only for taxable years of the
16 association beginning before May 1, 1967.

17 SEC. 214. EXCISE TAX RATE ON AMBULANCES AND
18 HEARSESES.

19 (a) CLASSIFICATION AS AUTOMOBILES.—Section 4062
20 (relating to definitions applicable to the tax on motor vehicles)
21 is amended by adding at the end thereof the following new
22 subsection:

23 “(b) AMBULANCES, HEARSESES, ETC.—For purposes of
24 section 4061(a), a sale of an ambulance, hearse, or combina-
25 tion ambulance-hearse shall be considered to be a sale of an

1 *automobile chassis and an automobile body enumerated in*
 2 *subparagraph (B) of section 4061(a)(2)."*

3 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
 4 *section (a) shall apply with respect to articles sold after the*
 5 *date of the enactment of this Act.*

6 **SEC. 215. APPLICABILITY OF EXCLUSION FROM INTEREST**
 7 **EQUALIZATION TAX OF CERTAIN LOANS TO**
 8 **ASSURE RAW MATERIALS SOURCES.**

9 (a) *EXCEPTION TO EXCLUSION.*—*Section 4914(d)*
 10 *(relating to loans to assure raw materials sources) is amended*
 11 *by adding at the end thereof the following new paragraph:*

12 “(3) *EXCEPTION.*—*The exclusion from tax pro-*
 13 *vided by paragraph (1) shall not apply in any case where*
 14 *the acquisition of the debt obligation of the foreign corpo-*
 15 *ration is made with an intent to sell, or to offer to sell, any*
 16 *part of such debt obligation to United States persons.”*

17 (b) *TECHNICAL AMENDMENTS.*—(1) *Section 4914*
 18 *(j)(1) (relating to loss of entitlement to exclusion in case of*
 19 *certain subsequent transfers) is amended—*

20 (A) *by striking out in subparagraph (A) “, or*
 21 *the exclusion provided by subsection (d),”, and*

22 (B) *by striking out “subsection (d) or (f)” in*
 23 *subparagraph (D) and inserting in lieu thereof*
 24 *“subsection (f)”.*

1 (2) Section 4918 (relating to exemption for prior
2 American ownership) is amended by adding at the end
3 thereof the following new subsection:

4 “(g) CERTAIN DEBT OBLIGATIONS ARISING OUT OF
5 LOANS TO ASSURE RAW MATERIAL SOURCES.—Under
6 regulations prescribed by the Secretary or his delegate, sub-
7 section (a) shall not apply to the acquisition by a United
8 States person of any debt obligation to which section 4914(d)
9 applied where the acquisition of the debt obligation by such
10 person is made with an intent to sell, or to offer to sell, any
11 part of such debt obligation to United States persons. The
12 preceding sentence shall not apply if the tax imposed by
13 section 4911 has applied to any prior acquisition of such debt
14 obligation.”

15 (c) EFFECTIVE DATE.—The amendments made by sub-
16 sections (a) and (b) shall apply with respect to acquisitions
17 of debt obligations made after the date of the enactment of
18 this Act.

19 SEC. 216. EXCLUSION FROM INTEREST EQUALIZATION
20 TAX FOR CERTAIN ACQUISITIONS BY INSUR-
21 ANCE COMPANIES.

22 (a) NEW COMPANIES AND COMPANIES OPERATING
23 IN FORMER LESS DEVELOPED COUNTRIES.—Section 4914
24 (e) (relating to acquisitions by insurance companies doing
25 business in foreign countries) is amended—

(1) by striking out “at the time of the initial designation” in the last sentence of paragraph (2);

(2) by striking out “An” in the first sentence of paragraph (3)(A)(i) and inserting in lieu thereof “Except as provided in clause (iii), an”;

(3) by striking out “under this subparagraph” in paragraph (3)(A)(ii) and inserting in lieu thereof “under clause (i)”;

(4) by adding after clause (ii) of paragraph (3)(A) the following new clauses:

“(iii) INITIAL DESIGNATION AFTER OCTOBER 2, 1964.—An insurance company which was not in existence on October 2, 1964, or was otherwise ineligible to establish a fund (or funds) of assets described in paragraph (2) by making an initial designation under clause (i) on or before such date, may establish (and thereafter currently maintain) such fund (or funds) of assets at any time after the enactment of this clause by designating stock of a foreign issuer or a debt obligation of a foreign obligor as a part of such fund in accordance with the provisions of clause (iv) (if applicable) and subparagraph (B)(i).

“(iv) *FUNDS INVOLVING CURRENCIES OF FORMER LESS DEVELOPED COUNTRIES.*—An insurance company desiring to establish a fund under clause (iii) with respect to insurance contracts payable in the currency of a country designated as a less developed country on October 2, 1964, which thereafter has such designation terminated by an Executive order issued under section 4916(b), shall designate as assets of such fund, to the extent permitted by subparagraph (E), the stock of foreign issuers or debt obligations of foreign obligors as follows: First, stock and debt obligations having a period remaining to maturity of at least 1 year (other than stock or a debt obligation described in section 4916(a)) acquired before July 19, 1963, and owned by the company on the date which the President, in accordance with section 4916(b), communicates to Congress his intention to terminate the status of such country as a less developed country; second, stock and debt obligations having a period remaining to maturity of at least 1 year described in section 4916(a) (and owned by the company on the date of such

1 *termination) which, at the time of acquisition,*
 2 *qualified for the exclusion provided in such sec-*
 3 *tion because of the status of such country as a*
 4 *less developed country; and third, such stock or*
 5 *debt obligations as the company may elect to des-*
 6 *ignate under subparagraph (B)(i). The pe-*
 7 *riod remaining to maturity referred to in the*
 8 *preceding sentence shall be determined as of the*
 9 *date of the President's communication to*
 10 *Congress.”;*

11 *(5) by striking out “TO MAINTAIN FUND” in the*
 12 *heading of paragraph (3)(B);*

13 *(6) by striking out “as provided in subparagraph*
 14 *(A)(ii)” in paragraph (3)(B)(i) and inserting in lieu*
 15 *thereof “under subparagraphs (A)(i) and (ii)”;*

16 *(7) by inserting before the period at the end of the*
 17 *first sentence of paragraph (3)(C) the following: “;*
 18 *except that, with respect to a fund established under sub-*
 19 *paragraph (A)(iii), stock or debt obligations acquired*
 20 *before the establishment of such fund may not be desig-*
 21 *nated as part of such fund under this subparagraph”;*

22 *(8) by striking out “subparagraph (B),” in para-*

1 *graph (3)(E)(i) and inserting in lieu thereof "sub-*
 2 *paragraph (A)(iv), (B),";*

3 *(9) by striking out "subparagraph (A)" in para-*
 4 *graph (4)(B)(i) and inserting in lieu thereof "sub-*
 5 *paragraph (A)(i)";*

6 *(10) by striking out "paragraph (3)(A)" in para-*
 7 *graph (4)(B)(ii) and inserting in lieu thereof "para-*
 8 *graph (3)(A)(i)"; and*

9 *(11) by adding at the end of paragraph (4) the*
 10 *following new paragraph:*

11 *"(C) SPECIAL RULE.—For purposes of sub-*
 12 *paragraph (A), if a country designated as a less*
 13 *developed country on September 2, 1964, thereafter*
 14 *has such designation terminated by an Executive*
 15 *order issued under section 4916(b), all insurance*
 16 *contracts payable in the currency of such country*
 17 *which were entered into before such designation was*
 18 *terminated shall be treated as insurance contracts*
 19 *payable in the currency of a country other than a less*
 20 *developed country."*

21 *(b) EFFECTIVE DATE.—The amendments made by sub-*

1 *section (a) shall take effect on the day after the date of the*
 2 *enactment of this Act.*

3 **SEC. 217. EXCLUSION FROM INTEREST EQUALIZATION**
 4 **TAX OF CERTAIN ACQUISITIONS BY FOREIGN**
 5 **BRANCHES OF DOMESTIC BANKS.**

6 *(a) AUTHORITY FOR MODIFICATION OF EXECUTIVE*
 7 *ORDERS.—Section 4931(a) (relating to commercial bank*
 8 *loans) is amended by adding at the end thereof the following*
 9 *new sentence: “Clause (A) of the preceding sentence shall*
 10 *not prevent a modification of such Executive order (or any*
 11 *modification thereof) to exclude from the application of sub-*
 12 *section (b) acquisitions by commercial banks, through*
 13 *branches located outside the United States, of debt obligations*
 14 *of foreign obligors payable in currency of the United States.”*

15 *(b) EFFECTIVE DATE.—The amendment made by sub-*
 16 *section (a) shall apply with respect to acquisitions of debt*
 17 *obligations made after the date of the enactment of this Act.*

18 **TITLE III—PRESIDENTIAL ELEC-**
 19 **TION CAMPAIGN FUND ACT**

20 **SEC. 301. SHORT TITLE.**

21 *This title may be cited as the “Presidential Election Cam-*
 22 *paign Fund Act of 1966”.*

1 **SEC. 302. AUTHORITY FOR DESIGNATION OF \$1 OF IN-**
 2 **COME TAX PAYMENTS TO PRESIDENTIAL**
 3 **ELECTION CAMPAIGN FUND.**

4 *(a) Subchapter A of chapter 61 of the Internal Rev-*
 5 *enue Code of 1954 (relating to returns and records) is*
 6 *amended by adding at the end thereof the following new*
 7 *part:*

8 **"PART VIII—DESIGNATION OF INCOME TAX PAY-**
 9 **MENTS TO PRESIDENTIAL ELECTION CAMPAIGN**
 10 **FUND**

"Sec. 6096. Designation by individuals.

11 **"SEC. 6096. DESIGNATION BY INDIVIDUALS.**

12 *"(a) IN GENERAL.—Every individual (other than a*
 13 *nonresident alien) whose income tax liability for any taxable*
 14 *year is \$1 or more may designate that \$1 shall be paid into*
 15 *the Presidential Election Campaign Fund established by sec-*
 16 *tion 303 of the Presidential Election Campaign Fund Act*
 17 *of 1966.*

18 *"(b) INCOME TAX LIABILITY.—For purposes of sub-*
 19 *section (a), the income tax liability of an individual for any*
 20 *taxable year is the amount of the tax imposed by chapter 1*
 21 *on such individual for such taxable year (as shown on his*

1 return), reduced by the sum of the credits (as shown in his
2 return) allowable under sections 32(2), 33, 35, 37, and 38.

3 “(c) *MANNER AND TIME OF DESIGNATION.*—A desig-
4 nation under subsection (a) may be made with respect to any
5 taxable year, in such manner as the Secretary or his delegate
6 may prescribe by regulations—

7 “(1) at the time of filing the return of the tax im-
8 posed by chapter 1 for such taxable year, or

9 “(2) at any other time (after the time of filing the
10 return of the tax imposed by chapter 1 for such taxable
11 year) specified in regulations prescribed by the Secre-
12 tary or his delegate.”

13 (b) The table of parts for subchapter A of chapter 61
14 of such Code is amended by adding at the end thereof the fol-
15 lowing new item:

“Part VIII. Designation of income tax payments to Presi-
dential Election Campaign Fund.”

16 (c) The amendments made by this section shall apply
17 with respect to income tax liability for taxable years begin-
18 ning after December 31, 1966.

19 **SEC. 303. PRESIDENTIAL ELECTION CAMPAIGN FUND.**

20 (a) *ESTABLISHMENT.*—There is hereby established on
21 the books of the Treasury of the United States a special fund
22 to be known as the “Presidential Election Campaign Fund”
23 (hereafter in this section referred to as the “Fund”). The

1 *Fund shall consist of amounts transferred to it as provided in*
 2 *this section.*

3 (b) *TRANSFERS TO THE FUND.*—*The Secretary of the*
 4 *Treasury shall, from time to time, transfer to the Fund an*
 5 *amount equal to the sum of the amounts designated by indi-*
 6 *viduals under section 6096 of the Internal Revenue Code of*
 7 *1954 for payment into the Fund.*

8 (c) *PAYMENTS FROM FUND.*—

9 (1) *IN GENERAL.*—*The Secretary of the Treasury*
 10 *shall, with respect to each presidential campaign, pay*
 11 *out of the Fund, as authorized by appropriation Acts,*
 12 *into the treasury of each political party which has com-*
 13 *plied with the provisions of paragraph (3) an amount*
 14 *(subject to the limitation in paragraph (3)(B)) de-*
 15 *termined under paragraph (2).*

16 (2) *DETERMINATION OF AMOUNTS.*—

17 (A) *Each political party whose candidate for*
 18 *President at the preceding presidential election re-*
 19 *ceived 10,000,000 or more popular votes as the*
 20 *candidate of such political party shall be entitled*
 21 *to payments under paragraph (1) with respect to*
 22 *a presidential campaign equal to—*

23 (i) *\$1 multiplied by the total number of*
 24 *popular votes cast in the preceding presidential*
 25 *election for candidates of political parties whose*

1 candidates received 10,000,000 or more popu-
2 lar votes as the candidates of such political par-
3 ties, divided by

4 (ii) the number of political parties whose
5 candidates in the preceding presidential election
6 received 10,000,000 or more popular votes as
7 the candidates of such political parties.

8 (B) Each political party whose candidate for
9 President at the preceding presidential election re-
10 ceived more than 1,500,000, but less than 10,-
11 000,000, popular votes as the candidate of such
12 political party shall be entitled to payments under
13 paragraph (1) with respect to a presidential cam-
14 paign equal to \$1 multiplied by the number of popu-
15 lar votes in excess of 1,500,000 received by such
16 candidate as the candidate of such political party in
17 the preceding presidential election.

18 (C) Payments under paragraph (1) shall be
19 made with respect to each presidential campaign at
20 such times as the Secretary of the Treasury may
21 prescribe by regulations, except that no payment with
22 respect to any presidential campaign shall be made
23 before September 1 of the year of the presidential
24 election with respect to which such campaign is con-

1 ducted. If at the time so prescribed for any such
2 payments, the moneys in the Fund are insufficient
3 for the Secretary to pay into the treasury of each
4 political party which is entitled to a payment under
5 paragraph (1) the amount to which such party is
6 entitled, the payment to all such parties at such time
7 shall be reduced pro rata, and the amounts not paid
8 at such time shall be paid when there are sufficient
9 moneys in the Fund.

10 (3) LIMITATIONS.—

11 (A) No payment shall be made under para-
12 graph (1) into the treasury of a political party with
13 respect to any presidential campaign unless the treas-
14 urer of such party has certified to the Comptroller
15 General the total amount spent or incurred (prior to
16 the date of the certification) by such party in carry-
17 ing on such presidential campaign, and has furnished
18 such records and other information as may be re-
19 quested by the Comptroller General.

20 (B) No payment shall be made under para-
21 graph (1) into the treasury of a political party with
22 respect to any presidential campaign in an amount
23 which, when added to previous payments made to
24 such party, exceeds the amount spent or incurred by

1 *such party in carrying on such presidential cam-*
 2 *paign.*

3 (4) *The Comptroller General shall certify to the*
 4 *Secretary of the Treasury the amounts payable to any*
 5 *political party under paragraph (1). The Comptroller*
 6 *General's determination as to the popular vote received*
 7 *by any candidate of any political party shall be final*
 8 *and not subject to review. The Comptroller General*
 9 *is authorized to prescribe such rules and regulations,*
 10 *and to conduct such examinations and investigations,*
 11 *as he determines necessary to carry out his duties and*
 12 *functions under this subsection.*

13 (5) *DEFINITIONS.—For purposes of this sub-*
 14 *section—*

15 (A) *The term “political party” means any*
 16 *political party which presents a candidate for election*
 17 *to the office of President of the United States.*

18 (B) *The term “presidential campaign” means*
 19 *the political campaign held every fourth year for the*
 20 *election of presidential and vice presidential electors.*

21 (C) *The term “presidential election” means the*
 22 *election of presidential electors.*

23 (d) *TRANSFERS TO GENERAL FUND.—If, after any*
 24 *presidential campaign and after all political parties which*

1 are entitled to payments under subsection (c) with respect
2 to such presidential campaign have been paid the amounts
3 to which they are entitled under subsection (c), there are
4 moneys remaining in the Fund, the Secretary of the Treas-
5 ury shall transfer the moneys so remaining to the general
6 fund of the Treasury.

7 SEC. 304. ESTABLISHMENT OF ADVISORY BOARD.

8 (a) There is hereby established an advisory board to be
9 known as the Presidential Election Campaign Fund Advisory
10 Board (hereafter in this section referred to as the "Board").
11 It shall be the duty and function of the Board to counsel and
12 assist the Comptroller General in the performance of the
13 duties imposed on him under section 303 of this Act.

14 (b) The Board shall be composed of two members rep-
15 resenting each political party whose candidate for President
16 at the last presidential election received 10,000,000 or more
17 popular votes as the candidate of such political party, which
18 members shall be appointed by the Comptroller General from
19 recommendations submitted by each such political party, and
20 of three additional members selected by the members so ap-
21 pointed by the Comptroller General. The term of the first
22 members of the Board shall expire on the 60th day after the
23 date of the first presidential election following the date of
24 the enactment of this Act and the term of subsequent members
25 of the Board shall begin on the 61st day after the date of a

1 presidential election and expire on the 60th day following
 2 the date of the subsequent presidential election. The Board
 3 shall select a Chairman from among its members.

4 (c) Members of the Board shall receive compensation at
 5 the rate of \$75 a day for each day they are engaged in per-
 6 forming duties and functions as such members, including
 7 travel time, and, while away from their homes or regular
 8 places of business, shall be allowed travel expenses, including
 9 per diem in lieu of subsistence, as authorized by law for per-
 10 sons in the Government service employed intermittently.

11 (d) Service by an individual as a member of the Board
 12 shall not, for purposes of any other law of the United States,
 13 be considered as service as an officer or employee of the United
 14 States.

15 **SEC. 305. APPROPRIATIONS AUTHORIZED.**

16 There are authorized to be appropriated, out of the Presi-
 17 dential Elections Campaign Fund, such sums as may be neces-
 18 sary to enable the Secretary of the Treasury to make payments
 19 under section 303 of this Act.

20 **TITLE IV—MISCELLANEOUS**
 21 **PROVISIONS**

22 **SEC. 401. TREASURY NOTES PAYABLE IN FOREIGN CUR-**
 23 **RENCY.**

24 Section 16 of the Second Liberty Bond Act, as amended
 25 (31 U.S.C. 766), is amended by striking out "bonds" wher-

1 *ever it appears therein and inserting in lieu thereof "bonds,*
 2 *notes,".*

3 **SEC. 402. REPORTS TO CLARIFY TO NATIONAL DEBT**
 4 **AND TAX STRUCTURE.**

5 *The Secretary of the Treasury shall, on or before*
 6 *March 31 of each year (beginning with 1967), submit to the*
 7 *Senate and the House of Representatives a report setting*
 8 *forth, as of the close of December 31 of the preceding year,*
 9 *the aggregate and individual amounts of the contingent liabili-*
 10 *ties and the unfunded liabilities of the Government, and of*
 11 *each department, agency, and instrumentality thereof, in-*
 12 *cluding, without limitation, trust fund liabilities, Govern-*
 13 *ment-sponsored corporations' liabilities, indirect liabilities not*
 14 *included as a part of the public debt, and liabilities of insur-*
 15 *ance and annuity programs, including their actuarial status*
 16 *on both a balance sheet and projected source and application*
 17 *of funds basis. The report shall also set forth the collateral*
 18 *pledged, or the assets available (or to be realized), as secu-*
 19 *rity for such liabilities (Government securities to be sepa-*
 20 *rately noted), and an analysis of their significance in terms*
 21 *of past experience and probable risk, and shall also set forth*
 22 *all other assets available to liquidate liabilities of the Govern-*
 23 *ment. The report shall set forth the required data in a*
 24 *concise form, with such explanatory material as the Secre-*
 25 *tary may determine to be necessary or desirable, and shall*

1 *include total amounts of each category according to the de-*
 2 *partment, agency, or instrumentality involved.*

3 **SEC. 403. COVERAGE OF EXPENSES OF CERTAIN DRUGS**
 4 **UNDER SUPPLEMENTARY MEDICAL INSUR-**
 5 **ANCE BENEFITS.**

6 *(a) Section 1832(a) of the Social Security Act is*
 7 *amended (1) by striking out "and" at the end of paragraph*
 8 *(1), (2) by striking out the period at the end of paragraph*
 9 *(2) and inserting in lieu thereof "; and", and (3) by adding*
 10 *at the end thereof the following new paragraph:*

11 *"(3) entitlement to be paid for allowable expenses*
 12 *(as defined in section 1845(a)(2)), or, if lower, actual*
 13 *expenses, incurred by him for the purchase of qualified*
 14 *drugs (as defined in subsection (a)(1) of such*
 15 *section)."*

16 *(b) Section 1833(a) of such Act is amended (1) by*
 17 *inserting "or qualified drugs" after "incurs expenses for*
 18 *services", (2) by striking out the period at the end of para-*
 19 *graph (2) and inserting in lieu thereof "; and", and (3)*
 20 *by adding at the end thereof the following new paragraph:*

21 *"(3) in the case of expenses covered under section*
 22 *1832(a)(3)—100 per centum of such expenses."*

23 *(c) Section 1833(b) of such Act is amended by adding*
 24 *at the end thereof the following new sentence: "For pur-*
 25 *poses of determining amounts to be counted toward meeting*

1 *the \$50 deductible imposed by the preceding sentence, there*
 2 *shall not be included any expenses incurred for any drug or*
 3 *biological which is in excess of the allowable expenses (as*
 4 *defined in section 1845(a)(2)) of such drug or biological."*

5 *(d) Part B of title XVIII of such Act is amended by*
 6 *adding at the end thereof the following new sections:*

7 *"ALLOWABLE EXPENSES FOR QUALIFIED DRUGS*

8 *"SEC. 1845. (a) For purposes of this part—*

9 *"(1) The term 'qualified drug' means a drug or*
 10 *biological which is included among the items approved*
 11 *by the Formulary Committee (established pursuant to*
 12 *section 1846(a)).*

13 *"(2) The term 'allowable expense', when used in*
 14 *connection with any quantity of a qualified drug, means*
 15 *the amount established with regard to such quantity of*
 16 *such drug by the Formulary Committee and approved*
 17 *by the Secretary.*

18 *"(b) Amounts to which an individual is entitled by*
 19 *reason of the provisions of section 1832(a)(3) shall be paid*
 20 *directly to such individual or, if such individual has assigned*
 21 *his right to receive any such amount to another person, the*
 22 *amount so assigned shall be paid to such other person. No*
 23 *individual shall be paid any amount by reason of the pro-*
 24 *visions of section 1832(a)(3) prior to the presentation by*
 25 *him (or by another on his behalf) of documentary or other*

1 *proof satisfactory to the Secretary establishing his entitle-*
 2 *ment thereto.*

3 “(c) *The benefits provided by reason of section 1832*
 4 *(a)(3) may be paid by the Secretary or the Secretary*
 5 *may utilize the service of carriers for the administration of*
 6 *such benefits under contracts entered into between the Secre-*
 7 *tary and such carriers for such purpose. To the extent deter-*
 8 *mined by the Secretary to be appropriate, the provisions*
 9 *relating to contracts entered into pursuant to section 1842*
 10 *shall be applicable to contracts entered into pursuant to this*
 11 *subsection.*

12 “**FORMULARY COMMITTEE**

13 “**SEC. 1846.** (a) *There is hereby established a Formu-*
 14 *lary Committee to consist of the Surgeon General of the*
 15 *Public Health Service, the Commissioner of the Food and*
 16 *Drug Administration, and the Director of the National In-*
 17 *stitutes of Health.*

18 “(b)(1) *It shall be the duty of the Formulary Com-*
 19 *mittee, with the advice and assistance of the Formulary Ad-*
 20 *visory Group (established pursuant to section 1847) to—*

21 “(A) *determine which drugs and biologicals shall*
 22 *constitute qualified drugs for purposes of the benefits*
 23 *provided under section 1832(a); and*

24 “(B) *determine, with the approval of the Secre-*

1 *tary, the allowable expense, for purposes of such bene-*
2 *fits, of the various quantities of any drug determined by*
3 *the Committee to constitute a qualified drug; and*

4 *“(C) publish and disseminate at least once each*
5 *calendar year among individuals insured under this*
6 *part, physicians, pharmacists, and other interested per-*
7 *sons, in accordance with directives of the Secretary, an*
8 *alphabetic list naming each drug or biological (by its*
9 *generic name and by each other name by which it is*
10 *known) which is a qualified drug together with the al-*
11 *lowable expense of various quantities thereof, and if*
12 *any such drug or biological is known by a trade name,*
13 *the generic name shall also appear with such trade name.*

14 *“(2)(A) Until the Formulary Committee determines*
15 *to the contrary, any drug or biological which is included*
16 *in the United States Public Health Service Formulary*
17 *shall be regarded as a qualified drug for purposes of the*
18 *benefits provided under section 1832(a)(3). Drugs or*
19 *biologicals not included in such Formulary shall be re-*
20 *garded as qualified drugs for such purposes upon determina-*
21 *tion of the Formulary Committee that such drugs or bio-*
22 *logicals should be so regarded. Any drug or biological*
23 *included on the list of qualified drugs shall, if listed by*
24 *generic name, also be listed by its trade name or names,*
25 *if any.*

1 “(B) *Drugs and biologicals shall be determined to*
 2 *be qualified drugs only if they can legally be obtained by*
 3 *the user pursuant to a prescription of a physician; except*
 4 *that the Formulary Committee may include certain drugs*
 5 *and biologicals not requiring such a prescription if it de-*
 6 *termines such drugs or biologicals to be of a lifesaving nature.*

7 “(C) *In the interest of orderly, economical, and equi-*
 8 *table administration of the benefits provided under section*
 9 *1832(a)(3), the Formulary Committee may, by regula-*
 10 *tion, provide that a drug or biological otherwise regarded*
 11 *as being a qualified drug shall not be so regarded when*
 12 *prescribed below certain minimum quantities.*

13 “(3) *In determining the allowable expense for any*
 14 *quantity of any qualified drug, the Formulary Committee*
 15 *shall give due consideration to recognized pricing guides for*
 16 *drugs, and of other pertinent factors, with a view to deter-*
 17 *mining with respect to each qualified drug a schedule of*
 18 *prices for various quantities thereof which reflects the cost*
 19 *thereof to the ultimate dispenser of the drug plus a reason-*
 20 *able fee for the preparation, handling, and distribution*
 21 *thereof to the consumer thereof. In any case in which a*
 22 *drug or biological is available by generic name and one or*
 23 *more trade names any one of which is different from such*
 24 *generic name the cost of such drug or biological, for pur-*

1 poses of the preceding sentence, shall be deemed to be the
2 lowest cost of such drug, however named."

3 "ADVISORY GROUP TO FORMULARY COMMITTEE

4 "SEC. 1847. (a) For the purpose of assisting the Formu-
5 lary Committee to carry out its duties and functions, the
6 Secretary shall appoint an Advisory Group to the Formulary
7 Committee (hereinafter in this section referred to as the
8 'Advisory Group'). The Advisory Group shall consist of
9 seven members to be appointed by the Secretary. From
10 time to time, the Secretary shall designate one of the mem-
11 bers of the Advisory Group to serve as Chairman thereof.
12 The members shall be so selected that each represents one or
13 more of the following national organizations: an organiza-
14 tion of physicians, an organization of manufacturers of drugs,
15 an organization of pharmacists, an organization of persons
16 concerned with public health, an organization of hospital
17 pharmacists, an organization of colleges of medicine, an orga-
18 nization of colleges of pharmacy, and an organization of con-
19 sumers. Each member shall hold office for a term of three
20 years, except that any member appointed to fill a vacancy
21 occurring prior to the expiration of the term for which his
22 predecessor was appointed shall be appointed for the remain-
23 der of such term, and except that the terms of office of six
24 of the members first taking office shall expire, as designated
25 by the Secretary at the time of appointment, two at the end

1 of the first year, two at the end of the second year, and two
2 at the end of the third year, after the date of appointment.
3 A member shall not be eligible to serve continuously for more
4 than two terms.

5 “(b) Members of the Advisory Group, while attending
6 meetings or conferences thereof or otherwise serving on
7 business of the Advisory Group, shall be entitled to receive
8 compensation at rates to be fixed by the Secretary, but not
9 exceeding \$75 per day, including traveltime, and while so
10 serving away from their homes or regular places of business
11 they may be allowed travel expenses, including per diem in
12 lieu of subsistence, as authorized by section 3109 of title 5,
13 United States Code, for persons in the Government service
14 employed intermittently.

15 “(c) The Advisory Group is authorized to engage such
16 technical assistance as may be required to carry out its
17 functions, and the Secretary shall, in addition, make available
18 to the Advisory Group such secretarial, clerical, and other
19 assistance and such pertinent data obtained and prepared
20 by the Department of Health, Education, and Welfare as the
21 Advisory Group may require to carry out its functions.”

22 (e) The amendments made by this section shall become
23 effective on whichever of the following first occurs: (1) the
24 first day of the first month with respect to which the rate of

1 *the monthly premium for participation is raised, pursuant*
 2 *to section 1839(b) of the Social Security Act, after the date*
 3 *of enactment of this Act, or (2) January 1, 1968.*

4 **SEC. 404. PERCENTAGE DEPLETION RATE FOR CLAY AND**
 5 **SHALE USED IN MAKING SEWER PIPE.**

6 (a) *RATE.*—Section 613(b) (relating to percentage
 7 depletion rates) is amended—

8 (1) by striking out “and clay used or sold for use
 9 for purposes dependent on its refractory properties” in
 10 paragraph (3)(B) and inserting in lieu thereof “clay
 11 used or sold for use for purposes dependent on its refrac-
 12 tory properties, and clay and shale used or sold for use
 13 in the manufacture of sewer pipe and brick”;

14 (2) by inserting after “shale,” in paragraph (5)
 15 (A) “except shale described in paragraph (3)(B),”;
 16 and

17 (3) by striking out “building or paving brick” and
 18 “sewer pipe,” in paragraph (5)(B).

19 (b) *TREATMENT PROCESSES.*—Section 613(c)(4)
 20 (relating to treatment processes considered as mining) is
 21 amended by inserting after “applies” in subparagraph (G)
 22 “and of clay and shale used or sold for use in the manu-
 23 facture of sewer pipe and brick”.

24 (c) *EFFECTIVE DATE.*—The amendments made by sub-

1 sections (a) and (b) shall apply to taxable years ending
2 after the date of the enactment of this Act.

3 **SEC. 405. PRESERVATION FROM REDUCTION OF CERTAIN**
4 **WIDOWS' BENEFITS UNDER TITLE II OF THE**
5 **SOCIAL SECURITY ACT.**

6 (a) The first sentence of section 203(a) of the Social
7 Security Act is amended (1) by striking out the period at
8 the end of paragraph (3) thereof and inserting in lieu of
9 such period a semicolon followed by the word "or", and (2)
10 by adding after paragraph (3) thereof the following new
11 paragraph:

12 " (4) when one of such individuals is a widow of
13 such insured individual who is entitled, under section
14 202(e), to widow's insurance benefits for any month
15 on the basis of the wages and self-employment income
16 of such insured individual, the benefit to which she is
17 entitled, on the basis of such wages and self-employ-
18 ment income, shall not be reduced for any month under
19 this subsection on account of monthly benefits to which
20 any other individual is entitled, on the basis of the
21 wages and self-employment income of such insured
22 individual, if (A) such insured individual died prior to
23 1966 and if (B) such other individual (i) is entitled to
24 such benefits, under section 202(d), as a child of such

1 insured individual, (ii) is not the child of such widow,
2 and (iii) would not have been considered to be the son
3 or daughter of such insured individual under section
4 216(h) as in effect prior to the enactment of the Social
5 Security Amendments of 1965."

(b) *The amendments made by subsection (a) shall be effective with respect to monthly benefits payable under title II of the Social Security Act for months after the month in which this Act is enacted.*

Amend the title so as to read: “An Act to provide equitable tax treatment for foreign investment in the United States, to establish a Presidential Election Campaign Fund to assist in financing the costs of presidential election campaigns, and for other purposes.”

Passed the House of Representatives June 15, 1966.

Attest: RALPH R. ROBERTS,
Clerk.

Passed the Senate with amendments October 13, 1966.

Attest: FRANCIS R. VALEO,
Secretary.

SECTION 27

**SUMMARY OF SENATE AMENDMENTS TO H.R. 13103
FOREIGN INVESTORS TAX ACT OF 1966; PRESIDENTIAL
ELECTION CAMPAIGN FUND ACT; AND OTHER
AMENDMENTS**

1841

SUMMARY OF
SENATE AMENDMENTS TO H.R. 13103
FOREIGN INVESTORS TAX ACT OF 1966;
PRESIDENTIAL ELECTION CAMPAIGN FUND
ACT; AND OTHER AMENDMENTS

PREPARED FOR THE USE OF
THE HOUSE AND SENATE CONFEREES ON H.R. 13103

BY THE STAFF OF THE
JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION



OCTOBER 18, 1966

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1966

JCS-14-66

SUMMARY OF SENATE AMENDMENTS TO H.R. 13103

TITLE I—FOREIGN INVESTORS TAX ACT

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Section 101. SHORT TITLE.

P. 88 Clerical changes.

Section 102. SOURCE OF INCOME. (Pp. 88-104.)

(a) Interest. (Pp. 87-93.)

Pp. 89, 90 (1) *Source rules for bank deposit interest and similar income.*—The Committee on Finance did not change the provisions of the House bill which after December 31, 1971, treat as U.S. source income (and subject to U.S. tax) all interest, received by nonresident aliens and foreign corporations, on U.S. bank deposits other than interest on deposits in foreign branch banks of domestic corporations. Until then, this interest on bank deposits (as provided by present law), interest paid on accounts with mutual savings banks, domestic building and loan associations, etc., and interest on amounts held by insurance companies on deposit are to be treated as foreign source income (unless effectively connected with a U.S. business) and thereby free of U.S. income tax.

The Senate adopted a floor amendment offered by Senator Yarborough which struck out the provision which would tax this bank deposit interest etc. after December 31, 1971. Thus, this floor amendment would exempt interest paid to nonresident aliens and foreign corporations on their U.S. bank deposits and similar types of income on a permanent basis.

P. 89 (2) *Rules for determining source of interest from foreign corporations.*—Present law provides that all the interest paid by a foreign corporation engaged in a trade or business in the United States is to be considered U.S. source income, and therefore subject to U.S. tax, if 20 percent or more of the income of the foreign corporation paying the interest is from U.S. sources during the preceding 3-year period. Additionally, since in the case of this type of interest income there is no apportionment provision, all the interest paid by a foreign corporation meeting the 20-percent rule is treated as being from U.S. sources notwithstanding the portion of the corporation's income which is from U.S. sources.

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This amendment provides that none of the interest received from a foreign corporation is to be considered to be from U.S. sources unless at least 50 percent (rather than 20 percent as provided in the House bill) of the corporation's gross income for the three preceding years was effectively connected with the conduct of a trade or business in the United States. Also, the portion of the interest treated as being from U.S. sources is to be the same proportion of the interest which the effectively connected income of the foreign corporation during the immediately prior 3-year period is of its gross income from all sources for that period.

P. 90

(3) *Interest on deposits in foreign branch banks.*—The House bill provided that interest on deposits with foreign branch banks of U.S. corporations is to be treated as foreign source income and thus free of U.S. income tax when paid to nonresident aliens and foreign corporations. This amendment extends this treatment to foreign branch banks of U.S. partnerships.

P. 92

(4) *Foreign central banks and the Bank for International Settlements.*—The House bill exempted from U.S. tax interest on U.S. bank deposits received by foreign central banks of issue and the Bank for International Settlements unless the deposits are held in connection with general commercial transactions of these banks. The Senate amendment extends the provision of present law which exempts interest from U.S. Government obligations received by a foreign central bank of issue to such interest received by the Bank for International Settlements. Also, the definition of what constitutes a governmental obligation, for purposes of this exemption, was extended both with respect to foreign central banks of issue and the Bank for International Settlements to include obligations of agencies or instrumentalities of the United States.

Pp. 88–
93

(5) Technical and clerical changes.

(b) Dividends. (Pp. 93–94.)

P. 93

(1) *Rules for determining source of dividends from foreign corporations.*—The Senate amended the source rule with respect to dividends paid by foreign corporations to provide that dividends received from a foreign corporation are to be considered as having a U.S. source only if 50 percent (House bill provided an 80-percent rule) of the corporation's gross income for the prior 3 years was effectively connected with the conduct of a trade or business in the United States.

Pp. 93–
94

(2) Technical and clerical changes.

(c) Personal services. (P. 94.)
Clerical change.

P. 94

(d) Definitions. (Pp. 94–103.)

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P. 102

(1) *Effectively connected foreign source income*.—The House bill provided that income from sources without the United States is not to be treated as effectively connected with a U.S. business unless the nonresident alien or foreign corporation has a fixed place of business in the United States and the income is attributable to that place of business. In general, only rents and royalties from licensing, certain income from banking, financial and similar businesses, and sales income are to be taken into account for this purpose. However, they are not to be taken into account if the income is "subpart F" income or income derived from a foreign corporation 50 percent owned by the nonresident alien or foreign corporation receiving the income. This amendment modifies the House bill to exclude (a) income derived from a transaction in which the U.S. office was not a material factor in the production of the income, (b) income not derived from the usual (as distinct from casual) business activities of the U.S. office, and (c) income not properly allocable to the U.S. office. Additionally, the definition of a U.S. office was refined to exclude the activities of an independent agent operating in the ordinary course of his business.

Pp. 94-
103

(2) Technical and clerical changes.

(e) Effective dates. (Pp. 103-104.)

Pp. 103-
104

Clerical changes.

Section 103. NONRESIDENT ALIEN INDIVIDUALS.
(Pp. 104-126.)

(a) Tax on nonresident alien individuals. (Pp. 104-112.)

Pp. 105,
109
and
110

(1) *Contingent intangible sales income*.—This amendment provides that gains realized on the sale of a patent or other intangible property, where the income from the sale is derived as a result of the use of the property in the United States, is not to be subject to U.S. tax as "fixed and determinable income" (which is taxed at 30 percent or lower treaty rate) unless a part of the income derived from the sale is contingent. If part of the profits from the sale are contingent, the amount subject to U.S. tax in any year is to be the contingent amount, or if this contingent amount exceeds 50 percent of the total amount paid in any 1 year, the total amount is to be taxed to the extent this amount represented gain realized on the sale of the property. This provision is to apply to gains derived from sales made after October 4, 1966. The provisions of existing law will continue to apply to transfers of patents made before that date.

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- Pp. 110, 111* (2) *Certain annuities received under qualified plans.*—Under present law a nonresident alien receiving pension or annuity income from a plan located in the United States is subject to U.S. tax (flat 30 percent or lower treaty rate) on the interest portion of the pension income notwithstanding the fact that the services qualifying the nonresident alien for the pension were entirely rendered outside the United States. This amendment exempts from U.S. tax the type of pension income described above if 90 percent of the persons under the plan were U.S. citizens.
- Pp. 104-112* (3) Technical and clerical changes.
- (b) Gross income. (Pp. 112–113.)
- P. 113* Clerical change.
- (c) Deductions. (Pp. 113–155.)
- P. 113* Clerical change.
- (d) Allowance of deductions and credits. (Pp. 115–116.)
- P. 115* Clerical change.
- (e) Beneficiaries of estates and trusts. (P. 116.)
- P. 116* (1) *Imputed business activities.*—This amendment imputes the business activities of a trust or estate to its beneficiaries. In other words, if a trust, whether foreign or a domestic, is engaged in a trade or business in the United States, its beneficiaries also are deemed to be engaged in that trade or business.
- P. 116* (2) Clerical change.
- P. 117* (f) Expatriation to avoid tax. (Pp. 117–119.)
- (1) *Period rule in effect.*—Under this amendment U.S. source income and the effectively connected income of a citizen received for 10 years after expatriation are, in most cases, to be taxed at the regular U.S. tax rates if a principal purpose of the expatriation was the avoidance of U.S. income, estate, or gift taxes. The House bill would have provided a 5-year rule for income taxes.
- P. 117* (2) Clerical change.
- (g) Partial exclusion of dividends. (P. 120.)
- P. 120* Clerical change.
- (h) Withholding of tax on nonresident aliens. (Pp. 120–123.)

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Pp. 120, 121, 123 (1) *Fixed or determinable income*.—This amendment provides for a withholding tax on the following additional types of income: (1) the contingent income derived from the sale of patents and other intangibles; (2) a foreign partner's share of the U.S. income of a domestic partnership which is not effectively connected with the partnership's business; and (3) amounts received on retirement or exchange of bonds issued after September 28, 1965, which are treated as gains from the sale of property which is not a capital asset (sec. 1232).

Pp. 120-123 (2) Technical and clerical changes.

(i) Liability for withheld tax. (Pp. 123 and 124.)

P. 123 Clerical change.

(j) Declaration of estimated income tax by individuals. (Pp. 124-125.)

P. 125 Clerical change.

(k) Collection of income tax at source on wages. (P. 125.)

(l) *Recapture rule regarding depreciable realty*.—This amendment strikes the House provision which provides that the recapture rule applicable to depreciable realty is to apply to the transfer of depreciable real estate by a foreigner to a domestic corporation in a tax-free exchange for stock or securities of a domestic corporation.

P. 125 (2) Clerical change.

(l) Definitions of foreign estate or trust. (P. 125.)
P. 125 Technical change.

(m) Conforming amendment. (Pp. 125-126.)

P. 125 Clerical change.

(n) Effective dates. (P. 126.)

P. 126 Clerical change.

Section 104. FOREIGN CORPORATIONS. (Pp. 126-150.)

(a) Tax on income not connected with U.S. business. (Pp. 126-128.)

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P. 127

(1) *Fixed or determinable income.*—Under the bill, as amended by the Senate, the types of fixed or determinable income specified are generally the same as under present law and the House bill with the same two additions provided in the case of nonresident aliens, namely, (1) contingent income received from the sale of patents and other intangibles, and (2) amounts of original issue discount which are treated as ordinary income received on retirement or sale or exchange of bonds or other evidences of indebtedness issued after September 28, 1965. A corresponding amendment to the House bill deleting the tax on income realized with respect to stock of a collapsible corporation was made in this provision.

P. 127

(2) Technical changes.

(b) Tax on income connected with U.S. business. (Pp. 128–133.)

P. 130

(1) *Allowance for personal holding company tax purposes of dividends paid deduction.*—Under present law if a foreign corporation is determined to constitute a personal holding company and the foreign corporation has not filed a return or that which was filed is not a true and accurate return, the 70 percent personal holding company tax is assessed without allowance of the dividend-paid deduction. In such cases the combination of the 30 percent tax and the 70 percent personal holding company tax can constitute an effective rate of tax of about 80 percent of the income of the foreign corporation.

This amendment provides that a foreign corporation can claim all appropriate deductions in computing its personal holding company tax notwithstanding the general rule disallowing deductions where no return is filed.

P. 132

(2) *Certain interest received by banks in U.S. possessions.*—The application of the flat 30-percent rate to U.S. source income which is not effectively connected with a U.S. trade or business results in a high effective rate of tax on interest received by banks located in U.S. possessions with respect to U.S. Government obligations which they must necessarily hold to meet reserve requirements.

The Senate added an amendment to the House bill which provides that interest received by banks located in a U.S. possession from U.S. Government obligations will be treated as effectively connected with a U.S. trade or business whether or not the bank has such a business. Consequently, the interest received by a bank in a possession from U.S. Government obligations will be taxed on a net basis—gross interest income less allocable expenses.

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Pp. 128- (3) Clerical changes.

133

(c) Withholding of tax on foreign corporations. (Pp. 134-135.)

P. 134 (1) Conforming amendment.

P. 134 (2) Clerical changes.

(d) Dividends received from certain foreign corporations. (Pp. 135-136.)

P. 136 Clerical change.

(e) Dividends received from certain wholly-owned foreign subsidiaries. (Pp. 136-138.)

Pp. 136- This amendment to the House bill provides that in certain
138 situations a 100 percent dividends-received deduction is to be allowed to a domestic corporation for dividends received from a wholly owned foreign subsidiary which has 100 percent effectively connected income. For this to be available a foreign corporation must be subject to U.S. corporate tax on all of its income, just as is a domestic corporation.

(f) Distributions of certain foreign corporations. (Pp. 138-139.)

P. 138 Technical and clerical changes.

(g) Unrelated business taxable income. (P. 139.)

P. 139 Clerical change.

(h) Corporation subject to personal holding company tax. (Pp. 139-143.)

P. 139 (1) *Nonexemption of personal service income.*—This amendment provides that the general exception provided in the House bill from the personal holding company provisions in cases where the corporation is wholly foreign owned is not to be available to a foreign corporation which is a personal holding company to the extent that corporation has income from personal services which is personal holding company income described in section 543(a)(7).

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P. 141 (2) *U.S. ownership de minimus rule*.—This amendment provides a de minimus rule in addition to the general exception provided in the House bill. Under the amendment, in the case of foreign corporations with only 10 percent or less U.S. ownership, the personal holding company tax is to be assessed only on the corporation's undistributed personal holding company income attributable to the U.S. shareholders' interest.

P. 142 (3) *Additional penalty for failure to file*.—As indicated above the Senate adopted an amendment which provides that a foreign corporation can claim all appropriate deductions in computing its personal holding company tax notwithstanding the general rule disallowing deductions where no return is filed. However, a 10 percent addition to taxes otherwise due is to be assessed in such a case.

(i) Amendments with respect to foreign corporations carrying on insurance business in the United States. (Pp. 143-147.)

P. 143 Clerical change.

(j) Subpart F income. (Pp. 147-148.)

P. 147 Clerical change.

(k) Gain from certain sales or exchanges of stock in certain foreign corporations. (Pp. 148-149.)

P. 148 Clerical change.

(l) Declaration of estimated income tax by corporations. (P. 149.)

P. 149 Clerical change.

(m) Technical amendments. (Pp. 149-150.)

Pp. 149-150 Technical and clerical changes.

(n) Effective dates. (P. 150.)

P. 150 Clerical change.

Section 105. SPECIAL TAX PROVISIONS. (Pp. 150-163.)

(a) Income affected by treaty. (Pp. 150-151.)

P. 150 Clerical changes.

(b) Adjustment to tax because of burdensome or discriminatory foreign taxes. (Pp. 151-155.)

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Pp. 153- (1) Imposition of discriminatory taxes by foreign country.—

154 It was brought to the attention of the Senate that there are some foreign countries which discriminate against foreign taxpayers (including U.S. persons) either generally or with regard to specific classes of foreign taxpayers. The present provisions of the code do not provide the President with authority to counteract discrimination by effecting substantially the same tax on the persons of the discriminating country (the present provision provides only for a doubling of the tax).

The Senate added a provision to the House bill granting the President the authority to take such action as is necessary to raise the effective rate of U.S. tax on income received by nationals, residents, or corporations of a discriminating country to substantially the same rates as are applied in the other country.

Pp. 151- (2) Technical and clerical changes.

155

(c) Clerical amendments. (P. 155.)

P. 155 Clerical changes.

(d) Effective date. (Pp. 155-156.)

Pp. 155- Clerical changes.

156

(e) Election by nonresident U.S. citizens who are subject to foreign community property laws. (Pp. 156-161.)

P. 156 Clerical changes.

(f) Presumptive date of payment for tax withheld under chapter 3. (Pp. 161-163.)

Pp. 161- This amendment adds a new provision which provides
163 *that any tax withheld at the sources under chapter 3 of the code (relating to withholding of tax on a nonresident alien and foreign corporation) is to be deemed to be paid by such recipients on the last day prescribed for filing his income tax return.*

Section 106. FOREIGN TAX CREDIT. (Pp. 163-170.)

(a) Allowance of credit to certain nonresident aliens and foreign corporations. (Pp. 163-167.)

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P. 164 (1) *Taxes of country of residence.*—The House bill provided that a foreign tax credit is to be allowed nonresident aliens and foreign corporations with respect to foreign taxes paid on foreign source income which is effectively connected to the conduct of a U.S. business. This amendment extends this provision to include income taxes paid to the foreigner's home country on grounds other than that the income was derived from sources within that country.

Pp. 163–
167 (2) Clerical change.

(b) Alien Residents of the United States or Puerto Rico.
(Pp. 167–169.)

P. 167 Clerical change.

(c) Foreign tax credit with respect to interest received from foreign subsidiaries. (P. 170.)

P. 170 (1) *Separate foreign tax credit limitation for interest.*—The 10-percent exception to the separate application of the limitation on the foreign tax credit for interest income was amended by the Senate so as to apply to a U.S. corporation which directly or indirectly owns 10 percent of the foreign corporation from which the interest is derived, or is a member of an affiliated group of corporations which has such ownership. The House bill contained a more limited exception which would have provided that the separate limitation is not to apply to a domestic funding subsidiary which is formed and availed of for the principal purpose of (1) raising funds outside the United States through foreign public offerings, and (2) using these funds to finance the foreign operations of related foreign corporations.

P. 170 (2) Clerical change.

Section 107. AMENDMENTS TO PRESERVE EXISTING LAW ON DEDUCTIONS UNDER SECTION 931. (PP. 171–172.)

Pp. 171–
172 Clerical changes.

Section 108. ESTATES OF NONRESIDENTS NOT CITIZENS. (Pp. 172–181.)

(a) Rate of tax. (Pp. 172–173.)

P. 172 Clerical change.

(b) Credits against tax. (Pp. 173–174.)

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P. 173

Clerical change.

(c) Property within the United States. (Pp. 174-175.)

P. 174

(1) *Situs rule for bank deposits.*—The Committee on Finance adopted an amendment which would have treated U.S. bank deposits of nonresident aliens as property within the United States, and therefore subject to U.S. estate tax, after 1971. The provisions of the House bill would have made this rule effective immediately. However, the Senate adopted a floor amendment offered by Senator Yarborough which, in effect, provides that U.S. bank deposits of nonresident aliens are to be treated as property without the United States on a permanent basis. Therefore, these assets are not at any time to be subject to U.S. estate tax.

P. 174

(2) Clerical change.

(d) Property without the United States. (P. 175.)

P. 175

(1) *Situs rule for deposits in foreign branch banks.*—The House bill provided that deposits in a foreign branch bank of a U.S. corporation are to be treated as property without the United States and therefore not includible in a foreigner's U.S. estate tax basis. The Senate adopted an amendment which extended this rule to foreign branch banks of U.S. partnerships.

P. 175

(2) Clerical change.

(e) Definition of taxable estate. (Pp. 175-176.)

P. 175

Clerical change.

(f) Special methods of computing tax. (Pp. 176-180.)

P. 176

Clerical change.

(g) Estate tax returns. (P. 181.)

P. 181

Clerical change.

(h) Clerical amendment. (P. 181.)

P. 181

Clerical change.

(i) Effective date. (P. 181.)

P. 181

Clerical change.

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Section 109. TAX ON GIFTS OF NONRESIDENTS NOT
CITIZENS. (Pp. 181-183.)

Pp. 181-183 Clerical changes.

Section 110. TREATY OBLIGATIONS. (P. 183.)

P. 183 Clerical change.

**TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE
CODE**

Section 201. APPLICATION OF INVESTMENT CREDIT
TO PROPERTY USED IN POSSESSIONS OF THE
UNITED STATES.

Pp. 184-185 The investment credit is extended by this amendment to property located in U.S. possessions provided: (1) the property is owned by a U.S. company or citizen that is subject to U.S. tax on its income from possessions; (2) the property would otherwise have qualified for the investment credit; and (3) it is not owned or used by U.S. persons who are presently exempt from U.S. tax. This amendment is effective with respect to property placed in service after December 31, 1965.

Section 202. DEDUCTION OF MEDICAL EXPENSES
OF INDIVIDUALS AGE 65 OR OVER.

Pp. 185-187 This amendment repeals the provisions with respect to a taxpayer, or his spouse, age 65 or over, and a dependent mother or father of a taxpayer or his spouse if the mother or father is age 65 or over, which, beginning in 1967, would limit their medical deductions to medical care expenses in excess of 3 percent of adjusted gross income and define their medical care expenses to include only those medicine and drug expenses in excess of 1 percent of adjusted gross income.

Section 203. BASIS OF PROPERTY RECEIVED ON
LIQUIDATION OF SUBSIDIARY.

Pp. 187-189 Under present law, the purchase from an unrelated party by one corporation of at least 80 percent of the stock of another corporation followed by the liquidation of the acquired corporation within 2 years is treated as a purchase of the assets of the acquired corporation. These amendments expand the definition of "purchase" to include the purchase of stock from a 50-percent owned subsidiary if stock in the 50-percent owned subsidiary was also acquired by purchase.

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The change is to be effective with respect to acquisitions of stock made after December 31, 1965.

These amendments also provide that when installment notes are transferred in the type of purchase and liquidation described above, gain is to be recognized to the distributing corporation in the same manner as if it had sold the notes at fair market value. This amendment is to be effective with respect to distributions made after the date of enactment of this act.

Section 204. TRANSFERS OF STOCK AND SECURITIES TO CORPORATIONS CONTROLLED BY TRANS- FERORS.

- P. 189* This amendment provides that section 351 of present law applies to corporate investment funds. Under section 351, the transfer of property to a corporation by one or more persons in exchange for stock in the corporation is not to result in gain or loss if immediately after the exchange, the person or persons are in control of the corporation. Proposed Treasury regulations issued on July 14, 1966 took the position that the exchange of appreciated securities for shares in a mutual investment fund is not tax free. In 1960 the Service issued several rulings that such exchanges—to so-called swap funds—were tax free. The proposed regulations would hold these transfers taxable.

Section 205. MINIMUM AMOUNT TREATED AS EARNED INCOME FOR RETIREMENT PLANS OF CERTAIN SELF-EMPLOYED INDIVIDUALS.

- P. 189* This amendment raises from \$2,500 to \$6,600 the minimum amount of earnings from a trade or business, in which both personal services and capital are material income-producing factors, which a self-employed person may treat as earned income (for self-employed retirement income purposes) regardless of the general rule that only 30 percent of the net profits of the trade or business may be treated as earned income. This amendment applies to taxable years beginning after December 31, 1965.

Section 206. REMOVAL OF SPECIAL LIMITATIONS WITH RESPECT TO DEDUCTIBILITY OF CON- TRIBUTIONS TO PENSION PLANS BY SELF- EMPLOYED INDIVIDUALS.

- P. 190* The Senate adopted as a floor amendment offered by Senator Hartke, the provisions of the House passed version of H.R. 10. The amendment provides for the repeal of two limitations on the deduction from gross income a self-employed individual may take with respect to contributions on his own behalf to a retirement plan. First, it

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repeals the provision which limits the deduction to 50 percent of the contribution. However, it has retained the provision restricting the contribution for self-employed persons to the lesser of 10 percent of earned income or \$2,500. Second, it also permits a self-employed individual to include in earned income all of his net profits when his income is earned from a business in which both the performance of personal services and capital are material income-producing factors. However, in such cases the personal services of the self-employed person involved must be material income-producing factors.

The provisions of this amendment are to be effective for taxable years beginning after December 31, 1967.

Section 207. TREATMENT OF CERTAIN INCOME AS AUTHORS, INVENTORS, ETC., AS EARNED INCOME FOR RETIREMENT PLAN PURPOSES.

P. 192 This amendment alters present law relating to self-employed individuals' retirement plans to permit authors, inventors, and others, to include gains (other than capital gains) and net earnings derived from the sale or other disposition of, the transfer of any interest in, or the licensing of the use of property (other than goodwill) where his own efforts created the property in their earned income base for the purpose of computing deductions for contributions to such plans. This change will be effective for taxable years ending after the date of enactment of this act.

Section 208. EXCLUSION OF CERTAIN RENTS FROM PERSONAL HOLDING COMPANY INCOME.

Pp. 193-195 This amendment provides, for taxable years beginning after the date of enactment of this act (and certain earlier years at the election of the taxpayer), that rent received from the lease of tangible personal property manufactured by a taxpayer is not to be treated as personal holding company income if the taxpayer during the year is engaged in manufacturing the same type of income.

Section 209. PERCENTAGE DEPLETION RATE FOR CERTAIN CLAY BEARING ALUMINA.

Pp. 195-196 This amendment provides, with respect to taxable years beginning after the date of enactment, a percentage depletion rate of 23 percent for alumina and aluminum compounds extracted from domestic deposits of clay, laterite, and nephelite syenite. It further provides that in computing gross income from mining all processes applied to derive alumina or aluminum compounds from such clay, laterite, and nephelite syenite are to be treated as mining processes.

Section 210. PERCENTAGE DEPLETION RATE FOR CLAM AND OYSTER SHELLS.

P. 196 This amendment provides that mollusk shells (including clam and oyster shells) are to be allowed percentage depletion at the same rate (15 percent) as is applicable in the case of limestone and other calcium carbonates. However, the rate remains at 5 percent (as is true of limestone) if the shells are used as riprap, ballast, road material, rubble, concrete aggregates or for similar purposes. This change is applicable to taxable years beginning after the date of enactment.

Section 211. SINTERING AND BURNING OF SHALE, CLAY, AND SLATE USED AS LIGHTWEIGHT AGGREGATES.

Pp. 196-197 This amendment provides that for purposes of determining the applicable percentage depletion base, the sintering or burning of shale, clay, and slate used or sold for use as lightweight aggregates are to be treated as a mining process. This amendment is applicable to taxable years beginning after the date of enactment.

Section 212. STRADDLES.

Pp. 197-198 This amendment provides that, with respect to straddle transactions entered into after January 25, 1965, the income from the lapse of an option which originated as part of a straddle is to be treated as a short-term capital gain (instead of ordinary income). This permits it to be netted against any capital loss which may result from the exercise of the other option in the straddle while retaining what in most respects is ordinary income treatment for any excess of net short-term capital gain over net long-term capital loss.

This amendment is to apply to straddles written after January 25, 1965.

Section 213. TAX TREATMENT OF PER-UNIT RETAIN ALLOCATIONS.

Pp. 198-209 This amendment amends present law dealing with the taxation of cooperatives and patrons to insure that a current single tax is paid, at either the cooperative or patron level, with respect to per-unit retain certificates. In so doing, the amendment makes the treatment of these certificates generally comparable to the treatment of patronage dividends under present law.

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Section 214. EXCISE TAX RATE ON AMBULANCES AND HEARSE.

Pp. 209-210 This amendment provides that the sale of a hearse, as well as an ambulance or combination ambulance-hearse vehicle is to be considered to be the sale of an automobile chassis or automobile body (rather than a truck chassis or body) for purposes of determining the manufacturers' excise tax on motor vehicles. This change applies with respect to articles sold after the date of enactment of this act.

Section 215. APPLICABILITY OF EXCLUSION FROM INTEREST EQUALIZATION TAX OF CERTAIN LOANS TO ASSURE RAW MATERIALS SOURCES.

Pp. 210-211 This amendment provides that subsequent transfers of debt obligations to assure raw material sources are to be exempt from the interest equalization tax where the indebtedness is acquired without an intent on the part of the purchaser to sell it to other U.S. persons. This change is to be effective with respect to acquisitions of debt obligations made after the date of enactment.

Section 216. EXCLUSION FROM INTEREST EQUALIZATION TAX FOR CERTAIN ACQUISITIONS BY INSURANCE COMPANIES.

Pp. 211-216 The present exemption for reserve asset pools of U.S. insurance companies is extended to allow the establishment of reserve asset pools where a U.S. insurance company commences activities in a developed country or where a less-developed country is designated as a developed country. This amendment is to take effect on the day after the date of enactment.

Section 217. EXCLUSION FROM INTEREST EQUALIZATION TAX OF CERTAIN ACQUISITIONS BY FOREIGN BRANCHES OF DOMESTIC BANKS.

P. 216 The President is given the authority to exempt from the interest equalization tax U.S. dollar loans of more than 1 year made by the foreign branches of U.S. banks. This change is to apply to acquisitions of debt obligations made after the date of enactment.

TITLE III—PRESIDENTIAL ELECTION CAMPAIGN FUND ACT

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Pp. 216-224 This title is designed to obtain for public support of presidential election campaign financing. Individual taxpayers are to be able to designate on their annual tax returns that \$1 of their income tax liability is to be placed in a presidential election campaign fund. The amounts in the fund are to be made available to defray the expenses incurred by political parties in presenting candidates for President and Vice President. Amounts will only be paid to those political parties whose candidates received at least 1,500,000 votes in the preceding presidential election.

A major political party (one whose candidate polled 10 million votes or more in the preceding presidential election) is to be eligible to receive a payment from the fund equal to \$1 times the number of votes cast for the presidential candidates of the major political parties in the preceding presidential election divided by the number of such major political parties. A minor party (one whose candidate polled more than 1,500,000 but less than 10 million votes) is to be eligible to receive a payment from the fund equal to \$1 for each vote in excess of 1,500,000 votes that its candidate received in the preceding presidential election. The payment received by any political party is to be limited, however, to reimbursement of presidential campaign expenses actually incurred by the party in connection with the current presidential election.

The Comptroller General is authorized to determine the campaign expenses of the political parties and to determine the amounts which may be paid to such parties. A bipartisan advisory board is established to advise and assist the Comptroller General with his duties under this act.

TITLE IV—MISCELLANEOUS PROVISIONS**Section. 401. TREASURY NOTES PAYABLE IN FOREIGN CURRENCY.**

Pp. 224-225 This amendment expands the debt management authority of the Secretary of the Treasury to permit the issuance of U.S. notes denominated in foreign currencies. This authority already exists in the case of bonds and certificates of indebtedness.

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Section 402. REPORTS TO CLARIFY TO NATIONAL DEBT AND TAX STRUCTURE.

Pp. 225-226— This amendment requires the Secretary of the Treasury to submit a report to the Congress each year indicating the amount of the contingent liabilities and unfunded liabilities of the Federal Government and the assets of the Federal Government which might be made available to liquidate such liabilities. The first such report is to be submitted on or before March 31, 1967.

Section 403. COVERAGE OF EXPENSES OF CERTAIN DRUGS UNDER SUPPLEMENTARY MEDICAL INSURANCE BENEFITS.

Pp. 226-233— The Senate amendment adds as a covered time of service under part B of medicare (supplemental medical insurance plan) the expense of drugs requiring a prescription. The additional benefit would become available effective January 1, 1968 (the effective date of July 1, 1968, adopted by the Committee on Finance was amended by a floor amendment by Senator Cotton), or earlier if the part B premium rate is recalculated prior to that time. A formulary committee would be established consisting of the Surgeon General, the Commissioner of the Food and Drug Administration, and the Director of the National Institutes of Health. The Formulary Committee would, with the assistance of an advisory group broadly representative of those groups concerned with pharmacy, determine which drugs would be covered under the plan. The formulary committee would promulgate a schedule of allowances payable for given quantities of covered drugs. Such allowances would be based upon the lowest wholesale price of any such drug, however named, plus an increment covering the reasonable cost of distribution, handling, and compounding.

A drug included in the formulary under its generic or established name would also be deemed an eligible drug if prescribed under any of its proprietary or brand names and the scheduled allowance for the drug named in the formulary would also be the allowance for the proprietary or brand name version even though the wholesale costs of such proprietary or brand name items may be greater in price.

Allowances are payable to the beneficiary in the same manner as other part B benefits or he may direct payment to a third party—such as a welfare department by assignment.

The monthly cost of providing this benefit is estimated at 50 cents to the participant and 50 cents to the Federal Government. The participant's share would become part of the regular part B premium. The Federal contribution would, as is the present case with Federal participation in

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the costs of the part B program, come from general revenues. The cost to general revenues would be offset in part by a reduction in the amount of drug expense deductions on Federal income tax returns.

Section 404. PERCENTAGE DEPLETION RATE FOR
CLAY AND SHALE USED IN MAKING SEWER
PIPE.

P. 233-234 A floor amendment offered by Senator Hartke provides a 15 percent percentage depletion allowance for clay products used in the making of sewer pipe and brick. The presently applicable rate is 5 percent. This change applies to years ending after date of enactment.

P. 234-235 Section 405. SOCIAL SECURITY BENEFITS REGARD-
ING CERTAIN ILLEGITIMATE CHILDREN.
(P. 232.)

This is a floor amendment offered by Senator Fong which amends the Social Security Act to exempt from reduction of monthly benefits (caused by the granting of benefits to certain illegitimate children) those widows whose husbands died prior to 1966 if the other claimants (the illegitimate children), first, are entitled to child's benefits under section 202(d), are not children of the widow, and would not have been considered prior to Public Law 89-97 to be the children of the deceased worker. As the amendment is drawn, the exemption from reduction of benefits is extended only to those widows whose husbands died in 1965 or earlier in those cases where claims of an illegitimate child or children based on the same man's earnings record would, because of the family maximum, force a reduction in her benefit.



SECTION 28
CONFERENCE REPORT

1865



FOREIGN INVESTORS TAX ACT OF 1966

OCTOBER 19, 1966.—Ordered to be printed

Mr. MILLS, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H.R. 13103]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 13103) to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investment in the United States, having met after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate to the text of the bill and agree to the same with the following amendments (pages and lines refer to pages and lines of the Senate engrossed amendments):

Page 7, strike out line 6, and insert:

an agreement to pay interest thereon.

Effective with respect to amounts paid or credited after December 31, 1972, subsection (a)(1)(A) and this subsection shall cease to apply."

Page 7, line 22, strike out "ration," and insert:

ration (other than interest paid or credited after December 31, 1972, by a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business),

Page 8, line 7, strike out "foreign corporation," and insert:
foreign corporation (other than interest paid or credited after December 31, 1972, by a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business),

Page 52, line 17, strike out "871(b)(1)" and insert 871(b)(2)

Page 52, line 18, strike out "882(a)" and insert 882(a)(2)

Page 73, line 2, strike out the period and insert a comma.

Page 74, in the matter following line 12, strike out "Elections" and insert *Election*

Page 92, line 14, strike out the period and insert a comma.

Page 92, line 16, after "States." insert:

With respect to estates of decedents dying after December 31, 1972, deposits with a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business, shall, for purposes of this subchapter, be deemed property within the United States.

Page 93, line 16, strike out "(3)" and insert (3) of

Page 101, line 13, after "owned" insert *and held*

Page 102, line 19, strike out "934(b)" and insert 934(c)

Page 103, beginning with line 9, strike out all through line 2, page 105.

Page 105, line 3, strike out "203" and insert 202

Page 107, beginning with line 3, strike out all through line 14, and insert:

SEC. 203. TRANSFERS OF PROPERTY TO INVESTMENT COMPANIES CONTROLLED BY TRANSFERORS.

(a) **TRANSFERS TO INVESTMENT COMPANIES.**—*The first sentence of section 351(a) (relating to transfer to corporation controlled by the transferor) is amended by striking out "to a corporation" and inserting in lieu thereof "to a corporation (including, in the case of transfers made on or before June 30, 1967, an investment company)".*

(b) **INVESTMENT COMPANIES REQUIRED TO FILE REGISTRATION STATEMENT WITH THE SEC.**—*Section 351 is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:*

"(d) APPLICATION OF JUNE 30, 1967, DATE.—For purposes of this section, if, in connection with the transaction, a registration statement is required to be filed with the Securities and Exchange Commission, a transfer of property to an investment company shall be treated as made on or before June 30, 1967, only if—

"(1) such transfer is made on or before such date,

"(2) the registration statement was filed with the Securities and Exchange Commission before January 1, 1967, and the aggregate issue price of the stock and securities of the investment company which are issued in the transaction does not exceed the aggregate amount therefor specified in the registration statement as of the close of December 31, 1966, and

"(3) the transfer of property to the investment company in the transaction includes only property deposited before May 1, 1967."

(c) **EFFECTIVE DATE.**—*The amendments made by subsections (a) and (b) shall apply with respect to transfers of property to investment companies whether made before, on, or after the date of the enactment of this Act.*

Page 107, strike out lines 15 through 25.

Page 108, line 1, strike out "206" and insert 204

Page 108, between lines 8 and 9, insert:

(b) **CONFORMING AMENDMENTS.**—

Page 108, line 9, strike out "(b)".

Page 110, line 7, strike out "207" and insert 205

Page 111, line 3, strike out "208" and insert 206

Page 113, line 3, strike out "209" and insert 207

Page 113, beginning with line 13, strike out all through line 5, page 114, and insert:

(b) **EFFECTIVE DATE.**—*The amendments made by subsection (a) shall apply to taxable years beginning after the date of the enactment of this Act.*

Page 114, line 6, strike out "210" and insert 208

Page 114, beginning with line 18, strike out all through line 6, page 115, and insert:

SEC. 209. PERCENTAGE DEPLETION RATE FOR CERTAIN CLAY, SHALE, AND SLATE.

(a) $7\frac{1}{2}$ PERCENT RATE.—Section 613 (b) (relating to percentage depletion rates) is amended—

(1) by renumbering paragraphs (5) and (6) as (6) and (7), respectively, and by inserting after paragraph (4) the following new paragraph:

"(5) $7\frac{1}{2}$ percent—clay and shale used or sold for use in the manufacture of sewer pipe or brick, and clay, shale, and slate used or sold for use as sintered or burned lightweight aggregates.";

(2) by striking out in paragraph (3)(B) (as amended by section 207(a)(2)) "if neither paragraph (2)(B) nor (5)(B) applies" and inserting in lieu thereof "if neither paragraph (2)(B), (5), or (6)(B) applies";

(3) by striking out in paragraph (6) (as renumbered by paragraph (1)) "shale, and stone, except stone described in paragraph (6)" and inserting in lieu thereof "shale (except shale described in paragraph (5)), and stone (except stone described in paragraph (7))";

(4) by striking out, in subparagraph (B) of paragraph (6) (as so renumbered), "building or paving brick," and by striking out "sewer pipe,"; and

(5) by inserting after "any such other mineral" in paragraph (7) (as so renumbered) "(other than slate to which paragraph (5) applies)".

(b) **CONFORMING AMENDMENT.**—Section 613(c)(4)(G) (relating to treatment processes) is amended by striking out "paragraph (5)(B)" and inserting in lieu thereof "paragraph (5) or (6)(B)".

(c) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (b) shall apply to taxable years beginning after the date of the enactment of this Act.

Page 115, line 7, strike out "212" and insert 210

Page 116, line 9, strike out "213" and insert 211

Page 117, line 13, strike out the quotation marks

Page 117, line 14, strike out the quotation marks

Page 127, line 17, strike out "214" and insert 212

Page 128, line 7, strike out "215" and insert 213

Page 129, line 19, strike out "216" and insert 214

Page 134, line 3, strike out "217" and insert 215

Page 137, line 19, strike out "10,000,000" and insert 15,000,000

Page 137, line 22, strike out "equal to—" and insert equal to the excess over \$5,000,000 of—

Page 138, line 1, strike out "10,000,000" and insert 15,000,000

Page 138, line 7, strike out "10,000,000" and insert 15,000,000

Page 138, lines 11 and 12, strike out "more than 1,500,000, but less than 10,000,000," and insert more than 5,000,000, but less than 15,000,000,

Page 138, line 16, strike out "1,500,000" and insert 5,000,000

Page 141, line 15, strike out "10,000,000" and insert 15,000,000

Page 143, beginning with line 5, strike out all through line 2, page 144, and insert:

The Secretary of the Treasury shall, on the first day of each regular session of the Congress, submit to the Senate and the House of Representa-

tives a report setting forth, as of the close of the preceding June 30 (beginning with the report as of June 30, 1967), the aggregate and individual amounts of the contingent liabilities and the unfunded liabilities of the Government, and of each department, agency, and instrumentality thereof including, so far as practicable, trust fund liabilities, Government corporations' liabilities, indirect liabilities not included as a part of the public debt, and liabilities of insurance and annuity programs, including their actuarial status. The report shall also set forth the collateral pledged, or the assets available (or to be realized), as security for such liabilities (Government securities to be separately noted), and shall also set forth all other assets specifically available to liquidate such liabilities of the Government. The report shall set forth the required data in a concise form, with such explanatory material (including such analysis of the significance of the liabilities in terms of past experience and probable risk) as the Secretary may determine to be necessary or desirable, and shall include total amounts of each category according to the department, agency, or instrumentality involved.

Page 144, beginning with line 3, strike out all through line 9, page 153.

On page 3, beginning with the matter in the table of contents relating to title II, strike out all through the end of the table of contents on page 5 and insert:

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE

Sec. 201. Application of Investment Credit to Property Used in Possessions of the United States.

- (a) Property used by domestic corporations, etc.
- (b) Effective date.

Sec. 202. Basis of property received on liquidation of subsidiary.

- (a) Definition of purchase.
- (b) Period of acquisition.
- (c) Distribution of installment obligations.
- (d) Effective dates.

Sec. 203. Transfers of property to investment companies controlled by transferors.

- (a) Transfers to investment companies.
- (b) Investment companies required to file registration statement with S.E.C.
- (c) Effective date.

Sec. 204. Removal of special limitations with respect to deductibility of contributions to pension plans by self-employed individuals.

- (a) Removal of special limitations.
- (b) Conforming amendments.
- (c) Definition of earned income.
- (d) Effective date.

Sec. 205. Treatment of certain income of authors, inventors, etc., as earned income for retirement plan purposes.

- (a) Income from disposition of property created by taxpayer.
- (b) Effective date.

Sec. 206. Exclusion of certain rents from personal holding company income.

- (a) Rents from leases of certain tangible personal property.
- (b) Technical amendments.
- (c) Effective date.

Sec. 207. Percentage depletion rate for certain clay bearing alumina.

- (a) 23 percent rate.
- (b) Treatment processes.
- (c) Effective date.

Sec. 208. Percentage depletion rate for clam and oyster shells.

- (a) 15 percent rate.
- (b) Effective date.

Sec. 209. Percentage depletion rate for certain clay, shale, and slate.

- (a) 7½ percent rate.
- (b) Conforming amendment.
- (c) Effective date.

- Sec. 210. *Straddles.*
 (a) *Treatment as short-term capital gain.*
 (b) *Effective date.*
- Sec. 211. *Tax treatment of per-unit retain allocations.*
 (a) *Tax treatment of cooperatives.*
 (b) *Tax treatment by patrons.*
 (c) *Definitions.*
 (d) *Information reporting.*
 (e) *Effective dates.*
 (f) *Transition rule.*
- Sec. 212. *Excise tax rate on ambulances and hearses.*
 (a) *Classification as automobiles.*
 (b) *Effective date.*
- Sec. 213. *Applicability of exclusion from interest equalization tax of certain loans to assure raw materials sources.*
 (a) *Exception to exclusion.*
 (b) *Technical amendments.*
 (c) *Effective date.*
- Sec. 214. *Exclusion from interest equalization tax for certain acquisitions by insurance companies.*
 (a) *New companies and companies operating in former less developed countries.*
 (b) *Effective date.*
- Sec. 215. *Exclusion from interest equalization tax of certain acquisitions by foreign branches of domestic banks.*
 (a) *Authority for modification of executive orders.*
 (b) *Effective date.*

TITLE III—PRESIDENTIAL ELECTION CAMPAIGN FUND ACT

- Sec. 301. *Short title.*
- Sec. 302. *Authority for designation of \$1 of income tax payments to presidential election campaign fund.*
- Sec. 303. *Presidential election campaign fund.*
 (a) *Establishment.*
 (b) *Transfers to the fund.*
 (c) *Payments from fund.*
 (d) *Transfers to general fund.*
- Sec. 304. *Establishment of advisory board.*
- Sec. 305. *Appropriations authorized.*

TITLE IV—MISCELLANEOUS PROVISIONS

- Sec. 401. *Treasury notes payable in foreign currency.*
- Sec. 402. *Reports to clarify to national debt and tax structure.*

And the Senate agree to the same.

That the House recede from its disagreement to the amendment of the Senate to the title of the bill and agree to the same.

W. D. MILLS,
 CECIL R. KING,
 HALE BOGGS,
 EUGENE J. KEOGH,
 JOHN W. BYRNES,
 JAMES B. UTT,

Managers on the Part of the House.

RUSSELL B. LONG,
 GEORGE A. SMATHERS,
 CLINTON ANDERSON,
 EUGENE J. MCCARTHY,
 FRANK CARLSON,
 WALLACE F. BENNETT,

Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 13103) to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investment in the United States, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The Senate amendment to the text of the bill struck out all after the enacting clause of the bill as passed by the House and inserted in lieu thereof a substitute containing four titles: Title I: Foreign Investors Tax Act; Title II: Other Amendments to Internal Revenue Code; Title III: Presidential Election Campaign Fund Act; and Title IV: Miscellaneous Provisions. The effect of the action recommended in the accompanying conference report is explained below under the four headings contained in the Senate amendment.

TITLE I—FOREIGN INVESTORS TAX ACT

INCOME AND ESTATE TAX TREATMENT OF AMOUNTS HELD ON DEPOSIT

(a) *Income tax treatment.*—Under existing law, interest on U.S. bank deposits is not treated as U.S. source income and, therefore, not subject to the Federal income tax in the case of nonresident aliens and foreign corporations not engaged in trade or business in the United States. Under the bill as passed by the House (1) this source rule for interest on bank deposits was broadened for a temporary period so it applied also to accounts with mutual savings banks, domestic building and loan associations, etc., and to amounts held on deposit by insurance companies, and (2) after December 31, 1971, all interest paid or credited on these U.S. deposits, accounts, or amounts (including interest on bank deposits) was to be treated as U.S. source income.

Under the Senate amendment, the temporary income tax treatment provided by the bill as passed by the House for interest on these deposits, accounts, and amounts was made permanent. Under the action recommended in the accompanying conference report, the temporary income tax treatment provided in the bill as passed by the House for interest on U.S. bank deposits, accounts with mutual savings banks, domestic building and loan associations, etc., and amounts held on deposit by insurance companies, will apply with respect to amounts paid or credited before January 1, 1973. Such amounts paid or credited after December 31, 1972, are to be treated as income derived from sources within the United States (and therefore subject to the Federal income tax).

The conferees in inserting December 31, 1972, as the date for the termination of the income tax exemption for interest on bank deposits, etc., believe that this will provide an opportunity to review the ex-

emption in view of developments in the balance-of-payments situation and other factors.

(b) *Estate tax treatment.*—Under existing law, United States bank deposits of nonresidents who are not citizens are not includible in their gross estates. Under the bill as passed by the House, these bank deposits would have been includible in these gross estates, effective with respect to decedents dying after the date of the enactment of the bill.

Under the Senate amendment, U.S. bank deposits, accounts with mutual savings banks, building and loan associations, etc., and amounts held on deposit by insurance companies were, in general, deemed to be property not within the United States (and therefore not includible in the gross estate of a nonresident not a citizen of the United States), effective with respect to decedents dying after the date of the enactment of the bill.

The effect of the action recommended in the accompanying conference report is to provide the estate tax treatment for these deposits, accounts, and amounts contained in the Senate amendment (namely, that they are not includible in the gross estate of nonresidents who are not citizens of the United States) with respect to estates of decedents dying after the date of the enactment of the bill and before January 1, 1973. In the case of estates of decedents who are nonresidents and not citizens of the United States and who die after December 31, 1972, these deposits, accounts, and amounts will be includible in gross estate for purposes of the Federal estate tax.

OTHER MODIFICATIONS

Title I of the Senate amendment, while in general retaining the substance of the bill as passed by the House with respect to matters other than the tax treatment of bank deposits, made numerous technical and other modifications in the provisions which relate to the tax treatment of foreign investors. For an explanation of the more important of these modifications, which are included in the action recommended in the accompanying conference report, see the report of the Committee on Finance of the Senate (S. Rept. No. 1707, 89th Cong., 2d sess.).

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE

APPLICATION OF INVESTMENT CREDIT TO PROPERTY USED IN POSSESSIONS OF THE UNITED STATES

Section 48(a)(2)(A) of the code provides the general rule that property used predominantly outside the United States is not to be included within the term "section 38 property" and therefore is not eligible for the investment credit. Section 48(a)(2)(B) of the code provides exceptions to this general rule.

The Senate amendment (in proposed section 201) amends section 48(a)(2)(B) to include among the exceptions from the general rule with respect to property used predominantly outside the U.S. property which is owned by a domestic corporation (other than a corporation entitled to the benefits of section 931 or 934(b)) or by a U.S. citizen (other than a citizen entitled to the benefits of sec. 931, 932, 933, or 934(c)) and which is used predominantly in a possession of the United

States by such a corporation or such a citizen, or by a corporation created or organized in, or under the law of, a possession of the United States. Under the Senate amendment, this provision was effective with respect to property placed in service on or after January 1, 1966 (but no carryback of an investment credit attributable to this provision was permitted).

The conference action includes this amendment to the code.

DEDUCTION OF MEDICAL EXPENSES OF INDIVIDUALS AGE 65 OR OVER

Section 106 of the Social Security Amendments of 1965 provided, in general, that, effective with respect to taxable years beginning after December 31, 1966, the medical expenses of individuals age 65 and over are to be treated for income tax purposes in the same way as the medical expenses of individuals under the age of 65 (that is, these expenses would be subject to the 3 percent of adjusted gross income provision and to the 1-percent provision for drugs). The Senate amendment would have made permanent the treatment of medical expenses of individuals age 65 and over as not being subject to the 3-percent and 1-percent provisions.

The conference action recommended in the accompanying conference report does not include this provision of the Senate amendment with respect to the medical expenses of the aged.

BASIS OF PROPERTY RECEIVED ON LIQUIDATION OF SUBSIDIARY

Under existing law, the "purchase" from an unrelated party by one corporation of at least 80 percent of the stock of another corporation, when followed (within 2 years) by the liquidation of the acquired corporation, is treated as a purchase of the assets of the acquired corporation. For this purpose, where the acquiring corporation owns 50 percent or more of the stock of a subsidiary corporation, the subsidiary corporation is treated as a related party (and, therefore, the acquiring corporation cannot take into account stock in the liquidated corporation which it acquired from such a subsidiary).

The Senate amendment (in proposed sec. 203) expands the definition of "purchase" contained in section 334(b)(3) of the code to include the purchase of stock from a subsidiary where the stock of such subsidiary was also acquired by purchase (within a specified period). This new definition of "purchase" applies with respect to acquisitions of stock after December 31, 1965.

The Senate amendment also contained (in proposed sec. 203(c)) an amendment to section 453(d) of the code with respect to the treatment of installment notes in a distribution in complete liquidation of a subsidiary described in section 334(b)(2). For a description of such treatment under the Senate amendment, see the report of the Committee on Finance (S. Rept. No. 1707).

Under the conference action, the Senate amendment, insofar as it relates to section 334(b)(2) liquidations, is included.

TRANSFERS OF PROPERTY TO INVESTMENT COMPANIES CONTROLLED
BY TRANSFERORS

Section 351(a) of the code, which provides a general rule for the transfer of property to a corporation controlled by the transferor, now reads as follows:

(a) GENERAL RULE.—No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368(c)) of the corporation. For purposes of this section, stock or securities issued for services shall not be considered as issued in return for property.

The Senate amendment (in proposed sec. 204(a)) amends the first sentence of section 351(a) by striking out "to a corporation" and inserting in lieu thereof "to a corporation (including an investment company)". Under the Senate amendment this amendment to section 351(a) was to apply with respect to transfers of property whether made before, on, or after the date of the enactment of the bill.

Under the action recommended in the accompanying conference report, the first sentence of section 351(a) of the code is amended by striking out "to a corporation" and inserting in lieu thereof "to a corporation (including, in the case of transfers made before July 1, 1967, an investment company)". The conference action also inserts a new subsection (d) in section 351 providing special rules relating to the application of section 351 in the case of investment companies which are required to file registration statements with the Securities and Exchange Commission. Under the conference action, these amendments to section 351 are to apply to transfers to investment companies whether made before, on, or after the date of the enactment of the bill.

MINIMUM AMOUNT TREATED AS EARNED INCOME FOR RETIREMENT
PLANS OF CERTAIN SELF-EMPLOYED INDIVIDUALS

The Senate amendment (in proposed sec. 205) raised from \$2,500 to \$6,600 the minimum amount of earnings from a trade or business, in which both personal services and capital are material income-producing factors, which a self-employed person may treat as earned income, for purposes of section 401 of the code, without regard to the general rule that only 30 percent of the net profits of the trade or business may be treated as a self-employed person's earned income. This provision was to apply to taxable years beginning after December 31, 1965.

This provision is not included in the action recommended in the accompanying conference report. For a related provision which is included in such section, however, see the explanation which immediately follows this paragraph.

REMOVAL OF SPECIAL LIMITATIONS WITH RESPECT TO DEDUCTIBILITY OF CONTRIBUTIONS TO PENSION PLANS BY SELF-EMPLOYED INDIVIDUALS

Existing section 404(a)(10) of the code limits the deduction with respect to contributions made on behalf of an individual who is an employee within the meaning of section 401(c)(1) (principally, the self-employed) to an amount equal to one-half of such contributions.

The Senate amendment repeals section 404(a)(10) of the code, effective with respect to taxable years beginning after December 31, 1967. The Senate amendment also amends section 401(c)(2) of the Code (relating to definition of earned income for purposes of certain pension and profit-sharing plans) to treat as earned income all of the net profits from a trade or business in which both the performance of personal services and capital are material income-producing factors. However, the earned income to be taken into account for this purpose includes only net earnings with respect to a trade or business in which personal services of the taxpayer are a material income-producing factor. Under the Senate amendment this provision is effective for taxable years beginning after December 31, 1967.

The action recommended in the accompanying conference report includes both the repeal of section 404(a)(10) and the amendment of the earned income provisions of section 401(c)(2), effective with respect to taxable years beginning after December 31, 1967.

TREATMENT OF CERTAIN INCOME OF AUTHORS, INVENTORS, ETC., AS EARNED INCOME FOR RETIREMENT PLAN PURPOSES

Section 401(c)(2) of the code contains the definition of "earned income" for purposes of pension and profit-sharing plans which cover self-employed individuals and owner-employees.

The Senate amendment adds a new subparagraph providing that the term "earned income" includes gains (other than capital gains) and net earnings derived from the sale or other disposition of, the transfer of any interest in, or the licensing of the use of property (other than good will) by an individual whose personal efforts created such property.

Under the conference action, this provision is retained.

EXCLUSION OF CERTAIN RENTS FROM PERSONAL HOLDING COMPANY INCOME

Section 543(b)(3) of the code defines the term "adjusted income from rents" for purposes of the provisions of the code relating to personal holding companies. The Senate amendment adds a provision providing that such term does not include compensation, however designated, for the use of, or the right to use, any tangible personal property manufactured or produced by the taxpayer, if during the taxable year the taxpayer is engaged in substantial manufacturing or production of tangible personal property of the same type.

Under the conference action this provision is retained.

PERCENTAGE DEPLETION RATE FOR CERTAIN CLAY-BEARING ALUMINA

Section 613(b)(6) of the code provides a 15-percent-depletion rate for all other minerals not otherwise provided a percentage depletion rate. Under that provision, clay, laterite, and nephelite syenite used for the extraction of alumina would receive a 15-percent-depletion rate. Section 613(c)(4) of the code sets forth the treatment processes which are considered as mining.

The Senate amendment (in proposed sec. 209(a)) amends section 613(b) to provide a 23-percent-depletion rate for clay, laterite, and nephelite syenite produced from deposits in the United States to the extent that alumina and aluminum compounds are extracted therefrom. Section 209(b) would have amended section 613(c)(4) to provide that in the case of clay, laterite, and nephelite syenite extracted from deposits in the United States, all processes applied to derive alumina or aluminum compounds would be considered as mining. Such amendments would apply to taxable years beginning after the date of enactment of the bill.

Under the conference action proposed section 209(a) is retained but proposed section 209(b) is deleted. The amendment is to apply to taxable years beginning after the date of enactment of the bill.

PERCENTAGE DEPLETION RATE FOR CLAM AND OYSTER SHELLS

Section 613(b)(5) of the code provides a 5-percent-depletion rate for mollusk shells (including clam shells and oyster shells).

The Senate amendment (in proposed sec. 210) amends section 613(b) to provide a 15-percent-depletion rate for mollusk shells, except when used for riprap, ballast, road material, rubble, concrete aggregates or for similar purposes, in which event a 5-percent rate applies. The amendment applies to taxable years beginning after the date of enactment of the bill.

Under the conference action this provision is retained.

PERCENTAGE DEPLETION RATE FOR CERTAIN CLAY, SHALE, AND SLATE

Section 613(b) of the code provides a 5-percent-depletion rate for shale; clay used, or sold for use, in the manufacture of brick or sewer pipe; and clay or slate used or sold for use as concrete aggregates or for similar purposes. Section 613(c)(4) sets forth certain treatment processes considered as mining.

The Senate amendment (in proposed sec. 211) would have amended section 613(c)(4) to provide that the sintering or burning of clay, shale, and slate, used or sold for use, as lightweight aggregates, would be considered a mining process. This amendment would apply to taxable years beginning after the date of enactment of the bill.

Under the Senate amendment (in proposed sec. 404) the depletion rate for clay and shale used or sold for use in the manufacture of sewer pipe and brick would be 15 percent. This amendment would apply to taxable years ending after the date of enactment of the bill.

Under the conference action the depletion rate for clay or shale used or sold for use in the manufacture of sewer pipe and brick, and for clay, shale or slate used or sold for use as sintered or burned lightweight aggregates, is to be 7½ percent. Under the conference action this

amendment is to apply to taxable years beginning after the date of enactment of the bill.

STRADDLES

The Senate amendment (in proposed sec. 212) amends section 1234 to provide that the gain from the lapse of an option granted by the taxpayer as part of a straddle is to be treated as a short-term capital gain. This provision does not apply to any person who holds securities for sale to customers in the ordinary course of his trade or business. The amendment is applicable to straddle transactions entered into after January 25, 1965.

Under the conference action this provision is retained.

TAX TREATMENT OF PER UNIT RETAIN ALLOCATIONS

The Senate amendment (in proposed sec. 213) amends the present law relating to the taxation of cooperatives and their patrons to provide tax treatment with respect to per unit retain certificates which parallels, in general, the tax treatment applicable with respect to patronage dividends. The amendment applies generally to taxable years beginning after April 30, 1966.

Under the conference action, this provision is retained.

EXCISE TAX RATE ON AMBULANCES AND HEARSES

The Senate amendment (in proposed sec. 214) provides that the sale of a hearse, as well as an ambulance or combination ambulance-hearse vehicle, is to be considered to be the sale of an automobile chassis and an automobile body (rather than a truck chassis and body) for purposes of determining the manufacturers' excise tax on motor vehicles. This amendment applies with respect to articles sold after the date of the enactment of the bill.

APPLICABILITY OF EXCLUSION FROM INTEREST EQUALIZATION TAX OF CERTAIN LOANS TO ASSURE RAW MATERIAL SOURCES

Section 4914(d) of the code excludes from interest equalization tax certain loans to assure raw material sources. However, the exemption may be lost if the obligation is subsequently transferred. The Senate amendment would impose the tax only on a person who acquires the obligation with an intent to sell it to other U.S. persons. This amendment is effective with respect to acquisitions of debt obligations after the date of enactment.

Under the conference action this provision is retained.

EXCLUSION FROM INTEREST EQUALIZATION TAX FOR CERTAIN ACQUISITIONS BY INSURANCE COMPANIES

Section 4914(e) of the code permits life insurance companies to establish reserve funds of assets under specified circumstances. The Senate amendment extends this privilege to permit a life insurance company to establish a reserve fund of assets where such a company commences activities in a developed country or where a less developed country is designated as a developed country. This amendment is to take effect on the day after the date of enactment.

Under the conference action this provision is retained.

EXCLUSION FROM INTEREST EQUALIZATION TAX OF CERTAIN ACQUISITIONS BY FOREIGN BRANCHES OF DOMESTIC BANKS

The Senate amendment gives the President authority under section 4931(a) to exempt from the interest equalization tax U.S. dollar loans made by the foreign branches of U.S. commercial banks.

Under the conference action this provision is retained.

TITLE III—PRESIDENTIAL ELECTION CAMPAIGN FUND ACT

Title III of the Senate amendment adds five new sections (secs. 301-305) to the bill. Under the conference action, these five new sections are retained with the changes noted below.

Section 301. Short title

Section 301 provides that title III may be cited as the "Presidential Election Campaign Fund Act of 1966."

Section 302. Authority for designation of \$1 of income tax payments to presidential election campaign fund

Section 302 amends subchapter A of chapter 61 of the code by adding a new part VIII consisting of a new section 6096. The new section 6096 of the code permits every individual (other than a non-resident alien individual) to designate that an amount equal to \$1 of his income tax liability for any taxable year shall be paid into the presidential election campaign fund (established by sec. 303 of the Senate amendment). Under the Senate amendment, such designations may be made with respect to income tax liability for taxable years beginning after December 31, 1966.

Section 303. Presidential election campaign fund

Subsection (a) of section 303 of the Senate amendment establishes a special fund, to be known as the "presidential election campaign fund," on the books of the Treasury.

Subsection (b) of section 303 directs the Secretary of the Treasury to transfer to the fund amounts equal to the amounts designated by individuals under section 6096 of the code (added by sec. 302 of the Senate amendment).

Subsection (c) of section 303 provides for payments by the Secretary of the Treasury, as authorized by appropriation acts, out of the fund to political parties which have qualified under the provisions of the subsection. With respect to each presidential campaign, the Senate amendment provides that payments will be made to political parties whose candidate for President at the preceding presidential election received 10,000,000 or more popular votes in a total amount equal to \$1 multiplied by the total number of popular votes cast in such preceding presidential election for candidates of political parties whose candidates received 10,000,000 or more popular votes. Under the Senate amendment each such political party will share equally in the total amount authorized for payment to these political parties. A political party whose candidate for President at the preceding presidential election received more than 1,500,000 but less than 10,000,000 popular votes will be entitled to payments equal to \$1 multiplied by the number of popular votes in excess of 1,500,000 received by the candidate of such political party in such preceding presidential election.

Under the conference action, the provisions in the Senate amendment with respect to payments to political parties whose candidates received 10,000,000 or more popular votes in the preceding presidential election are made applicable only with respect to political parties whose candidates received more than 15,000,000 popular votes in the preceding presidential election. In addition, under the conference action, the provisions in the Senate amendment applicable to political parties whose candidates received more than 1,500,000 but less than 10,000,000 popular votes in the preceding presidential election are made applicable only to political parties whose candidates received more than 5,000,000 but less than 15,000,000 popular votes in the preceding presidential election. Finally, under the conference action, no payment is to be made to any political party with respect to the first 5,000,000 votes received by its candidate in the preceding presidential election.

Under the Senate amendment, payments may be made, with respect to any presidential campaign, beginning September 1 of the year in which a presidential election is held. No payment may be made to a political party with respect to any presidential campaign unless the treasurer of such party has certified to the Comptroller General the total amount spent or incurred by such party, prior to the certification, in carrying on such presidential campaign and has furnished such records and other information as may be requested by the Comptroller General. In addition, no payment may be made to a political party in advance of the time that the party has incurred the expenses for which the payment is made.

Under the Senate amendment, the Comptroller General is to certify to the Secretary of the Treasury the amounts payable to each political party which qualifies for payments. The Comptroller General is authorized to prescribe such rules and regulations, and to conduct such examinations and investigations, as he determines necessary.

Subsection (d) of section 303 provides that any moneys in the fund remaining after political parties have been paid the amounts to which they are entitled with respect to a presidential campaign are to be transferred to the general fund of the Treasury.

Section 304. Establishment of Advisory Board

Section 304 of the Senate amendment establishes an advisory board, to be known as the Presidential Election Campaign Fund Advisory Board, to counsel and assist the Comptroller General in the performance of his duties under section 303. Under the Senate amendment, the Board is to consist of two members representing each political party whose candidate for President at the last presidential election received 10,000,000 or more popular votes. These members are to be appointed by the Comptroller General from recommendations submitted by the qualifying political parties. The members of the Board appointed by the Comptroller General will select three additional members of the Board.

Under the conference action, the number of votes required in order for a political party to have representatives on the Advisory Board is raised to 15,000,000.

Section 305. Appropriations authorized

Section 305 of the Senate amendment authorizes appropriations to be made out of the presidential election campaign fund to enable the

Secretary of the Treasury to make payments to political parties under section 303 of the Senate amendment.

TITLE IV—MISCELLANEOUS PROVISIONS

Title IV of the Senate amendment added five new sections (secs. 401-405) to the bill.

TREASURY NOTES PAYABLE IN FOREIGN CURRENCY

Under section 16 of the Second Liberty Bond Act, the Secretary of the Treasury is authorized to issue bonds (obligations with maturities over 5 years) and certificates of indebtedness (obligations with maturities of less than 1 year) payable in foreign currencies. Section 401 of the Senate amendment amends this section so as to authorize the issuance of notes (obligations with maturities between 1 and 5 years) payable in foreign currencies. The conference action retains this provision.

REPORTS TO CLARIFY NATIONAL DEBT AND TAX STRUCTURE

Section 402 of the Senate amendment directs the Secretary of the Treasury to submit to the Congress, on or before March 31 of each year (beginning with 1967), a report setting forth the aggregate and individual amounts of the contingent liabilities and the unfunded liabilities of the Government.

The conference action inserts a substitute for this section which requires that a report be made on the first of each regular session of the Congress with respect to the close of the preceding June 30 (beginning with June 30, 1967).

COVERAGE OF EXPENSES OF CERTAIN DRUGS UNDER SUPPLEMENTARY MEDICAL INSURANCE BENEFITS

The Senate amendment (in proposed sec. 403) extends the benefits provided by the supplementary medical insurance program (pt. B of title XVIII of the Social Security Act) to include payment in full for certain expenses incurred by eligible individuals in purchasing drugs and biologicals. The drugs and biologicals covered ("qualified drugs") would include only those approved by a newly established Formulary Committee consisting of the Surgeon General of the Public Health Service, the Commissioner of the Food and Drug Administration, and the Director of the National Institutes of Health (except that until otherwise determined by such committee the U.S. Public Health Service formulary is to govern); and the amount of the expenses paid therefor with respect to which payment under the program may be made ("allowable expenses") would be established by the formulary committee and approved by the Secretary. The formulary committee, which would be assisted by a seven-member advisory group appointed by the Secretary, is directed to publish and disseminate at least once a year a list of all qualified drugs and the allowable expenses of various quantities of each. This portion of the Senate amendment would become effective on January 1, 1968, or, if earlier, whenever the monthly premium rate under the supplementary medical insurance

program is increased (under sec. 1839(b) of the act) above its present level of \$3.

Under the conference action, the portion of the Senate amendment relating to coverage of drugs and biologicals under the supplementary medical insurance program is omitted.

PERCENTAGE DEPLETION RATE FOR CLAY AND SHALE USED IN MAKING
SEWER PIPE

The Senate amendment (in proposed sec. 404) contained provisions relating to the percentage depletion allowance for clay and shale used or sold for use in the manufacture of sewer pipe and brick. The conference action with respect to this provision is explained under title II under the heading "percentage depletion rate for certain clay, shale, and slate."

PRESERVATION FROM REDUCTION OF CERTAIN WIDOWS' BENEFITS
UNDER TITLE II OF THE SOCIAL SECURITY ACT

The Senate amendment (in proposed sec. 405) amends the "family maximum" provisions in title II of the Social Security Act to provide that a widow's insurance benefits will not be reduced on account of any child's insurance benefits which may be payable to a child of an insured individual who died before 1966, if such child is not the widow's child and would not have been considered to be the insured individual's child under the applicable provisions of section 216(h) of the act (relating to determination of family status) before that section was amended in 1965 to permit certain sons and daughters of insured individuals to qualify as "children" for benefit purposes although not so qualified under State law. This portion of the Senate amendment would apply only to monthly benefits for months after the month of enactment.

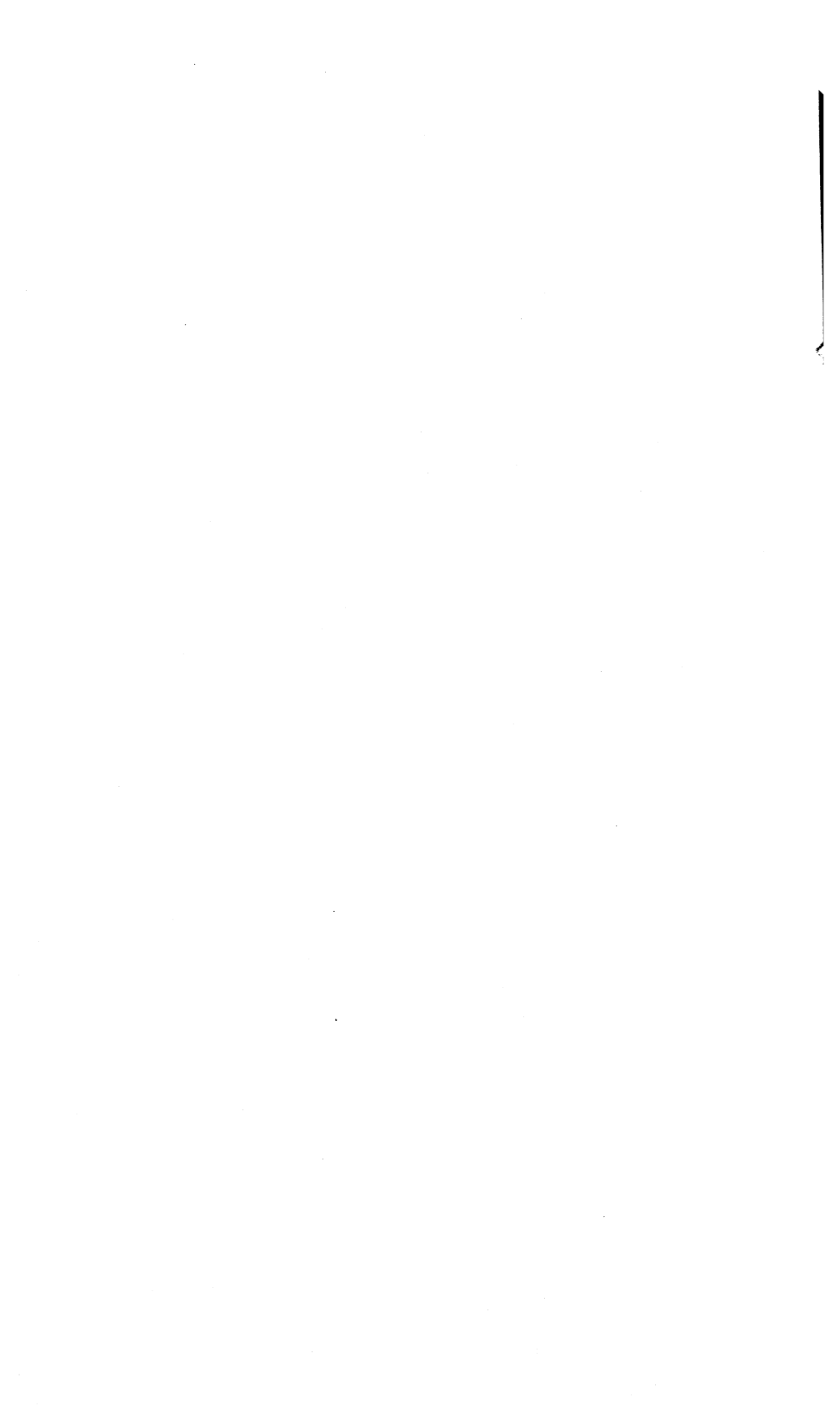
Under the conference action, the portion of the Senate amendment relating to these widow's insurance benefits is omitted.

W. D. MILLS,
CECIL R. KING,
HALE BOGGS,
EUGENE J. KEOGH,
JOHN W. BYRNES,
JAMES B. UTT,

Managers on the Part of the House.

SECTION 29
HOUSE FLOOR DEBATE ON CONFERENCE REPORT
(From the daily Congressional Record)

1883



[October 19, 1966]

[P. 26665]

FOREIGN INVESTORS TAX OF 1966

Mr. MILLS. Mr. Speaker, I ask unanimous consent that the conferees on the part of the House may have until midnight tonight to file a conference report on the bill, H.R. 13103.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

CONFERENCE REPORT (H. REPT. NO. 2327)

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 13103) to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investment in the United States, having met after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows: That the House recede from its disagreement to the amendment of the Senate to the text of the bill and agree to the same with the following amendments (pages and lines refer to pages and lines of the Senate engrossed amendments):

Page 7, strike out line 6, and insert: "an agreement to pay interest thereon."
Effective with respect to amounts paid or credited after December 31, 1972, subsection (a) (1) (A) and this subsection shall cease to apply."

Page 7, line 22, strike out "ration," and insert: "ration (other than interest paid or credited after December 31, 1972, by a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business)."

Page 8, line 7, strike out "foreign corporation," and insert: "foreign corporation [P. 26666]

(other than interest paid or credited after December 31, 1972, by a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business)."

Page 52, line 17, strike out "871 (b) (1)" and insert: "871 (b) (2)".

Page 52, line 18, strike out "882(a)" and insert: "882(a) (2)".

Page 73, line 2, strike out the period and insert a comma.

Page 74, in the matter following line 12, strike out "Elections" and insert: "Election".

Page 92, line 14, strike out the period and insert a comma.

Page 92, line 16, after "States." insert: "With respect to estates of decedents dying after December 31, 1972, deposits with a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business, shall, for purposes of this subchapter, be deemed property within the United States."

Page 93, line 16, strike out "(3)" and insert: "(3) of".

Page 101, line 13, after "owned" insert: "and held".

Page 102, line 19, strike out "934 (b)" and insert: "934 (c)".

Page 103, beginning with line 9, strike out all through line 2, page 105.

Page 105, line 3, strike out "203" and insert: "202".

Page 107, beginning with line 3, strike out all through line 14, and insert:

"SEC. 203. TRANSFERS OF PROPERTY TO INVESTMENT COMPANIES CONTROLLED BY TRANSFERORS.

"(a) Transfers to Investment Companies.—The first sentence of section 351(a) (relating to transfer to corporation controlled by the transferor) is amended by striking out 'to a corporation' and inserting in lieu thereof 'to a corporation (including, in the case of transfers made on or before June 30, 1967, an investment company)'.

"(b) Investment Companies Required to File Registration Statement With The S.E.C.—Section 351 is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

"(d) Application of June 30, 1967, Date.—For purposes of this section, if, in connection with the transaction, a registration statement is required to be filed with the Securities and Exchange Commission, a transfer of property to an investment company shall be treated as made on or before June 30, 1967, only if—

"(1) such transfer is made on or before such date,

"(2) the registration statement was filed with the Securities and Exchange Commission before January 1, 1967, and the aggregate issue price of the stock and securities of the investment company which are issued in the transaction does not exceed the aggregate amount therefor specified in the registration statement as of the close of December 31, 1966, and

"(3) the transfer of property to the investment company in the transaction includes only property deposited before May 1, 1967."

"(c) Effective Date.—The amendments made by subsections (a) and (b) shall apply with respect to transfers of property to investment companies whether made before, on, or after the date of the enactment of this Act."

Page 107, strike out lines 15 through 25.

Page 108, line 1, strike out "206" and insert: "204".

Page 108, between lines 8 and 9, insert:

"(b) Conforming Amendments.—"

Page 108, line 9, strike out "(b)".

Page 110, line 7, strike out "207" and insert: "205".

Page 111, line 3, strike out "208" and insert: "206".

Page 113, line 3, strike out "209" and insert: "207".

Page 113, beginning with line 13, strike out all through line 5, page 114, and insert:

"(b) Effective Date.—The amendments made by subsection (a) shall apply to taxable years beginning after the date of the enactment of this Act."

Page 114, line 6, strike out "210" and insert: "208".

Page 114, beginning with line 18, strike out all through line 6, page 115, and insert:

"SEC. 209. PERCENTAGE DEPLETION RATE FOR CERTAIN CLAY, SHALE, AND SLATE.

"(a) 7½ Percent Rate.—Section 613(b) (relating to percentage depletion rates) is amended—

"(1) by renumbering paragraphs (5) and (6) as (6) and (7), respectively, and by inserting after paragraph (4) the following new paragraph:

"(5) 7½ percent—clay and shale used or sold for use in the manufacture of sewer pipe or brick, and clay, shale, and slate used

or sold for use as sintered or burned lightweight aggregates.”

“(2) by striking out in paragraph (3) (B) (as amended by section 207(a) (2)) ‘if neither paragraph (2) (B) nor (5) (B) applies’ and inserting in lieu thereof ‘if neither paragraph (2) (B), (5), or (6) (B) applies’;

“(3) by striking out in paragraph (6) (as renumbered by paragraph (1)) ‘shale, and stone, except stone described in paragraph (6)’ and inserting in lieu thereof ‘shale (except shale described in paragraph (5)), and stone (except stone described in paragraph (7))’;

“(4) by striking out, in subparagraph (B) of paragraph (6) (as so renumbered), ‘building or paving brick,’ and by striking out ‘sewer pipe,’; and

“(5) by inserting after ‘any such other mineral’ in paragraph (7) (as so renumbered) ‘(other than slate to which paragraph (5) applies)’.

“(b) Conforming Amendment.—Section 613(c) (4) (G) (relating to treatment processes) is amended by striking out ‘paragraph (5) (B)’ and inserting in lieu thereof ‘paragraph (5) or (6) (B)’.

“(c) Effective Date.—The amendments made by subsections (a) and (b) shall apply to taxable years beginning after the date of the enactment of this Act.”

Page 115, line 7, strike out “212” and insert: “210”.

Page 116, line 9, strike out “213” and insert: “211”.

Page 117, line 13, strike out the quotation marks.

Page 117, line 14, strike out the quotation marks.

Page 127, line 17, strike out “214” and insert: “212”.

Page 128, line 7, strike out “215” and insert: “213”.

Page 129, line 19, strike out “216” and insert: “214”.

Page 134, line 3, strike out “217” and insert: “215”.

Page 137, line 19, strike out “10,000,000” and insert: “15,000,000”.

Page 137, line 22, strike out “equal to—” and insert: “equal to the excess over \$5,000,000 of—”.

Page 138, line 1, strike out “10,000,000” and insert: “15,000,000”.

Page 138, line 7, strike out “10,000,000” and insert: “15,000,000”.

Page 138, lines 11 and 12, strike out “more than 1,500,000, but less than 10,000,000,” and insert: “more than 5,000,000, but less than 15,000,000.”

Page 138, line 16, strike out “1,500,000” and insert: “5,000,000”.

Page 141, line 15, strike out “10,000,000” and insert: “15,000,000”.

Page 143, beginning with line 5, strike out all through line 2, page 144, and insert:

“The Secretary of the Treasury shall, on the first day of each regular session of the Congress, submit to the Senate and the House of Representatives a report setting forth, as of the close of the preceding June 30 (beginning with the report as of June 30, 1967), the aggregate and individual amounts of the contingent liabilities and the unfunded liabilities of the Government, and of each department, agency, and instrumentality thereof, including, so far as practicable, trust fund liabilities, Government corporations’ liabilities, indirect liabilities not included as a part of the public debt, and liabilities of insurance and annuity programs, including their actuarial status. The

report shall also set forth the collateral pledged, or the assets available (or to be realized), as security for such liabilities (Government securities to be separately noted), and shall also set forth all other assets specifically available to liquidate such liabilities of the Government. The report shall set forth the required data in a concise form, with such explanatory material (including such analysis of the significance of the liabilities in terms of past experience and probable risk) as the Secretary may determine to be necessary or desirable, and shall include total amounts of each category according to the department, agency, or instrumentality involved.”

Page 144, beginning with line 3, strike out all through line 9, page 153.

On page 3, beginning with the matter in the table of contents relating to title II, strike out all through the end of the table of contents on page 5 and insert:

“TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE

“Sec. 201. Application of Investment Credit to Property Used in Possessions of the United States.

“(a) Property used by domestic corporations, etc.

“(b) Effective date.

“Sec. 202. Basis of property received on liquidation of subsidiary.

“(a) Definition of purchase.

“(b) Period of acquisition.

“(c) Distribution of installment obligations.

“(d) Effective dates.

“Sec. 203. Transfers of property to investment companies controlled by transferors.

“(a) Transfers to investment companies.

“(b) Investment companies required to file registration statement with S.E.C.

“(c) Effective date.

“Sec. 204. Removal of special limitations with respect to deductibility of contributions to pension plans by self-employed individuals.

“(a) Removal of special limitations.

“(b) Conforming amendments.

“(c) Definition of earned income.

“(d) Effective date.

“Sec. 205. Treatment of certain income of authors, inventors, etc., as earned income for retirement plan purposes.

“(a) Income from disposition of property created by taxpayer.

“(b) Effective date.

“Sec. 206. Exclusion of certain rents from personal holding company income.

“(a) Rents from leases of certain tangible personal property.

“(b) Technical amendments.

“(c) Effective date.

“Sec. 207. Percentage depletion rate for certain clay bearing alumina.

“(a) 23 percent rate.

“(b) Treatment processes.

“(c) Effective date.

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“Sec. 208. Percentage depletion rate for clam and oyster shells.

“(a) 15 percent rate.

“(b) Effective date.

“Sec. 209. Percentage depletion rate for certain clay, shale, and slate.

“(a) 7½ percent rate.

- "(b) Conforming amendment.
- "(c) Effective date.
- "Sec. 210. Straddles.
- "(a) Treatment as short-term capital gain.
- "(b) Effective date.
- "Sec. 211. Tax treatment of per-unit retain allocations.
- "(a) Tax treatment of cooperatives.
- "(b) Tax treatment by patrons.
- "(c) Definitions.
- "(d) Information reporting.
- "(e) Effective dates.
- "(f) Transition rule.

"Sec. 212. Excise tax rate on ambulances and hearses.

- "(a) Classification as automobiles.
- "(b) Effective date.

"Sec. 213. Applicability of exclusion from interest equalization tax of certain loans to assure raw materials sources.

- "(a) Exception to exclusion.
- "(b) Technical amendments.
- "(c) Effective date.

"Sec. 214. Exclusion from interest equalization tax for certain acquisitions by insurance companies.

"(a) New companies and companies operating in former less developed countries.

- "(b) Effective date.

"Sec. 215. Exclusion from interest equalization tax of certain acquisitions by foreign branches of domestic banks.

"(a) Authority for modification of executive orders.

- "(b) Effective date.

"TITLE III—PRESIDENTIAL ELECTION CAMPAIGN FUND ACT

"Sec. 301. Short title.

"Sec. 302. Authority for designation of \$1 of income tax payments to presidential election campaign fund.

"Sec. 303. Presidential election campaign fund.

- "(a) Establishment.
- "(b) Transfers to the fund.
- "(c) Payments from fund.
- "(d) Transfers to general fund.

"Sec. 304. Establishment of advisory board.

"Sec. 305. Appropriations authorized.

"TITLE IV—MISCELLANEOUS PROVISIONS

"Sec. 401. Treasury notes payable in foreign currency.

"Sec. 402. Reports to clarify to national debt and tax structure."

And the Senate agree to the same.

That the House recede from its disagreement to the amendment of the Senate to the title of the bill and agree to the same.

W. D. MILLS,
CECIL R. KING,
HALE BOGGS,
EUGENE J. KEOGH,
JOHN W. BYRNES,
JAMES B. UTT,

Managers on the Part of the House.

RUSSELL B. LONG,
GEORGE A. SMATHERS,
CLINTON ANDERSON,
EUGENE J. MCCARTHY,
FRANK CARLSON,
WALLACE F. BENNETT,

Managers on the Part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the

Senate to the bill (H.R. 13103) to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investment in the United States, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The Senate amendment to the text of the bill struck out all after the enacting clause of the bill as passed by the House and inserted in lieu thereof a substitute containing four titles: title I, foreign investors tax act; title II, other amendments to internal revenue code; title III, Presidential election campaign fund act; and title IV, miscellaneous provisions. The effect of the action recommended in the accompanying conference report is explained below under the four headings contained in the Senate amendment.

TITLE I—FOREIGN INVESTORS TAX ACT

Income and estate tax treatment of amounts held on deposit

(a) *Income tax treatment.*—Under existing law, interest on United States bank deposits is not treated as United States source income and, therefore, not subject to the Federal income tax in the case of nonresident aliens and foreign corporations not engaged in trade or business in the United States. Under the bill as passed by the House (1) this source rule for interest on bank deposits was broadened for a temporary period so it applied also to accounts with mutual savings banks, domestic building and loan associations, etc., and to amounts held on deposit by insurance companies, and (2) after December 31, 1971, all interest paid or credited on these United States deposits, accounts, or amounts (including interest on bank deposits) was to be treated as United States source income.

Under the Senate amendment, the temporary income tax treatment provided by the bill as passed by the House for interest on these deposits, accounts, and amounts was made permanent. Under the action recommended in the accompanying conference report, the temporary income tax treatment provided in the bill as passed by the House for interest on United States bank deposits, accounts with mutual savings banks, domestic building and loan associations, etc., and amounts held on deposit by insurance companies, will apply with respect to amounts paid or credited before January 1, 1973. Such amounts paid or credited after December 31, 1972, are to be treated as income derived from sources within the United States (and therefore subject to the Federal income tax).

The conferees in inserting December 31, 1972, as the date for the termination of the income tax exemption for interest on bank deposits, etc., believe that this will provide an opportunity to review the exemption in view of developments in the balance of payments situation and other factors.

(b) *Estate tax treatment.*—Under existing law, United States bank deposits of non-residents who are not citizens are not includible in their gross estates. Under the bill as passed by the House, these bank deposits would have been includible in these gross estates, effective with respect to decedents dying after the date of the enactment of the bill.

Under the Senate amendment, United States bank deposits, accounts with mutual savings banks, building and loan associations, etc., and amounts held on deposit by

insurance companies were, in general, deemed to be property not within the United States (and therefore not includible in the gross estate of a nonresident not a citizen of the United States) effective with respect to decedents dying after the date of the enactment of the bill.

The effect of the action recommended in the accompanying conference report is to provide the estate tax treatment for these deposits, accounts, and amounts contained in the Senate amendment (namely, that they are not includible in the gross estate of nonresidents who are not citizens of the United States) with respect to estates of decedents dying after the date of the enactment of the bill and before January 1, 1973. In the case of estates of decedents who are nonresidents and not citizens of the United States and who die after December 31, 1972, these deposits, accounts, and amounts will be includible in gross estate for purposes of the Federal estate tax.

Other modifications

Title I of the Senate amendment, while in general retaining the substance of the bill as passed by the House with respect to matters other than the tax treatment of bank deposits, made numerous technical and other modifications in the provisions which relate to the tax treatment of foreign investors. For an explanation of the more important of these modifications, which are included in the action recommended in the accompanying conference report, see the report of the Committee on Finance of the Senate (Senate Report No. 1707, 89th Congress, 2d session).

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE

Application of investment credit to property used in possessions of the United States

Section 48(a)(2)(A) of the code provides the general rule that property used predominantly outside the United States is not to be included within the term "section 38 property" and therefore is not eligible for the investment credit. Section 48(a)(2)(B) of the code provides exceptions to this general rule.

The Senate amendment (in proposed section 201) amends section 48(a)(2)(B) to include among the exceptions from the general rule with respect to property used predominantly outside the United States property which is owned by a domestic corporation (other than a corporation entitled to the benefits of section 931 or 934(b)) or by a United States citizen (other than a citizen entitled to the benefits of section 931, 932, 933, or 934(c)) and which is used predominantly in a possession of the United States by such a corporation or such a citizen, or by a corporation created or organized in, or under the law of, a possession of the United States. Under the Senate amendment, this provision was effective with respect to property placed in service on or after January 1, 1966 (but no carryback of an investment credit attributable to this provision was permitted).

The conference action includes this amendment to the code.

Deduction of medical expenses of individuals age 65 and over

Section 106 of the Social Security Amendments of 1965 provided, in general, that, effective with respect to taxable years beginning after December 31, 1966, the medical expenses of individuals age 65 and over are to be treated for income tax purposes in

the same way as the medical expenses of individuals under the age of 65 (that is, these expenses would be subject to the 3-percent of adjusted gross income provision and to the 1-percent provision for drugs). The Senate amendment would have made permanent the treatment of medical expenses of individuals age 65 and over as not being subject to the 3-percent and 1-percent provisions.

The conference action recommended in the accompanying conference report does not include this provision of the Senate amendment with respect to the medical expenses of the aged.

Basis of property received on liquidation of subsidiary

Under existing law, the "purchase" from an unrelated party by one corporation of at least 80 percent of the stock of another corporation, when followed (within 2 years) by

[P. 26668]

the liquidation of the acquired corporation, is treated as a purchase of the assets of the acquired corporation. For this purpose, where the acquiring corporation owns 50 percent or more of the stock of a subsidiary corporation, the subsidiary corporation is treated as a related party (and, therefore, the acquiring corporation cannot take into account stock in the liquidated corporation which it acquired from such a subsidiary).

The Senate amendment (in proposed section 203) expands the definition of "purchase" contained in section 334(b)(3) of the code to include the purchase of stock from a subsidiary where the stock of such subsidiary was also acquired by purchase (within a specified period). This new definition of "purchase" applies with respect to acquisition of stock after December 31, 1965.

The Senate amendment also contained (in proposed section 203(c)) an amendment to section 453(d) of the code with respect to the treatment of installment notes in a distribution in complete liquidation of a subsidiary described in section 334(b)(2). For a description of such treatment under the Senate amendment, see the report of the Committee on Finance (Senate Report No. 1707).

Under the conference action, the Senate amendment, insofar as it relates to section 334(b)(2) liquidations, is included.

Transfers of property to investment companies controlled by transferors

Section 351(a) of the code, which provides a general rule for the transfer of property to a corporation controlled by the transferor, now reads as follows:

"(a) General Rule.—No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368(c)) of the corporation. For purposes of this section, stock or securities issued for services shall not be considered as issued in return for property."

The Senate amendment (in proposed section 204(a)) amends the first sentence of section 351(a) by striking out "to a corporation" and inserting in lieu thereof "to a corporation (including an investment company)". Under the Senate amendment this amendment to section 351(a) was to apply with respect to transfers of property whether

made before, on, or after the date of the enactment of the bill.

Under the action recommended in the accompanying conference report, the first sentence of section 351(a) of the code is amended by striking out "to a corporation" and inserting in lieu thereof "to a corporation (including, in the case of transfers made before July 1, 1967, an investment company)". The conference action also inserts a new subsection (d) in section 351 providing special rules relating to the application of section 351 in the case of investment companies which are required to file registration statements with the Securities and Exchange Commission. Under the conference action, these amendments to section 351 are to apply to transfers to investment companies whether made before, on, or after the date of the enactment of the bill.

Minimum amount treated as earned income for retirement plans of certain self-employed individuals

The Senate amendment (in proposed section 205) raised from \$2,500 to \$6,600 the minimum amount of earnings from a trade or business, in which both personal services and capital are material income-producing factors, which a self-employed person may treat as earned income, for purposes of section 401 of the code, without regard to the general rule that only 30 percent of the net profits of the trade or business may be treated as a self-employed person's earned income. This provision was to apply to taxable years beginning after December 31, 1965.

This provision is not included in the action recommended in the accompanying conference report. For a related provision which is included in such section, however, see the explanation which immediately follows this paragraph.

Removal of special limitations with respect to deductibility of contributions to pension plans by self-employed individuals

Existing section 404(a)(10) of the code limits the deduction with respect to contributions made on behalf of an individual who is an employee within the meaning of section 401(c)(1) (principally, the self-employed) to an amount equal to one-half of such contributions.

The Senate amendment repeals section 404(a)(10) of the code, effective with respect to taxable years beginning after December 31, 1967. The Senate amendment also amends section 401(c)(2) of the code (relating to definition of earned income for purposes of certain pension and profit-sharing plans) to treat as earned income all of the net profits from a trade or business in which both the performance of personal services and capital are material income-producing factors. However, the earned income to be taken into account for this purpose includes only net earnings with respect to a trade or business in which personal services of the taxpayer are a material income-producing factor. Under the Senate amendment this provision is effective for taxable years beginning after December 31, 1967.

The action recommended in the accompanying conference report includes both the repeal of section 404(a)(10) and the amendment of the earned income provisions of section 401(c)(2), effective with respect to taxable years beginning after December 31, 1967.

Treatment of certain income of authors, inventors, etc., as earned income for retirement Plan purposes

Section 401(c)(2) of the code contains the

definition of "earned income" for purposes of pension and profit-sharing plans which cover self-employed individuals and owner-employees.

The Senate amendment adds a new subparagraph providing that the term "earned income" includes gains (other than capital gains) and net earnings derived from the sale or other disposition of, the transfer of any interest in, or the licensing of the use of property (other than good will) by an individual whose personal efforts created such property.

Under the conference action, this provision is retained.

Exclusion of certain rents from personal holding company income

Section 543(b)(3) of the code defines the term "adjusted income from rents" for purposes of the provisions of the code relating to personal holding companies. The Senate amendment adds a provision providing that such term does not include compensation, however designated, for the use of, or the right to use, any tangible personal property manufactured or produced by the taxpayer, if during the taxable year the taxpayer is engaged in substantial manufacturing or production of tangible personal property of the same type.

Under the conference action this provision is retained.

Percentage depletion rate for certain clay bearing alumina

Section 613(b)(6) of the code provides a 15 percent depletion rate for all other minerals not otherwise provided a percentage depletion rate. Under that provision, clay, laterite, and nephelitic syenite used for the extraction of alumina would receive a 15 percent depletion rate. Section 613(c)(4) of the code sets forth the treatment processes which are considered as mining.

The Senate amendment (in proposed section 209(a)) amends section 613(b) to provide a 23 percent depletion rate for clay, laterite, and nephelitic syenite produced from deposits in the United States to the extent that alumina and aluminum compounds are extracted therefrom. Section 209(b) would have amended section 613(c)(4) to provide that in the case of clay, laterite, and nephelitic syenite extracted from deposits in the United States, all processes applied to derive alumina of aluminum compounds would be considered as mining. Such amendments would apply to taxable years beginning after the date of enactment of the bill.

Under the conference action proposed section 209(a) is retained but proposed section 209(b) is deleted. The amendment is to apply to taxable years beginning after the date of enactment of the bill.

Percentage depletion rate for clam and oyster shells

Section 613(b)(5) of the code provides a 5 percent depletion rate for mollusk shells (including clam shells and oyster shells).

The Senate amendment (in proposed section 210) amends section 613(b) to provide a 15 percent depletion rate for mollusk shells, except when used for rip rap, ballast, road material, rubble, concrete aggregates or for similar purposes, in which event a 5 percent rate applies. The amendment applies to taxable years beginning after the date of enactment of the bill.

Under the conference action this provision is retained.

Percentage depletion rate for certain clay, shale, and slate

Section 613(b) of the code provides a 5 percent depletion rate for shale; clay used, or sold for use, in the manufacture of brick or sewer pipe; and clay or slate used or sold for use as concrete aggregates or for similar purposes. Section 613(c) (4) sets forth certain treatment processes considered as mining.

The Senate amendment (in proposed section 211) would have amended section 613(c) (4) to provide that the sintering or burning of clay, shale, and slate, used, or sold for use, as lightweight aggregates, would be considered a mining process. This amendment would apply to taxable years beginning after the date of enactment of the bill.

Under the Senate amendment (in proposed section 404) the depletion rate for clay and shale used or sold for use in the manufacture of sewer pipe and brick would be 15 percent. This amendment would apply to taxable years ending after the date of enactment of the bill.

Under the conference action the depletion rate for clay or shale used or sold for use in the manufacture of sewer pipe and brick, and for clay, shale or slate used or sold for use as sintered or burned lightweight aggregates, is to be 7½ percent. Under the conference action this amendment is to apply to taxable years beginning after the date of enactment of the bill.

Straddles

The Senate amendment (in proposed section 212) amends section 1234 to provide that the gain from the lapse of an option granted by the taxpayer as part of a straddle is to be treated as a short-term capital gain. This provision does not apply to any person who holds securities for sale to customers in the ordinary course of his trade or business. The amendment is applicable to straddle transactions entered into after January 25, 1965.

Under the conference action this provision is retained.

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Tax treatment of per-unit retain allocations

The Senate amendment (in proposed section 213) amends the present law relating to the taxation of cooperatives and their patrons to provide tax treatment with respect to per-unit retain certificates which parallels, in general, the tax treatment applicable with respect to patronage dividends. The amendment applies generally to taxable years beginning after April 30, 1966.

Under the conference action, this provision is retained.

Excise tax rate on ambulances and hearses

The Senate amendment (in proposed section 214) provides that the sale of a hearse, as well as an ambulance or combination ambulance-hearse vehicle, is to be considered to be the sale of an automobile chassis and an automobile body (rather than a truck chassis and body) for purposes of determining the manufacturers' excise tax on motor vehicles. This amendment applies with respect to articles sold after the date of the enactment of the bill.

Applicability of exclusion from interest equalization tax of certain loans to assure raw material sources

Section 4914(d) of the code excludes from interest equalization tax certain loans to

assure raw material sources. However, the exemption may be lost if the obligation is subsequently transferred. The Senate amendment would impose the tax only on a person who acquires the obligation with an intent to sell it to other U.S. persons. This amendment is effective with respect to acquisitions of debt obligations after the date of enactment.

Under the conference action this provision is retained.

Exclusion from interest equalization tax for certain acquisitions by insurance companies

Section 4914(e) of the code permits life insurance companies to establish reserve funds of assets under specified circumstances. The Senate amendment extends this privilege to permit a life insurance company to establish a reserve fund of assets where such a company commences activities in a developed country or where a less developed country is designated as a developed country. This amendment is to take effect on the day after the date of enactment.

Under the conference action this provision is retained.

Exclusion from interest equalization tax of certain acquisitions by foreign branches of domestic banks

The Senate amendment gives the President authority under section 4931(a) to exempt from the Interest Equalization Tax U.S. dollar loans made by the foreign branches of U.S. Commercial banks.

Under the conference action this provision is retained.

TITLE III—PRESIDENTIAL ELECTION CAMPAIGN FUND ACT

Title III of the Senate amendment adds five new sections (secs. 301–305) to the bill. Under the conference action, these five new sections are retained with the changes noted below.

Section 301—Short title: Section 301 provides that title III may be cited as the "Presidential Election Campaign Fund Act of 1966".

Section 301—Authority for designation of \$1 of income tax payments to Presidential Election Campaign Funds: Section 302 amends subchapter A of chapter 61 of the code by adding a new part VIII consisting of a new section 6096. The new section 6096 of the code permits every individual (other than a nonresident alien individual) to designate that an amount equal to \$1 of his income tax liability for any taxable year shall be paid into the Presidential Election Campaign Fund (established by section 303 of the Senate amendment). Under the Senate amendment, such designations may be made with respect to income tax liability for taxable years beginning after December 31, 1966.

Section 303—Presidential election campaign fund: Subsection (a) of section 303 of the Senate amendment establishes a special fund, to be known as the "Presidential Election Campaign Fund", on the books of the Treasury.

Subsection (b) of section 303 directs the Secretary of the Treasury to transfer to the Fund amounts equal to the amounts designated by individuals under section 6096 of the code (added by section 302 of the Senate amendment).

Subsection (c) of section 303 provides for payments by the Secretary of the Treasury, as authorized by appropriation Acts, out of the Fund to political parties which have qualified under the provisions of the subsection. With respect to each presidential

campaign, the Senate amendment provides that payments will be made to political parties whose candidate for President at the preceding presidential election received 10,000,000 or more popular votes in a total amount equal to \$1 multiplied by the total number of popular votes cast in such preceding presidential election for candidates of political parties whose candidates received 10,000,000 or more popular votes. Under the Senate amendment, each such political party will share equally in the total amount authorized for payment to these political parties. A political party whose candidate for President at the preceding presidential election received more than 1,500,000 but less than 10,000,000 popular votes will be entitled to payments equal to \$1 multiplied by the number of popular votes in excess of 1,500,000 received by the candidate of such political party in such preceding presidential election.

Under the conference action, the provisions in the Senate amendment with respect to payments to political parties whose candidates received 10,000,000 or more popular votes in the preceding presidential election are made applicable only with respect to political parties whose candidates received more than 15,000,000 popular votes in the preceding presidential election. In addition, under the conference action, the provisions in the Senate amendment applicable to political parties whose candidates received more than 1,500,000 but less than 10,000,000 popular votes in the preceding presidential election are made applicable only to political parties whose candidates received more than 5,000,000 but less than 15,000,000 popular votes in the preceding presidential election. Finally, under the conference action, no payment is to be made to any political party with respect to the first 5,000,000 votes received by its candidate in the preceding presidential election.

Under the Senate amendment, payments may be made, with respect to any presidential campaign, beginning September 1 of the year in which a presidential election is held. No payment may be made to a political party with respect to any presidential campaign unless the treasurer of such party has certified to the Comptroller General the total amount spent or incurred by such party, prior to the certification, in carrying on such presidential campaign and has furnished such records and other information as may be requested by the Comptroller General. In addition, no payment may be made to a political party in advance of the time that the party has incurred the expenses for which the payment is made.

Under the Senate amendment, the Comptroller General is to certify to the Secretary of the Treasury the amounts payable to each political party which qualifies for payments. The Comptroller General is authorized to prescribe such rules and regulations, and to conduct such examinations and investigations, as he determines necessary.

Subsection (d) of section 303 provides that any moneys in the Fund remaining after political parties have been paid the amounts to which they are entitled with respect to a presidential campaign are to be transferred to the general fund of the Treasury.

Section 304.—Establishment of advisory board: Section 304 of the Senate amendment establishes an advisory board, to be known as the Presidential Election Campaign Fund Ad-

visory Board, to counsel and assist the Comptroller General in the performance of his duties under section 303. Under the Senate amendment, the Board is to consist of two members representing each political party whose candidate for President at the last presidential election received 10,000,000 or more popular votes. These members are to be appointed by the Comptroller General from recommendations submitted by the qualifying political parties. The members of the Board appointed by the Comptroller General will select three additional members of the Board.

Under the conference action, the number of votes required in order for a political party to have representatives on the Advisory Board is raised to 15,000,000.

Section 305—Appropriations authorized: Section 305 of the Senate amendment authorizes appropriations to be made out of the Presidential Election Campaign Fund to enable the Secretary of the Treasury to make payments to political parties under section 303 of the Senate amendment.

TITLE IV—MISCELLANEOUS PROVISIONS

Title IV of the Senate amendment added five new sections (secs. 401-405) to the bill.

Treasury notes payable in foreign currency

Under section 16 of the Second Liberty Bond Act, the Secretary of the Treasury is authorized to issue bonds (obligations with maturities over five years) and certificates of indebtedness (obligations with maturities of less than one year) payable in foreign currencies. Section 401 of the Senate amendment amends this section so as to authorize the issuance of notes (obligations with maturities between one and five years) payable in foreign currencies. The conference action retains this provision.

Reports to clarify national debt and tax structure

Section 402 of the Senate amendment directs the Secretary of the Treasury to submit to the Congress, on or before March 31 of each year (beginning with 1967), a report setting forth the aggregate and individual amounts of the contingent liabilities and the unfunded liabilities of the Government.

The conference action inserts a substitute for this section which requires that a report be made on the first of each regular session of the Congress with respect to the close of the preceding June 30 (beginning with June 30, 1967).

Coverage of expenses of certain drugs under supplementary medical insurance benefits

The Senate amendment (in proposed section 403) extends the benefits provided by the Supplementary Medical Insurance program (part B of title XVIII of the Social Security Act) to include payment in full for certain expenses incurred by eligible individuals in purchasing drugs and biologicals. The drugs and biologicals covered ("qualified drugs") would include only those approved by a newly-established Formulary Committee consisting of the Surgeon General of the Public Health Service, the Commissioner of the Food and Drug Administration, and the Director of the National Institutes of Health (except that until otherwise determined by such Committee the United States Public Health Service Formulary is to govern); and the amount of the expenses paid thereof with respect to which payment under the program may be

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made ("allowable expenses") would be established by the Formulary Committee and approved by the Secretary. The Formulary Committee, which would be assisted by a 7-member Advisory Group appointed by the Secretary, is directed to publish and disseminate at least once a year a list of all qualified drugs and the allowable expenses of various quantities of each. This portion of the Senate amendment would become effective on January 1, 1968, or, if earlier, whenever the monthly premium rate under the Supplementary Medical Insurance program is increased (under section 1839(b) of the Act) above its present level of \$3.

Under the conference action, the portion of the Senate amendment relating to coverage of drugs and biologicals under the Supplementary Medical Insurance program is omitted.

Percentage depletion rate for clay and shale used in making sewer pipe

The Senate amendment (in proposed section 404) contained provisions relating to the percentage depletion allowance for clay and shale used or sold for use in the manufacture of sewer pipe and brick. The conference action with respect to this provision is explained under title II under the heading "percentage depletion rate for certain clay, shale, and slate".

Preservation from reduction of certain widows' benefits under title II of the Social Security Act

The Senate amendment (in proposed section 405) amends the "family maximum" provisions in title II of the Social Security Act to provide that a widow's insurance benefits will not be reduced on account of any child's insurance benefits which may be payable to a child of an insured individual who died before 1966, if such child is not the widow's child and would not have been considered to be the insured individual's child under the applicable provisions of section 216(h) of the Act (relating to determination of family status) before that section was amended in 1965 to permit certain sons and daughters of insured individuals to qualify as "children" for benefit purposes although not so qualified under State law. This portion of the Senate amendment would apply only to monthly benefits for months after the month of enactment.

Under the conference action, the portion of the Senate amendment relating to these widow's insurance benefits is omitted.

W. D. MILLS,
CECIL R. KING,
HALE BOGES,
EUGENE J. KEOGH,
JOHN W. BYRNES,
JAMES B. UTT,

Managers on the Part of the House.

[October 20, 1966]

[P. 27088]

FOREIGN INVESTORS TAX ACT OF 1966

Mr. MILLS. Mr. Speaker, I call up the conference report on the bill (H.R. 13103) to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investment in the United States, and ask unanimous consent that the statement of the managers

on the part of the House be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

Mr. SMITH of Virginia. Mr. Speaker, I desire to make a point of order against title III of the conference report.

The SPEAKER. The gentleman will state his point of order.

Mr. SMITH of Virginia. Mr. Speaker, this point of order is directed at title III of the conference report. That title is the one that provides for the contribution of \$1 apiece from any taxpayer who wishes to do so, to be used as a fund to be divided between the political parties in Presidential elections. The title itself has never been before the House. This is a Senate amendment to the bill that the gentleman from Arkansas has just called up. It is not germane to that bill itself and comes under the prohibition of rule XX of the rules of the House.

And, Mr. Speaker, I shall read the part that is relevant to the point of order:

Any amendment of the Senate to any House bill shall be subject to the point of order that it shall first be considered in the Committee of the Whole House on the state of the Union, if originating in the House, it would be subject to that point.

Mr. Speaker, the point of the rule is not applicable to this situation, but the rule is there for the purpose of seeing that the House of Representatives has an opportunity to at least consider and debate any legislation that it has never had an opportunity to consider before.

Mr. Speaker, in this case, and in some others that we could mention, we are confronted very often with amendments such as this which have been put onto a House bill in the Senate and sent to conference and accepted by the House and Senate conferees, and the House has never had an opportunity to even read it.

Mr. Speaker, this conference report, I believe, was just printed, probably last night.

Did the gentleman from Arkansas have until midnight last night to file the conference report?

Mr. MILLS. If the gentleman from Virginia will yield, I believe the gentleman from Virginia is correct; yes.

Mr. SMITH of Virginia. Until midnight last night, this conference report was not filed in the House. It was not available from the printer's office until early here this morning, probably later than 7 o'clock. The House of Representatives, under the unanimous-consent agreement, met at 10 o'clock this morning. Now, obviously, that is something that the House has never had an opportunity to consider or to even read, or to know anything about it, except what the Members of the House had seen in the newspapers or other than through

common gossip that has gone around the Capitol.

Mr. Speaker, this represents a clear violation of the rules of the House, and I do not see how under these circumstances it can be considered in the House of Representatives.

Mr. Speaker, I have no particular prejudice one way or the other as to the merits or the demerits of the proposal, and I am not discussing this. However, I do feel that this is the wrong way in which to legislate.

Mr. Speaker, the rules of the House seem to be positively against this procedure and it is my opinion that we should stop doing this sort of business.

Mr. MILLS. Mr. Speaker, may I be heard on the point of order?

The SPEAKER. The Chair will hear the gentleman from Arkansas.

Mr. MILLS. Mr. Speaker, the bill, H.R. 13103, which is the bill that the conference report accompanies, amends the Internal Revenue Service Code of 1954, to provide equitable treatment for foreign investment in the United States.

Mr. Speaker, the bill amends provisions in that respect, dealing with both the income tax and with the estate tax and perhaps others—I do not recall, there may be even some other aspects of the code that are affected.

Mr. Speaker, title III to which the gentleman from Virginia makes the point of order, under rule XX, as I understood his point of order, amends the Internal Revenue Service Code.

Mr. Speaker, the authority within the entire title is based upon an amendment to section 6096 of the code which is amended by section 302 of title III of the bill as reported by the conferees on the part of the House.

Mr. Speaker, it is my opinion that the matter is certainly germane to the bill in that both the bill and the amendment amend provisions of the Internal Revenue Service Code.

The responsibilities here are such as we normally would place upon the Secretary of the Treasury in providing for a separate account in his books. And I think clearly that it is germane to the bill.

Mr. SMITH of Virginia. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I will be glad to yield.

Mr. SMITH of Virginia. Mr. Speaker, I just want to ask this question:

If that amendment had been offered when the bill was under consideration in the House it would have had to be under rule XX, and considered under rule XX that I have just read.

Now, because it is a bill which is an appropriation bill we cannot consider it except in the Committee of the Whole House on the State of the Union. This rule provides that if there is put on it a Senate amendment and it comes back

it is subject to a point of order that it has not been considered in the Committee of the Whole House on the State of the Union.

Mr. MILLS. Providing it is not germane to the bill. But I am contending that it is germane in that it is an amendment of the Internal Revenue Code which the bill itself is an amendment of the Internal Revenue Code.

Mr. SMITH of Virginia. Mr. Speaker, if the gentleman will yield further?

Mr. MILLS. I yield to the gentleman.

Mr. SMITH of Virginia. Mr. Speaker, I was just going to ask the chairman this question:

The rule provides that the bill must be considered, if this bill was introduced in the House, the rule is that the amendment of the Senate, if it had been introduced in the House, it would have had to be considered in the Committee of the Whole House on the State of the Union. And the rule is that if it comes in as a Senate amendment then it is subject to a point of order because it was not considered in the Committee of the Whole House on the State of the Union.

The gentleman addressed himself to the matter of whether it would have been germane in the House. That is not the question that I am seeking to make clear at this time. It is a question of whether the rule XX has been violated because a Senate amendment, if it was introduced in the House, was subject to a point of order, would have had to have been in the Committee of the Whole House on the State of the Union.

Mr. CURTIS. Mr. Speaker, will the gentleman yield?

Mr. MILLS. Yes; I yield to the gentleman from Missouri.

Mr. CURTIS. Mr. Speaker, I simply wanted to add on this point of order—and I agree with the gentleman from Virginia—that on examination this Senate amendment is an appropriation, this is authorized revenue, it has to do with actually appropriating funds, and clearly is subject to the point that the gentleman from Virginia [Mr. SMITH] makes.

The SPEAKER. The Chair is prepared to rule.

The gentleman from Virginia makes the point of order that title III of the conference report contravenes the first sentence of rule XX:

Any amendment of the Senate to any House bill shall be subject to the point of order that it shall first be considered in the Committee of the Whole House on the State of the Union, if, originating in the House, it would be subject to that point:

Without passing upon the germaneness of the amendment, because that point was not raised, the Chair calls attention to the fact that the Senate amendment went to conference by unanimous consent. Where unanimous consent was obtained, the effect of that is to circuit rule

XX, in other words, to waive or vitiate that portion of rule **XX**.

If objection had been made at the point when the unanimous consent request was made to send the bill to conference, then the bill could have been referred to the proper standing committee, and then, if and when reported out of the committee would have been brought up for consideration in the Committee of the Whole House on the State of the Union.

At this point, and under the parliamentary situation, the bill was sent to conference by unanimous consent; and this applies to all bills that go to conference by unanimous consent, if there be provisions therein that might be subject to the first sentence of rule **XX**. If there is no objection made at that time, the bill goes to conference; which in this case had the effect of suspending that portion of rule **XX**. Therefore, it is properly before the House at the present time as part of the conference report and the Chair overrules the point of order.

Mr. SMITH of Virginia. Mr. Speaker, may I add one comment since this is a very important question.

The SPEAKER. The Chair will, of course, hear the gentleman.

Mr. SMITH of Virginia. Mr. Speaker, this did not go to conference by unanimous consent because it was never in the House bill. It was in the Senate bill and it never got in the House bill until last night.

The SPEAKER. The Chair will call to the attention of the gentleman from Virginia that the unanimous consent request was made to take a bill from the Speaker's desk with Senate amendments thereto, and disagree to the Senate amendments and request a conference.

Of course, the Chair has already ruled on the point of order.

Mr. MILLS. Mr. Speaker, may I be recognized on this particular point?

The SPEAKER. The gentleman from Arkansas is recognized.

Mr. MILLS. Mr. Speaker, there was a unanimous consent request to take the bill with Senate amendments from the Speaker's table, disagree to the Senate amendments and agree to the conference requested by the Senate. I made that request myself.

(**Mr. SMITH of Virginia** asked and was given permission to revise and extend his remarks.)

The SPEAKER. Is there objection to the request of the gentleman from Arkansas [**Mr. MILLS**] that the statement of the Managers on the part of the House be read in lieu of the report?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of October 19, 1966.)

Mr. MILLS (during the reading of the

statement). Mr. Speaker, I ask unanimous consent that the further reading of the statement of the Managers on the part of the House be dispensed with.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

The SPEAKER. The gentleman from Arkansas [**Mr. MILLS**] is recognized for 1 hour.

Mr. MILLS. Mr. Speaker, I yield myself 10 minutes.

Mr. Speaker, let me say first that there is no one in this House who is more concerned about orderly procedure than I am nor about the fact that it is becoming more difficult with each passing year to have tax bills passed through the House and through the Senate without a great number of amendments being added when the bill is in the other body.

I have no objection, Mr. Speaker, whatsoever to the other body working its will with respect to the subject matter which is sent to it. And they do amend our bills.

The social security bill, as I recall, which we passed in 1965 had in excess of 500 amendments attached before it was finally passed by the Senate. The Senate amendments, however, in that instance were by and large germane to the subject matter of the bill. My recollection in that instance is that as to those which were not germane to the subject matter of the bill we succeeded in causing the Senate conferees to agree to eliminate them. Now, Mr. Speaker, this is a matter over which conferees have a great deal of difficulty and, of course, we have our share of those difficulties.

Mr. Speaker, H.R. 13103 is the bill which the House passed on June 15, 1966. The bill as passed by the House added as its primary objective the equal tax treatment by the United States of nonresident aliens and foreign corporations. Additionally, to the extent consistent with the primary objective of this bill, it was designed to provide increased incentives for investment by foreigners and foreign corporations in the United States. The bill as passed by the Senate adopted, with little change, the House-passed version of the Foreign Investors Tax Act of 1966. This part of the bill as passed by the Senate is contained in title I.

In addition, the Senate added other amendments to the bill which appear as titles II, III, and IV. These relate to other Internal Revenue Code provisions and the Presidential Election Campaign Fund Act as well as other matters. I will first discuss the amendments made with respect to the Foreign Investors Tax Act and then the other amendments.

AMENDMENTS TO FOREIGN INVESTOR TAX ACT

The amendments made by the Senate to the Foreign Investors Tax Act were primarily perfecting changes which

were made because of problems brought to their attention. There was, however, one Senate amendment in this area of major importance. As the bill passed the House it would, in general, subject to U.S. tax—as U.S. source income—all interest received after December 31, 1971, by nonresident aliens and foreign corporations on their U.S. bank deposits, and similar funds. A related amendment in the estate tax area also would have subjected these deposits to U.S. estate tax after the date of enactment of this bill. The Senate adopted an amendment which would have stricken the House-passed provision from the bill and thereby continued present law which grants an exemption from U.S. income and estate tax to the interest income and the deposits of these foreigners.

It was the opinion of the conferees that interest income of this type, which is so clearly derived from U.S. sources, should not escape U.S. taxation. On the other hand, we all realized that an immediate alteration of the present exemption might have a substantial adverse effect on our balance of payments. To meet these two quite different problems, the conference committee agreed to the repeal of the special income tax and estate tax exemptions relating to deposits of foreigners, but the effective date of the repeal was postponed until 1973. Moreover, postponing the date when these funds are taxed until 1973 will give Congress ample opportunity in the future to consider the impact of this provision on our balance of payments and on the gold flow. Should circumstances require, there will be plenty of time to reconsider the effective date of this provision.

The remaining Senate amendments of Title I are perfecting in nature and do not disturb the major substantive provisions of the House bill. They were made in response to technical problems presented by witnesses testifying before the Committee on Finance. I am certain that had these problems been brought to the attention of the Committee on Ways and Means, it would have made the changes prior to reporting the bill to the House. The Treasury Department is not opposed to any of these Senate amendments. At this point, I would like to insert a summary of these additional Senate amendments to which the House receded:

TITLES II, III, AND IV

The Senate added a number of amendments to the House bill which appear in the Senate bill as titles II, III, and IV. These titles relate to other Internal Revenue Code amendments, the Presidential Election Campaign Fund Act, and other amendments, respectively. In total, these 3 titles contain 23 amendments. Of these 23 amendments, the Senate receded on 4, 6 were adopted with amendments and the House receded on 13.

Let me make two important observations about the amendments which the House receded. First, of these amendments, the Committee on Ways and Means had previously favorably reported, as separate bills, three and, in addition, it has extensively considered two others but had been unable to complete action on them. The second point, and the one which I should like to emphasize, is that the estimated revenue loss of approximately \$460 million, which the 23 Senate amendments would have produced, was reduced by the insistence of your conferees to about \$80 million, a reduction of \$380 million. Moreover, of the remaining \$80 million, the Senate amendment which adopted the House-passed [P. 27090]

version of H.R. 10, represented approximately \$50 million. Therefore, the Senate amendments which had not already passed the House, upon which your conferees receded, represent a revenue loss of approximately \$30 million.

One of the two most important Senate amendments to which your conferees agreed relates to a provision which had already been adopted by the House. I am referring to H.R. 10, which as the Members of the House will recall, passed the House on June 6 of this year by a vote of 291 to nothing. There, of course, can be no question with respect to the House conferees agreeing to this amendment in view of this mandate from the House. H.R. 10, both as passed by the House and as included in the Senate amendment, provides for the repeal of two limitations on the deduction of a self-employed individual may take with respect to contributions on his own behalf to a retirement plan. First, it repeals the provision which limits the deduction to 50 percent of the contribution. However, it retains the provision restricting the contribution for self-employed persons to the lesser of 10 percent of earned income or \$2,500. Second, it also permits a self-employed individual to include in earned income all of his net profits when his income is earned from a business in which both the performance of personal services and capital are material income-producing factors. However, in such cases the personal services of the self-employed person involved must be a material income-producing factor.

In this same area, the House conferees also agreed to a Senate amendment which alters present law relating to self-employed individuals' retirement plans to permit authors, inventors, and others, to include in their earned income base for the purpose of computing deductions for contributions to such plans income derived from the sale or lease of the books they wrote or other products created from their own personal efforts.

In addition to H.R. 10, the Senate amendments which either have been

favorably reported by the Committee on Ways and Means as separate bills or have been extensively considered by the committee relate to the taxation of "straddles" transactions, the basis of property received on the liquidation of certain subsidiaries, reports to clarify the national debt and tax structure and the application of investment credit to property used in possessions of the United States.

The amendment relating to the tax treatment of "straddles" provides that the income from the lapse of an option which originated as part of a "straddle" is to be treated as a short-term capital gain—instead of ordinary income—so the income can be netted against any possible capital loss from the other side of the straddle option.

The provision relating to the liquidation of a subsidiary in general provides that, where stock in a corporation is acquired indirectly, the same tax consequences may flow from the liquidation of this corporation as in cases where the stock is acquired directly. This extends the tax-free liquidation provisions of existing law, for example, to cases where one corporation acquires stock in a second corporation by purchasing stock of a third corporation and then acquires the stock holdings of the third corporation in the second by exchanging its holdings in the third corporation for the stock it holds in the second corporation.

The third of this group of Senate amendments requires annual reporting on the current status of contingent liabilities of the Federal Government, including its long-range obligations and commitments, together with a report of the assets available to meet these liabilities. This provision has been carefully gone over by the Bureau of the Budget, and the revised version we have adopted meets its requirements from the standpoint of practicability. I am sure that all of us will find this a useful report.

One provision which took a considerable amount of time for the conferees related to the so-called swap funds. Under section 351 of the Internal Revenue Code, transfers of property to a corporation by one or more persons in exchange for stock in a corporation does not result in gain or loss if immediately after the exchange the person or persons in question are in control of the corporation. On July 14, 1966, the Treasury Department issued a proposed regulation indicating that the exchange of appreciated stock for shares in an investment fund where immediately after the exchange the persons who transferred the stock to the corporation are in control of it does not qualify under this provision. The Senate added an amendment to the bill providing that section 351 applied to corporate investment funds.

The conferees considered this provision at length and concluded that, at least at this time, they did not think that

stock or real estate investment funds should be eligible for this tax-free treatment under section 351. It was recognized, however, that in view of the past experience under this provision, it probably was unfair to cut these funds off immediately. After all, in 1960 the Internal Revenue Service ruled that these funds did come under section 351, and while it is true that since that time they have refused to so rule, nevertheless, private tax counsel has so ruled for many funds since that time. In view of these considerations, the conferees provided that these investment funds should come within section 351 only with respect to transfers of stock to the funds prior to July 1, 1967. Moreover, funds required to register with the Securities and Exchange Commission under either of two applicable laws, to be eligible for this treatment must file their registration applications with the Securities and Exchange Commission by January 1, 1967; the prospective shareholders must have deposited their stocks with the fund by May 1, 1967, and the actual transfers must have occurred before July 1, 1967. Where registration applications have set a maximum dollar amount for a fund, this may not be revised upward after January 1, 1967. Any additional amount would qualify for the tax-free treatment under this provision. This latter limitation, of course, applies only to those funds not already established.

The Senate adopted four amendments dealing with the depletion deduction. Your conferees receded on one of these amendments without amendment but made substantial modifications in the other three. The provision upon which your conferees receded without amendment provides that clam, oyster and other mollusk shells are to be allowed percentage depletion at the same 15 percent rate as limestone when it is used for the same purposes; namely, when it is used for calcium carbonate content. Equality of competitive treatment requires this. Two of the other three depletion amendments were altered at the insistence of your conferees so as to delete the aspects of these amendments which would grant the depletion allowance on new processes which are not presently classified as mining processes. The portion of the Senate amendment relating to alumina bearing clay, which set the percentage depletion allowance at 23 percent was not altered by the conference. This is the rate now available to bauxite, the principal source of aluminum. The other two depletion amendments which relate to shale, clay, and slate used as a light-weight aggregate and clay and shale used in the making of sewer pipe and brick were altered by the conference so as to provide a 7½ percent depletion allowance.

The Senate also adopted three interest equalization tax amendments and one

relating to Treasury notes issued in foreign currencies. The House conferees accepted these four amendments. The first interest equalization tax amendment provides that subsequent transfers of debt obligations to assure raw material resources are to be exempted from the interest equalization tax where the indebtedness is acquired without an intent (such as a bona fide investment representation) on the part of the purchaser to sell it to other U.S. persons. The second interest equalization tax provides that the present exemption for reserve asset pools of U.S. insurance companies is extended to allow the establishment of reserve asset pools where a U.S. insurance company commences activities in a developed country or where a less developed country is designated by the President as a developed country. The final interest equalization tax amendment grants the President the authority to exempt from the interest equalization tax U.S. dollar loans of more than 1 year made by the foreign branches of U.S. banks. The Senate amendment relating to Treasury notes grants the Secretary of the Treasury authority to issue U.S. notes denominated in foreign currencies.

In addition to the amendments discussed above, the Senate added to the House bill three other amendments. These dealt with: First, the exclusion of rents from personal holding company income where they are attributable to property the company manufactured if it is still currently doing so; second, the extension of essentially the present treatment of patronage dividends of co-operatives to their per-unit retains; and third, the equating of the manufacturer's excise tax rate on hearses with the tax [P. 27091] on ambulances. The House conferees agreed to these amendments.

The last amendment I plan to discuss is the one on which the gentleman from Virginia raised his point of order under rule XX. I misunderstood him. At the time I thought he was raising a point of order under rule XXII.

Title III, which the Senate added to the bill, establishes the presidential election campaign fund. The House receded to the addition of this title with certain amendments. As altered by the conference, this provision provides, in general, that by designations on income tax returns, taxpayers will be allowed to create a fund of approximately \$60 million which will be equally divided between the major political parties for the purpose of defraying the expenses of presidential election campaigns. This is distributed to the parties during the presidential campaign year—that is 1 year in every 4.

Individual taxpayers are to be given an opportunity to designate on their tax

returns that \$1 of their income tax liability—\$2 in the case of a joint return—is to be placed in the presidential election campaign fund. The amounts in this fund are to be used to defray the expenses incurred by the political parties in presenting candidates for President and Vice President. The funds cannot be used for any other purposes or for any other campaigns. The major parties under this provision are treated equally. All parties receiving more than 15 million votes in the last presidential election are to be given the same amount. For example, in the last presidential election, two candidates for President received more than 15 million votes. The total of the votes they received was approximately 70 million. Therefore, in the next presidential election each of the two principal parties would be eligible to receive an amount equal to one-half of the total votes cast multiplied by \$1. In other words, each of them would be eligible to receive \$35 million. However, because there is a de minimus rule according no contribution for the first 5 million votes, these amounts would be reduced to \$30 million apiece. Of course, this distribution would be made only if campaign expenses of this amount were incurred.

Minor parties are also provided for under this amendment. They will be eligible for funds equal to \$1 times the number of votes cast for their candidate in the last presidential election to the extent the votes cast for their candidate exceed 5 million.

The Comptroller General is given supervision of this fund to be sure that the payments to the political parties for presidential campaign expenses are actually incurred, and to see that they are presidential campaign expenses as distinct from personal expenses and as distinct from campaign expenses of other office-seekers. It will also be his responsibility to determine the popular vote which determines the amount which is to be available for distribution. An Advisory Board consisting of two members from each of the principal parties, together with three independent members selected by them, will assist the Comptroller General in the administration of the fund.

The question often is raised as to what happens if the amount designated by individuals on their tax returns is more or less than the amount which can be divided up among the parties based upon the popular vote. To the extent the amounts designated exceed the popular vote in the last election, the moneys involved are not to go into the fund, but rather to remain in the general fund. To the extent the amounts designated are less than the amount which should be distributed based upon the popular vote, the parties, in effect, receive an "account receivable" which is paid to them in fu-

ture years to the extent designations are made.

This is a provision about which I was originally somewhat apprehensive. The more I listened to it, the more I became convinced that something needed to be done. I say this despite the fact that it was an amendment added by the Senate that was not related to the subject matter of the bill. Though this amendment does apply to the Internal Revenue Code, the bill itself has to do with the question of the foreign investors' tax treatment here in the United States.

After a thorough consideration of the many proposed solutions to the problem of how to finance presidential election campaigns, I have concluded that this provision is at least a good starting point. I cannot assure the Members of the House that this, in all respects, is the final solution to the problems of funding a presidential election campaign. However, I believe it, at the least, is a good beginning and I believe it is important that we start now.

We are all, particularly at this time, aware of the soaring costs of political campaigns. The dependence on wealthy contributors for substantial portions of needed funds tend to leave candidates of modest means encumbered with debts of loyalty to a wealthy few, rather than to the voting public as a whole. Certainly we should do something about a system which tends to obligate presidential officeholders to wealthy contributors and taxes them with difficulties in maintaining the independence which all of us want them to have. Although candidates other than the President and the Vice President will not directly benefit from this provision, it may be that taking the pressure off from raising funds for the presidential elections will lessen the problems of others in raising funds for their elections. In any event, it seems appropriate to try this proposal in this limited area before making any decisions as to whether it should be broadened.

As I have said, it seems to me that the enactment of this provision will be an important factor in removing the potential for possible improper influence in Government. Political parties and their presidential candidates will be assured that they need not rely on the large contributions of a relatively few wealthy contributors to meet the heavy financial demands of political campaigns. Under this system of campaign financing, the man elected President will be obliged equally to every taxpayer and every voter. In other words, the man elected President will be in debt to all American voters and taxpayers and this would seem to be quite close to the ideal of the American system.

Frankly, I do not know how many people will use the system. I am not neces-

sarily concerned at this point about how many people would do it. But I am concerned that we have not yet found a way to provide for the expensive financing of presidential campaigns other than through the present methods that are followed by both major parties of getting most of their moneys in amounts much larger than a dollar.

I have heard a whole lot of complaints recently about the possibility that somebody who belongs to a presidential \$1,000 club might get some special favor from Government. The impression is abroad, although I doubt whether there is any truth in it, that this may sometimes be the situation: that some people make large campaign contributions to either of the political parties expecting to exercise some degree of influence upon either of the political parties greater than that which they normally would exercise without the making of that sizable contribution.

The President, when he sent his state of the Union message, I believe this year, in January, asked the Congress to enact a provision that would allow a person to make a political contribution of up to \$100 to an individual party, from the presidential level down to the township level.

Under that proposal if a person made a political contribution to any Member, to me, to a county judge or to anybody else, he could deduct it from his income tax up to \$100. That in effect would be his act of appropriating whatever the amount was under the rate applicable in his case to that \$100. This is true since otherwise this amount would go into the Federal Treasury.

Under the Senate amendment also the taxpayer, when he makes this X on his return indicating that he wants \$1 out of, say, the \$61 he is taxed not to go to the general fund of the Treasury but rather to go to this special fund to help the campaigns of those who aspire to be President, is making an appropriation of Federal money by his own act. He would do that in either instance. The difference is that under the Senate amendment the appropriation is equal for all taxpayers.

But what is wrong with it? What is wrong with the effort here being made to induce 70 million people over a 4-year period to provide \$70 million so that 7,000 or 70,000 or whatever the number would be, would not have to provide the same amount of money?

Is it wrong to create a circumstance wherein every voter in the United States, if he wants to, can of his own volition make available \$1 a year or \$4 every 4 years, not to help his political party necessarily but to go into a fund which will be divided between the two major political parties?

Why, we even saw fit to make provision for some of it to go to a third party under the circumstances involved in the conference report.

I do not see anything wrong with it. But I do see something wrong with not trying to do something about the impression that exists on the part of many people, the impression that something ought to be done to minimize the possibility—I am not saying it exists; they are thinking it exists—of people having a greater influence than they ought to have because of the size of their contributions.

Mr. MACGREGOR. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I am glad to yield to the gentleman from Minnesota.

Mr. MACGREGOR. From what the distinguished chairman of the Committee on Ways and Means has said I believe I can support this \$1 per year idea, but the distinguished chairman also made reference to the proposal to allow a deduction of up to \$100 per year per person for contributions for political candidates and political parties.

In the State of Minnesota we have had in our State income tax laws for some time such a provision. We believe it has been very beneficial in broadening the base of political contributions and encouraging citizens' participation.

I should like to ask the gentleman two questions. Did the committee give any consideration to this \$100 per year proposal, which many of us have introduced in legislative form? Second, can the distinguished gentleman from Arkansas give us any figures as to the burden on tax receipts which the \$1 per year proposal would amount to, and can he tell us anything about what the \$100 per year contribution proposal would amount to in terms of lost revenues?

Mr. MILLS. Let me take the gentleman's questions in the order asked.

In the first place, we have not been able to give consideration to the \$100 deductible in the committee although this was reviewed in the Senate hearings along with the amendment.

As to the pending proposal, we know the maximum, how much is involved. It could never be more than \$1 times the number of votes cast in the last Presidential election less 10 million if there are two parties, or more if there are more parties polling over 15 million votes.

I used 1964 in my example because the combined vote of the Democratic and Republican candidates came to 70 million. Subtracting 10 million from this leaves a cost of \$60 million.

The SPEAKER pro tempore. The time of the gentleman has expired.

Mr. MILLS. Mr. Speaker, I yield myself 5 additional minutes.

That is the maximum, in other words, that could be in this fund for the elec-

tion year 1968. You always look back to the prior election. The fund rises to a level of \$1 times the number of total votes cast at the last election minus \$10 million as long as there are two major parties. I am told the \$100 deduction would cost about \$100 million in revenues. But this may not be a satisfactory estimate since this is not limited to presidential campaigns; it is not limited to senatorial or representative races; it is not limited to gubernatorial races, but it can go down to whatever level of elections are involved. Very frankly, I have not looked with too much favor upon that. I appreciate the gentleman's statement, and I can be wrong. If it has worked in Minnesota, it could work elsewhere, but what I am getting to is this: Remember the \$1 has no application except to presidential campaigns. I do not know that the two ideas are even in conflict. Maybe they could be meshed together. I do know this: Even though congressional races are not involved in this proposition, if you get separate financing for presidential campaigns it might be easier for the Republican Campaign Committee of the House and the Democratic Campaign Committee of the House to get what I understand it needs under the present circumstances.

My main point is that this is a worthwhile experiment to see whether or not we can get money this way. It is possible that President Eisenhower and President Truman could get on TV and make a concerted drive and urge the taxpayers to make this contribution in behalf of good Government with the elimination of any possibility of undue influence by those who otherwise would make larger contributions. It seems to me people will buy it. However, I am interested in making an effort here to do something to create a better atmosphere with respect to the collection of contributions in Presidential campaigns.

Mr. KEOGH. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I will be glad to yield to my colleague from New York.

Mr. KEOGH. Mr. Speaker, I appreciate the gentleman's yielding to me.

First, Mr. Speaker, I would like to pay my tribute to the sterling work that the chairman has done in the conferences that have been presented heretofore and the one pending now. I hope he does not mind if I call the attention of the House to the fact that there is included in the pending conference report the amendments to the Self-Employed Individuals Retirement Tax Act which passed the House on June 6 by a record vote of 291 to nothing. The only change that was effected was that the effective date of those amendments was made for taxable years following December 31, 1967, instead of 1965.

Mr. Speaker, I would like to pay my

respects again and express my appreciation to the chairman for his having cooperated in the retention of what I like to think is a most important improvement of the Self-Employed Individuals Retirement Tax Act that will make it far more workable than it has been up to now.

Mr. MILLS. I thank the distinguished gentleman from New York. There are many provisions in the bill. The gentleman has referred to one of them. Most of these provisions were worked out with complete Treasury support. The gentleman put his finger on one provision that had passed the House. There are several others in it that have also. Certainly this one did. It passed by a record vote. There seemed to be unanimous approval. As I remember it, no one voted against it. The Senate, as I said, included it and made only that one change in the effective date.

And permit me to say, Mr. Speaker, that the distinguished gentleman from New York worked effectively and in his usual intelligent and persuasive manner in securing passage of H.R. 10. Mr. Speaker, the gentleman from New York has served many years on the committee. He is possessed of a brilliant mind. He is industrious. He attends all meetings of the committee. We will miss him when he retires in January.

Mr. BATTIN. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman.

The SPEAKER pro tempore (Mr. PRICE). The time of the gentleman from Arkansas has again expired.

Mr. MILLS. Mr. Speaker, I yield myself 3 additional minutes.

Mr. BATTIN. Mr. Speaker, if the gentleman will yield, under title III as the gentleman was explaining, the division of the funds which the gentleman mentioned would be that they would be divided equally between the two major political parties.

Mr. MILLS. Mr. Speaker, let me get into a little more detail about it.

Mr. BATTIN. Then, the gentleman mentioned a third party.

Mr. MILLS. Yes.

Neither major party would get a dollar for the first 5 million votes that it received in the previous election. Neither would a third party begin to participate in this fund until it has received as many as 5 million votes.

If the third party receives as many as 15 million votes, then it becomes a third equal partner in the total of the fund. But if it does not get to the 15 million vote level, it gets less than this; it would get a dollar for each vote above the 5-million-vote level.

So, if a party received 10 million votes, it would not be paid for the first 5 million, but it would get a dollar for the

remaining 5 million votes or \$5 million, to help defray the cost of its campaign.

Now, you understand you do not give a party anything until there is certification that actual expenditures have been incurred. This is what I am talking about, the limit you would give in return for certified records of expenditures in that amount.

Mr. BATTIN. Mr. Speaker, if the gentleman will yield further, then if I understand the gentleman from Arkansas correctly, you would take the last presidential year, 1964—

Mr. MILLS. That is right; you always have to do that.

Mr. BATTIN. And as I recall, there was somewhat of a landslide during that year.

Mr. MILLS. That makes no difference. In the case, about which we are talking, there was no third party which received 5 million votes. If there were 70 million votes—even though the Democrats received 40 million votes and the Republican 30 million votes—the fund

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would still be divided evenly. The fund would be divided equally between these parties because both of them received more than 15 million votes. Once you get to the 15-million-vote level, you become an equal partner, even though the other party may have gotten 50 million votes and you only 30 million.

Mr. BATTIN. Mr. Speaker, if the gentleman will yield further, but the division would not become equal based upon the percentage of the total votes?

Mr. MILLS. They would be on the actual votes received less 5 million until you got 15 million votes. Then the division would be equal.

Mr. WATSON. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I am glad to yield to the gentleman from South Carolina.

Mr. WATSON. Mr. Speaker, I am sure that the gentleman in the well appreciates the fact that no one has a higher regard for the gentleman than I. And, certainly, I can appreciate the effort that is being made here to broaden the base for political contributions.

Mr. Speaker, I am sure that the gentleman in the well, as I, believes in the matter of voluntary contributions.

However, Mr. Speaker, the thing that disturbs me is that under the provisions of this particular section 3, an individual, although he might decide to give only a dollar and checks the square therefore that individual might feel that the Republicans have been spending too much money and that they are threatening us with bankruptcy and they are causing inflation, and might say, "I will give my dollar instead to the Democratic Party which is trying to keep expenses down."

Now, Mr. Speaker, although the checking of the square is a voluntary matter,

subsequent to that there is a compulsory proposition to the effect that a part of that dollar is being forced to go to another party which that individual might not desire to help, even to the extent of 50 cents.

Mr. MILLS. The gentleman is completely accurate in that respect. Actually this is a voluntary contribution for good government. It presents both parties a chance to get their ideas across without having to beg for funds.

The main thing here is to stimulate people to take an interest in politics and to broaden the base, as my friend, the gentleman from South Carolina, said, of those who make these contributions to political campaigns.

I think it is much better to do it in one fund, and to divide it among the parties, than to use tax dollars for the purpose of electing a Democratic President per se, by designation, or a Republican President per se by designation. This is only \$4 in a presidential campaign. If the man wants to make a contribution to one of the parties in addition to that he may do so in addition to the \$4.

Mr. WATSON. Then we would both agree on this proposition that the initial designation of \$1 is a voluntary proposition?

Mr. MILLS. Absolutely.

Mr. WATSON. But thereafter the person is being compelled to?

Mr. MILLS. That is right. After that it goes to both parties.

Mr. WATSON. The person is being compelled to contribute to people and parties not necessarily of his choice?

Mr. MILLS. He has the right to designate a dollar to go into the presidential campaign fund. He does not have the right to say that it go to the Republican National Committee, or to the Democratic National Committee. If he puts it in there he will do so with the full knowledge that he is making that contribution toward the costs of the presidential campaign—the presidential campaign of both parties.

Mr. HARSHA. Mr. Speaker, if the gentleman will yield?

Mr. MILLS. I yield to the gentleman from Ohio.

Mr. HARSHA. If it were not operated in this way would you not soon use up the dollar in trying to categorize or collect the dollar and set aside every individual taxpayer's dollar to a particular candidate?

Mr. MILLS. I would think it would be much less expensive to do it the way the conference report has it.

Mr. HARSHA. Otherwise you would use up the dollar.

Mr. MILLS. Yes.

Mrs. GRIFFITHS. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Michigan.

Mrs. GRIFFITHS. Mr. Speaker, it seems to me that this is going to contribute to the growth of a third party.

I believe that the genius of American politics is that we have two parties, both of them largely occupying the middle of the road.

I think it is naive to assume that there are not organizations already in existence in the country that are already contributing to campaigns that could run their own candidates and their own President. If they are assured that this money can be transferred then to the taxpayer I think that it will contribute to such growth.

I would assume that it is possible that you could have a labor candidate. I would assume that it is possible that Mr. Wallace, as a States' Rights candidate, may run.

I would assume that it is possible that you could have a black power candidate.

I believe that these things should be considered.

Mr. MILLS. Mr. Speaker, let me call the gentlewoman's attention to the fact that there is nothing here that provides any encouragement to the development of a third party or a fourth party or a fifth party. What we have here is a proposition that if the major parties are joined by a third party, that receives as much as 5 million votes in an election, that party is going to qualify for part of this dollar for the votes that they received above 5 million. But, that party has to get that many votes first on its own through some other means of financing, before it ever gets anything out of this fund. It has to be qualified first.

Mrs. GRIFFITHS. There are organizations available now that have the money to run the candidate, and that are already contributing to candidates.

So if they can rely upon the fact that in the future they are going to get it all paid back to them, to my mind I think you are building up toward the possibility of splintering American politics.

Mr. MILLS. The gentlewoman misunderstands when it gets it paid back. You do not finance a campaign in 1968 and then get paid enough money on the basis of 5 million votes received in that campaign.

Mrs. GRIFFITHS. They will have been putting it in all these years and in future years when they get more than 5 million votes they will get paid.

Mr. MILLS. Let me ask my good friend, the gentlewoman from Michigan if this is not worth a trial? That is the only thing I am asking you, to give it a trial. I am not saying it is going to work. I do not know whether it will or not. It is hard to get people to make a political campaign contribution. I know it—we all know it.

What I am concerned about is that we make some effort to interest more people

in this business of participating in the financing of these extremely costly presidential campaigns. I do not know what they are going to cost. But it looks like to me as if every time we run one of them, both parties wind up in the hole and then spend the next 4 years trying to have dinners somewhere with people to speak to pay off the deficit.

Mr. DINGELL. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman.

Mr. DINGELL. I have several concerns about this legislation, the first of which is that no hearings were held on this matter before the great Committee on Ways and Means.

Mr. MILLS. The gentleman is right in that respect.

Mr. DINGELL. I have always viewed it as being highly important that tax legislation originate in the House of Representatives as the Founding Fathers originally intended it to be done.

Mr. MILLS. This bill did—but the gentleman is right as to this provision.

Mr. DINGELL. I think this is the defect in the legislation that is before us.

Now apropos of what the gentlewoman has been discussing, with the distinguished chairman, I would like to point out that political third parties in this country are very ephemeral in their existence and exist for a short period of time.

The SPEAKER pro tempore (Mr. PRICE). The time of the gentleman has expired.

Mr. MILLS. Mr. Speaker, how much time have I used?

The SPEAKER pro tempore. The gentleman from Arkansas has consumed 29 minutes.

Mr. MILLS. Mr. Speaker, I yield myself 1 minute and that is all because I must yield time to other Members.

Mr. DINGELL. I would simply like to point out that I agree with the gentlewoman from Michigan that this is going to continue the third-party structure in this country.

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Mr. MILLS. I do not think it would have anything to do with that.

Mr. LONG of Maryland. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman.

Mr. LONG of Maryland. Was any provision added having to do with the use of this money?

Mr. MILLS. This is to be handled by the Comptroller General under the bill.

Mr. KEOGH. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from New York.

Mr. KEOGH. Is it not a fact that no third party could participate earlier than 1972?

Mr. MILLS. That is right.

Mr. KEOGH. And then they could participate only if they had a candidate in 1968 who received more than 5 million votes. Is that not correct?

Mr. MILLS. The gentleman is exactly correct.

Mr. Speaker, I urge the adoption of the conference report.

The SPEAKER pro tempore. The time of the gentleman has expired.

Mr. MILLS. Mr. Speaker, I yield 5 minutes to the gentleman from Missouri [Mr. CURTIS].

Mr. CURTIS. Mr. Speaker, as I have said in speaking on previous conference reports, even though I had serious questions on them, I voted as an individual Congressman against the last final version of the suspension of the investment credit, as a conferee I still signed the report.

The point I want to make about this previous bill in reference to this one is that this contained matters that at least the President of the United States said were serious and the House over my objections, of course, and my best endeavors to persuade the House differently, that this would actually combat inflation. I felt to the contrary but as a conferee I felt it was necessary to uphold the position of the House and that this bill was so important because inflation is indeed a serious problem I thought I had a responsibility to report back to the House some version of this measure even though it contained extraneous matters, such as we discussed, on football.

I did not sign this report because the vehicle used by the other body in this instance, although a good and important bill, certainly is not going to shake the foundations of this Nation if it does not become law this year and, indeed, waits until next year. The Foreign Investors' Tax Act of 1966 is the result of many years of hard work. Our committee did a great deal of work developing it. The Senate Finance Committee did some excellent work in improving it. And there are many Senate amendments that are germane to the bill and have improved this bill. This bill is in such good shape now that I can tell the House it can be introduced in the next Congress and probably become law within about a month.

However, this bill became what some news reporter described as "Christmas tree," on which our colleagues on the other side put one after another amendment, amendments that were completely nongermane to the bill, and, with few exceptions, were matters that the House of Representatives and the Ways and Means Committee had had no opportunity at all of studying.

I must disagree with my Chairman of the committee. I respect him, but believe me, my good colleague, you cannot understand what this new concept of financing political parties is from the

conversations that we had—and they were no more than conversations that we had in the conference on this subject. It cannot be understood that easily.

In fact, I believe that this is an unconstitutional provision, as I tried to point out. I thought the point of order made by Judge SMITH was well taken, although, of course, I respectfully bow to the decision of the Speaker. But this is not a tax bill. It is actually an appropriation bill, and one of the strangest that has ever come down the pike.

Under the Constitution the appropriation process requires the action of the Congress of the United States. This bill provides that an individual citizen, by putting an "x" on his income tax return, may direct money that is not his—because as soon as he pays it as a taxpayer it is part of the general funds of the United States—that an individual citizen, by putting an "x" in the box, can direct how money of the United States is to be spent. I think this is unconstitutional. I think an examination into it would reveal it probably to be so. But I do not really know. I am giving an off-the-top-of-the-head opinion on this from what I have seen.

There are other implications.

We were promised by the Secretary of the Treasury this year when another nongermane amendment from the Senate was put on one of our bills that no longer tax deduction for a method that both political parties had developed—

The SPEAKER. The time of the gentleman has expired.

Mr. CURTIS. Mr. Speaker, will the gentleman yield me an additional 5 minutes?

Mr. MILLS. I yield the gentleman from Missouri 5 additional minutes.

Mr. CURTIS. Both political parties had developed a method in financing their affairs, namely, the Almanac and advertising in it. I did not think it was too good a way of doing it. But let me say this. It had one virtue: It was honest and aboveboard, and all of us know the problems that exist in financing political parties and political campaigns, and I think we are all agreed that this matter is so serious that we have to look at it and look at it in depth. It has become one of the subject matters studied by the Joint Committee on the Reorganization of the Congress.

One of the recommendations we made was that we must get into this subject matter. But let us not get into it in this kind of haphazard, piecemeal method of having a bill come into the conference on a tax measure of some seriousness and some complexity, and hope to get by, as the chairman of the Ways and Means said, "Well, why not try it. It might work."

I hope that is not the way we will proceed in legislation.

Mr. RUMSFELD. Mr. Speaker, will the gentleman yield for a question?

Mr. CURTIS. I yield to the gentleman from Illinois.

Mr. RUMSFELD. Is the gentleman suggesting it would be more proper, and in fact, constitutional, if the dollar were sent in by the individual to a candidate or a political organization and then marked as a legitimate deduction, if the law so provided, but that because the check box on the form is something which goes to the Government, and then the Government pays the money, it becomes unconstitutional? Is this the distinction the gentleman is making?

Mr. CURTIS. It is a distinction, yes.

We can say to any taxpayer, "We are not going to tax certain money—money you give to your church, money you give to charity. We will not tax that." But this is money that has been paid as taxes. It is not a deduction from the tax bill. It is money that the citizen owes.

Those who put on an X mark and say, "This money shall be spent," are designating. Suppose I do not put on an X mark. Then nothing will go out of the Treasury for this purpose.

This might be going back to the days when the citizens were those who were property owners, because those who are not in the income brackets to pay income tax and only pay excise taxes to the Federal Government will not get to direct any money from the Federal Treasury to go for this purpose.

Having said this on that particular subject, let me call attention to the all-too-limited discussion on a conference report on a very serious and fine bill, the Foreign Investors Tax Act of 1966. If Members will look at the statement on the part of the managers of the House, they will find that this is only one of the items.

There are four items here that change depletion allowances. There are many of us who in our districts have problems with respect to depletion allowances which affect us. The Ways and Means Committee had no hearings or discussions on these three things. They were just put in here, and they were not kicked out.

I say that the House of Representatives has got to stand firm on this operation of those from the other body, putting on matters at will, almost, that have not been studied, even with very little study on their own part. Many of these are amendments offered on the floor of the Senate, and not even considered by the Senate Finance Committee.

There is one final thing. The one ray of hope about all of this tragedy—and I call it a tragedy so far as the legislative process is concerned—is, the President might well veto the bill. Frankly, I hope he does. Then we can get back and bring in a proper bill in regard to the Foreign Investors Tax Act of 1966.

I have said about all I care to say on the subject. I will close by saying I hope that some day, if I am here—and I hope I will be here long enough—I will see the House of Representatives stand up against the operations, irresponsible—I will use that word—the irresponsible operations we have experienced in this instance, and in instance after instance [P. 27095]

on the part of Members of the other body. This is not the way to legislate.

This particular idea is an interesting idea for financing campaigns. Frankly, it is no more than just that, an interesting idea that ought to be examined.

Mr. LONG of Maryland. Mr. Speaker, will the gentleman from Arkansas yield to me?

Mr. MILLS. I yield to the gentleman from Maryland.

Mr. LONG of Maryland. I am not sure the gentleman understood my question asked a while ago, when I asked about the audit system.

There are two aspects to this problem. One of course is what control the minority party could have over the question of whether there was an honest count of the amount of money that was to be handled.

Mr. MILLS. Let me explain how it will be handled.

Mr. LONG of Maryland. The other and more important question is how does one control the use of the money, let us say, by the Republican or Democratic National Committee? Suppose this were very successful and resulted in a nice, big windfall and they just decided to pay the chairman a couple of hundred thousand dollars a year? In other words, suppose they declared themselves an informal dividend.

What sort of control would there be over that?

Mr. MILLS. Let me answer the gentleman's first question first. The expenditures may be audited by the Comptroller General. They are certified, and submitted by the Democratic National Committee in behalf of the election of a Democrat or by the Republican National Committee in behalf of a Republican for President. I do not think the gentleman has to have any worry about the fact that this matter would be very carefully scrutinized in that respect. Then there is an advisory committee made up of members of both parties to aid in supervising it. I do not think any Republican member of that committee would allow the Democratic National Committee to fudge or vice versa.

There is no limitation with respect to the matter of whether a part of it could be used to pay a Democratic National committeeman a greater salary than he deserves or to pay a Republican National committeeman a greater salary than he deserves.

Mr. LONG of Maryland. I wonder if

I could ask the chairman one other question.

Mr. MILLS. Yes.

Mr. LONG of Maryland. Which I do not think would necessarily be very realistic, but it could be conceivable, I suppose. As Mr. DINGELL pointed out, third parties are notoriously ephemeral. Suppose you had a third party that managed to poll 7 million votes in 1968. It would not get that money in 1968, but, of course, it would get it in 1972. Suppose the party then virtually disappeared and all that is left is the national committee of that party that decided to get a couple of million dollars and decided to spend it in a very high, wide, and handsome way. Would you have any control over anything like that to keep that money from being dissipated and wasted?

Mr. DINGELL. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman.

Mr. DINGELL. Will we then be placing the Appropriations Committee, which is sometimes a partisan body and oftentimes very partisan, in charge of expenditures by the recipients of this fund?

Mr. MILLS. I do not think the gentleman from Michigan would want to say that a Democratic Congress or a Republican Congress could not be fair in appropriating under the provisions of any act. Actually, however, the Appropriations Committee would be involved.

Mr. DINGELL. At least the gentleman from Arkansas will admit that what we are setting up is a situation where the Committee on Appropriations may at a time later scrutinize the activity of what has been previously preaudited by the great political parties of this country. Am I correct?

Mr. MILLS. You have the Comptroller General to supervise this and you have an advisory committee set up over people who are set up here on a bipartisan basis aiding in the supervision. I do not think the parties are going to misuse this political fund.

Mr. DINGELL. Mr. Speaker, if the gentleman will yield further—

Mr. MILLS. No. I do not think they are going to misuse this fund.

Mr. DINGELL. Mr. Speaker, if the gentleman will yield further, I have one further question of the distinguished gentleman from Arkansas

Mr. Speaker, the rationale as I understand it for this proposal is to do away with the great fundraising efforts which are now handled and incurred by the two parties.

Mr. MILLS. That would be our hope, to broaden the base.

Mr. DINGELL. Mr. Speaker, if the gentleman will yield further, the simple answer to that is that this would be in addition to the funds which would be raised based upon the traditional manner and practices in which they have been raised heretofore.

Mr. MILLS. No. If the gentleman thinks that, the gentleman has missed the entire point of this amendment.

There will never be a penny paid out of this fund until it is certified that there has been an expenditure incurred—expenditure incurred—and then they send the amount into the fund, showing how it has been expended and the purpose for which it has been expended. Then the fund could reimburse them for that amount.

Mr. DINGELL. Mr. Speaker, if the distinguished gentleman will yield further, the gentleman has a great opportunity to convince me in this respect, but I see nothing contained in the statement of the managers on the part of the House—

Mr. MILLS. Read the bill.

Mr. DINGELL. Which would indicate that henceforward the responsibility and obligation for conventional-type fundraising by both parties will either be done away with or otherwise ignored.

As I read this statement of the managers on the part of the House, the conventional type of fundraising practices will continue to operate—

Mr. MILLS. We have not tried to stop it here. You or I or anyone else could say that, "I have \$100 in my pocket and I want to give it to the Republican, the presidential candidate—the candidate of my choice." However, the party is not going to try so hard to get money this way if it already has adequate financing.

Mr. BYRNES of Wisconsin. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. Mr. Speaker, I believe the gentleman from Michigan [Mr. DINGELL] has missed the point that has to be recognized that this only covers the expenditure after a nomination.

Mr. MILLS. That is right; on the first of September.

Mr. BYRNES of Wisconsin. This will not finance preconventions or convention activities. It is only after a nominee has been selected.

Mr. MILLS. And, it is set out in the bill itself that no expenditure can be made prior to September 1 out of this fund in the presidential election year.

Mr. DINGELL. Mr. Speaker, if the gentleman from Arkansas will yield further, there is nothing contained in this legislation which would stop the political parties from having the presidential clubs, from conducting the traditional type of fundraising otherwise.

Mr. MILLS. Mr. Speaker—

Mr. DINGELL. Or having a special party-type of fundraising, or any other device with which to raise funds. But this would be additional device through which to raise money for a political party.

Mr. MILLS. It certainly is true that it is possible to have large contributions. But the pressure will be less for them. Moreover, we can still pass some legislation limiting these contributions.

Mr. DINGELL. Mr. Speaker, if the gentleman from Arkansas will yield further, I do not see anything contained in this bill that changes the present situation with reference to the present policies of fundraising.

Mr. Speaker, there is nothing contained in this bill, aside from the fact that we will make an additional contribution and make additional money available.

Mr. MILLS. The gentleman from Michigan, my good friend knows, that there is nothing in the Internal Revenue Service Code that has anything to do with the control of political contributions. Political contributions which are made are controlled by legislation, I assume, within the jurisdiction of the Committee on the Judiciary.

Certainly, Mr. Speaker, such control is not within this bill. There is no effort made here to say that a man cannot make a contribution of his own money.

All we are trying to do here is to say that an individual can provide \$1 a year to a presidential campaign fund and this would give him the opportunity to do it, if he wants to do it. If we can get 70 million people to contribute to this presidential campaign fund this should finance most, if not all, of the cost of a presidential campaign. Then there

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is no need for a presidential group or for you or for me to go further into our own pockets. We could spend our money if we so desired toward helping to elect a Governor of some State or a congressional colleague. But do not bring into this discussion things that are not contained in this legislation or in the conference report.

The question is whether what is here is worth a trial run to see if it will work because if it will work, it can have a very wholesome effect in eliminating some of the things that may be in the minds of some people who talk about undue influence.

Mr. JOELSON. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from New Jersey.

Mr. JOELSON. Mr. Speaker, we have heard much criticism of our campaign contribution laws, that candidates and parties depended on individual contributors, and therefore there were certain obligations.

Now, it does not seem to me we can solve this in the least bit. Your committee is not set up to go into campaign practices. And I just cannot accept the premise that if the national committee

gets a few million from this source that it will not seek it from other sources.

Mr. MILLS. They are going to seek it from other sources until they get enough money to run the campaign. You know that and I know that. If they can get two-thirds of what they want here then they only have to get one-third from other sources.

Does not my good friend from New Jersey agree that this is a good way to bring about broadening the contribution base, and it would not hurt us to at least try to broaden the base, so as to get more people helping with the political campaign costs so that we do not have to go to a few people and get more from them?

Mr. JOELSON. I would answer that by saying we are not broadening the base; we are just fattening up the till.

Mr. MILLS. I do not think my friend from New Jersey understands the amendment.

Mr. FULTON of Pennsylvania. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Pennsylvania.

Mr. FULTON of Pennsylvania. The question here is: Are we stacking it against minority groups by really subsidizing through the Government the major parties?

Mr. MILLS. I do not know whether my friend from Pennsylvania was on the floor or not, but the argument has just been made by others that we are stacking it for them.

Mr. FULTON of Pennsylvania. I am speaking in a different context.

Mr. MILLS. I do not think we are stacking it for or against.

Mr. FULTON of Pennsylvania. I am raising the other question.

Mr. MILLS. We are going to recognize a third party whenever that third party gets more than 5 million votes. In that event we will help that party to some degree and whenever it gets 15 million votes, in the previous presidential election, it will become a full party in the division of the money with the other major parties.

Mr. FULTON of Pennsylvania. The question then is this: You are making it the equivalent of one vote and one dollar. That is one of the cheapest elections I ever heard of, where you get a vote for every dollar in your party.

I might say to the gentleman, if I were in one of the what we now call organized groups I would certainly go on the presidential end of it, and do it quick, and altogether, because I would be able to control them. I would not have to finance the presidential end of it.

Mr. MILLS. This might help us to get money needed in congressional campaigns, and I think it would serve a good purpose if it did. But let me say this to my friend from Pennsylvania: I am sure he would—

Mr. FULTON of Pennsylvania. Is this constitutional? I do not think it is.

Mr. MILLS. I do not think there is any constitutional question.

But my friend from Pennsylvania, I am sure, would rather see 10,000 people contribute \$1 to a campaign than to see one individual contribute \$10,000 to cover the same costs.

Mr. FULTON of Pennsylvania. Yes, but you see—

Mr. MILLS. I think the gentleman would agree with me that there is less possibility of suspicion of influence, real or unreal.

Mr. FULTON of Pennsylvania. Yes, but the gentleman can see what you come to is this, when you make equivalent and equal one vote and one dollar. I really do not know what the philosophical background of that is, and whether it is right or wrong.

Mr. MILLS. What would the gentleman make of it?

Mr. FULTON of Pennsylvania. I would not think a dollar a vote. I do not believe I would. It may be right. I am questioning that, and saying it may not be constitutional, because I do not think public money should really finance private groups for political purposes. Maybe. I do not know. I am asking the question.

Mr. MILLS. I would think the gentleman would believe that this would be preferable than tax deductions. There is no control possible over that. I would believe that the gentleman would think this would be the better way to do it.

Mr. BINGHAM. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman. Mr. BINGHAM. I was going to say, it seems to me that this is worth trying.

Mr. MILLS. Yes, I think it is.

Mr. BINGHAM. I have heard for many years a great deal of discussion and debate about this problem. Many suggestions are made about getting away from the existing system—and of course it is possible for anybody to shoot holes in any proposal.

Mr. MILLS. That is right.

Mr. BINGHAM. But it seems to me, this is a proposal that is worth trying and I think it makes sense.

Mr. FULTON of Pennsylvania. Mr. Speaker, will the gentleman yield to me so that I may answer my friend, the gentleman from New York?

Mr. MILLS. I will yield briefly to the gentleman for a question.

Mr. FULTON of Pennsylvania. I would like to answer my friend, the gentleman from New York, whom I respect highly. Suppose somebody who believes contrary to the gentleman from New York and my particular feelings about voting rights and civil rights and all that? If Wallace in the South gets 5 million votes, we have the Government

subsidizing things that are against what we believe in.

Mr. MILLS. Has the gentleman looked into this matter close enough to realize that in the case of a third party running for the first time in 1968 even if the party gets over 5 million votes, it would not get anything in 1968?

Mr. CURTIS. But if he is also running under a third party, his third party would.

Mr. MILLS. No, I must say to the gentleman, I am right. That third party would not be eligible to get anything until the campaign in 1972.

Mr. CURTIS. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman.

Mr. CURTIS. The gentleman speaks with such positiveness—let me emphasize again that we did not hold a single bit of hearings.

Mr. MILLS. We did not have any hearings. I agree with the gentleman.

Mr. CURTIS. All we had was some discussion in the conference room off there for maybe about three-quarters of an hour. That is the most the gentleman knows about it and it is the most that I know.

Mr. MILLS. The gentleman cannot say how much I know of this, I did a lot of studying of it.

Mr. CURTIS. There have been no hearings as I said as far as the House is concerned and we do not know beans about it.

Mr. MILLS. The gentleman is right.

Mr. FRASER. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman.

Mr. FRASER. I just want to commend the chairman. I think it is an excellent proposal. I think it ought to be tried. If particular provisions need to be modified, we can take a look at it next year. But this is a wonderful opportunity to free our political system from dependence on large contributors. I feel very strongly about it.

Mr. MILLS. I thank the gentleman very much.

Mr. VIVIAN. Mr. Speaker, the conference report now before us on H.R. 13103, proposes, as has been thoroughly discussed this evening, that starting in 1967 each individual taxpayer be given an option to divert exactly \$1 per year of his Federal income tax payment to a special Treasury fund. This fund would be equitably allocated between the major national political parties to help defray the costs of presidential campaigns.

Mr. Speaker, this scheme definitely does have some merit. In particular, it provides a simple, direct, and practical

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process by which large numbers of people individually can contribute a small amount to national political campaigns, sufficient to fund these campaigns mod-

erately well, and thereby relieving the candidates of the necessity of depending on a limited number of affluent givers. This scheme therefore would reduce the influence of wealthy individuals or organizations upon the National Government.

Unfortunately, Mr. Speaker, there are two very basic faults of this scheme which overshadows its merits: First, the funds are to be available only for presidential elections, rather than all elections at all levels of government; and the funds will be dispersed according to the inclinations of national party leaders, persons who to date seldom have been known to the public, and hardly immediately subject to broad public choice.

Mr. Speaker, this good idea is being applied wrongly.

Suppose instead, these funds were allocated in proportion to the number of voters each delegate receives directly to the control of the local precinct delegates elected precinct by precinct throughout the Nation by the voters of each party. These delegates, who would be your neighbors, and probably well known to you, in turn would distribute the funds over which they gained control to the local, State, and National candidates and party organizations as they so desired, or more particularly, as they would have promised prior to their own election.

The control of political party activities and finances then would stem from where it should—the neighborhood level, the grassroots of politics, rather than from the Nation's political center.

Today, a national TV network, or a national news service, surely can more strongly influence legislation than can, for example, any one or a few Members of Congress, such as myself.

Today, the Nation's political party leaders, of both parties, and particularly of whichever party controls the agencies or controls the congressional committees, surely can wield "the carrot and the stick" to gain frequent conformity of action of representatives from many districts.

Now I personally do not desire to increase this centralization of political power. Therefore I have decided to vote against the conference report.

Of course, in doing so, I recognize that I will be voting against a number of other provisions encompassed in the report, some of which I certainly support, particularly the provision liberalizing tax deductibility of contributions to pension plans by self-employed individuals. I was a sponsor of that provision. But because the other body, the Senate, has imposed this unamendable conference report upon us, I will have no opportunity to separate the provisions.

Mr. Speaker, the Senate should not have accepted the election fund scheme, and neither should we.

Mr. MILLS. Mr. Speaker, I move the previous question.

The previous question was ordered.

The SPEAKER pro tempore. The question is on agreeing to the conference report.

Mr. CURTIS. Mr. Speaker, I offer a motion to recommit.

The SPEAKER pro tempore. Is the gentleman opposed to the conference report?

Mr. CURTIS. I am, Mr. Speaker.

The SPEAKER pro tempore. The gentleman qualifies.

The Clerk will report the motion to recommit.

The Clerk read as follows:

Mr. CURTIS moves to recommit the bill, H.R. 13103, to the committee of conference.

Mr. MILLS. Mr. Speaker, I move the previous question on the motion to recommit.

The previous question was ordered.

The SPEAKER pro tempore. The question is on the motion to recommit. The question was taken.

Mr. CURTIS. Mr. Speaker, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The SPEAKER pro tempore. Obviously, a quorum is not present.

The Doorkeeper will close the doors, the Sergeant at Arms will notify absent Members, and the Clerk will call the roll.

The question was taken; and there were—yeas 95, nays 127, not voting 210, as follows:

[Roll No. 395]

YEAS—95

Adair	Dole	Passman
Andrews,	Dowdy	Pelly
George W.	Downing	Pickle
Arends	Dulski	Poage
Ashbrook	Duncan, Tenn.	Poff
Ashmore	Ford, Gerald R.	Quie
Bates	Fulton, Pa.	Quillen
Battin	Grover	Reid, Ill.
Bell	Gubser	Reifel
Bennett	Gurney	Rhodes, Ariz.
Betts	Hardy	Rumsfeld
Bolton	Harvey, Mich.	Ryan
Brock	Hechler	Satterfield
Broomfield	Henderson	Saylor
Broyhill, N.C.	Hull	Selden
Buchanan	Hutchinson	Shriver
Burton, Utah	Jarman	Skubitz
Cabell	Johnson, Pa.	Smith, Calif.
Cameron	Jonas	Springer
Casey	Kunkel	Stalbaum
Celler	Langen	Teague, Calif.
Chamberlain	Latta	Tuck
Clancy	Lipscomb	Vigorito
Clausen,	Long, Md.	Vivian
Don H.	McClory	Waggonner
Cleveland	McDade	Watson
Collier	MacGregor	Whalley
Conte	Mahon	Widnall
Cramer	Marsh	Williams
Cunningham	Mize	Wolff
Curtis	Morse	Wylder
Dague	Mosher	
Dingell	Natcher	

NAYS—127

Addabbo	Bandstra	Brooks
Anderson,	Beckworth	Burke
Tenn.	Bingham	Burleson
Annunzio	Boggs	Burton, Calif.
Ashley	Brademas	Byrne, Pa.

Byrnes, Wis.	Harsha	Pepper
Callan	Hathaway	Perkins
Clark	Herlong	Philbin
Conable	Holland	Pike
Conyers	Horton	Price
Corbett	Hosmer	Rees
Daniels	Ichord	Reid, N.Y.
Dawson	Irwin	Rhodes, Pa.
de la Garza	Jennings	Rodino
Dent	Joelson	Rogers, Colo.
Diggs	Johnson, Okla.	Ronan
Donohue	Jones, Ala.	Rooney, Pa.
Dow	Karsten	Rosenthal
Edwards, Calif.	Karth	Rostenkowski
Everett	Kastenmeier	Roybal
Farbstein	Kee	St Germain
Farnum	Keogh	St. Onge
Fascell	Krebs	Scheuer
Flood	Landrum	Schneebell
Ford,	Leggett	Schweiker
William D.	Love	Secrest
Fraser	McGrath	Sickles
Friedel	Machen	Smith, Iowa
Garmatz	Mills	Staggers
Gathings	Minish	Stubblefield
Gialmo	Monagan	Teague, Tex.
Gibbons	Morgan	Tenzer
Gilbert	Morris	Thomas
Gonzalez	Morrison	Tupper
Gray	Multer	Tuten
Green, Oreg.	Murphy, Ill.	Udall
Green, Pa.	Murphy, N.Y.	Utt
Grider	Nedzi	Vanik
Griffiths	O'Hara, Ill.	Weltner
Hagen, Calif.	O'Hara, Mich.	White, Tex.
Halpern	O'Neill, Mass.	Wright
Hamilton	Patman	Young
Hanley	Patten	Zablocki

NOT VOTING—210

Abbt	Ellsworth	Kupferman
Abernethy	Erlenborn	Laird
Adams	Evans, Colo.	Lennon
Albert	Evins, Tenn.	Long, La.
Anderson, Ill.	Fallon	McCarthy
Andrews,	Farnley	McCulloch
Glenn	Feighan	McDowell
Andrews,	Findley	McEwen
N. Dak.	Fino	McFall
Aspinall	Fisher	McMillan
Ayres	Flynt	McVicker
Baring	Fogarty	Macdonald
Barrett	Foley	Mackay
Belcher	Fountain	Mackie
Berry	Frelinghuysen	Madden
Blatnik	Fulton, Tenn.	Malliard
Boland	Fuqua	Martin, Ala.
Bolling	Gallagher	Martin, Mass.
Bow	Gettys	Martin, Nebr.
Bray	Gilligan	Mathias
Brown, Calif.	Goodell	Matsunaga
Brown, Clar-	Grabowski	Matthews
ence J., Jr.	Greigg	May
Broyhill, Va.	Gross	Meeds
Cahill	Hagan, Ga.	Michel
Callaway	Haley	Miller
Carey	Hall	Mink
Carter	Halleck	Minshall
Cederberg	Hanna	Moeller
Chelf	Hansen, Idaho	Moore
Clawson, Del	Hansen, Iowa	Moorhead
Clevenger	Hansen, Wash.	Morton
Cohen	Harvey, Ind.	Moss
Colmer	Hawkins	Murray
Cooley	Hays	Nelsen
Corman	Hébert	Nix
Craley	Helstoski	O'Brien
Culver	Hicks	O'Konski
Curtin	Holfield	Olsen, Mont.
Daddario	Howard	Olson, Minn.
Davis, Ga.	Hungate	O'Neal, Ga.
Davis, Wis.	Huot	Ottinger
Delaney	Jacobs	Pirnie
Denton	Johnson, Calif.	Pool
Derwinski	Jones, Mo.	Powell
Devine	Jones, N.C.	Pucinski
Dickinson	Keith	Purcell
Dorn	Kelly	Race
Duncan, Oreg.	King, Calif.	Randall
Dwyer	King, N.Y.	Redlin
Dyal	King, Utah	Reinecke
Edmondson	Kirwan	Resnick
Edwards, Ala.	Kluczynski	Reuss
Edwards, La.	Kornegay	Rivers, Alaska

Rivers, S.C.	Smith, Va.	Van Deerlin
Roberts	Stafford	Waldie
Robison	Stanton	Walker, Miss.
Rogers, Fla.	Steed	Walker, N. Mex.
Rogers, Tex.	Stephens	Watkins
Roncallo	Stratton	Watts
Rooney, N.Y.	Sullivan	White, Idaho
Roudebush	Sweeney	Whitener
Roush	Talcott	Whitten
Schisler	Taylor	Willis
Schmidhauser	Thompson, N.	Wilson, Bob
Scott	Thompson, T.	Wilson,
Senner	Thomson, Wis.	Charles H.
Shipley	Todd	Wyatt
Sisk	Toll	Yates
Slack	Trimble	Younger
Slack	Tunney	
Smith, N.Y.	Ullman	

So the motion to recommit was rejected.

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The Clerk announced the following pairs:

Mr. Hébert with Mrs. Dwyer.
 Mr. King of California with Mr. Reinecke.
 Mr. Hollifield with Mr. Moore.
 Mr. Laird with Mr. McEwen.
 Mr. Miller with Mr. Hansen of Idaho.
 Mr. Feighan with Mr. Glenn Andrews.
 Mr. Fogarty with Mr. Plinie.
 Mr. Rivers of Alaska with Mr. Walker of Mississippi.
 Mr. Frelinghuysen with Mr. Harvey of Indiana.
 Mr. Ayres with Mr. Abernethy.
 Mr. Kirwan with Mr. Whitten.
 Mr. Barrett with Mr. Colmer.
 Mr. Aspinall with Mr. Fountain.
 Mr. McFall with Mr. Taylor.
 Mr. Matsunaga with Mr. Kornegay.
 Mr. Gallagher with Mr. Scott.
 Mr. Gilligan with Mr. Jones of North Carolina.
 Mr. Olsen of Montana with Mr. Cooley.
 Mr. Stafford with Mr. Dorn.
 Mr. McDowell with Mr. Rivers of South Carolina.
 Mr. Johnson of California with Mr. McMillan.
 Mr. Shipley with Mr. Lennon.
 Mr. Nix with Mr. Foley.
 Mr. Delaney with Mr. Morton.
 Mrs. Kelly with Mr. Belcher.
 Mr. Carey with Mr. Smith of New York.
 Mr. Brown of California with Mr. Robison.
 Mr. Hungate with Mr. Michel.
 Mr. Hays with Mr. King of New York.
 Mr. Dyal with Mr. Hall.
 Mr. Evins of Tennessee with Mr. Dickinson.
 Mr. Moorhead with Mr. Del Clawson.
 Mr. Watts with Mr. Derwinski.
 Mr. Charles H. Wilson with Mr. Halleck.
 Mr. Mackay with Mr. Mailliard.
 Mr. Fuqua with Mr. O'Konski.
 Mr. Schisler with Mr. Younger.
 Mr. Rogers of Florida with Mr. Wyatt.
 Mr. Helstoski with Mr. Bob Wilson.
 Mr. Jacobs with Mr. Watkins.
 Mr. Hicks with Mr. Thomson of Wisconsin.
 Mr. Hawkins with Mr. Talcott.
 Mr. Long of Louisiana with Mr. Stanton.
 Mr. Craley with Mr. Roudebush.
 Mr. Davis of Georgia with Mr. Nelsen.
 Mr. Cohelan with Mr. Minshall.
 Mr. Blatnik with Mr. Martin of Nebraska.
 Mr. Albert with Mr. McCulloch.
 Mr. Corman with Mr. Keith.
 Mr. Denton with Mr. Martin of Massachusetts.
 Mr. Mackie with Mr. Kupferman.
 Mr. Edmondson with Mr. Goodell.

Mr. Evans of Colorado with Mr. Martin of Alabama.

Mr. Meeds with Mr. Findley.
 Mr. O'Neal of Georgia with Mr. Erlenborn.
 Mr. Gettys with Mr. Ellsworth.
 Mr. Haley with Mr. Fino.
 Mr. Race with Mr. Edwards of Alabama.
 Mr. Resnick with Mr. Devine.
 Mr. Reuss with Mr. Davis of Wisconsin.
 Mr. Yates with Mr. Cederberg.
 Mr. Thompson of New Jersey with Mr. Carter.
 Mr. Trimble with Mr. Callaway.
 Mrs. Sullivan with Mr. Clarence J. Brown, Jr.

Mr. Sisk with Mr. Bray.
 Mr. Senner with Mr. Bow.
 Mr. King of Utah with Mr. Berry.
 Mr. Schmidhauser with Mr. Andrews of North Dakota.

Mr. Howard with Mr. Anderson of Illinois.
 Mr. Roush with Mr. Huot.
 Mr. Baring with Mr. Chelf.
 Mr. Clevenger with Mr. McCarthy.
 Mr. Stratton with Mr. Kluczynski.
 Mr. Smith of Virginia with Mr. Roncallo.
 Mr. Rooney of New York with Mr. Rogers of Texas.

Mr. Slack with Mr. Van Deerlin.
 Mr. Sikes with Mr. Todd.
 Mr. Ullman with Mr. White of Idaho.
 Mr. Whitener with Mr. Willis.
 Mr. Moss with Mr. Fulton of Tennessee.
 Mr. Fisher with Mr. Fallon.
 Mr. Duncan of Oregon with Mrs. Mink.
 Mr. Daddario with Mr. Culver.
 Mr. Madden with Mr. Macdonald.
 Mr. Moeller with Mr. O'Brien.
 Mr. Olson of Minnesota with Mr. Powell.
 Mr. Purcell with Mr. Pucinski.
 Mr. Randall with Mr. Grabowski.
 Mr. Greigg with Mr. Hanna.
 Mr. Hagan of Georgia with Mrs. Hansen of Washington.
 Mr. Redlin with Mr. Ottinger.
 Mr. Hansen of Iowa with Mr. Pool.
 Mr. Thompson of Texas with Mr. Stephens.
 Mr. Steed with Mr. Roberts.
 Mr. Boland with Mr. Adams.
 Mr. Abbitt with Mr. Flynt.
 Mr. Matthews with Mr. McKicker.
 Mr. Sweeney with Mr. Broyhill of Virginia.
 Mr. Farnsey with Mr. Cahill.
 Mr. Toll with Mrs. May.
 Mr. Tunney with Mr. Mathias.
 Mr. Walker of New Mexico with Mr. Curtin.
 Mr. Waldie with Mr. Murray.

Mr. CAMERON changed his vote from "nay" to "yea."

Mr. RONAN changed his vote from "yea" to "nay."

Mr. ANNUNZIO changed his vote from "yea" to "nay."

Mr. LIPSCOMB changed his vote from "nay" to "yea."

Mr. BROOMFIELD changed his vote from "nay" to "yea."

Mr. DUNCAN of Tennessee changed his vote from "nay" to "yea."

Mr. MIZE changed his vote from "nay" to "yea."

Mr. MAHON changed his vote from "yea" to "nay."

Mr. SCHEUER changed his vote from "yea" to "nay."

The result of the vote was announced as above recorded.

The doors were opened.

The SPEAKER. The question is on agreeing to the conference report.

The question was taken; and the Speaker announced that the "ayes" appeared to have it.

Mr. CUNNINGHAM. Mr. Speaker, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

The Doorkeeper will close the doors, the Sergeant at Arms will notify absent Members, and the Clerk will call the roll.

The question was taken; and there were—yeas 171, nays 46, not voting 221, as follows:

[Roll No. 396]

YEAS—171

Adair	Flood	O'Hara, Ill.
Addabbo	Ford, Gerald R.	O'Hara, Mich.
Anderson, Tenn.	For	O'Neill, Mass.
Annumio	William D.	
Arends	Fraser	Patman
Ashbrook	Friedel	Petty
Ashley	Garmatz	Pepper
Ayres	Gathings	Perkins
Bandstra	Glaimo	Philbin
Bates	Gibbons	Pickle
Battin	Gilbert	Pike
Beckworth	Gonzalez	Pinrie
Bell	Green, Oreg.	Poff
Betts	Green, Pa.	Price
Bingham	Grider	Quillen
Boggs	Hagen, Calif.	Rees
Bolton	Hamilton	Reid, Ill.
Brademas	Hanley	Reid, N.Y.
Brock	Hardy	Relfel
Brooks	Harsha	Rhodes, Pa.
Broomfield	Hathaway	Rodino
Burke	Herlong	Rogers, Colo.
Burleson	Holland	Ronan
Burton, Calif.	Horton	Rooney, Pa.
Burton, Utah	Hosmer	Rosenthal
Byrnes, Wis.	Irwin	Roybal
Callan	Jennings	Rumsfeld
Casey	Joelson	St Germain
Celler	Johnson, Okla.	St. Onge
Chamberlain	Karsten	Saylor
Clancy	Karth	Scheuer
Clark	Kastenmeier	Schneebeli
Clausen, Don H.	Kee	Schweiker
Cleveland	Keogh	Secret
Collier	Krebs	Shriver
Conable	Landrum	Sickles
Conte	Lipscomb	Skubitz
Conyers	Long, Md.	Smith, Calif.
Corbett	Love	Smith, Iowa
Cramer	McClory	Springer
Dague	McDade	Staggers
Daniels	McGrath	Stalbaum
Dawson	Machen	Stubblefield
de la Garza	Mahon	Teague, Calif.
Dent	Marsh	Tenzer
Diggs	May	Thomas
Dole	Mills	Tupper
Donohue	Minish	Tuten
Dow	Monagan	Udall
Downing	Morgan	Utt
Duncan, Tenn.	Morris	Weitner
Edwards, Calif.	Morrison	White, Tex.
Everett	Morse	Widnall
Farbstein	Mosher	Wolf
Farnum	Multer	Wright
Fascell	Murphy, Ill.	Young
	Murphy, N.Y.	Zablocki
	Nedzi	The Speaker

NAYS—46

Andrews, George W.	Cameron	Gubser
Ashmore	Cunningham	Gurney
Bennett	Curtis	Hechler
Broyhill, N.C.	Dingell	Henderson
Buchanan	Dowdy	Hull
Cabell	Fulton, Pa.	Hutchinson
	Grover	Ichord

Jarman
Johnson, Pa.
Jonas
Jones, Ala.
Kunkel
Langen
Latta
MacGregor
Mize

Natcher
Passman
Poage
Quile
Rhodes, Ariz.
Ryan
Satterfield
Selden
Teague, Tex.

Tuck
Vanik
Vigorito
Vivian
Waggonner
Watson
Whalley
Williams

NOT VOTING—221

Abbitt
Abernethy
Adams
Albert
Anderson, Ill.
Andrews,
Glenn
Andrews,
N. Dak.

Aspinall
Baring
Barrett
Belcher
Berry
Blatnik
Boland
Bolling
Bow
Bray

Brown, Calif.
Brown, Clar-
ence J., Jr.
Broyhill, Va.
Byrne, Pa.
Cahill
Callaway
Carey

Carter
Cederberg
Chief
Clawson, Del
Clevenger
Cohelan
Colmer
Cooley
Corman
Crale

Culver
Curtin
Daddario
Davis, Ga.
Davis, Wis.
Delaney
Denton
Derwinski

Devine
Dickinson
Dorn
Dulski
Duncan, Oreg.
Dwyer
Dyal
Edmondson

Edwards, Ala.
Edwards, La.
Ellsworth
Erlenborn
Evans, Colo.
Evins, Tenn.
Fallon
Farnsley

Feighan
Findley
Fino
Fisher
Flynt
Fogarty
Foley

Fountain
Frelinghuysen
Fulton, Tenn.
Fuqua
Gallagher
Gettys

Gilligan
Goodell
Grabowski
Gray
Greigg
Griffiths
Gross
Hagan, Ga.
Haley
Hall

Halleck
Halpern
Hanna
Hansen, Idaho
Hansen, Iowa
Hansen, Wash.
Harvey, Ind.
Harvey, Mich.

Hawkins
Hays
Hébert
Helstoski
Hicks
Hollifield
Howard
Hungate

Huot
Jacobs
Johnson, Calif.
Jones, Mo.
Jones, N.C.
Keith
Kelly
King, Calif.

King, N.Y.
King, Utah
Kirwan
Kluczyński
Kornegay
Kupferman
Laird

Leggett
Lennon
Long, La.
McCarthy
McCulloch
McDowell
McEwen
McFall

McMillan
McVicker
Macdonald
Mackay
Mackie
Madden
Mailliard

Martin, Ala.
Martin, Mass.
Martin, Nebr.
Mathias
Matsunaga

Matthews
Meeds
Michel
[P. 27099]
Miller
Mink
Minshall

Murray
Goodell
Nix
O'Brien
O'Konski
Olsen, Mont.
Olsen, Minn.
O'Neal, Ga.
Ottinger

Pool
Powell
Pucinski
Purcell
Race
Randall
Redlin
Reinecke
Resnick

Reuss
Rivers, Alaska
Rivers, S.C.
Roberts
Robison
Rogers, Fla.
Rogers, Tex.
Roncallo
Rooney, N.Y.

Rostenkowski
Roubesh
Roush
Schuler
Schmidhauser
Scott
Sennet
Shipley

Sikes
Sisk
Slack
Smith, N.Y.
Smith, Va.
Stafford
Stanton

Steed
Stephens
Stratton
Sullivan
Sweeney
Talcott
Taylor

Thompson, N.J.
Thompson, Tex.
Thomson, Wis.
Todd
Toll
Trimble

Tunney
Ullman
Van Deerlin
Waldie
Walker, Miss.
Walker, N. Mex.
Watkins

Watts
White, Idaho
Whitener
Whitten
Willis
Wilson, Bob
Wilson,
Charles H.
Wyatt
Wylder
Yates
Younger

The SPEAKER. The Clerk will call my name.

The Clerk called the name of Mr. McCORMACK, and he answered "yea."

So the conference report was agreed to.

The Clerk announced the following pairs:

Mr. Fallon with Mrs. Mink.
Mr. Pucinski with Mr. Haley.
Mr. Hansen of Idaho with Mr. Grabowski.
Mr. Foley with Mr. Olson of Minnesota.
Mr. Macdonald with Mr. Long of Louisiana.
Mr. Thompson of New Jersey with Mr. Sweeney.
Mr. Shipley with Mr. Huot.
Mr. Hays with Mr. Adams.
Mr. Schisler with Mr. Scott.
Mr. Slack with Mr. Todd.
Mr. Ullman with Mr. McMillan.
Mr. Van Deerlin with Mr. Duncan of Oregon.
Mr. White of Idaho with Mr. Dorn.
Mr. Clevenger with Mr. Trimble.
Mr. Rivers of Alaska with Mr. Hanna.
Mr. Reuss with Mr. Powell.
Mr. Pool with Mr. Ottinger.
Mr. Charles H. Wilson with Mr. Whitten.
Mr. Whitener with Mr. Toll.
Mr. Walker of New Mexico with Mr. Matthews.
Mr. Edwards of Louisiana with Mr. Waldie.
Mr. Edmondson with Mr. Farnsley.
Mr. Fisher with Mrs. Hansen of Washington.
Mr. Rivers of South Carolina with Mr. Redlin.
Mr. Yates with Mr. Thompson of Texas.
Mr. Tunney with Mr. McCarthy.
Mr. Culver with Mr. Blatnik.
Mr. Boland with Mr. Roncallo.
Mr. Craley with Mr. Roberts.
Mr. Roush with Mr. Willis.
Mr. Baring with Mr. Greigg.
Mr. Race with Mr. O'Brien.
Mr. Howard with Mr. Rogers of Texas.
Mr. Stephens with Mr. Murray.
Mr. Hawkins with Mr. Kupferman.
Mr. Johnson of California with Mr. Cahill.
Mr. Byrne of Pennsylvania with Mr. O'Konski.
Mr. Jacobs with Mr. Cederberg.
Mr. Hungate with Mr. Watkins.
Mr. King of Utah with Mr. Thomson of Wisconsin.
Mr. Cohelan with Mr. Carter.
Mr. McDowell with Mr. Mathias.
Mr. Brown of California with Mr. Martin of Massachusetts.
Mr. Jones of North Carolina with Mr. Roudebush.
Mr. McVicker with Mr. Callaway.
Mr. Denton with Mr. Bob Willson.
Mr. Evans of Colorado with Mr. Martin of Alabama.
Mr. Feighan with Mr. Laird.
Mr. Fogarty with Mr. Goodell.
Mr. Fountain with Mr. Fino.
Mr. O'Neal of Georgia with Mr. Derwinski.
Mr. Purcell with Mr. Walker of Mississippi.
Mr. Gilligan with Mr. Younger.
Mr. Fuqua with Mr. Martin of Nebraska.

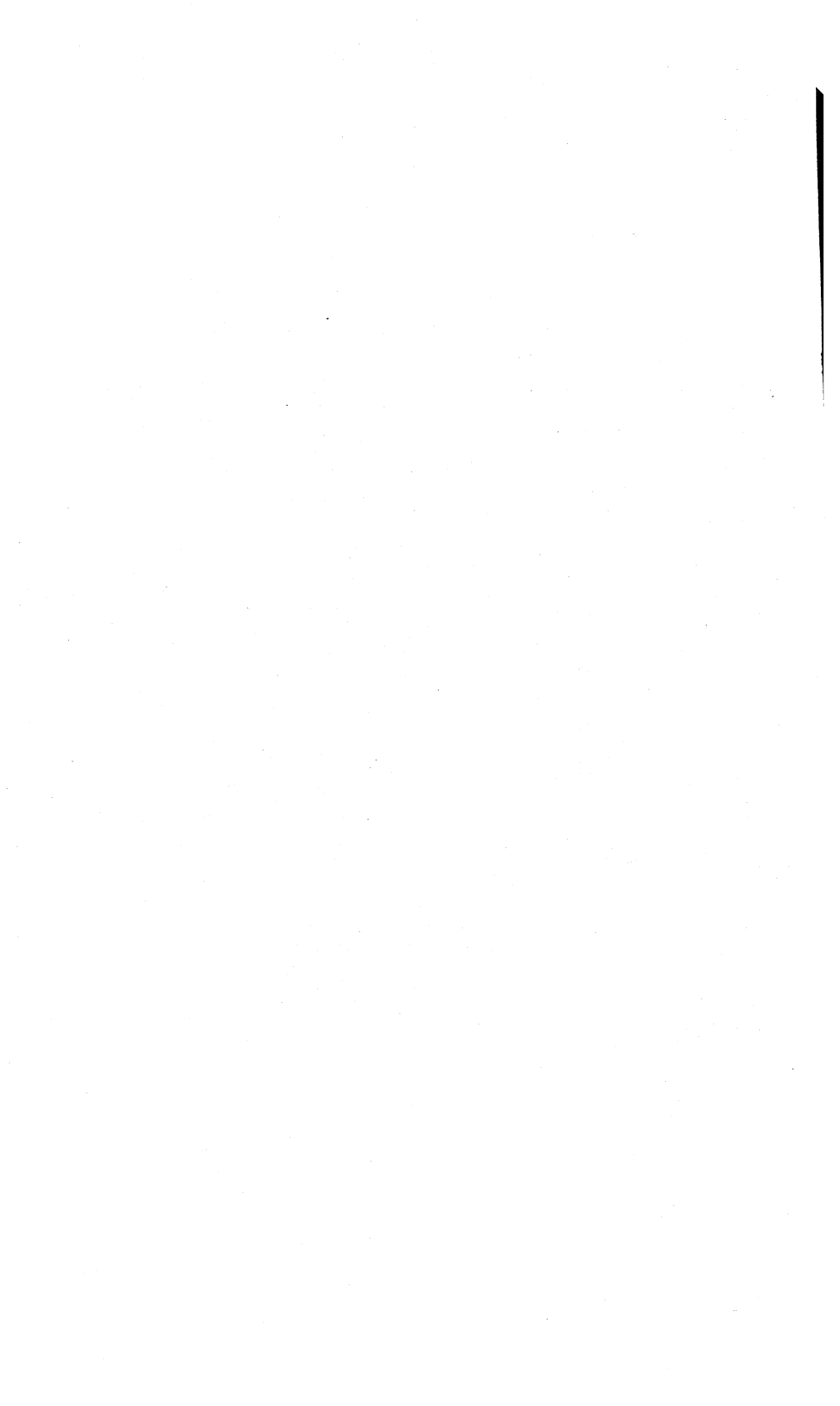
Mr. Gettys with Mr. Hansen of Idaho.
Mr. Gallagher with Mr. Erlenborn.
Mr. Moeller with Mr. Curtin.
Mr. Meeds with Mr. Dickinson.
Mr. Taylor with Mr. Harvey of Michigan.
Mr. Stratton with Mr. Wydler.
Mrs. Sullivan with Mr. Wyatt.
Mr. Hicks with Mr. Findley.
Mr. Helstoski with Mr. Chelf.
Mr. Abbitt with Mr. Mackie.
Mr. Davis of Georgia with Mr. Madden.
Mr. Corman with Mr. Nix.
Mr. Colmer with Mr. Gray.
Mr. Dulski with Mrs. Griffiths.
Mr. Flynt with Mr. Resnick.
Mr. Fulton of Tennessee with Mr. Randall.
Mr. Hébert with Mr. Halleck.
Mr. Kirwan with Mr. McCulloch.
Mr. Delaney with Mr. Morton.
Mr. Hollifield with Mr. Belcher.
Mr. Kornegay with Mr. Broyhill of Virginia.
Mr. Miller with Mr. Stafford.
Mrs. Kelly with Mr. Reinecke.
Mr. King of California with Mr. Michel.
Mr. Steed with Mr. McEwen.
Mr. Lennon with Mr. Ellsworth.
Mr. Smith of Virginia with Mr. Devine.
Mr. Sikes with Mr. Del Clawson.
Mr. Schmidhauser with Mr. Anderson of Illinois.
Mr. Rostenkowski with Mr. Robinson.
Mr. Albert with Mr. Frelinghuysen.
Mr. Abernethy with Mr. Bray.
Mr. Aspinall with Mr. Moore.
Mr. Carey with Mr. Smith of New York.
Mr. Cooley with Mr. Talcott.
Mr. McFall with Mr. Clarence J. Brown, Jr.
Mr. Matsunaga with Mr. Glenn Andrews.
Mr. Dyal with Mr. Nelsen.
Mr. Moss with Mr. Maillard.
Mr. Watts with Mr. Harvey of Indiana.
Mr. Ewins of Tennessee with Mr. Hall.
Mr. Mackay with Mr. Davis of Wisconsin.
Mr. Daddario with Mr. Halpern.
Mr. Leggett with Mrs. Dwyer.
Mr. Kluczynski with Mr. Edwards of Alabama.
Mr. Senner with Mr. Keith.
Mr. Sisk with Mr. Minshall.
Mr. Rooney of New York with Mr. King of New York.
Mr. Rogers of Florida with Mr. Stanton.
Mr. Barrett with Mr. Bow.
Mr. Moorhead with Mr. Berry.
Mr. Olsen of Montana with Mr. Andrews of North Dakota.

Mr. MACGREGOR changed his vote from "yea" to "nay."

Mr. MIZE changed his vote from "present" to "nay."

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.



SECTION 30

SENATE FLOOR DEBATE ON CONFERENCE REPORT

(From the daily Congressional Record)

1913

[October 21, 1966]

[P. 27277]

FOREIGN INVESTORS TAX ACT OF 1966—CONFERENCE REPORT

Mr. LONG of Louisiana. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill, H.R. 13103, to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investments in the United States. I ask unanimous consent for the present consideration of the report.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The assistant legislative clerk read the report.

(For conference report, see House proceedings of Oct. 19, 1966, pp. 26665-26667, CONGRESSIONAL RECORD.)

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that I may withdraw that request temporarily.

The PRESIDING OFFICER. Without objection, it is so ordered.

[October 22, 1966]

[P. 27575]

THE PARLIAMENTARY SITUATION

Mr. MANSFIELD. Mr. President, before I ask that the Journal be considered as read, I should like to make a brief statement about the events on yesterday.

The ACTING PRESIDENT pro tempore. Is there objection? The Chair hears none.

Mr. MANSFIELD. As the Senate knows, a number of conferences were held yesterday in my office, in the Vice President's office, which we usurped for the moment, and in the cloakroom. At those conferences were the distinguished and able Senator from Tennessee [Mr. GORE]; the distinguished and able Senator from Louisiana, the chairman of the Finance Committee [Mr. LONG]; the distinguished and able senior Senator from Delaware [Mr. WILLIAMS]; the distinguished and able Senator from Rhode Island [Mr. PASTORE], and from time to time other Senators. "The purpose of these meetings was to discuss the conference report on the foreign investors' tax bill, which had passed the House and Senate, which had gone to conference, which had been agreed to, as far as the conference report was concerned, by the House, and which was eligible for immediate consideration on yesterday by the Senate.

On yesterday morning, the distinguished chairman of the Committee on Finance the Senator from Louisiana [Mr. LONG], who has been most considerate and understanding throughout all this, called up the 7-percent investment tax

bill; and when that was agreed to by the Senate and sent to the White House, he called up the conference report on the Foreign Investors' Tax. At my request, he withdrew his proposal, which was perfectly in order; and, at my further request, he allowed a number of other bills and conference reports to be considered while attempts were being made to find out if there was any area of agreement between the differing parties on the foreign investors' tax legislation.

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I must admit, Mr. President, that I put in 6 of the most exhausting hours of my life, and certainly the 6 toughest hours during my service in the Senate. The end result, despite evidence—sound evidence—of some give and take, was absolutely nothing. Because of that, we will be faced with a situation which may well keep the Senate in session for some time, I am deeply and personally sorry to say.

I know that the Senator from Tennessee [Mr. GORE], the Senator from Louisiana [Mr. LONG], the Senator from Delaware [Mr. WILLIAMS], and the Senator from Rhode Island [Mr. PASTORE] feel just as deeply and personally regretful about this development as I do. But, because of the fact that there was no area of agreement, despite the fact that some most substantial concessions had been offered by the distinguished Senator from Louisiana, the chairman of the Finance Committee, there was no possibility of agreement; and last night I sent telegrams to all Democratic Members requesting their presence today.

I am happy to report that, on the basis of the evidence which we have accumulated today, if we do not have a quorum at the moment, we will have one by 12 o'clock.

I see, also, the distinguished secretary for the Democratic conference [Mr. SMATHERS] in the Chamber, who likewise participated in some of these conferences, and I want to give him full credit, also.

I feel especially sorry for those Senators who are running for reelection. Many of them are coming back. Some of their colleagues, who are not running for reelection, will be a little late in arriving.

I want to express, on the floor of the Senate, my deep and personal appreciation to the distinguished minority leader, who is now in Walter Reed Hospital, and who of his own volition called me on yesterday and said that if we needed another body, he was ready, able, and available. We will not call on him, nor will we call on certain other Senators nearby, because of events which have happened in their families.

But I do want to say, Mr. President, that I have nothing but admiration and affection for the distinguished Senator from Tennessee. He is exercising his

rights as a Senator; and while it may cause some inconvenience to the rest of us, nevertheless, I have nothing but praise for his tenacity, his determination, and his belief that what he is doing is the right thing to do.

By the same token, I have just as much, if not a little more, praise for the distinguished Senator from Louisiana [Mr. LONG] who found himself in the dual capacity of being the deputy majority leader, trying to bring this Congress to a close, and, on the other hand, being the chairman of the Finance Committee, in charge of a bill which had passed both bodies, which had been agreed to in conference; and the conference report itself had been agreed to in the House. I want to express my deep personal thanks for the understanding he has shown, and to say that on yesterday he showed a great deal more leadership and understanding than did the Senator from Montana.

I also thank the distinguished senior Senator from Delaware [Mr. WILLIAMS], who is opposed to the conference report and intends to fight it and speak against it. He has always, and especially in this case, been most considerate and understanding and very helpful in trying to work a way out of the impasse in which we find ourselves.

I am also deeply grateful to the distinguished senior Senator from Rhode Island [Mr. PASTORE] who participated actively in these discussions and who is fully aware of the situations which developed, the possibilities which were considered, and the conclusions which were reached. I cannot thank him enough for the courtesy, the consideration, and the kindness which he has shown toward the Senator from Montana, because he, likewise, is in a particularly difficult spot after having had his supplemental bill passed by the Senate, agreed to in conference, and ready to be taken up on the floor. It is a bill which is very important. It has to do with funds for education, for veterans, for health, and other related matters, and which will not be forthcoming until the supplemental bill is passed.

I am aware of the situation which confronts this body at this time. Some of us have personal problems, others have election problems, and every Member, I am sure, has had to cancel engagements of some degree of significance. That is all right. We are paid to be Senators. We are paid to be on the job, and every Senator involved in this situation is acting within the rules and regulations of the Senate. I find fault with no one for what is being done, but I did think that this situation should be brought to the attention of the Senate and the public so that the cards would be laid on the table. Every time we have meetings of the sort we had yesterday, rumors and innuendoes and things of

that sort spread and it is better that what can be done be done in the open, what can be said be said for all to hear.

We are in for a long session before we adjourn. I only express the hope that enough Senators will remain on hand so that we can attend to the business and vote this matter up or down.

I think that the Senator from Tennessee [Mr. GORE] is entitled to and will give this body a full explanation. I know that, being the man of honor and integrity he is, he will operate within the rules and regulations of the Senate and will keep me informed, insofar as he can, of what he intends to do, as he has done thus far, and I, in turn, will do my best to keep him informed of anything I intend to do before it is done.

Again, I am most sorry for those who have difficult campaigns and who have come back, or are on their way back, but I am deeply appreciative to them for what they are doing.

I now yield to the Senator from Ohio [Mr. LAUSCHE].

Mr. LAUSCHE. What is the reason that we cannot take up the supplemental appropriation bill first, on which there is general agreement, and then take up the controversial issue which seems to block us?

Mr. MANSFIELD. The reason is a practical one. I hope—and I stress the “I”—that we can keep enough Senators here so that we can pay proper attention to both of these bills, because both of them are important.

Mr. PASTORE. Mr. President, will the Senator yield?

Mr. MANSFIELD. I yield.

Mr. PASTORE. I want to say to the distinguished leader that no one has been more inconvenienced by the tactics being employed, and I use the word “tactics” advisedly and with no meanness, than has the Senator from Rhode Island. As a matter of fact I stayed up nights reviewing the record made on the appropriation bill, both on the floor of the Senate and in the House, so that I would be prepared and be able to expedite the adjournment of this Congress sine die, and so that I would not be held at fault because of delay on the part of our subcommittee.

We held hearings on the supplemental appropriation bill under strenuous and pressing circumstances. We came to the floor, and the Senate was very cooperative. We passed a bill in a very short time. We went to conference and resolved all of our difficulties.

I want to say to the distinguished leader that even I suggested to him the possibility of bringing up the supplemental appropriation bill before we discussed the foreign investment bill, and he explained his position well and explicitly to me. I realize the realities of the situation. If we passed the supplemental bill we could not get 20 Senators back to pass this other important bill.

Mr. MANSFIELD. Or to defeat it.

Mr. PASTORE. I realize that.

I paid my price. I do not know how many engagements I had back home. I have been inconvenienced, too. The trouble with the majority leader is that he is too genteel; he never pushed anybody; he never pressed anybody, he never raised his voice to anybody, and he has always gone that extra mile to be chivalrous and a gentleman.

There is not a blessed thing in this bill holding us up that has not been considered and voted by the Senate. We are entitled to a second look but we have to take into account the interest and comfort of other Members of this body, and the fact that there are a lot of Members here in marginal States where it is absolutely necessary for them to go back home and fight the battle that needs to be fought so that they may return to Congress in January.

If the bill that is holding us up contained anything that was added by the House, I think we would have every right to say we never considered that matter before, and you could stay here and delay and delay and delay, and you would be right in doing so.

I understand the matters that are the bones of contention, and I voted against the bill.

Mr. MANSFIELD. And so did I.

Mr. PASTORE. I understand the matters that are bones of contention are matters passed upon not only by the

[P. 27577]

committees, but also voted upon on this floor and overwhelmingly passed. This is nothing new.

The people who are holding up the Senate knew that there was a lack of a quorum yesterday afternoon. While the majority leader said that it is within every Senator's right to exercise his prerogatives—I am not critical of that—this is most unfair to the men who are struggling to be reelected and have to be carried all the way across the country to say, "I am present," because when the smoke clears from the battlefield, whether it is tonight, whether it is next week, or whether it is next month, the situation that exists today will be the same situation: that conference report is going to be approved as it is. I know that just as sure as the Lord made little apples.

That is all I have to say. No one is suffering more because of this than is the Senator from Rhode Island. We were ready to go last night. I would hope that the Senator will keep us here around the clock until we vote to adjourn sine die.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. MANSFIELD. I yield to the Senator from Oregon.

Mr. MORSE. Mr. President, I want to say in the very tense moments in the

Senate that we ought to pause a moment to appreciate our blessings. One of our great blessings, to which I call attention, and a great source of inspiration for all of us, is to see a man with us today who, I suspect, should not be with us for his own good—the fact that the Senator from Arizona [Mr. HAYDEN] is back.

The Senator from Arizona is a veteran of many battles, over the years, such as the one we are now confronting. His presence here should stimulate us this morning as we seek to get together to resolve the parliamentary situation which confronts us.

I am sure that the Senate wishes to join me in expressing that view, when we welcome our very dear friend the Senator from Arizona back to the Senate this morning. [Applause.]

Mr. HOLLAND. Mr. President, I realize that there are Senators on both sides of the aisle who have a critical need to be home campaigning.

Heretofore, I have never supported all-night sessions, or continuing sessions, but it seems to me, in simple justice to the many Senators on both sides of the aisle who have critical problems at home which require them to be there, that we should terminate this business, whether it go one way or the other—and I am not committed on either side—and do it as quickly as possible.

I hope that the distinguished majority leader will depart from his normal practice and keep us here, all night if necessary, and for such time as may be necessary tomorrow, until we can get through with this business.

I remind the majority leader that this is a matter on which no amendments can be offered. It is a matter on which two speeches on an issue are involved. It has application to a matter on which we can come to a head one way or the other and which can be disposed of in a brief time.

I think that in justice to the many Senators running for reelection and the difficult races which are confronting some of them, we should dispose of this matter in the shortest possible time.

My own strong recommendation—and this is a departure from everything I have done heretofore—is that we should stay here continuously until we dispose of the business before us. This may call for a Sunday session—I hope not—but I think we should get rid of this business and let Senators who have critical problems of campaigning go home and get back into the business of campaigning.

I hope that the distinguished majority leader will depart from his normal practice for the reasons which I have mentioned.

Mr. MANSFIELD. Let me say to the Senator from Florida that that matter is being given the utmost consideration.

Mr. LONG of Louisiana. Mr. Presi-

dent, I offered to yield everything in the bill that was my handiwork.

Not only in my judgment, but in other judgments—those of the Secretary of the Treasury and of many of his assistants, and I think I could confidently say in the judgment of the President—the proposal to finance presidential campaigns by a \$1 designation from every taxpayer is the best thing in the bill. It is the best thing we will have done in years for good government. It will avoid the necessity of either party having to be dependent upon large contributions from corporation executives in order to present properly their case before the people and to be heard in political campaigns.

I offered to yield on that. I am not offering any more.

I am through bending the knee, Mr. Leader.

Mr. MANSFIELD. I think the RECORD should explicitly show that the Senator from Louisiana did that. He did offer to yield on the campaign contribution amendment, which we all know is very dear to his heart.

Mr. LONG of Louisiana. I would have been willing to yield on everything in the bill which was my own handiwork, even as Senator in charge of the bill and as chairman of the committee from which the bill was reported. But, I have no right to yield on things which the Senate and the House of Representatives care to do.

I did not vote for H.R. 10, but the House agreed to it by a unanimous vote. The House is determined that that matter should go to the President for his signature. I have no right to yield on that—none whatever. The House would not let me do that if I tried, and I do not think I could obtain unanimous consent if I did try.

I am not going to bend my knee any longer. We can vote one way or the other on it.

I appreciate the kind consideration which the majority leader has given me, as well as others.

I approve completely of the right of every Senator to do what his conscience tells him is right. I point no finger of scorn at anyone who would filibuster on a conference report. I have done it myself. I have held the Senate in session for 3 days past midnight. But, I repeat, I do not point the finger of scorn at others. They have that right and that privilege.

All I want is the right to have the power of the majority exercised to bring this matter to a vote. I know that no matter how long I spoke against a bill, the Senate always worked its will.

Mr. GORE. Mr. President, first, I wish to express my deep gratitude for the generous remarks of the able and

distinguished and beloved majority leader.

Next, I wish to express appreciation for his deeds of consideration and kindness.

Third, I wish to thank all of those who, individually and collectively, participated in the conferences yesterday, for the spirit of gentility which prevailed.

There is no animus in this issue, Mr. President. The senior Senator from Delaware [Mr. WILLIAMS] and I suggested several ways in which the public interest portion of the bill under question could be brought to enactment—and quickly, leaving the nonessential, unrelated, controversial, and questionable features of the bill to be dealt with in January—only a few weeks away.

I shall not detail the suggestions which the Senator from Delaware and I made, but there were many. There are ways yet available in which the foreign investors portion of title I of the bill can be sent to the President within the hour, and the Senate can adjourn by noon.

But, Mr. President, if the novel and bizarre provision in the bill, and the tax favoritisms in the bill are insisted upon at this late hour, then the Senator from Tennessee is duty bound to resist its passage.

Let me say that on day before yesterday, I made a statement with respect to the bill in the hope that the following morning Members of the Senate who were not present when I spoke, it being late in the afternoon, could read my remarks.

However, because of the pressure of business and the long hours in session, the CONGRESSIONAL RECORD was in two volumes. It was possible to print only one volume yesterday—the second volume not being available anytime during the day. I was ready to speak all day yesterday on the issue, if brought up. There was no opportunity.

It is with regret that Senators are called back. But, it is not the senior Senator from Tennessee who has provided that the Senate can operate only with a quorum. It is not the responsibility of the senior Senator from Tennessee that the bill, which was worthwhile in its original form, was loaded, or was brought here at this time. I have no voice in scheduling.

My duty is to support or oppose issues as they come to the Senate. It is, of course, a matter of disappointment when my sense of duty leads to the disappointment, the displeasure, or the discomfort of any other Member of the Senate. No one can regret that more than I, but conscience bound, I shall attempt, when I have the opportunity, to present the issues in this bill.

Instead of making a point of no quorum—which I have not yet done—I

would suggest that the clerk read the Journal of yesterday as our colleagues gather into the Chamber.

I thank the distinguished majority leader.

Mr. MANSFIELD. Mr. President, I am sure the Senator from Tennessee [Mr. GORE], with whom I have served in Congress for nigh onto 24 years—he has served longer than I—knows how highly I think of him and how much I appreciate his friendship and understanding, as I have down through the years, in this instance as in all the others.

It is true there were various proposals made yesterday by both the distinguished Senator from Tennessee [Mr. GORE] and the distinguished Senator from Delaware [Mr. WILLIAMS]. Those proposals were given every possible consideration. I was in touch with the chairman of the Finance Committee, on several occasions, to try to see if something could be worked out on the only matter which could be worked out, which the Senator from Louisiana has mentioned. That proposal was to drop the campaign contribution provision from the conference report and to have it accepted in the other body. On the other proposal made to drop H.R. 10, it was an impossibility. On the other suggestions there was no chance, because we would have too many roadblocks.

If there is a corporal's guard at the other end of the building I would be surprised, but I can say this: There will be no more conferences. We have received that word from the Speaker.

So we have a conference report before us. We have two choices, and we are going to make them. We will either adopt that conference report or defeat it, and I hope those who are opposing it will not be unduly harsh on those in this body. I hope they will avail themselves of every opportunity to express their viewpoints, and I am sure they will; but I hope, in good conscience, they, too, will recognize that there is such a thing as coming to the point of no return and will let Senators have a chance to vote their convictions. If the conference report is defeated, that is the end. If it is carried, that is the end. But it is going to be defeated or carried just as it is before this body at this moment.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. MANSFIELD. I yield.

Mr. WILLIAMS of Delaware. Mr. President, I took part in those conferences yesterday. I want to say I have never worked with a man who was more gracious or who worked harder to reach an agreement than the majority leader. I want to join with other Senators in paying respects to him.

As Members of the Senate know, when the bill was before the Senate, I opposed the so-called grab-bag amendments in

titles II, III, and IV and tried to have them deleted in the Senate. I was supported in my opposition to many of them by the majority leader as well as by other Members of the Senate, but not by enough, and so the bill was passed.

Recognizing that I had opposed the amendments that had been adopted by the Senate I stepped aside as a conferee because I did not think it would be proper to go to conference on the bill when I did not support the position of the Senate.

When the conference report was agreed upon earlier this week, I mentioned to the majority leader that when the report was brought before the Senate I wanted an opportunity to state my opposition before it was acted upon. He most graciously said he would not take it up until I was notified and had that opportunity. I appreciated very much his cooperation.

At the same time, while I told the majority leader that I wanted to express my opposition to the conference report when it came up I told him I was always able to express my opposition in a rather brief time, and that it would probably not take over 30 minutes. I repeated again yesterday that it was my intention to express my opposition to the conference report that I wanted a chance to express my opposition to it, that I did not care to have an extended debate and that I could express my opposition in a reasonable time.

Right or wrong, I have reasons why I believe this conference report should not be adopted, and I wanted an opportunity to express those reasons. That is all that I am asking for today.

In all fairness, I think it will be recognized that Members of the Senate have a right to express their views and exercise their rights under the rules of the Senate and take advantage of parliamentary situations. I suggest that we would proceed much more harmoniously if we could proceed without threats of a long session.

Why is there so much interest in laying aside an important bill dealing with financing the war in the interest of approving certain proposals that will benefit a handful of corporations in a special interest bill passed in the closing days of the Senate?

If the Senate, by a majority vote, wants to pass such a bill I shall go home and sleep as well as the rest of them, but I want a chance to outline what is in the bill and why I object to its enactment.

I shall not go into details at this time, but one particular point I want to bring out is, why, in the closing days of the session, does Congress propose to pass retroactively tax legislation benefiting one corporation by giving it a \$2 million retroactive tax reduction? I refer to the special provision in this bill benefiting the Harvey Aluminum. I want an answer to that.

I want to express my opposition to this proposal made in the closing days of the session. I shall not be unduly long but I will insist upon my right to be heard.

I repeat what I said earlier this week and what I told the majority leader yesterday. I will try not to take too long in expressing my opposition. I will try to be brief in giving my reasons, but I do want the Senate to have a clear understanding of what is in this bill.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. LONG of Louisiana. Mr. President, let me just make this point clear: The Treasury opposed approximately five amendments which the Senate added to this bill. The other 18 amendments were either things the Treasury thought provided more equity for taxpayers, or were matters to which the Treasury had no objection whatever, feeling that they were problems which it would be well for Congress to resolve.

The conference modified the five amendments Treasury had opposed so that the Treasury objections were met in every way that the conference thought it could compromise. We were so successful that the Treasury now strongly supports this bill. It feels it is a very good bill, providing more equitable tax treatment for the many taxpayers affected. There is only one thing now in the bill to which Treasury strongly objects as a tax proposition, H.R. 10, the amendment which provides a large tax deduction for self-employed people. This will help doctors, lawyers, accountants, and other self-employed people.

Mr. President, I agree with the Treasury position. But it has passed the House by a vote of 291 to 0. I did all I could to defeat the measure as did the majority leader. The Treasury itself made a determined effort led by the Secretary, the Under Secretary, and the Assistant Secretary. Notwithstanding all pleading with Senators we failed, it passed the Senate by a margin of eight votes. In view of this history, I say it is the will of the Senate; and it is the will of the House.

That is the only thing in the bill that Treasury thinks is not good tax legislation. Mr. President, the Treasury Department, as I am, is prepared to admit that sometimes we in the minority have to recognize that the majority has a right to legislate.

The Senator from Florida [Mr. SMATHERS] thinks it is a wonderful amendment. He has been working for it for many years. The Senator from Louisiana does not agree. But when the House votes 291 to 0, together with a majority of the Senate, we have no right to tell them they cannot legislate.

Mr. SMATHERS. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. SMATHERS. Will the Senator not agree that there has never been a piece of legislation more cussed, discussed, debated, written about and held up to the light of public scrutiny, than that provision known as H.R. 10, which would establish the right of self-employed people to set up pension plans for themselves, and given the same right as millions of men and women employed in the business community. Whether you agree with it or not, it has been discussed, and everyone knows all about it—and has known for many, many years.

Mr. LONG of Louisiana. That item has been discussed pro and con, it has been held up to more opprobrium on one side and more approval on the other, than any other feature of the measure. But when the other body votes the way it has, it is beyond our ability to change.

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Mr. MANSFIELD. The only trouble with H.R. 10 is that it gives the poor working stiff, who really needs it, no help.

Mr. LONG of Louisiana. I am against H.R. 10.

Mr. MANSFIELD. So am I.

Mr. LAUSCHE. Did the Senator vote against it?

Mr. LONG of Louisiana. Yes, I voted against H.R. 10. I spoke against it.

Mr. LAUSCHE. Will the Senator yield to me for a moment?

Mr. LONG of Louisiana. The majority leader has the floor.

Mr. MANSFIELD. I yield first to the Senator from Florida. Then I shall be happy to yield to the Senator from Ohio.

Mr. SMATHERS. Mr. President, I should like to say that H.R. 10 is not designed to take care of the poor as such. We have hundreds of programs from welfare to poverty programs which are calculated to take care of the poor. I have supported, sponsored, and voted for those programs—we have not had one to provide the same opportunities for retirement for the self-employed.

Mr. MANSFIELD. Not like H.R. 10.

Mr. SMATHERS. I disagree with the majority leader. There is no purpose served in debating the matter again at length, but if you are the president of the largest corporation, or any corporation that wants to provide a pension for its employees, you can set aside tax-free, for yourself and members of your family, and your employees as much as \$50,000 a year for one individual, and it is tax free. This exemption for the self-employed is limited to \$2,500 a year, and is designed for the self-employed people. And it is not as generous as any of the present pension programs already approved by the Treasury. More than that, it requires that the self-employed establish a pension program for their

employees who are now uncovered—and number about 15 or 20 million. Indeed these employees cannot, in the greatest stretch of imagination, be called rich people.

I love the majority leader. I respect his objectivity. I think he is fair, and I admire his patience and diplomacy. But I completely disagree with him on the statement that H.R. 10 does not provide for the poor stiff.

Mr. MANSFIELD. The poor working stiff. [Laughter.]

Mr. SMATHERS. The poor working man. Actually, the farmer—the individual, self-employment farmer, the barber, the small grocery operator, and others—for the first time, will be able to provide for himself and herself a pension, something he was never before able to obtain. He contributes all the money himself—no one adds anything to his pension. But we allow him to lay this money aside for his old age—tax free.

This was the whole argument. This is why a majority of the Senate and the House voted for it, and all the conferees.

But the matter has been debated up and down and back and forth. The Senator from Rhode Island put his finger on it earlier when he stated that these matters have all been discussed and voted on. Nobody has sought to bring anything in here on a dark night, under cover, and not been willing to discuss it. All these matters have been debated in public for all to see.

Mr. MANSFIELD. Of course, they have.

Mr. SMATHERS. They have been discussed and argued back and forth in our committee, on the floor of the Senate, in the House, in the House committee, and in conference; and the majority of Congress has apparently had its say. There are a few people who apparently disagree with that position. They have the right to disagree, but now they want to follow every stratagem and tactic available—as they have the right to do—in an attempt to defeat it. But I think the majority will ultimately prevail, if we will stay here and do our duty and vote.

Mr. MANSFIELD. We will. But let me say that the Senator from Montana, notwithstanding his position on any measure, accepts the will of the majority, whether he likes it or not. As far as I am concerned, it is in and will stay in, and be a part of this bill.

Now I should like to end my personal filibuster but first I shall yield once more to the distinguished Senator from Ohio.

Mr. LAUSCHE. Mr. President, earlier I put the question, why can we not take up the supplemental appropriation bill, upon which there is general agreement, and after that has been decided, take up this foreign investment bill?

The answer to that question was that if we dispose of the supplemental appropriation bill, no one will pay any attention to the foreign investment bill.

Mr. MANSFIELD. Not at all. The Senator is incorrect.

Mr. LAUSCHE. That was implied in the answer.

Mr. MANSFIELD. Mr. President, the Senator from Ohio now and again, as we all do, makes statements which call for correction, and this is one. That statement was not made.

Mr. LAUSCHE. Well, the statement implied that there would not be a quorum present.

Mr. MANSFIELD. Exactly. That is correct.

Mr. LAUSCHE. I submit that in principle there is not much difference between the two. That means, Mr. President, that there is no faith nor desire to pass this foreign investment bill.

It was not the Senator from Montana who yesterday motioned up the foreign investment bill before the supplemental appropriations; it was the Senator from Louisiana.

Mr. MANSFIELD. And he withdrew it at my request.

Mr. LAUSCHE. But insist that it be brought back prior to the bringing up of the supplemental appropriation bill.

Mr. MANSFIELD. Will the Senator yield right there?

Mr. LAUSCHE. Yes, I yield.

Mr. MANSFIELD. Is the Senator aware of the fact that had the Senator from Louisiana desired to do so, he could have held up four other bills, because his matter was privileged at 10:30 yesterday morning?

Mr. LAUSCHE. Yes, I understand that. But the point I am trying to make, Mr. President, is that I cannot subscribe to a procedure which contemplates taking up, in advance, what seems to be an unacceptable bill, and holding in abeyance a bill that is important to the Nation, and upon which there is no disagreement.

Mr. MANSFIELD. Mr. President, may I say, before I ask that the Journal be considered read—

Mr. LAUSCHE. May I finish my remarks?

Mr. MANSFIELD. Oh, I thought the Senator had concluded. Surely.

Mr. LAUSCHE. The Senator from Louisiana, in discussing the merits, urged that Senators should vote for it because it contained provisions to take care of the aged.

That was the argument that was made, and that was the argument that was intended to overpower the thinking of the Members of the Senate. That provision is now out. All that is left are these very controversial provisions.

I desire to make one remark before I close. Tomorrow the Nation will be honoring in final words the great services rendered by the late Harry Byrd as a Member of the Senate. He was chairman of the Committee on Finance. Respect will be shown to him because of his

courtesy to his fellow members of the committee and his fidelity to service to the country. Not one implication will be made that he used his chairmanship to promote what was of interest to his State and of unconcern to the people of the country.

Mr. President, I think the time is today to serve notice upon the chairman of the Committee on Finance that as chairman of that committee he has an obligation to the Nation not to promote what is of special interest to his State.

Mr. MANSFIELD. Mr. President, I think I have yielded enough. I would hope that the Senator from Ohio would be a little more considerate in his remarks, because on occasion I have listened to him wound Members of this body, singly or the body collectively. I know he does not really mean to do so, because I feel that he believes, as I do, that every Member of this body is a Senator in his own right.

I do not doubt the integrity of any Member of the Senate, on either side of the aisle, either directly or indirectly. If there is any question about a Senator's standing or his integrity, he should be called before the bar of this body. I would hope that Senators would be a little more understanding of their fellows and recognize that all of us are here not because we are great men, but because, by and large, we happen to be lucky and were elected at the right time because of a certain set of circumstances. There are far smarter people back in all of our States than any of us, and we know it.

So let us recognize the fact that we are human beings and that we are each trying to do his job in the best possible fashion in the interest of the State and Nation.

That is all I have to say.

Mr. LAUSCHE. Mr. President, I am speaking, of course, about oyster shells and clam shells. How did they get into the bill?

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Mr. MANSFIELD. When it comes to projects such as the Hungry Horse Dam, the Yellowstone or Libby Dam on the Kootenai River in Montana, I am right in there with everybody else. When it comes to Montana, it is going to be my number one interest all the time because I would not be back here if the people of Montana had not sent me back here.

I am first and foremost a Senator from the State of Montana and that is true of every other Senator with respect to his own State. I think that what is good for my State is good for the United States. I find no difference between the two, and I do not ever intend to.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. LAUSCHE. Mr. President, may I finish?

The PRESIDING OFFICER. The Senator from Ohio may proceed.

Mr. LAUSCHE. Mr. President, in conclusion I cannot subscribe to the program of bringing up the foreign investment bill first and the supplemental appropriations bill second.

Mr. MANSFIELD. Mr. President, will the Senator yield?

Mr. LAUSCHE. I yield.

Mr. MANSFIELD. Mr. President, the Journal of yesterdays' proceedings shows that the supplemental conference report did not come to the Senate until 6:02 p.m. just as we were ready to adjourn last night. That is when it was received from Mr. Harris. The foreign investment bill was received in the Senate at 9:03 a.m., yesterday morning.

Mr. President, I yield to the Senator from Louisiana.

Mr. LONG of Louisiana. Mr. President, I say to the Senator that I am not going to return these insults in kind. Sometimes these insults pass from Senator to Senator when people get carried away with their own self-righteousness.

As much as I want the bill, as hard as I have worked on it, and as hard as the House, the Senate, the President, and the Secretary of the Treasury have worked on the bill, which is a good bill, I do not think enough of the bill to have a mutual heart attack with anybody. As far as I am concerned, I will just debate the bill.

Sometimes, when intensely fighting a bill, I have inferred that someone was corrupt because he was supporting the bill. I have later found it necessary to offer my most contrite apologies for my action. The rules do not permit such action and I will not engage in it.

If somebody wants to insult me, let him go ahead and I will try to let it roll off my back like water off a duck's back.

Mr. KUCHEL. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. KUCHEL. Mr. President, I want the Senate to know that as far as I am concerned, and I think I can speak for the minority leader, we approve the procedure suggested.

I wonder if it would be helpful, since it has been said that there would be a quorum call in an hour or two, if the majority leader would consider asking the Senate to approve a unanimous-consent request to vote on the matter 6 hours after a live quorum has been obtained.

Mr. MANSFIELD. Mr. President, I would be delighted to do so, but I think it would be a futile gesture.

I have raised the suggestion and been turned down in no uncertain terms.

In response to a question that has been raised by the senior Senator from Delaware [Mr. WILLIAMS], there will be no power play; nothing will be done outside of the rules and ordinary procedures of the Senate.

THE JOURNAL

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the reading of the Journal of the proceedings of Friday, October 21, 1966, be dispensed with.

The ACTING PRESIDENT pro tempore. Is there objection?

Mr. GORE. Mr. President, reserving the right to object, and I shall not object, I wish to contribute briefly to an understanding of the program.

As I understand the program, after the Journal has been read and the morning hour concluded, the distinguished chairman of the committee will call up the conference report. Thereafter, as is appropriate, the senior member of the committee will respond.

It is then the right of the senior Senator from Tennessee to insist that the Journal be read. Because of the conference report and the technicalities involved yesterday, that could consume a large portion of the day. I shall not insist upon that procedure.

I have sought to obtain a hearing on the bill. I am convinced, deeply convinced, that if a majority of the Members of the U.S. Senate would hear the views of the senior Senator from Delaware and of the senior Senator from Tennessee with respect to the non-public-interest portion of the bill, the conference report would be rejected.

A quorum is in prospect. I shall desist and listen to the presentation by the senior member of the committee, and then I shall seek recognition.

The PRESIDING OFFICER. Is there objection to dispensing with the reading of the Journal?

The Chair hears none, and it is so ordered.

FOREIGN INVESTORS TAX ACT OF 1966—CONFERENCE REPORT

Mr. LONG of Louisiana. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill, H.R. 13103, to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investments in the United States. I ask unanimous consent for the present consideration of the report.

The ACTING PRESIDENT pro tempore. The report will be read for the information of the Senate.

The legislative clerk read the report.

(For conference report, see House proceedings of Oct. 19, 1966, pp. 26665-26667, CONGRESSIONAL RECORD.)

The ACTING PRESIDENT pro tempore. Is there objection to the present consideration of the report?

There being no objection, the Senate proceeded to consider the report.

Mr. LONG of Louisiana. Mr. President, H.R. 13103 is the bill which the Senate passed on October 13, of this year.

The bill as passed by the Senate, and approved by the conferees contains four titles. The first title concerns the Foreign Investors Tax Act of 1966. The remaining titles relate to Internal Revenue Code amendments, the Presidential Election Campaign Fund Act, and other amendments, respectively.

Mr. President, as to the so-called extraneous amendments, permit me to say that the Constitution does not permit the Senate to originate revenue legislation. Senators well know that such legislation must originate in the House of Representatives. The Constitution says that the Senate may amend, and it does not limit how we may amend revenue legislation. We can put any amendment we wish on a revenue bill. But the Senate is bound to amend bills that were revenue bills when they came from the House, because that is the only way we can act on revenue bills. There is nothing new about this.

I think it is fair to say that every member of our committee and almost every Member of the Senate at one time or another has offered an amendment to a revenue bill. As chairman of the committee, my recollection is that the amendments have been irrelevant as often as they have been relevant.

For 2 years this Senator has been asking Senators to withhold their amendments. For example we asked them not to put them on the debt limit bill, because we wanted the debt limit bill to go directly to the President and to be signed into law.

Senators also were requested not to offer amendments to the excise tax extension legislation. There was a need for haste in passing that legislation so that people would know where they stood.

So we asked Senators to withhold their amendments until this bill came before the Senate, and at that time we indicated would consider their amendments. We followed this procedure. We gave the amendments our best judgment and voted on them.

So the newspaper accounts of this bill as being a Christmas tree is in poor taste. These are good amendments. As the bill comes back from conference there is only one fundamental objection the Treasury has to the bill. They do not like H.R. 10. In the past we have often added amendments to bills. My recollection is there were 212 amendments to the Revenue Act of 1964 of which perhaps 100 were important substantive amendments.

The bill as passed by the Senate contained 49 substantive amendments to the House bill. Your conferees receded on four of these amendments without change and two of these amendments with changes. In addition, the Senate conferees accepted amendments on six

of its amendments to which the House receded.

The two Senate amendments upon which your conferees receded with changes were the floor amendments offered by Senator Yarborough. These Senate amendments altered the provi-

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sions of the Foreign Investors Tax Act relating to the income and estate taxation of the bank deposits and the interest derived from those deposits of nonresident aliens and foreign corporations.

The effect of the Senate receding on those two amendments was to tighten up on the tax laws. In the future they will force foreigners to pay taxes they do not presently owe on income and on their estates.

The managers on the part of the House were willing to recede to 23 other Senate amendments made to the Foreign Investors Tax Act, but they insisted that this provision of the act contain the principles present in the bill as it passed the House. Although your conferees receded to the House provision, we were able to persuade the House conferees to extend the exemption of present law until 1973, which is 1 more year than that provided by the House bill. Therefore, the permanent exemption that would have been granted by Senator YARBOROUGH's amendments is to be continued until 1973. Moreover, postponing the date when these funds are taxed until 1973 will give Congress ample opportunity in the future to consider the impact of this provision on our balance of payments and on the gold flow. Should circumstances require, there will be plenty of time to reconsider the effective date of this provision. Your conferees receded on four amendments, one of which related to deductions of medical expenses of individuals age 65 or over.

Mr. President, next year we may well enact this provision. But the House conferees were adamant on it. It was an amendment offered by the Senator from Florida [Mr. SMATHERS]. It was a good amendment. But the House wants more time to think about this matter.

I have no doubt that after the House conferees have gone back to their people, in November or December—if they ever get there—and have an opportunity to discuss with the old folks, the increase in tax that the aged people will have to pay, they will return in January and go along with the Senate on this matter on which we had to recede. That was one of the most expensive items in the bill. It would have cost about \$180 million.

We also had to recede on Senator DOUGLAS' amendment to provide for coverage of expenses of certain drugs under supplemental medical insurance benefits. The House conferees said they will study this entire matter next year. In addi-

tion they will study a plan to increase social security benefits that would dwarf this proposal; and when the House sends us a social security bill, if we still wish to provide for drugs for the elderly we can provide them. We were told that it would take quite a while, probably more than a year, to work out the details of this matter, because it will be necessary to analyze the various drugs that would be provided to aged people and to determine how much should be paid for each one of the drugs when it is provided. The technical aspect of the matter, we were advised, would delay it for a long time.

Another amendment on which the Senate conferees receded related to social security benefits regarding certain illegitimate children. We were required to drop that item. The House will study it next year and see what they can do about it.

The fourth amendment on which the Senate conferees receded related to the minimum amount to be treated as earned income for retirement plans of certain self-employed individuals. The reason why we found it necessary to drop this amendment was that we took all of H.R. 10. That was offered by Senator HARTKE, on behalf of himself and Senator SMATHERS. The result was that all of H.R. 10 was agreed to by the House conferees. Therefore, this other amendment which had been put in by the Senate committee and which provided a small part of H.R. 10, was not needed.

The action of your conferees on this latter amendment was only technically a recession. It was necessary that we recede to this amendment since the benefits provided by it also were provided on a much more liberal basis in the Senate amendment which provided for the removal of the special limitations with respect to the deductibility of contributions to pension plans of self-employed individuals. This is the so-called H.R. 10 provision. The House accepted that amendment, as they well should, because the House had passed the bill unanimously.

Your conferees were most reluctant to recede on the amendment which would have provided the old folks with coverage of expenses of drugs under supplemental medical insurance benefits. Although I was not the primary sponsor of this amendment, I feel very personally the deletion of this provision from the bill. In my judgment, this is a benefit which should be granted to the old folks, and I believe that the only major obstacle which kept it off this bill was the question of its timeliness. The Senate should remember that the President recently announced that he will request legislation early in the next Congress which will provide increased social security benefits, the House conferees had just finished two strenuous days of discussion in the Ways and Means Com-

mittee regarding increased social security benefits, and, additionally, this is a time when we must hold down on Government expenditures.

As I indicated, the President plans to request legislation early in the next Congress which will provide increased social security benefits. As the chairman of the Committee on Finance, I think I can assure the Senate that we will reconsider this matter next year either in that, or in separate, legislation. I need only remind the Senate that this amendment was approved by almost all of the members of the Finance Committee, and it is my belief that these same votes will remain favorable when we reconsider this measure next year.

The Senate conferees also were most reluctant to come back from conference without the amendment removing the 3-percent and 1-percent limitations on medical expenses for those 65 and over. We fought long and hard for this provision but the House conferees simply would not yield. While I do not agree with them, their view is that the provision of benefits under part B of the medicare bill at Government expense compensated the elderly for this loss of deduction. I doubt very much whether this view will be generally accepted by the public, and I expect the House itself next year to send us legislation removing this limitation.

The Senate conferees accepted modifications to three of the Senate amendments dealing with depletion. The amendments accepted by your committee would delete from these provisions the features granting the depletion allowance with respect to processes not presently classified as mining processes. The two depletion amendments which relate to shale, clay, and slate used as a light-weight aggregate and clay and shale used in the making of sewer pipe and brick were altered by the conference to provide a minimum 7½-percent depletion allowance in these cases. This was in lieu of changing the processes treated as mining processes for these minerals.

Mr. President, in connection with that subject, I wish to point out that the Treasury Department usually disagrees with liberalizing depletion amendments. They recognize the validity of allowing cost depletion, but they have been critical of percentage depletion. As a policy, they consistently tend to say they do not want to expand percentage depletion in any field. But on these amendments as agreed on in conference, they said, as a practical matter, that for the most part justice and equity would indicate that the products involved should receive the treatment accorded by the amendments to equate them with the treatment received by competitive products.

Mr. President, much has been said

about oyster and clam shells. If those shells, which have been building up for perhaps a million years off the coasts of Louisiana, Florida, Georgia, Texas, Alaska and any other State that borders on an ocean or major body of water, are to be used in competition with limestone, it seems only fair that they get the same treatment as limestone. Moreover, these are dredged from the sea under leases from the Government. So they do have economic interests which are depleted.

The Treasury Department objected to any modifications of the principle of the Gore amendment, and won on this point. The Senator from Tennessee labored a number of years ago to see that depletion does not apply to a manufactured or finished product, but relates only to the value of the product before the application of any processes generally considered to be "manufacturing" as distinct from "mining."

The Senate conferees yielded on this matter of deleting any liberalization of the so-called "cutoff point." Unfortunately, not doing anything about the cutoff point for depletion, allowance, [P. 27582]

merely raising the rate will, I understand, be of little help in Georgia in making alumina from clay.

Minor modifications were also accepted by your conferees to the Presidential Election Campaign Fund Act. These amendments raised to 15 million the number of votes a party must receive to be classified as a major party. In addition the conferees raised from 1½ to 5 million the number of votes a minor party must receive to be eligible for a distribution under this fund. They also extended the application of this 5 million "deductible" rule to the major parties as well. In other words, no party, major or minor, is to receive any reimbursement from the fund for its first 5 million votes. With respect to the definition of major and minor parties, the amendments provide that a party must receive 15 million votes to constitute a major party and 5 million votes to constitute a minor party. The effect of these amendments is that a party will not qualify for a proportionate share of the fund unless it receives 15 million votes and it will receive nothing from the fund until its total votes exceed 5 million. Those receiving between 5 and 15 million votes in the last election, however, will continue to be eligible to receive \$1 for every vote they received over 5 million.

Mr. President, I drafted this proposal with the assistance of the Treasury Department, the staff of the Joint Committee on Internal Revenue Taxation, and our own fine staff of the Senate Committee on Finance. Much of the thinking that caused me to come up with this pro-

posal came from speeches made by the late Senator Richard Neuberger in the Senate when he would quote something that Theodore Roosevelt said over 60 years ago. Theodore Roosevelt said that the only way to have honest elections is for the Federal Government to find a way to help pay for the expense of a man running for the Presidency of the United States.

The Senator from Tennessee [Mr. GORE] carried on investigations in this field to point out the situation was bad. Practically the only source of financing for campaigns had to come from large corporation executives or labor unions, and it would be well if there could be another way devised.

While this proposal is not perfect, after having studied it and discussed it with people who have the responsibility of managing campaigns for the Republican Party and for the Democratic Party, I felt this would probably provide the money it would take to see that both campaigns are adequately financed so that both sides could make their case before the people.

This proposal would authorize every taxpayer to designate \$1 of his tax liability to be placed in a presidential election campaign fund. If he wanted to, he could designate that \$1.50 would go to pay for the Democratic campaign and 50 cents to pay for the Republican campaign. In other words it is financing of good government on a bipartisan basis. Every man elected would be equally obligated to everyone. **This is a clean election bill. It is a good-government bill.**

The President sent down his own election proposal that included a \$100 tax deduction provision. This item has appealed to Senators, including the great Senator from Delaware [Mr. WILLIAMS]. We studied it and the committee did not think it would reduce undue influence. But the proposal we approved would help prevent improper influence in Government because the money goes to both sides. It also does not give the wealthy, to whom deductions are worth more, a greater incentive to give than the less fortunate.

When someone runs for office and has to go hat in hand from one group of wealthy individuals to another, pleading for money to help finance the campaign, that candidate is not as free as if his campaign were financed equally by every citizen. Then he will not be obligated to any special group.

There has been discussions of amending the corrupt practices law. If we do pass such amendments, it is not necessarily going to clean up anything. It would compel people to find more sophisticated ways to finance their campaigns than they have to date. After all they must obtain the money from somewhere. The wealthy can finance their own cam-

paigns, but what about candidates of moderate means?

Here in the bill before us is a way to eliminate the need for those running for office to be under the compulsion of making a commitment they do not wish to make in order to get campaign funds.

A fraud provision was suggested for the presidential election campaign fund provisions. I thought about it and had our staff draft one up in case anyone cared to offer it. One was drawn up as tight as "Dick's hatband," but we think that there is no need for it.

Let me read the broad statute that would be applicable under present law, in any event:

§ 1001. Statements or entries generally.

Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than \$10,000 or imprisoned not more than five years, or both. (June 25, 1948, ch. 645, 62 Stat. 749.)

The provision before us provides that there is to be a bipartisan board composed of two Republicans and two Democrats, who will proceed to pick three other impartial men—So that the Republicans will watch the Democrats and the Democrats will watch the Republicans. Each party will watch the other party, to make sure that no one receives a distribution of a cent for funds not properly spent.

Every Democrat and every Republican has a responsibility to report on his own candidate and the other candidate, in case anyone uses any of the money improperly, so that every dollar of the campaign fund should be accounted for, both as it comes in and as it is expended.

Mr. MURPHY. Mr. President, will the Senator from Louisiana yield?

Mr. LONG of Louisiana. I am happy to yield to the Senator from California.

Mr. MURPHY. Is there presently a ceiling on what can be spent by the national committees?

Mr. LONG of Louisiana. I think there is one.

Mr. MURPHY. I think it is \$33 million.

Mr. LONG of Louisiana. I think it is \$3 million.

Mr. MURPHY. How would we appropriate the money, which, as I understand it, would go to the national committees? How would we get around that?

Mr. LONG of Louisiana. Mr. President, let me comment on the question of limitations on receipts of contributions and their expenditures by political committees.

The bill before us is carefully drafted in terms of "political parties," not "political committees." This was purpose-

fully done in order not to conflict with the limitation in the law.

The bill before us is also carefully drafted so that the amounts paid into the treasury of political parties do not become "contributions" which might make them subject to the \$3 million limit.

The special limitations on the amounts paid into the treasury of political parties under this bill were drafted in full recognition of the \$3 million limit.

We wrote our limitation in terms of amounts spent by a political party for two reasons. First, to make sure that it was different from the limitation now in the law, and second to provide an after-enacted limitation which would have to be interpreted apart from the \$3 million limit.

This special limitation in the bill, indeed the bill itself, has nothing to do with contributions at all. The purpose of the bill is to free presidential candidates from having to seek contributions—to free political parties from having to create a plethora of political committees in order to get around the \$3 million limit.

The \$3 million limit now in the law is not affected by this bill. It will continue to apply to the cases to which it applies today. However, it will not limit the disbursements made under the bill because these disbursements do not involve "contributions" and they are not made by "political committees."

Mr. MURPHY. In other words, this would wipe out the limitation which presently exists?

Mr. LONG of Louisiana. No, as I indicated I think this provision avoids any conflict with present law. Let me say that the limitation in present law doesn't work in any case. I will tell the Senator why.

Mr. MURPHY. I was not questioning whether it was a farce or a fraud. I just asked the question as to whether that would—

Mr. LONG of Louisiana. No, as I have said, this provision of the bill does not affect the limitation.

Mr. MURPHY. It does not affect the limitation?

Mr. LONG of Louisiana. Not in my judgment.

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The Senator from Tennessee [Mr. GORE] compiled a "best seller" on this subject. He did quite a bit of investigating on this subject. I wish I could be favored with a copy of it. Perhaps additional copies should be reprinted—I do not have one of them.

Mr. GORE. We have had that request.

Mr. LONG of Louisiana. I am having difficulty getting reprints. I should like to have a copy of the lists published in his document because inasmuch as it deals with private financing, I might find a few prospects myself when I run again for office.

The Senator from Tennessee has kindly handed me a list which he compiled of those who contributed to President Eisenhower's campaign and also to Adlai Stevenson's campaign. If the Senator will pardon me for saying it, I do not find it all here, I find about only half.

Mr. GORE. I think it is \$33 million.

Mr. LONG of Louisiana. \$33 million. I asked the Senator for an educated guess on what he thought President Eisenhower's supporters had spent in the Republican campaign, and how much he would guess Adlai Stevenson had spent. I must say that at that time the Democratic Party was the loser. We did not do too well. The Senator's guess, as I recall it, was that the Republicans spent about \$40 million in the campaign and the Democrats about \$12 million.

Mr. MURPHY. Does that include expenditure of union funds?

Mr. LONG of Louisiana. Union funds?

Mr. MURPHY. I am talking about the figure the Senator just quoted, \$12 million opposed to \$40 million.

Mr. LONG of Louisiana. It was the best guess of the Senator from Tennessee. The Democratic Party finds itself in the position of being for the poor man, the common man—so that it does not always have sufficient funds, which was true in that campaign.

With expenses going up, it was estimated that as an educated guess about \$52 million was spent by the two parties. I heard an estimate that in the last presidential election for all candidates, everyone running for office from constable up to President, about \$250 million was spent that year. I would assume that about \$55 million to \$60 million was spent in the Johnson-Goldwater campaigns.

Mr. MURPHY. Has there been consideration—because campaigns are sensitive to rising costs—to possibly using television?

Mr. LONG of Louisiana. Let me talk about that for a moment, because I think that the bill helps that. I will tell the Senator why. There is a provision in law which states that if a television network donates free time, it has to provide equal time for all. So that if President Johnson and the fine gentleman whom the Republicans will nominate for President at the next election, are put on television, the TV networks have to include the minority parties as well, unless the law is amended.

If we bypass those small parties, there would still be the problem that while it might be all right to request one big television network to provide equal time, it would seem to me to be unfair to require it of a little television station, because such a station would lose needed revenues by having to provide to other political candidates free time which it otherwise could have sold to paying sponsors.

The proposal before us, however, would provide that whoever could pay for time would pay for it, in order to present his case to the American people.

Mr. MURPHY. In other words, it would eliminate the smaller parties, and only those who had an allocation from the contribution of that dollar could use the air?

Mr. LONG of Louisiana. It would not eliminate them. They would have to finance themselves; the way they do now. However, funds are provided for minor parties when they have polled over 5 million votes in the last election.

Mr. MURPHY. Would it not be feasible to allocate time on the air instead of charging the American people \$1 apiece, and allocate the time on the air, which belongs to the people in the first place, on the same basis which the Senator suggests as to dividing up the money?

Mr. LONG of Louisiana. Well, the Senator—

Mr. MURPHY. This would eliminate the cost and save the taxpayer a dollar.

Mr. LONG of Louisiana. The Senator would simply make the television stations foot the bill. Does the Senator think it is fair to make a small television station lose money in order to make free time available, when the station could be using that time to make a few dollars to pay off its debts?

It seems to me it is better to provide both sides with money so they can buy time during the campaigns and make their case to the American people. The television station would be required to treat everybody the same way. Some of the small parties would have to finance themselves, but if they obtained 5 million votes they would get financial assistance from the fund. It has been suggested that this is discriminatory. But under the proposal as agreed on in conference, the major parties also will get no reimbursement for the first 5 million votes they garner.

I point out that there are all kinds of deductible items in the law. There is a \$100 deductible allowance for casualty losses; a deduction of 3 percent from the income with regard to medical expenses before any of these expenses are allowed; and a 1 percent deductible in the case of drugs. There are all sorts of exemptions and deductions.

Mr. MURPHY. There are so many and it is so confusing that I am afraid the poor, general citizen has no knowledge of them and needs an accountant, a lawyer, and specialist to tell him what his rights are. I do not know, and I consider myself a normal citizen. I have been around half a century. The longer I stay, the more complicated and confusing it all becomes. That is one reason why I question this part of the bill.

May I say that I voted for the bill, but as it comes back in the condition it was

returned, I would have to oppose the bill, because the most eloquent presentation the Senator made with reference to helping the poor folks get medicine was what persuaded me to vote for the bill, and that provision has disappeared.

Mr. LONG of Louisiana. I regret to say we could not hold that provision in conference. We expect to get it passed next year. I regret that it failed. But there were other provisions in the bill. There was the self-employed retirement provision, for example, in which doctors, lawyers, and other self-employed have been interested for years. This will help them in their old age when they retire. I have been opposing it, but there are so many good provisions in the bill that each Senator should be able to think that even though there might be one or two items in the bill with which he does not agree, there are enough good provisions that he should vote for it. I am not only interested in seeing that the poor man's party is put above improper influence, but I should like to see the Republican Party put above improper influence also.

Mr. MURPHY. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. MURPHY. Speaking of party, would this provision include deductions for members of the President's Club, or would that be a separate matter?

Mr. LONG of Louisiana. May I say that I am a member of the President's Club and proud to be, but I am not too happy about the \$1,000 a year it costs me. It is hoped that this provision would eliminate the need for such clubs. I would hope to get the support of many persons in and around Louisiana who now contribute to the President's Club. I shall be running at the same time the President is. It is always difficult to finance campaigns for Members of the Senate and of the House at a time when the President is running. But now he will have perhaps \$30 million to finance his campaign.

If a presidential candidate can obtain \$30 million to finance his campaign, maybe members of the President's Club, including myself, would be relieved of the \$1,000 contribution, and that money could go to finance the campaigns of candidates for the Senate and the House of Representatives. Some of us have great difficulty raising money to finance our campaigns.

Mr. MURPHY. That does not answer my problem. I ran at the time when everybody was talking about Goldwater and Rockefeller and I could not get anybody on the phone. I financed my campaign at the cost of a package of cigarettes for all of the people who voted for me in the primary. I recommend it.

Mr. LONG of Louisiana. Senators and Representatives do not have the terrible problem of financing a campaign that is presented to a man running for the Presidency.

With reference to the subject previously discussed of the penalties applying under present law, here is another stat-

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ute that is now on the books. This statute is so broad that it covers almost anything. Let me read it:

§ 1002. Possession of false papers to defraud United States.

Whoever, knowingly and with intent to defraud the United States, or any agency thereof, possesses any false, altered, forged, or counterfeited writing or document for the purpose of enabling another to obtain from the United States, or from any agency, officer or agent thereof, any sum of money, shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

So that provides for 5 years in jail and a \$10,000 fine. The Comptroller General would be responsible for checking into every single item of expense certified by the political parties under the proposal before us.

Someone has suggested that perhaps we could set standards as to how much should be spent in every single State. If anybody wants to work it out, I shall be glad to consider it, or we could have the staff work it out. But I do not think it is necessary, because no question is raised as to the percentage of the money raised by the people of New York, for example, as compared with Louisiana.

The remaining Senate amendments to which your conferees accepted changes were those dealing with swap funds and the provision requiring reports to clarify the national debt and tax structure. Changes made to this latter amendment are minor and represent changes suggested by the Bureau of the Budget to make the reporting system practical.

You will recall the discussion on the Senate floor with respect to swap funds. Under section 351 of the Internal Revenue Code, transfers of property to a corporation by one or more persons in exchange for stock in a corporation does not result in gain or loss if immediately after the exchange the person or persons in question are in control of the corporation. On July 14, 1966, the Treasury Department issued a proposed regulation indicating that the exchange of appreciated stock for shares in an investment fund where immediately after the exchange the persons who transferred the stock to the corporation are in control of it does not qualify for this provision. The Senate added an amendment to the bill providing that section 351 applied to corporate investment funds.

The conferees considered this provision at length and concluded that, at least at this time, they did not believe that stock or real estate investment funds should be eligible for this tax-free treatment under section 351. It was recognized, however, that in view of the past experience under this provision it prob-

ably would have been unfair to cut these funds off immediately. As Senators will recall from the Senate discussion in 1960, the Internal Revenue Service ruled that these funds did come under section 351, and while it is true that since that time they have refused to so rule, nevertheless, private tax counsel has so ruled for many funds since that time. In view of these considerations, the conferees provided that these investment funds should come within section 351 only with respect to transfers to stock to the funds prior to July 1, 1967. Moreover, funds required to register with the Securities and Exchange Commission under either of the two applicable laws, to be eligible for this treatment must file their registration applications with SEC by January 1, 1967; the prospective shareholders must have deposited their stocks with the fund by May 1, 1967; and the actual transfers must have occurred before July 1, 1967. Where registration application set a maximum dollar amount for a fund, this may not be revised upward after January 1, 1967. Any additional amount would not qualify for the tax-free treatment under this provision. This latter limitation, of course, applies only to those funds not already established.

I believe that the bill as revised by the conferees is a good bill and should be approved by the Senate.

I have a letter from the Secretary of the Treasury, who says this is a good bill and that it should be agreed to by the Senate. The Treasury Department did have some concern about some of the provisions in the bill as passed by the Senate, but they are satisfied with the conference agreement. The only provision they really take exception to is H.R. 10. The revenue loss of the bill as passed by the Senate was put at approximately \$470 million a year.

As we bring it back from conference, the cost of it is about \$80 million a year.

So the cost of this bill to the Treasury is only about 15 percent of what it would have been as passed by the Senate. The only very expensive item in the bill is the one provision, H.R. 10, the self-employed retirement provision. That provision, as I have stated, Mr. President, is something I have fought against for many years, and if it were here on its own merits alone, I would still be fighting it. But the House passed it 291 to 0. And in spite of my best efforts, all the arguments I could make, all the arguments the majority leader [Mr. MANSFIELD] could make, all the arguments the Secretary of the Treasury could make in talking to Senators, all the arguments the Under Secretary, the Assistant Secretary could make, and all the arguments that our staff could help us make, we simply lost. We did not have the votes to outvote them. So this

provision, which is of interest to doctors, lawyers, accountants, and other self-employed people, is still in the bill.

But the bill in its present form should at least be much less objectionable than the bill which Senators opposed when it was brought to the floor of the Senate, because every agreement in conference, and every action by the conferees, had the effect of reducing or eliminating the cost of something which those Senators who had opposed the bill did not want to do, anyway. So it would seem to me, Mr. President, that even Senators who voted against the bill originally would be well justified in voting for the conference report, because even if they did not like the bill originally, what we present here from the conference is much better, from their point of view, than what the Senate passed. If they were worried about the expense, this measure will only cost 15 percent as much as the bill we passed. If they are worried about some provision which might have given the Treasury a problem, the Treasury now feels, as a practical matter, that this is a fine bill, that it will help tremendously with our balance-of-payments problem, and it is one of the few things we will have passed in this Congress that will help our balance-of-payments problem. From the point of view of a number of people in the Johnson administration—and I say it would be fair to say this is probably an opinion shared by the President himself—this bill is even more important to the Nation than the supplemental appropriation bill which waits right behind it, which provides funds for almost everything. We have enough money on hand to operate the Government for a little while, but we have a very serious problem with our balance of payments, and need to do something immediately to help with that matter.

Most of the amendments retained in conference were amendments the Treasury was asking for, or did not oppose, because the Treasury Department felt that those matters involved fairness and equity, and followed the principle of treating all taxpayers alike and impartially. Therefore, Treasury wanted almost everything in this bill except for about five of our amendments; and the two that cost the greatest amount of money—that would have cost \$385 million out of the total \$470 million cost to the Government of this bill—the two that Treasury was most worried about because of their cost, we were compelled to recede on.

So Treasury feels it is a good bill, the President feels it is a good bill, the House feels it is a good bill by a 3 to 2 margin, the Senate voted for it by a vote of 58 to 18, and insofar as someone who does not like it is concerned, if there is some principle or some effect here that offends him, every compromise we made in conference moved in his direction, to make the bill at least less objectionable, I

think, and represented what he would have done himself if he did not like the bill to begin with.

Mr. President, I urge that the conference report be agreed to.

Mr. WILLIAMS of Delaware. Mr. President, I rise to object to the conference report. As I stated earlier, when the bill was before the Senate I was wholeheartedly in support of title I of the bill, that phase which dealt with the foreign investors' tax. As the bill was passed by the House and as title I, which dealt with that subject, was reported by the Senate committee, I felt it was a constructive proposal. I would have supported, and will support today, title I as it is before the Senate. That is supposedly the matter that is now before the Senate—the question of the Foreign Investors' Tax Act. But this bill has gone far afield. Yesterday it was suggested to the Treasury Department and to the leadership that we take title I of the bill and attach it to another bill which is presently on the Senate Calendar and which was reported by the Senate Finance Committee. This bill was reported unanimously by the Finance Committee and had the approval of the Treasury

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Department. It would be a very convenient vehicle. We could put title I in its entirety on that bill and sent it to the House, carrying these other so-called grab bag proposals over until next year for debate.

Mr. GORE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. GORE. Does the Senator believe that the public interest would be adversely affected by postponement of these nongermane amendments?

Mr. WILLIAMS of Delaware. I certainly do not. In fact, I think the public interest would be better protected if they were defeated. Certainly title I is all the administration was asking for.

As to the major amendments which are in controversy here, when the Treasury Department witnesses were before our committee they were unalterably opposed to each of those amendments. They described one of the amendments as the greatest loophole that had ever been proposed by the Finance Committee. That amendment, Mr. President, is in the bill before us now; and I regret to say that the Treasury Department has swallowed it, because they say, "Well, we will cut off this loophole after July 1, 1967, with the proviso that they must file their report with the Securities Exchange Commission by January 1." I do not question the motives of anyone who supports these proposals, but I do disagree with their conclusions.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. Just a

moment. I do not question the motives of the Treasury Department in this flip-flop. It is not the first time they have suddenly changed positions. I am not unmindful that in late August, the Secretary of the Treasury said he was unalterably opposed to suspension of the 7-percent investment credit, and 10 days later he was for it. He had a right to change his mind on that issue, and he has a right to change his mind now and ask for this bill.

I now wish to discuss some of the features in the bill to which I object and express my opinion as to why I think it would be better if it were not enacted at this time.

I yield to the Senator from Louisiana. Mr. LONG of Louisiana. Of course, the Senator is entitled to his opinion.

Those of us who voted for the swap fund amendment felt that if we looked at the law, we would find that the present law permits the tax-free transfer of securities to investment companies. The Treasury felt that this was something of a loophole, and wanted it to be closed. The Treasury proposed to close it by an administrative regulation; but it seemed to us that it ought to be done by law. We believe that Congress ought to act, rather than to have the Treasury act administratively. The Treasury is pleased that the conferees have closed the loophole affirmatively.

Mr. WILLIAMS of Delaware. I know that the Treasury is apparently pleased today to accept a proposal which only 1 week ago they denounced as the most glaring loophole ever proposed by Congress.

Mr. LONG of Louisiana. What we have before us is a different proposal. This is a proposal that the Treasury helped us to draft. The Treasury feels that it is a good proposal.

Mr. McCARTHY. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I shall yield in a moment.

The only change that has been made is that we have fixed the final termination date as July 1 of next year.

Mr. LONG of Louisiana. The SEC registration must be filed before January 1, 1967, and the funds must be deposited by May 1, 1967.

Mr. WILLIAMS of Delaware. Application must be filed in December but July 1 is the final date.

Mr. LONG of Louisiana. And cannot be amended to raise the amount.

Mr. WILLIAMS of Delaware. After January.

I shall discuss the merits of the proposal later. When the committee had this particular proposal before it, the representatives of the Treasury Department said it was a glaring loophole and even indicated that if that one amendment alone were in the bill, they would have to recommend its veto. But now we are told they are willing to accept it.

That is the Treasury flip-flop about which I am talking.

I now yield to the Senator from Minnesota.

Mr. McCARTHY. The Senator from Delaware keeps quoting the Treasury; but the Senator himself knows that it was not a glaring loophole. He knows better.

Mr. WILLIAMS of Delaware. I agreed with the Treasury that it is a loophole.

Mr. McCARTHY. But not the largest loophole in the tax code. The Senator would not commit his reputation in support of the Treasury official he quotes and say that this was the most glaring loophole in the whole tax code. He will quote the Treasury official as saying that, but he himself will not say that it is.

Mr. WILLIAMS of Delaware. I concurred in what the Treasury representatives said to our committee, and no one has caused me to change my mind. I respect the opinion of the Senator from Minnesota even though he differs with me.

Mr. McCARTHY. No one can prove that a penny of revenue would be lost if the amendment is adopted; neither can the Senator prove that there would be a loss of a nickel of taxes in that "glaring loophole," that a nickel's worth of taxes would be lost. In fact, the record shows that it might bring in revenue, if anything. This is a loophole through which the Treasury could get revenue. The Treasury ought to be for that kind of loophole.

Mr. WILLIAMS of Delaware. I do not want this debate to get to the silly stage. Certainly there is a loss in revenue.

Mr. McCARTHY. Who ever heard of a loophole through which the Treasury would make money? Who ever heard of the Treasury closing a loophole or asking the taxpayers to close a loophole because the Government was making money?

Mr. WILLIAMS of Delaware. Let us not get this to the ridiculous stage. The Treasury agreed that there was a loophole, and in my opinion, there is a loophole now. Perhaps it would be just as well to proceed to show how this is tax relief for a certain group so that there can be no misunderstanding.

This proposal legalizes a method by which those who have a sizable block of securities or real estate which has been secured at a very low cost in relation to its present market value can, by forming a group or a fund, diversify their investments by turning their stock over to a fund and taking stock in the newly formed corporation, thus avoiding the payment of capital gains tax.

They cannot do this under existing law without paying a capital gains tax. It is something which they will not be able to do after July 1, 1967, but the supporters of this bill say, "We will legalize what you have done heretofore and

give you until January to get your house in order; you will not have to pay any taxes on what you have done."

This tax-free exchange of securities is a loophole that benefits only seven or eight operations in America.

Mr. President, I yield to the Senator from Ohio.

Mr. LAUSCHE. Mr. President, am I correct is my understanding that all that has been done to supposedly improve the original bad provision is to establish a cutoff date as of July 1?

Mr. WILLIAMS of Delaware. The Senator is correct. That would be July 1 of next year. However, it contains a January 1 date by which they must file with the Securities Exchange. They must file at the end of this year with the Securities and Exchange Commission.

Mr. LAUSCHE. The situation is that the Treasury Department concluded that there was a loophole that had to be blocked, and they proceeded to do so.

Along came the Senate committee, and the Senate, with this new legislation to prohibit the Secretary of the Treasury from blocking the loophole.

Mr. WILLIAMS of Delaware. The Senator is correct. The Secretary said that under the existing law he could stop this practice. This provision would prohibit him from issuing rulings against the past practices or any other exchange made prior to next July. It would give a clear ruling to all of those who have not been able to get a favorable ruling. It would also include all transactions that took place hereafter, up to the date mentioned.

This is a loophole with a termination date of next July.

Mr. LAUSCHE. Mr. President, is it not correct that the Secretary felt that the practice in effect cheated the taxpayer because of the loophole that existed in the law? He concluded that he could block the loophole, and when he reached such conclusion, the Senate committee adopted an amendment to stop him from doing what he thought was in the best interest of the taxpayer.

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Mr. WILLIAMS of Delaware. The Senator is correct. I will cite an example of how this would work.

We will assume that there are four investors. This could only operate with relation to larger interests because the average fellows could not get together to form such a group.

Suppose that Mr. A has \$1 million worth of bonds. Mr. B has \$1 million worth of a certain stock acquired at a cost of \$100,000, and Mr. C has \$1 million worth of General Electric or General Motors stock.

If these three men get together and contact Mr. D, who has very large holdings in real estate and would like to diversify his holdings, exchanging his land for bonds and securities, they

could not do so under the present law without paying a capital gains tax.

Under the present law any of the individuals whom I have mentioned, if he wanted to diversify, would have to sell a part of his holdings and pay a capital gains tax on the portion which he sold. He could then invest the remainder after the payment of taxes in other corporations.

Under the present proposal, these four gentlemen could get together and put up their securities and real estate. They could then issue shares out of a new fund in proportion to the amount that had been put up.

These men would thus have diversified their interests and the man who owned the real estate would own a percentage of those bonds and securities and the other men would be the owners of the real estate. No capital gains tax would have been paid under this transaction.

The pending measure would provide that that procedure would be permissible on former transactions and new transactions until next July.

A few of these corporations have been formed, and the Treasury Department ruled that such procedure was an avoidance of the capital gains tax and that a capital gain tax must be paid.

This provision would overrule the ruling of the Secretary of the Treasury and provide that such transactions would be tax exempt. In effect, it would say: "Keep on doing it until this next July and then go and sin no more."

Mr. LAUSCHE. The Treasury Department said that the scheme of setting up a pool and then taking stock in the pool enabled those investors to escape the payment of a capital gains tax and that this procedure was illegal. A ruling was issued.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. LAUSCHE. The Senate committee, however, through the provision in the pending bill is attempting to prevent the Secretary of the Treasury from issuing a regulation that would prevent such practice.

Mr. WILLIAMS of Delaware. The Senator is correct. The Senate committee's first proposal would extend this in perpetuity. The conference report does contain a termination date, but it does at the same time legalize all of these pending transactions which have heretofore been rejected by the Treasury Department.

The pending measure would allow these people to keep their tax-free exchange status up to next July.

This is the proposal which the Treasury Department described as one of the most glaring loopholes ever proposed by the Senate Finance Committee.

All the conferees did was to place a termination date on such transactions. That is better than permitting this to be done in perpetuity, but nevertheless it

is still unfair to other taxpayers who must pay the tax.

Mr. LAUSCHE. Mr. President, if the argument of the Senator from Minnesota is sound, that there was no tax loss suffered by the Government, I ask the Senator from Delaware why the committee proceeded to place such a provision in the bill. What was the need of placing such a provision in the pending bill if it meant nothing?

Mr. WILLIAMS of Delaware. In saying there would be no tax loss, they proceeded on the premise that these same people would not sell and diversify. Conceivably, they would not sell, but if they did sell they would have to pay the capital gains tax just the same as any one of the 90 million Americans had to do up to this point and will have to do from now on. They are not being excused.

This provision excused no one, as near as I can determine, but seven small groups that are operating these funds. They are the only ones that are involved or benefited here.

This section is certainly not general tax legislation.

Congress here is legalizing what seven small outfits were trying to do, and trying to do in the face of a warning that the Treasury Department would not approve it.

Mr. LAUSCHE. I wish to repeat my question: If there was no loss in taxes suffered by the Government, what was the need of the Senate committee putting into the bill this provision?

Mr. WILLIAMS of Delaware. None whatever. Certainly there is a loss in revenue.

Mr. LAUSCHE. Who was sought to be protected? It was not the Government. And if the provision was placed in there, one would contemplate that the committee did not intend doing a futile act. They wanted to affect someone. Who was to be affected and how, I ask?

Mr. WILLIAMS of Delaware. It affected, to the best of my knowledge, seven operations, and certainly there would be loss suffered. It would be ridiculous to argue otherwise. Who ever heard of a loophole that did not cause the loss of revenue? I did not coin this word—the Treasury Department coined the word describing this section as one of the most glaring loopholes.

Mr. LAUSCHE. If there was not a loophole, why did the Secretary of the Treasury and the conference committee finally agree to put a cutoff date in the present bill? The cutoff date undoubtedly was put in there under the confession that the taxpayer generally was being despoiled or robbed for the benefit of a few.

Mr. WILLIAMS of Delaware. I could not answer that.

But the representative of the Treasury Department, who, by the way, was Mr.

Surrey, the high official who used the words that this particular section was a most glaring loophole.

Nothing has been changed.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. LONG of Louisiana. I am not attempting to change the Senator's mind, but I want the RECORD to show what the facts are, from the standpoint of those of us who think that this provision should be agreed to.

At this time, there is no question that if you have a business purpose, you can diversify by just putting business assets into a corporation, which gives you the effect of diversification, and no taxes are owed. The Treasury is not seeking to change a word of that. But until July 14 of this year, Treasury also did not take a published position in opposition to the tax-free exchanges called swap funds.

If what Treasury did not oppose until July 14 of this year was wrong, we only extend it by this bill for 6 more months. So if what we are doing is questionable, we are only permitting this questionable practice to go on for a very short time and after all the Treasury did not challenge this scheme for years.

The Treasury sought to cut off tax-free exchanges in investment funds by regulation. The Treasury thought it was a loophole, and we have closed the loophole for them. We do give these people 6 more months. But they have to file their plan by December 31, 1966, and have to consummate the whole thing by July 1 of next year.

Mr. WILLIAMS of Delaware. Mr. President, I have expressed my opinion about this proposal. The Under Secretary of the Treasury, Mr. Surrey, denounced this section, and quite a few members of the committee staff, as well, concurred in the opinion that this was and is a loophole, only with a termination date.

Mr. GORE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. GORE. I wish to congratulate the able Senator for his lucid explanation of this particular amendment in the bill. The senior Senator from Delaware has served a number of years as a member of the Senate Committee on Finance. I want to compliment him upon giving an explanation of this bill that would be a credit to any expert tax lawyer, accountant, or both.

Mr. WILLIAMS of Delaware. I thank the Senator for his comments. I do not claim to be an expert. This is just a simple, straight mathematical computation.

Much has been said about what this bill proposes to do for the average American. I just wish to dispel that fact.

To the best of my knowledge there are seven companies or funds that will be

given tax exemption under this proposal, and if the proposal is rejected those seven will have to pay capital gains tax on their stock exchanges. It is that simple.

Mr. GORE. Mr. President, will the Senator yield further?

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Mr. WILLIAMS of Delaware. I yield.

Mr. GORE. The discussion of this point, in the debate thus far today, illustrates my conviction that if this bill were thoroughly discussed before a quorum of the Senate, it would be rejected. As a result of the discussion thus far, I have heard two Senators say that they have changed their view and would now vote against the bill.

Mr. WILLIAMS of Delaware. There are many more reasons than this point. Some of them in themselves are enough to justify rejecting this report so far as I am concerned.

Mr. GORE. It is regrettable that this kind of bill comes here in the closing hours of the session. The Senator from Delaware no more welcomes than does the Senator from Tennessee the duty of having such a discussion in the Senate on Saturday afternoon, when football games are being played. But we did not bring the bill before the Senate in the closing hours of this session.

However, I wish to proceed to this point: The exchange between the senior Senator from Ohio and the senior Senator from Delaware clearly brought out that the Treasury Department had, by regulation, closed this loophole. The Senate Committee on Finance, by its amendment, overruled the ruling of the Secretary of the Treasury, and reopened the glaring loophole, as Under Secretary Surrey described it, according to the senior Senator from Delaware.

The conference report represents—I wish to be fair in saying this—an improvement over the original Senate bill; because, as the senior Senator from Delaware has said, though it still overrules the ruling and the regulation of the Secretary of the Treasury and leaves the door wide open for a while, it does fix a terminal date. This is an improvement.

But why do we come here with an amendment, in the closing days of the session, on a foreign investors tax bill, and adopt an amendment to give tax reduction and tax relief and tax exemption to certain groups of people—some of whom I can now identify—and then leave the door open for all those who wish to get in under the wire between now and December 31?

Mr. LAUSCHE. Identify them.

Mr. GORE. I am asked by the senior Senator from Ohio, to identify them.

Will the Senator yield for that purpose?

Mr. WILLIAMS of Delaware. I yield.

Mr. GORE. This is not secret information. I have obtained this information from the Securities and Exchange Commission.

I shall read three items—the date of the filing, the name of the fund, and the dollar amount of registration.

October 18, 1965, Science & Technology Exchange Fund, \$5 million. December 20, 1965, Third Presidential Fund, \$20 million. December 20, 1965, Fourth Empire Fund, \$20 million. March 3, 1966, Second Federal Street Fund, \$50 million; March 22, 1966, Life Stock Exchange Fund, \$25 million—and Senators will note that they are coming fast in the early part of this year—May 23, 1966, Industries' Exchange Fund, \$20 million; July 8, 1966, Putnam Exchange Fund, \$30 million; July 12, 1966, Fifth Empire Fund, \$14 million; July 14, 1966, Exeter Second Fund, \$40 million; July 15, 1966, First Atlantic Fund, \$1 million; July 25, 1966, Second Diversification Fund, \$29,999,900. And the door is left open for others to come in.

Who knows, when we give absolute assurance by law that they will be excused from payment of any tax whatsoever upon their capital gains, how many are now standing by, just waiting for the President to sign the bill, then to file their plans and to take advantage of this loophole we would write into law for this definite period?

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. LONG of Louisiana. I wonder if the Senator would be so kind, since he has read off the list of swap funds, to disclose how many were covered in the regulations put out by the Treasury, and, therefore, are not involved in this legislation at all? The Senator said that there is a loophole. Would the Senator explain how many were approved by the Treasury?

Mr. GORE. I do not have that information.

Mr. LONG of Louisiana. If the Senator does not know, why does he—

Mr. GORE. I have here the date of filing of the registration statement with the Securities and Exchange Commission, the name of the fund, the shares registered, the price per share, and the dollar amount of registration.

Mr. President, I ask unanimous consent that the table to which I have referred be printed in the Record.

This is the source of my information. There being no objection, the table was ordered to be printed in the Record, as follows:

Number	Date of filing registration statement with SEC	Effective date	Name of fund	Shares registered	Price per share	Dollar amount of registration
1	Oct. 18, 1965	None	Science & Technology Exchange Fund	250,000	\$20	\$5,000,000
2	Dec. 20, 1965	Mar. 10, 1966	Third Presidential Fund	400,000	50	20,000,000
3	do	do	Fourth Empire Fund	1,000,000	20	20,000,000
4	Mar. 3, 1966	May 11, 1966	Second Federal Street Fund	2,000,000	25	50,000,000
			Second Federal Street Fund (post-effective amendment)	2,000,000	25	50,000,000
5	Mar. 22, 1966	None	Life Stock Exchange Fund	1,250,000	20	25,000,000
6	May 23, 1966	do	Industries' Exchange Fund	1,000,000	20	20,000,000
7	July 8, 1966	do	Putnam Exchange Fund	1,200,000	25	30,000,000
8	July 12, 1966	do	Fourth Empire Fund	700,000	20	14,000,000
9	July 14, 1966	do	Exeter Second Fund	800,000	50	40,000,000
10	July 15, 1966	do	First Atlantic Fund	40,000	25	1,000,000
11	July 25, 1966	do	Second Diversification Fund	299,999	100	29,999,900

Mr. LONG of Louisiana. Would the Senator explain how many were taken care of by that Treasury regulation?

Mr. WILLIAMS of Delaware. I do not have a list; but it is my understanding that seven would be involved in this matter. Whether there are others in the same category if approved, I do not know. It is my understanding that one, similar to the seven, had been approved. The Treasury Department thought that it had made a mistake. My opinion was that if the Department had made a mistake it should reverse itself and not expand that error.

The Treasury said there definitely were seven funds that had reached the stage with application status that they would be affected by what we are doing here today.

Mr. GORE. I shall consult with the staff to get that information.

Mr. WILLIAMS of Delaware. The information could be placed in the RECORD.

We were told that there were seven that were involved.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. LAUSCHE. Is the Senator going to proceed to another subject?

Mr. WILLIAMS of Delaware. I was going to proceed to another part of the bill.

Mr. MCCARTHY. Mr. President, I wish to make a unanimous-consent request.

Mr. GORE. Mr. President, I can give the information. Will the Senator from Delaware yield?

Mr. WILLIAMS of Delaware. Mr. President, I yield to the Senator from Tennessee [Mr. GORE].

Mr. GORE. I am advised by the technical staff that three of these funds have an effective date and only three. They are: Third Presidential Fund, Fourth Empire Fund, and Second Federal Street Fund.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. LAUSCHE. Is the Senator going to turn to another subject?

Mr. WILLIAMS of Delaware. Yes.

Mr. LAUSCHE. I wish to ask the Sen-

ator if this is one of the Christmas gifts or one of the grab bags that have been included in the bill, and which have been discussed by Senators and by newspaper columnists?

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. LAUSCHE. Are there other Christmas gifts and grab bags?

Mr. WILLIAMS of Delaware. There are, and by no line of reasoning could they be pictured as important to the balance of payments or having anything to do with the Foreign Investment Tax Act of 1966. It is for that reason I have said that these amendments should be left and that we should go about the business of the Senate, except as to title I, on which there is complete agreement. As to the loss in revenue, the chairman has pointed out that as the bill came from the House there is about a \$40 or \$50 million loss in revenue, but title I provides for increased revenues of \$26

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million. In effect, the titles we are discussing would lose around \$75 million. That does not include any estimate whatsoever for loss in revenue in the swap section we have just finished discussing.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. LAUSCHE. Is it not a fact that when the bill came to us, under title I, the argument was that it would give equitable treatment to foreign investors with respect to their tax liabilities, and secondly, if the proposal of the administration was accepted there would be an increase in the tax revenues?

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. LAUSCHE. Those are the two main arguments. How does the bill end up?

Mr. WILLIAMS of Delaware. The conference report estimates a \$50 million deficit instead of a \$26 million increase in revenue in title I. The bill as introduced provided \$26 million in revenue although it was not advanced by the Treasury as a revenue-producing measure. It was advanced by the Treasury as equali-

zation of the tax liability of foreign income and bringing it more into conformity with treaties and our arrangements with other countries.

I am in complete agreement with that title of the bill as it has been worked out. The conference report is even better, and it strengthened the bill. I am in complete agreement with that phase of the bill.

Mr. LAUSCHE. What will be the loss of revenue from that standpoint when there is taken into account all titles of the bill? Would the Senator say that the amount is about \$44 million?

Mr. WILLIAMS of Delaware. H.R. 10 would cost about \$40 to \$60 million. One could only guess in that connection. There are several other sections here which would run the loss figure up \$15 or \$20 million, and then there is the \$26 million increase revenue in title I.

I would not quarrel with the estimate of the chairman that the net result of the adoption of the package, as a whole, would be in the neighborhood of \$50 million.

Mr. LAUSCHE. I commend the Senator from Delaware. I request that he continue his discussion, describing the other Christmas gifts made to special taxpayers by this bill, and the grab bags.

Mr. LONG of Louisiana. Mr. President, would the Senator yield at that point?

Mr. WILLIAMS of Delaware. I yield. I had told the chairman that I would not be too long.

Mr. LONG of Louisiana. I appreciate the opportunity to affirmatively explain why we do not agree with the Senator's view that there is a revenue loss from the operation of swap funds.

If one man holds a share of stock which he bought for \$1, which is now worth \$100, and he puts it in a common fund with another man who had a share of stock in a different company which he bought for \$1, which now sells for \$100, and they have to pay a 25-percent capital gains tax, they are not going to put the stock in a common fund, but rather, they will hold it in their safe deposit boxes. That being the case, the Government would get no revenue at all. If they put it in a common fund, the fund would be likely to sell some of it and then the Government gets revenue from the fund. The fund would have the same cost basis as the shareholders when they contributed the stock.

Those who argue for the swap funds contend that it makes money for the Government, but the Treasury did not like it and thought it might be a loophole because it permits stock diversification without the payment of capital gains tax. They sought any regulation to correct this. All we did was to attempt to affirm at a date beginning 6 months to a year later what the Treasury sought to do by its own regula-

tion. The Treasury now supports this provision.

Mr. WILLIAMS of Delaware. I should like to point out to the Senator from Louisiana clearly what is involved here. Say that A has a million dollars in stock which cost him \$1 a share and which on the market today is worth \$100 per share. Say that B has a similar investment in another company which cost him \$1 a share and its market value is 100 times that. Each wants to diversify his holdings so that he will own half the stock of A and half the stock of B. Under existing law if they sell they have to pay a capital gains tax. Under the so-called loophole, by joining together in an exchange stock fund they will be diversified, each owning a half million dollars of each company. They pay no capital gains tax. There is no possible way to make an estimate as to what would be lost or gained under this loophole. There is no possible way to estimate what any man would do, if. But the point I am making is that there are 90 million Americans today who pay taxes. All except those who are in these seven combines will have to pay the capital gains tax. They want to diversify, and what this bill is saying is, "You seven can go ahead and diversify your real estate holdings, your bonds, and your stocks, and the capital gains tax is waived. They can diversify and will have no capital gains tax to pay.

Mr. President, I do not think it is right.

Mr. LONG of Louisiana. Mr. President, will the Senator from Delaware yield right there?

Mr. WILLIAMS of Delaware. I think we have debated this phase long enough. I promised the majority leader that I would confine my remarks to the question before the Senate today, but I am glad to yield to the Senator from Louisiana further. However, I want the Record to show that I am not delaying this colloquy.

Mr. LONG of Louisiana. I should like to read into the Record section 351(a). I should like to read what the law states:

(a) General Rule.—No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368(c)) of the corporation. For purposes of this section, stock or securities issued for services shall not be considered as issued in return for property.

Many tax lawyers think that means these swap funds are legal. The Treasury wanted to stop the establishment of these funds and its regulations seem to have had that effect since no one can arrange to have the question litigated without risking large amounts of money.

Mr. WILLIAMS of Delaware. I do

not want to discuss this all day long. I should like to hurry along and comply with the desire of the majority leader for adjournment. I am well aware of that section of the law. The Under Secretary of the Treasury quoted that same law the time he said it was not applicable to these swap funds on securities but that the section was intended to deal with the situation where one corporation would organize another corporation and receive its stock in exchange for property it contributes to the new corporation. Under Secretary Surrey said it was in no way related to the problem we are discussing today. I think we have debated this point long enough.

It is a loophole to aid a very small group to avoid its tax obligation.

Mr. GORE. Will the Senator from Delaware yield to me long enough to make this observation? I have listened with great interest to the explanations of the distinguished Senator from Minnesota and the distinguished Senator from Louisiana. Their explanations of how the Treasury is not going to lose money by this amendment reminds me of that intrepid merchant down my way who was not quite satisfied with the condition of his business, so he put on a big sale. During the sale, one of his neighbors came by and said to him, "How are you getting along?"

The merchant replied, "Oh, fine. I am losing money on every item I am selling, but I am making it up on volume."

Mr. WILLIAMS of Delaware. Mr. President, I next want to discuss section 201 of the conference report. This deals with the application of investment tax credit to property used in possessions of the United States. That is the title of the section. When the 7-percent investment tax credit was first enacted, Congress intentionally and very clearly confined it to purchases of equipment used in the continental United States. It did not apply to any equipment used by American corporations abroad.

There is no argument about that. Congress did that, clearly and intentionally. Right or wrong, that is the law. As evidence of that point there are pending before the Committee on Foreign Relations one or two treaties which the Treasury Department first approved, but in light of the recent suspension I think it has withdrawn its support. These treaties would have extended the investment tax credit to American corporations for their investments in certain countries—Pakistan was one, and Israel another. Several others were waiting in line in case one treaty was approved.

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This bill deals with investment tax credit on property used by American corporations in possessions of the United States.

The section which is before us now carries retroactivity.

Let me quote from the summary in the committee report concerning section 201:

1. *Application of the investment credit to certain property in U.S. possessions.*—The investment credit is extended to property located in U.S. possessions provided the property is owned by a U.S. company or citizen, subject to U.S. tax on its income from possessions would otherwise have qualified for the investment credit, and is not owned or used by U.S. persons who are presently exempt from U.S. tax. This amendment is effective with respect to property placed in service after December 31, 1965.

Mr. President, construction of this property started prior to that date and it was put into use after December 31, 1965. Why did they pick this one date, and why was that section so designed? Because it fits exactly one company. It fits, to my knowledge, just one company, the Harvey Aluminum Co., which will get a windfall of about \$2 million in tax credit. The tax credit which goes to that company would be retroactive in that this amends the old law to apply to investments of American companies abroad.

In other words, at the same time, Congress is suspending the 7-percent investment credit for other taxpayers the bill provides a retroactive \$2-million investment credit for another company. Under the law they could not have obtained such credit, but now it is proposed to permit it retroactively.

In addition, I should like to point out the other concession that this company already gets with its investment in the islands. This company in the Virgin Islands has already had approved a 75-percent rebate on its tax on income from its plant in the Virgin Islands for 16 years. That tax subsidy in the Virgin Islands had already been approved.

It will be noted that the language of the bill cleverly states that the \$2-million bonus in this bill is deductible from the income of the parent organization in the United States. The company has shipped equipment to the Virgin Islands, so that means that the bulk of \$2-million windfall will be deducted from the top obligation of the parent organization in the United States. The plant itself is already exempt from income taxes to the extent of 75 percent by virtue of an agreement it has in the Virgin Islands government.

Mr. President, I ask unanimous consent to have printed in the RECORD a series of correspondence concerning this project, including one letter from the Secretary of the Interior, one letter from the General Services Administration, and one letter from the Treasury Department.

There being no objection, the correspondence was ordered to be printed in the RECORD, as follows:

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., March 8, 1962.

Hon. JOHN J. WILLIAMS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WILLIAMS: The Governor of the Virgin Islands, the Honorable Ralph Palewonsky, signed an agreement with a subsidiary of the Harvey Aluminum Company on February 8, 1962, looking toward that firm's locating an alumina plant on St. Croix. This agreement, about which you wrote on February 15, does contemplate a plant costing about \$25,000,000 to reduce bauxite to alumina; the alumina would be subsequently shipped to Harvey's plant at The Dalles, Oregon, for reduction to aluminum. The Legislature of the Virgin Islands ratified this agreement on February 19, 1962, which step was a prior condition to its becoming binding on either party.

Contrary to the information which you have received, this move was not made under my sponsorship, at my suggestion, or with my approval. I hasten to add, of course, that the foregoing statement does not imply any disapproval on my part, but simply that this was a matter wholly within the competence of the local government. Governor Palewonsky has kept me informed since negotiations with Harvey became serious last summer, but we both recognized that the decisions involved could and indeed must be made by the Virgin Islanders' own Governor and their elected representatives. This Department has long shared Governor Palewonsky's concern about the lack of sufficient industrial and commercial enterprises in the Virgin Islands to afford an adequate living to its population, but decisions on the type of industry to seek, the particular firms, and the specific details of an agreement, are all local matters.

As to whether the United States Government has given its approval to such a project, I would say "No" insofar as the specific agreement mentioned above relating to the project's location in the Virgin Islands is concerned. However, Harvey did enter into a still valid contract with the United States in September 1955 which, among other things, provides for the construction of a facility of this nature somewhere.

Regarding your questions 1, 2, and 4, we suggest that you may wish to ask these of the Defense Materials Service, General Services Administration, which is administering the subject contract, DMP-78, because that is the agency with complete, first-hand information on these matters.

You ask, in question 3, if there is any tax advantage to Harvey's locating in the Virgin Islands as opposed to locating in the United States. We assume you mean as opposed to locating "elsewhere" in the United States, since the Virgin Islanders are not only just as American as any other of our citizens, but probably need economic development worse than most of our other communities.

Insofar as local tax advantages are concerned, we would be unable to make any comparisons, since we take for granted that whatever alternative sites Harvey may have considered in the United States for its plant would also have involved considerable local tax concessions, in accordance with usual industry-attraction practices of many states and local communities. However, we do believe there are two potential financial advantages of a non-local nature which should be mentioned.

The first potential advantage is that should the United States import duty on alumina, now suspended, be reinstated, savings would accrue to Harvey through its not having to pay such import on this alumina. This result would follow from the fact that the Virgin Islands are outside United States Customs area.

The second, potential tax advantage of a non-local nature would materialize if Harvey (a) invests at least \$15,000,000, (b) produces at least 50,000 short tons of aluminum, and (c) has a net profit on operations in the Virgin Islands. Under such circumstances Harvey would pay, constructively although this would not be the precise technical position, an income tax which would be but 25 percent of the Federal income tax it would pay were it to locate in the mainland of the United States.

Lastly, you ask if the contract were approved by Interior would it have been done on the basis of need for increased facilities for producing aluminum. Of course Interior has not and will not approve the contract for location in the Virgin Islands. If this contract were subject to our approval we would not have given such approval on the basis of present need for more aluminum facilities. We would have referred a decision on such a limited basis to the Office of Emergency Planning, even though we are well aware that there seems to be no need at the present time for increased facilities for producing aluminum. However, this proposed plant will only produce alumina, replacing that which is presently being purchased abroad, and will not increase at all Harvey's capacity for producing aluminum.

If, however, you are referring to the contract executed in September 1955, while Interior was not involved in such contract, it is our understanding that it was entered into by the United States because of the then existing or anticipated need for increasing facilities for producing aluminum.

Sincerely yours,

STEWART L. UDALL,
Secretary of the Interior.

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., May 2, 1966.

Hon. JOHN J. WILLIAMS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WILLIAMS: Your letter of April 4 requests information concerning Government purchases from the Harvey Aluminum Company, now known as Harvey Aluminum (Incorporated), during the past 15 years. We believe you have reference only to those purchases with respect to which General Services Administration has cognizance, and the information contained herein has been prepared accordingly.

Aside from the possibility of routine supply contracts covering aluminum extrusions which, in any event, would have been on a competitive bid basis and with respect to which we doubt that you have any interest, there have been only two contracts with the Harvey Company during this period. One of these contracts was evidenced only by a Letter of Intent issued December 19, 1950 and accepted by Harvey on January 4, 1951 providing for the construction of primary aluminum reduction facilities in Kalispell, Montana with alumina facilities at a point to be determined in the Northwest and bauxite facilities, capable of producing 72,000 short tons per annum of primary aluminum, the Government agreeing to purchase if

tendered up to 360,000 short tons of aluminum, representing 5 years of production. The letter of intent was to be followed by a formal contract but such formal contract was never executed within the time limit prescribed, and accordingly the letter of intent expired by its terms. We are informed that the primary aluminum reduction facilities

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were installed in Montana by a company in which Harvey and the Anaconda Copper Mining Company had interests but such facilities were not covered by any Government contract.

The principal contract in which we believe you are interested is numbered DMP-78 and was effective September 13, 1955. It superseded, however, a letter of intent issued May 15, 1953, and accepted by Harvey on May 19, 1953.

This contract was awarded incident to the third Government-sponsored aluminum expansion program and was designed to bring into existence primary aluminum reduction facilities capable of producing 54,000 tons of aluminum pig per annum. The primary reduction facilities have been completed and are capable of producing something more than 60,000 tons per annum, so that the primary purpose of the contract has been accomplished. As part consideration the Government agreed to purchase if tendered by Harvey, up to 270,000 short tons of primary aluminum pig over the life of the contract, this representing 5 years of production, if not utilized or otherwise disposed of by Harvey. As of December 31, 1961 the Government had purchased 114,068 short tons at a cost of \$57,798,000. Harvey at that date had lost the right to tender 46,130 short tons which tonnage had been used or otherwise disposed of by the contractor, which left the Government's remaining exposure at 109,802 short tons. Our best estimate, however, based upon Harvey's historic consumption of aluminum in its integrated operations is that we shall be required to purchase only 101,948 tons of this remainder.

The price paid by the Government is in effect market price. While the contract calls for the lowest published price of the contractor, it provides that if the prices published by any of the three principal producers, the Aluminum Company of America, Kaiser Aluminum and Chemical Corporation or Reynolds Metals Company are lower, the weighted average of the prices published by those 3 companies averaged over the 90 day period preceding delivery shall be the effective price.

Under the date of December 24, 1952, Harvey was issued necessity certificate TA-NC-20722 by the Defense Production Administration covering 85% of the cost of construction of aluminum, alumina and bauxite facilities estimated at \$65,250,000. The financial assistance extended by GSA aside from providing a market for up to 270,000 short tons of aluminum, took the form of a guarantee of bank loans up to \$65,000,000 for the construction of the primary reduction facilities at The Dallas, Oregon, and facilities for the production of alumina and bauxite if the latter two are undertaken by Harvey. The bank loans covering the cost of constructing the primary reduction facilities amounted to \$44,000,000. The Government obligation to guarantee loans obtained to finance the cost of the alumina plant and bauxite facilities is to guarantee an amount

the Government participation in which, in the event of loss, shall not exceed \$21,000,000. The contractor has elected to construct such facilities and under the terms of the contract such construction must commence by June 30, 1962. Incident to negotiations concerning the election to construct, GSA has substantially completed arrangements to be discharged of the guarantee of the reduction portion of the loan, originally \$44,000,000, as of March 31, 1962.

As you have indicated, the alumina facilities we understand are to be constructed in the Virgin Islands, with the bauxite facilities in all probability to be constructed elsewhere. It is these two facilities which would be the subject of the guarantee up to \$21,000,000 of bank loans for construction, if requested by Harvey. That company, however, has agreed to use its best efforts to accomplish the construction without the guarantee of loans by GSA.

This was a negotiated contract and did not involve competitive bids.

Harvey Machine Company, the predecessor of the present contractor, applied for a contract during the third Government sponsored aluminum expansion program in 1952. The company had experience in the aluminum industry and had obtained a firm power contract and a supply source of alumina. The development of competition in the primary aluminum production field was considered extremely advisable. Accordingly, and upon certification of Harvey by the Office of Defense Mobilization, the contract was executed. In essence the contract terms, particularly as to price and principal features are the same as the terms included in expansion contracts awarded to Alcoa, Kaiser and Reynolds.

If we can be of any further assistance please call upon us.

Sincerely yours,

BERNARD L. BOUTIN,
Administrator.

—
TREASURY DEPARTMENT,
Washington, May 17, 1962.

HON. JOHN J. WILLIAMS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WILLIAMS: This is in response to your question at the hearings Friday, May 11, 1962, on whether the Virgin Islands could be used as a tax haven. You were concerned in particular about Harvey Alumina Virgin Islands, Inc., a Virgin Islands corporation which is a wholly owned subsidiary of Harvey Aluminum, a domestic corporation. The subsidiary has entered a contract with the Virgin Islands under which the inducements, such as free land, and exemption from real estate tax, commonly offered by local governments in the United States are granted. One of the additional inducements granted by the Virgin Islands is a subsidy based on income tax liability.

In general, the Virgin Islands taxes corporations created in the Virgin Islands at full Internal Revenue Code rates on the income from all sources. Under section 934, added in 1960, however, the Virgin Islands may grant subsidies based on the tax liability of a Virgin Islands corporation 80 percent of whose gross income is from sources within the Virgin Islands and 50 percent of whose gross income is from the active conduct of a trade or business in the Virgin Islands. Although section 934 in itself would not preclude all tax haven operations, Virgin Islands

law provides that the subsidy based on income tax liability can be granted only with respect to income from the construction, ownership, or operation of new housing projects, factory buildings or hotels. In the case of the Harvey Aluminum subsidiary a nontaxable subsidy equal to 75 percent of the income tax liability over a period of 16 years is granted on the condition that the subsidiary construct and operate a plant costing \$15 million and produce at least 50,000 tons of alumina from bauxite ore.

Such substantial production is not considered a tax haven operation in the case of foreign countries even though the country in which the production takes place grants special write-offs, or reduced rates. Such operations in foreign countries would continue to obtain deferral under H.R. 10650. The Virgin Islands incentive program is comparable to those provided by many foreign countries.

A problem will exist, however, in making certain that the prices paid by the domestic parent corporation to the subsidiary for alumina to be further processed in the United States will not shift to the Virgin Islands income which is properly attributable to the United States. This problem, just as in the case of transactions between other related domestic and related foreign corporations, will be dealt with under the amendments to section 482 made by section 6 of the bill. The Virgin Islands government cooperates completely in providing the necessary information.

Sincerely yours,

STANLEY S. SURREY,
Assistant Secretary.

Mr. WILLIAMS of Delaware. Mr. President, I shall quote from the letter from the Treasury Department, in the case of a Harvey Aluminum Co., subsidiary, a nontaxable subsidiary:

In the case of the Harvey Aluminum subsidiary a nontaxable subsidy equal to 75 percent of the income tax liability over a period of 16 years is granted on the condition that the subsidiary construct and operate a plant costing \$15 million and produce at least 50,000 tons of alumina from bauxite ore.

Mr. President, in addition, I ask unanimous consent to have printed in the RECORD a statement issued by the St. Croix Chamber of Commerce released at the time the tax exemption was granted. The chamber of commerce of St. Croix vigorously denounced the special tax benefits being given to this plant and pointed out that the company was receiving an outright option on 700 acres of land which belongs to the people of the Virgin Islands.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

ST. CROIX CHAMBER OF COMMERCE.
Re Contract with Harvey Aluminum, St. Croix, Inc.

To the LEGISLATURE OF THE VIRGIN ISLANDS,
In Committee of the Whole,
Government House,
Christiansted, St. Croix:

The St. Croix Chamber of Commerce is vitally concerned with the welfare of the Virgin Islands, and especially with the island of St. Croix. We have assisted the promotion of industries for St. Croix, and have on

file letters of appreciation from many organization that we have assisted in their efforts to come here and establish their businesses.

Thus, it cannot be said that we are against industry coming to St. Croix. But, when a company does indicate its intention to come here, we investigate its plans and determine that its operation will be beneficial to the economic and overall structure of our island. Such an investigation requires a full knowledge of the company, its products, the process that will be engaged in here, and if it will be good for St. Croix now and for future generations. The Chamber of Commerce wholeheartedly indorses the principles outlined by the Governor in attempting to upgrade the employment available to our native sons and daughters, and will do everything in its power to help them advance in the economic and social scale. However, we have grave fears that the Governor may be badly mistaken in the results to be achieved by this particular contract. You, the legislators, are the ones who must answer to posterity and bear full responsibility for the results.

In the case of the present industry, Harvey Alumina of St. Croix, Inc., we have sought detailed information many times from the Governor of these Virgin Islands; from the company direct through Vice President S. Keith Linden; and from you gentlemen. Thus far, we have had a summary of the contract furnished as a press release, talks with Mr. Linden, talks with the Governor, all about generalities—and no detailed information, no copy of the contract and the supporting documents. Mr. Linden tells us

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that he is dealing with the Government of the Virgin Islands, not the Chamber of Commerce; the Governor says that certain matters in the contract are confidential, and that he must protect the interests of the Company against information that might leak out to their competitors; and further, that he cannot release to us and to the people of St. Croix, the contract and documents until they have been released first to the Legislature—and then become public property. We were last told this on Tuesday, February 6th, and since that time it has become apparent that delivery of the documents has been delayed from day to day. Last schedule we received was that they were to be presented to you on Tuesday, February 13th. It is very apparent that this move was to prevent free access to these documents until too late to study them carefully before tonight's hearing.

The Governor says that the Chamber of Commerce should have had a survey made long ago, in response to our request that time be granted now for research by the Arthur D. Little Co. He well knows that the facts from the principals were not made available to anyone. These facts are the basis from which the survey could be made.

Now, if this alliance of the Virgin Islands Government and a private enterprise was an outright straight business deal, in which the company proposed to pay a fair price for what the Virgin Islands has to offer and they were prepared to establish themselves in accordance with our laws controlling industry, availing themselves only of such tax advantages as are open to all that qualify under our tax exemption program—there would be little reason to question their mo-

tives. But when the transaction involves an outright donation of 700 acres of land belonging to the people of the Virgin Islands, as well as Krause Lagoon—another area of 150 acres more, payment of 3 million dollars of taxpayers money for a channel to be dug and maintained and used principally by the recipient of the gift of land; and generous tax exemption for a period of 16 years—it becomes a matter of great interest to all the people of St. Croix—and should have more than a passing glance by all Virgin Islanders.

What do Cruzans get in return for this 3 millions of dollars and large area of land? Promises of jobs in an alumina processing plant:

1. If there are Virgin Islanders qualified and available and seeking those jobs—Harvey agrees that 75% of the entire work force shall be island residents.

On opening day, how many island residents will be qualified, trained workers for anything but common labor?

But we are told that Harvey will have a vocational training school that will be open to all comers, whether they are to be employed at the Harvey plant or not. That they will furnish scholarships to top students whose interest lies in the field of chemistry or engineering. But these promises are not in the Summary of the contract release to the Press. However, we must remember that a vocational school will offer on the job training. So the plant will have to be in operation months before any Cruzan will be sufficiently trained to be useful. By that time, the entire staff that had to be on hand at the beginning of the operation, because of 6 months residence, will have become Virgin Islands residents by virtue of living and working here. How then can they be displaced? Of course, if the individual is an imported alien, and that may be the case since Harvey representatives have asked our local Virgin Islands employment office for the necessary forms to be filled out to bring aliens in—it will be an easier substitution. But if the job-holder is from the States, or from Puerto Rico, and is performing his work satisfactorily and well—will Harvey be ready and willing to fire a trained man and take on a green hand? So—the Cruzan waits for a vacancy! Also, will the labor union allow this to take place to their members? Perhaps, within a generation, Mr. Linden will realize his ideal to have the plant manned 100% by Virgin Islanders—will we, who are here tonight, live to see his dream come true?

2. We can hope to start receiving full tax payments from the Company after 16 years have passed, and the year 1978 rolls around. In the meantime, we get fractional income taxes from Harvey and the income taxes from the employees. Of course, if the employees are Virgin Islanders we would get their taxes from their present source of employment, since there is no unemployment here at present. Immediately, on the start of construction, we can anticipate greater loads on our school, medical and police facilities—so any taxes we get will be consumed at once in this expansion.

Weighing the cost of these *presumed* benefits in terms of land and money—can we afford to have Harvey Alumina on St. Croix with us?

The Governor states that these concessions are in order because Harvey will spend 25 million dollars for the construction of their plant. The plant will belong to Harvey—

not the people of the Virgin Islands. It seems that a better bargain could be driven than is represented by the present contract. Eliminate the gift of land and the costly channel—the tax incentive is sufficient. We strongly suggest that you refuse to ratify this contract, and attempt to get more for the people—not give away their heritage.

The people of St. Croix are entitled to be fully informed on all things that the Government undertakes to do for them. These islands are still supposed to be operating as a Democracy—we even refer to the Virgin Islands as “The Show Place of Democracy”. In a democracy, the people share in self-government, and in self-determination toward shaping their future. The aura of suspicion and mystery that surrounded these negotiations from the very beginning makes us wonder if Democracy here is something you can find only in the dictionary!

You, our legislators, still have time to restore the right to the people to proceed in enlightenment—let them know in detail what this deal involves—then hear their opinions and be guided by them. They will accept your decision more readily if this matter is not rushed through. What we ask for is time!

ST. CROIX CHAMBER OF COMMERCE,
JOHN L. COLBY.

FEBRUARY 14, 1962.

Mr. WILLIAMS of Delaware. Mr. President, has Congress not done enough for this company? It is already being granted entrance of its products into this country duty free. In addition, the company is excused from 75 percent of its tax liability in the islands. Now Congress provides retroactively \$2 million in investment credit, which the company could not receive if this section were not included and which could not be received under existing law.

The argument is made that it has since been proposed that perhaps the provision should be extended to the islands. Perhaps so; I do not argue that. I personally would support such a proposal, prospectively. I so stated in committee. But I do not agree that retroactively such favoritism should be shown to one company. The argument that this provision is tailored for the benefit of other investments in the islands is not correct. If it were, why is the effective date for the completion of the buildings after December 31, 1962?

Certainly this is tailor made for Harvey Aluminum.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I promised to yield to the Senator from Ohio [Mr. LAUSCHE].

Mr. LONG of Louisiana. The Senator asked a question. I would like to answer it.

Mr. WILLIAMS of Delaware. I will yield to the Senator in a moment, but I yield first to the Senator from Ohio [Mr. LAUSCHE].

Mr. LAUSCHE. Mr. President, I shall ask several questions, trying to punctuate what the Senator from Delaware has

said. When the 7-percent investment tax credit was adopted, it was specifically intended to have it applicable only to operations within the United States, and not in our territorial possessions. Is that correct?

Mr. WILLIAMS of Delaware. That is correct.

Mr. LAUSCHE. That has been the law ever since the tax credit bill was passed. This year, in this session, we have suspended the operation of the 7-percent investment tax credit by appropriate legislation. Am I correct in that statement?

Mr. WILLIAMS of Delaware. That is correct.

Mr. LAUSCHE. In spite of the suspension of that law, this bill contemplates to expand the operation of it, going back to December 31, 1965. Is that correct?

Was it ever mentioned by the Treasury Department until the committee wrote the provision in the bill, as far as the Senator knows?

Mr. WILLIAMS of Delaware. To my knowledge, it was not mentioned. The Treasury Department was strongly opposed to this proposal when it was put in the bill, although as the Senator from Louisiana has pointed out, the Treasury Department later reversed its position. I understand the Treasury Department yesterday endorsed the whole package; I have not heard what their position is today.

Mr. LAUSCHE. Has the Senator identified who the specific beneficiary of the provision is?

Mr. WILLIAMS of Delaware. The Harvey Aluminum Co., in the Virgin Islands, was the particular beneficiary of this provision, and it was so tailored to give them a \$2-million windfall.

Mr. LAUSCHE. Does the Senator have any knowledge of anyone else who is to have the benefits from the provision, so far as the testimony now shows?

Mr. WILLIAMS of Delaware. Under this section, so far as I know, there are no others. I shall yield to the Senator from Louisiana [Mr. LONG] in a moment. He may know of others, but I do not.

Mr. LAUSCHE. Is this another one of what we call gifts that are to be put under the Christmas tree of 1966 for [P. 27592]

specific enterprises that are contemplated to be benefited?

Mr. WILLIAMS of Delaware. This is the big red ball we see over on the side of the tree.

Mr. LAUSCHE. This is that gift. So the Senator has identified two instances.

Mr. WILLIAMS of Delaware. Yes. I am not sure whether the Senator from Louisiana supported this when it went into the bill.

I yield now to the Senator from Louisiana [Mr. LONG].

Mr. LONG of Louisiana. Mr. Presi-

dent, the Senator from Delaware says he does not think it is necessary to have this for our possessions. I did not know that the Harvey Aluminum Co. was the beneficiary. It does not have investments in Louisiana that I am aware of, and I do not know the president of the company. I understand the Treasury has negotiated tax treaties with two less developed countries and are in the process of negotiating more which will grant this benefit to other less-developed countries. If this benefit is going to be given to less developed countries I think we may as well give those benefits to our possessions—Puerto Rico, Guam, American Samoa, and the Virgin Islands. Whenever such a bill is passed, it is usually made effective January 1, even though the law is not passed until July, August, or September. I remind the Senator that the same thing was done for the chickens. When that law was passed it was made effective retroactively, because that was the logical and convenient way to do it. In that case it was retroactive more than a year if I remember correctly.

Mr. WILLIAMS of Delaware. I have no objection to bringing a few chickens in this discussion. Maybe we could give the taxpayers who were forgotten a good chicken dinner. The Senator from Louisiana may have forgotten, but the measure he refers to dealt with an exchange in Selbyville, which is a co-operative and which has first been determined to be a tax-exempt co-operative. Suddenly the rules were changed. The total amount involved was around \$30,000. Those proceeds of this organization go to the University of Maryland and the University of Delaware. There are on stockholders involved, and no salaries paid to the officers. The Treasury Department supported the correction. That proposal had nothing to do with the poultrymen in Delaware.

So let us get back on the subject of the pending grab bag or Christmas tree bill, as it has been designated.

Mr. LONG of Louisiana. There was a retroactivity problem in that bill. That is all I was saying. When we fix an effective date, it is not unusual—in fact, it is almost typical—that it be effective the first of the calendar year in which we take the action.

Mr. WILLIAMS of Delaware. I want to hasten with my statement, in line with my agreement with the majority leader that I would not take long. I have already taken longer than I had intended. I shall conclude as fast as I can.

I repeat, this tailor-designed piece of legislation is designed to take care of one company on a retroactive basis, estimated to involve \$2 million to be applied as a credit against the tax on earnings created in the United States. This credit is on an investment the company is making in the islands, where it already has a

75-percent exemption on income taxes as well as a very favorable duty treatment. This represents the big red ball we see on this Christmas tree. This section has nothing to do with the balance of payments. It has nothing to do with taking care of the elderly people, who were paraded on the floor when the bill was passed, all of whom were forgotten in the conference. It has nothing to do with the average American taxpayer, except that the 90 million taxpayers will make up the \$2 million being given to this one company.

Mr. GORE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield to the Senator from Tennessee.

Mr. GORE. Since the intended beneficiary of the amendment under discussion has been identified, I would like to remark that it is a fine company. I do not wish my remarks in any way to be considered as critical of that company. The company has a large operation in the State of Tennessee. Many of its officials are my personal friends. Some are my political supporters.

I decline, however, to support the amendment. I consider the amendment special interest legislation—only one interest being the beneficiary.

The fact is that the plant on which this amendment would retroactively give to this corporation the investment credit is already completed, already in operation. It was constructed without the expectation of this benefit, and without relationship to the benefit being in existence within the continental United States. So this, it seems to me, clearly unjustified tax favoritism to one corporation; and I say that in view of the fact that its officials are friends of mine, and it has operations in the State of Tennessee.

Mr. WILLIAMS of Delaware. I thank the Senator from Tennessee, and I concur. What I am saying is not criticism of the corporation itself; it is criticism of the Congress if it sees fit to make this gift, because there is no logical reason for it that I can see. This plant is already constructed. It is ready for operation. It was constructed by the company with the full knowledge and understanding that under the law they would not receive the investment credit.

Now, since we are approaching the Christmas holidays, in a spirit of great generosity Congress apparently proposes to give that company \$2 million which they never even expected and for which there is no basis whatsoever.

Mr. LONG of Louisiana. Mr. President, will the Senator yield at that point?

Mr. WILLIAMS of Delaware. I yield to the Senator from Louisiana.

Mr. LONG of Louisiana. Mr. President, we made the original investment tax credit provisions in the Revenue Act

of 1962 effective as of January 1, 1962, the beginning of that year—although the measure was not enacted until about 9 months later. To that extent, the original investment credit provisions themselves were retroactive.

I voted for this provision in the committee. But I was voting for it having no idea who might have built a plant in the Virgin Islands, Puerto Rico, American Samoa, or Guam. If the Senator is in a position to assure us that nobody except one company has built anything in the Virgin Islands, Guam, American Samoa, or Puerto Rico that qualifies for this credit provision, if he is in a position to assure us that nobody else has built a plant in any one of those American possessions before October 10 of this year, he is certainly more knowledgeable than I am.

It never occurred to us to look into it. It seemed to us that if Americans are to receive the credit for investing money in underdeveloped countries, in justice and equity, we ought to treat Americans who invest money in our own possessions just as fairly. But I repeat, if the Senator has found out that only one company has built anything subject to the investment credit in the Virgin Islands, Puerto Rico, American Samoa, or Guam, he is more knowledgeable than I on this subject.

Mr. WILLIAMS of Delaware. Mr. President, all I am saying is that I have checked and been advised by the Department that as far as it is aware there is only this one company involved.

At least I will say this: It is tailor designed to fit the pattern of this one company. As to the Senator's argument of why not give the investors in these American possessions the benefits we give under treaties to investors in foreign countries, I should like to point out to the Senator that not one treaty has been ratified wherein we give the 7-percent investment credit to investors in foreign countries. We rejected one, the treaty with Pakistan, in our committee. That argument is not valid.

Mr. LONG of Louisiana. Of course, those treaties are pending before the Foreign Relations Committee, in the subcommittee so ably headed by the Senator from Tennessee [Mr. GORE].

But let me point out to the Senator that he may be in error when he says he is sure—

Mr. WILLIAMS of Delaware. I beg the Senator's pardon. If there is another company for which the amendment would provide a \$2 million gift, I should like to know who it is. The Department has advised me that they know of only one.

Mr. LONG of Louisiana. Perhaps the Treasury knows of only one now; but should other builders come in and apply for the investment credit, the Treasury may become aware of more than one. I know we have had some watch assem-

b'y people going over to Guam; we just passed a bill relative to their quota.

I would think we would find a number of people who have put people to work building plants in the Virgin Islands or Puerto Rico—there are a lot of small industries going up there. But I take the Senator's word for it that there is one company for sure which has invested

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some money and put people to work down there. I understand that is the Harvey Aluminum Co. My only regret is that they did not do it in Louisiana.

Mr. WILLIAMS of Delaware. The Senator mentions the watch company. This is another red herring. It makes no difference whether they own a company in Guam or anywhere else; the investment credit has been suspended as of October 9, 1966. No one can question but that this amendment is tailor-designed to fit one company, the Harvey Aluminum, which stands to receive about \$2 million.

Mr. LONG of Louisiana. Will the Senator yield?

Mr. WILLIAMS of Delaware. I will yield to the Senator, but I do not want him later to be saying that I delayed the adoption of the conference report because I am yielding to him all the time.

Mr. LONG of Louisiana. The Senator is most kind. This amendment is not tailor made to fit one company. In general, any company, as I understand it, that builds a building in those American possessions gets the same type of consideration as far as investment credit is concerned that it would get if it had built it in the United States.

Mr. WILLIAMS of Delaware. I shall not argue with the Senator whether it is tailored designed or not. I will say most emphatically that the date selected fits exactly that one case. It would be a series of strange coincidences if all of that just accidentally happened exactly that way. I repeat: It did not leave them out.

Mr. President, I see no need to pursue the question any longer. We have discussed it in detail. This was to be a Foreign Investors' Tax Act. I cite just a few other examples of special treatment. Increased depletion allowances for clam and oyster shells, gravel and slate, and certain types of alumina-bearing clay are all in this grab bag. Those are examples of many presents in this bill, every one of which is tailor designed to fit specific cases. Such matters do not belong in general legislation; they should be handled as private bills, if at all, and voted on as such.

When I objected to these extraneous matters during the debate on the bill when it was before the Senate I was described as the most hardhearted individual in the Senate. The Senator

from Louisiana asked how one could oppose a measure which would do so much for the old people. For a while I thought we were going to turn the Senate into an old folks home, so many examples were brought forth of these elderly people, starving to death, needing doctors, medicine, drugs, and unable to get them without the original bill then before us. That was the argument then.

Mr. President, what happened? They deleted every one of these items in the bill. Even the provision dealing with the elderly people was deleted. The conferees kept every item in the bill that takes care of some special individual or company, such as the gift of \$2 million to the Harvey Aluminum Co. and other such special group amendments.

This is a special bill for special groups. I guess that the elder citizens will have to wait until another election approaches, and then they will hear more concern expressed for them, or perhaps if we adjourn between now and election day they will hear much said on the campaign trail about how the administration wanted to do something for them. Such promises and expressions are a political farce.

They traded off and deleted every item that would benefit the elderly people in return for the acceptance of these grab bag amendments. The conferees brought back every item that takes care of some special interest or some special group by way of a tax reduction. Such hypocrisy.

Mr. LAUSCHE. Mr. President, is it not a fact that when the Senator offered his amendment to strike from the bill all of the titles except title I, the senior Senator from Tennessee [Mr. GORE], I believe, suggested that he carry that amendment into effect except that he allowed to remain in the bill the section providing aid to the aged in the purchase of drugs and medicines, and that in pursuance to that suggestion the Senator from Delaware persisted in his amendment but agreed to allow the provision for the aged to remain in the bill.

Mr. WILLIAMS of Delaware. The Senator is correct. My first proposal was to strike the three titles which did not deal with the Foreign Investment Tax Act. However, after I had heard all the eloquent pleas to take care of these elderly people and after I had seen so many crocodile teams shed, I thought perhaps the situation was so bad that we ought to yield and permit them to keep in the provision for the elderly people.

Accordingly my amendment was amended to strike out all except that part pertaining to the elderly people. We lost on that amendment. The measure went to conference, and, lo and behold, the conferees took out all the provisions benefitting the elderly, which they had argued for, and they retained all of the special privilege amendments. I re-

peat, they dropped out every single item dealing with the elderly people.

Frankly, I do not know if they have stopped their shedding of tears or not. Perhaps they are trying to forget their own speeches.

After reading the Record I was amazed when I learned that they had deleted that section.

Why do we place top priority on a depletion allowance for clay, clam shells, and oyster shells and include a special provision for a \$2 million gift and to just one company, then another provision to save taxes for seven special operations in the stock "swap" arrangements?

Why are these special provisions included in a bill which deals with the Foreign Investment Tax Act?

The Senator from Tennessee is going to discuss H.R. 10. But that proposal represents a \$60 million tax reduction at a time when we are talking about increasing taxes after the election. Let us face it, we are operating today with an average deficit of approximately \$600 million or \$700 million per month.

There is no question in the minds of many that as soon as the votes have been counted the President will suddenly decide that he has information which will necessitate his increasing taxes.

Yet, today Congress is reducing taxes for certain special groups. I think it is wrong.

Earlier I supported a tax increase bill providing for the suspension of investment credit because I thought we had to do something to combat this inflation.

I think inflation is a serious threat. I think that the President has not gone far enough to combat this threat. My criticism does not concern what he did, but it does concern his failure to recognize the actual situation which exists and the cost of the war, and so forth. Why should we vote here for a tax reduction for a handful of people who happen to have lobbyists in the corridors to get their proposals presented before the committee when we all know that in a very short period the chances are 10 to 1 that the administration will be increasing the taxes for the rest of the people?

That is the reason that the pending bill has been referred to as a grab bag. I did not coin the word. The Wall Street Journal, which is certainly not unfavorable to business, referred to the measure before us as a grab bag. That reflects on the committee that reported the measure. The measure has also been referred to as a Christmas tree. I have tried to outline and describe some of the balls that are on this tree.

In my 20 years of service in the Senate this is the most indefensible measure ever reported by the Finance Committee.

In another section \$60 million is provided for presidential elections. We already have on the books a proposal providing that no political party can spend

more than \$3 million. That provision applies to any political party. If a party were to spend more it would be in violation of the law.

The pending bill does not change that law, yet it would supply \$60 million, \$30 million for each party, for campaign expenses. The statute says that it would be illegal if a political party were to spend more than \$3 million on such a campaign.

Certainly the measure should wait until next year and be given more careful study.

The provision does nothing to take care of the needed election reforms. The measure does nothing whatsoever about this.

I know, and the Senator from Ohio knows, that the mood of Congress is such that they are never enthusiastic about passing election reform measures. The only way to get a reform measure through Congress is to tie it to the money. I say that as one who feels that we need some kind of legislative proposal to finance the Federal election campaigns.

I think the Federal Government has a responsibility, and I think that a meaningful law could be worked out.

In addition, I disagree completely with the theory, advanced under this proposal.

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If an individual citizen wants to contribute to the Republican Party in order to do so he must contribute an equal amount to the Democratic Party and 50 cents to the Republican Party. If a Democrat wants to contribute to the Democratic Party he must contribute an equal amount to the Republican Party.

I have advocated laws which would encourage greater participation in the general elections on the part of the small wage earners of America.

I have been sponsoring a proposal to encourage greater participation in the general election. I think it would be helpful not only to raise money but, even more important, I think it would be healthy in that it would encourage the American people to take a greater interest in their government.

If we are going to do that, why should John Doe not have the right to make a contribution to the political party of his choice?

If a man wants to contribute to the Democratic Party, he has a right to contribute to the Democratic Party, and I think he is a better citizen for having contributed to the national elections. I would, of course, rather that he contributed to the Republican Party, but I know that he is a better citizen if he takes an interest in the campaign and contributes to the party of his choice.

Why should we provide by law that

one cannot contribute to his own party without contributing to the other party? Furthermore, we do nothing in the pending bill concerning the reform measures or the accounting of expenditures. We do nothing to change the law that limits the amount of money that can be spent, the \$3 million, in the presidential campaign, and we do nothing about the abuse in congressional elections.

The Senator from Louisiana points out that if he could get the presidential campaign financed he may pick up the various \$1,000 contributions now being made to the presidential campaign.

This is not solving the problem. We are merely moving the problem around.

We need a general revision of our election laws in the country. However, let us do it from the bottom up and put some teeth in the measure. Let us not pass a bill to provide that an additional \$60 million could be spent in the same loose manner. This measure would only aggravate the current situation.

I yield to the Senator from Ohio.

Mr. LAUSCHE. Mr. President, I want to get back to the argument made on the measure when it was before the Senate several weeks ago.

I contemplate, before this debate is concluded, reading the RECORD showing that the principal argument was made for the bill because it contained provisions giving relief to the aged in their buying of medicines and drugs.

I ask the Senator from Delaware whether it is not a fact that practically every argument made in support of the bill several weeks ago highlighted the fact that it contemplated helping the aged.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. LAUSCHE. And because of those arguments, Senator GORE, Senator WILLIAMS of Delaware, and others concluded to challenge the bill, but not to challenge the provision giving aid to the elderly. Now, what has become of the main part of the argument—that is, that we will help the aged? How are they helped by the bill as it has been brought back by the conferees?

Mr. WILLIAMS of Delaware. There is not a single comma or a single word in the bill which would in any way help them at all. Quite the contrary. As taxpayers they will have to pay additional taxes to make up for these Christmas gifts that are being given to the select groups.

Mr. LAUSCHE. That is, the section of the bill that provided help for the aged is gone?

Mr. WILLIAMS of Delaware. They are the forgotten people of the Johnson administration.

Mr. LAUSCHE. What has happened to the other sections of the bill which provided special grants to privileged taxpayers?

Mr. WILLIAMS of Delaware. Every one of the so-called special privilege amendments was retained in the bill in some form.

Mr. LAUSCHE. And the Senator discussed the sections of the bill that place the mineral depletion formula within the principle for the purpose of paying taxes. Is it not a fact that there is now in the bill an expansion of the grants made to the harvesters of minerals?

Mr. WILLIAMS of Delaware. The Senator is correct—to those producing or processing clam shells, oyster shells, and various types of clay.

Mr. LAUSCHE. And tile?

Mr. WILLIAMS of Delaware. And tile. All are the beneficiaries of a tax reduction in the form of additional depletion allowances in this bill.

Mr. LAUSCHE. Did the administration originally oppose the expansion of that principle, or at least did not request that it be in this bill?

Mr. WILLIAMS of Delaware. They opposed it.

Mr. LAUSCHE. They opposed it. So that now the fishermen, the harvesters of oysters and clams, and the miners of clay and the manufacturers of tile are given a special tax consideration by the bill as we passed it and as recommended by the conferees?

Mr. WILLIAMS of Delaware. The Senator is correct.

To illustrate how absurd this situation is, why would anyone claim a depletion allowance on clam and oyster shells? If that is to be allowed why not claim the depletion allowance on the clams and the oysters? Why not claim it on fish? They can be depleted the same way.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I will yield in a moment. I realize the sensitivity of clam and oyster shells to the Senator from Louisiana, and I shall yield in a moment.

The depletion allowance might just as well be claimed on fish.

Mr. LAUSCHE. And on lobsters.

Mr. WILLIAMS of Delaware. And lobsters.

But I say that I see no argument for it. To the extent that the depletion rates are changed in this bill it represents a reduction in the tax liability for those particular companies that are engaged in that operation. There is no argument about that.

Personally, I think it is wrong. This is initiating a tax reduction for these companies on the eve of an election, when we all know that shortly after the election Congress may be confronted with a Presidential request for a tax increase for all other taxpayers. Count the votes and then raise taxes is the slogan of this Great Society.

Mr. LAUSCHE. The Senator has made statements about a Christmas tree with its colored bulbs. On this Christmas tree are there or are there not colored bulbs paying tribute to the harvesters of oysters and clams, the miners of clay, and the manufacturers of tile?

Mr. WILLIAMS of Delaware. There are.

Mr. LAUSCHE. Is this another of those grab bags which are written about in the newspapers?

Mr. WILLIAMS of Delaware. This is the "Grab Bag Act of 1966."

However, I think I made one statement earlier that perhaps should be corrected to a certain degree. I said that there was nothing in this bill that would affect the elderly of America, and that is 99.9 percent correct because the conferees struck out of the bill all those provisions which would help them.

But there is one section, section 214, in which the committee did reduce the excise taxes on hearses by 3 percent as compared with existing law, and perhaps that is the contribution to which the Senator from Louisiana [Mr. Long] was referring.

Mr. LAUSCHE. I did not hear what the Senator said.

Mr. WILLIAMS of Delaware. The conferees reduced the excise tax rate on ambulances and hearses by 3 percent as compared with existing law, and that is the only contribution that they made to the elderly.

Mr. LAUSCHE. A final question: The provision dealing with health to the old is gone?

Mr. WILLIAMS of Delaware. It is gone, yes.

Mr. LAUSCHE. But the provisions dealing with help to the harvesters of oysters and clams, the miners of clay, and the manufacturers of tile is still in?

Mr. WILLIAMS of Delaware. Those provisions are still in.

Mr. LAUSCHE. And those provisions provide added tax relief to those special groups?

Mr. WILLIAMS of Delaware. They do. To begin with, it was not proper that these items be inserted as a rider to a bill which was designed to amend and modify our method of taxing income of foreign investors.

Mr. President, I yield the floor.

(At this point Mr. INOUYE assumed the chair as Presiding Officer.)

Mr. LONG of Louisiana. Mr. President, I should like to straighten out a few matters on which there seems to be misunderstanding.

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The Senator made the statement that this bill provides ambulances and hearses an additional tax break. Perhaps he would like to revise his remarks to correct himself.

Ambulances and the ambulance-

hearse combinations already have the benefit of the 7-percent excise tax rate that passenger cars have. But if a man buys a straight hearse, which is not part ambulance and part hearse, he must pay a 10-percent tax.

It was the thought of the Senator from Indiana that we ought to give to a man who buys a hearse the same tax treatment that we give to someone who buys an ambulance or a combination ambulance-hearse. So, in justice to undertakers, we accepted the amendment of the Senator from Indiana. The Treasury thinks that it is only fair that these vehicles should be taxed alike, and so do we.

Mr. SMATHERS. Mr. President, will the Senator yield? Does this constitute relief for a dying industry?

Mr. LONG of Louisiana. I suppose it would be viewed that way.

Perhaps the Senator from Ohio would like to revise his remarks. He referred to the harvesters of oysters.

Mr. President, we do not do anything in the bill for the harvesters of oysters. Involved here, so far as oysters are concerned, are not the oyster shells that have oysters in them, but the ones who have not seen an oyster for many a year. These are the empty shells beneath the sand that someone digs up, washes and cleans, crushes and from which cement is made. We would give them this consideration, which amounts to about a half million dollars in revenue.

Mr. President, the reason that we give them this consideration is that the people who are taking these oyster shells and making cement from them are competing with people who make cement from limestone. It is a matter of granting the same depletion allowance to minerals which are used for the same purposes.

Both are depletable and both should have the same allowance. The Treasury Department said if there is going to be depletion at all, this arrangement would be about as good as any. It provides tax equity between the industries.

Mr. President, with respect to this talk about discriminating in favor of the Harvey Aluminum Co., I wish to say that no one raised the point at the time we were passing the investment tax credit law in 1962 and the amendment to it in 1964. I do not recall if any one from any U.S. possession protested the exclusion of the Virgin Islands, Puerto Rico, American Samoa, and Guam.

I wish to ask the junior Senator from Florida if he has any recollection of such a protest.

Mr. SMATHERS. I do not recall any such protest. As a matter of fact, it has been amazing to some that this legislation has not been passed before. We have many programs calculated to assist our possessions and we have provided programs calculated to help the develop-

ment of Puerto Rico. We have our **FILA** program there. Most of the bootstrap operation in Puerto Rico which was so ably run by former Governor Marin was successful and most of that success resulted not only from his leadership but from the fact that the United States was very generous in its programs directed toward Puerto Rico.

We did not give to the people who made investments in Puerto Rico the advantage of the 7-percent investment tax credit when we instituted the program in 1962. An amendment in the bill before us would propose that we give the same consideration to those people operating in Puerto Rico.

This provision was discussed in our committee in connection with H.R. 13103 and we took action on it. The House conferees accepted the provision. Nobody charged that one company was going to benefit over another company. Anybody who operates in Puerto Rico or any U.S. possession would get the same consideration.

Mr. LONG of Louisiana. I cannot recall anyone raising the point on when this bill was pending on the floor that this matter would benefit the Harvey Company. So far as I am concerned it does not make any difference who is going to be benefited. It is a matter of tax equity. The Treasury Department and the State Department have negotiated treaties with less developed countries, trying to give the same consideration to Americans who invest money there. I am sorry that we cannot vote on those treaties in this Congress. The Senator from Tennessee kept that inside his subcommittee for quite a while, which he is privileged to do, and I respect his rights to disagree and to study it as long as he desires.

Mr. President, there are one or two other points that should be made. The Virgin Islands has its own tax system and in this it presently allows exemptions to some companies to encourage them to operate there. This provision would not help these companies because they pay no tax to the United States.

This provision would, however, make the investment credit available to U.S. companies owning property used in the possessions and receiving rental income from this property.

The investment credit, in effect, helps only when the income from the property is included in the U.S. tax return. A limitation in the bill denies the investment credit to any U.S. corporation which presently receives the benefit of income tax exemptions under the present law.

It is said that this provision is retroactive. It goes back only to the first of this year. This is customary in revenue legislation. This is also true when we passed the investment tax credit originally, it was retroactive to January 1. It was effective as of the first of

the year, even though we passed the law later in the year.

Mr. President, every provision here is general law. It is not tailored to anybody.

The presidential campaign financing proposal would not make anybody put \$1 in a campaign fund, but it would permit him to do so if he wants to put in a dollar which would be divided 50-50 between the major parties. This would help to assure that a presidential candidate would not be subject to any improper influence of the large money interests who otherwise would contribute to his campaign. If, under this proposal, taxpayers wish to share the burden of the cost of government and make a good government contribution, fine.

As a matter of fact, my thoughts on the subject had received inspiration from the Senator from Tennessee [Mr. GORE], who now seems to be so strongly opposed to this proposal, although he did support it in committee at one time. The proposal is the result of our committee meetings. We studied the matter, conducted hearings, and promised the Senate that we would report such a bill. Senators will recall that when the debt limit bill was before the Senate, the Senator from Delaware [Mr. WILLIAMS] made a strong argument for the President's suggestion of a \$100 tax deduction for persons who contributed to campaigns. That would have cost much more money than the solution that the committee recommended. The estimate was at least \$100 million. The Senator from Delaware chastized some of us, in a quiet, friendly way, saying that we were not supporting the President's recommendation of a \$100 deduction. But some of us felt that that would not do anything but give some of the wealthy who were already financing campaigns an advantage that they did not need. So we rejected that idea; we turned it down. I believe that at one time the Senator from Delaware offered me a compromise: that he would take half of my proposal if I would take half of his.

This provision has been studied by the President and the administration, who I think feel that it would be a good way to proceed. Perhaps it can be improved upon. Anyway, I hope we can make a start. The plan can be studied for imperfections, and refinements can be made if they are desirable and can be included in the law in the future. There are already general criminal prohibitions in the Federal statutes to cover a situation of this sort.

Any little thing that might have been overlooked could be perfected. Not the slightest bit of difference would be made, revenue-wise, until September, 1968. Then if it is thought that a fraud statute should be enacted, especially tailored to presidential election campaign fund ar-

rangements, one could, of course, be drafted to take into account every possibility that the mind of man could conceive.

If someone had an idea that perhaps the President should not be permitted to say something nice about a Senator or a Representative, or even something that might hurt him in some areas, that could be suggested as a refinement.

The Senator from Illinois [Mr. DOUGLAS] who is a cosponsor of the proposal thinks that all private contributions to major parties in a presidential campaign should be outlawed. That might very well be a good suggestion; but we need not cross that bridge just now. We [P. 27596]

can take a good look at it and let the committees of the Senate and House consider it, knowing that we have initiated a plan to improve election campaigns by eliminating improper influence and permitting income-tax payers to make a contribution.

It is felt by the administration and by a majority of Members of the Senate and House that this is the most constructive step that has been made along this line in a great number of years. It is one thing we will have done to help to prevent improper influence in government.

Mr. SMATHERS. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. SMATHERS. The Senator from Louisiana well knows my views on the subject, but I should like, once again, to commend him for having taken the initiative in this particular matter. It is a proposal that has been discussed for years in an effort to determine how we can remove suspicions of bad influence from presidential campaigns.

Different people have come in with different ideas. The distinguished Senator from Tennessee, as I remember, several years ago, had a suggestion along this line. I had one. Hearings were held, but on that day I was unable to be present so I presented a statement as to how I thought it should be done. Other Senators presented their views. The distinguished Senator from Delaware was one of those most enthusiastic about a tax incentive approach. He adopted the same approach which the President himself had sent over. After much give and take, the Senator from Louisiana came in with what everyone finally concluded was a most workable and a most practical solution to the problem. It was to be totally voluntary, yet it would do the job and make it possible for men running for high office to be absolutely free from the suspicion that some one individual or some segment of the economy, or some person—if I may be permitted to suggest it—with an ulterior motive had come in and contributed a large sum of money

and made it possible, because of that contribution, to influence the outcome of an election.

That can no longer happen with this kind of legislation.

Thus, I highly commend the Senator from Louisiana. In all candor, I think that this is almost the most important part of the bill. If we had not done it this way, it is my humble judgment we would be debating this kind of thing for the next 10 years.

For years, the Senate has been talking about the need to change the electoral college system, which everyone knows is outmoded and outdated and leads to all kinds of injustices. Every Senator thinks it should be changed according to his way of thinking, and I think that if this situation prevails, we will never get it corrected.

It will be my prediction that if we did not pass this campaign financing proposal now, we would be debating it for the next two generations, and probably would never accomplish anything along that line. So I am happy that it is being done. If, in practice, evidence develops that it is not working as well as we like, then, on the basis of experience, we can correct it. I happened to be the chairman of Democratic campaigns on three occasions for a period of 6 years, and I can testify to the fact that we need something in this field. This is a major start. While it does not yet go down to the areas of the congressional level, nevertheless, when it goes into effect at the highest level, the No. 1 level, the level of a presidential campaign, I think it will give us experience so that in time we might be able to place it into the law with respect to other political campaigns.

Thus, I want to commend the Senator from Louisiana again for his energy in pursuing this particular program, and I know that it will redound to the betterment of this Republic.

Mr. LONG of Louisiana. I thank the Senator very much. Let me just make a few brief references to what I believe to be the completely erroneous statements which have been made here. I would like to say that the rules require me to accord Senators due consideration in this regard as to their being in error.

A Senator said that those of us voting for the bill admitted that everything in it was special privilege. We do not admit any such thing.

As a practical matter, we could say that every facet in life has its special privilege. If we do something only for women, we discriminate against men. That involves them, but not everyone. If we are doing something to limit the tax liability of a particular industry, that involves a special group. There is no way to draw up any tax laws which do not involve one group or another. There are married couples who have children and

there are married couples who have no children. There are married couples whose children go to college and there are married couples whose children do not go to college. All revenue laws involve the question of groups. There is no other way to write revenue laws.

It has been said that we should not put these amendments in a bill that the President has to sign. My understanding is that the President wants to sign this bill the way it is. He wants everything that is in the bill, with the exceptions of one thing. My understanding is that he is not particularly happy about having to sign a bill to include a liberalization of the tax treatment of private retirement plans for self-employed individuals.

Mr. President, the President of the United States once served in the House of Representatives. He once served in the Senate, where he was majority leader at one time, and whip as well. The President thus understands that this legislative process is a matter of give and take, and sometimes one has to give some ground. We have to take something in order to obtain something. I had to do that when we voted on this bill. I do not like H.R. 10. I fought it. But I am man enough to take a beating and go on to the next thing.

I thank the Senator from Florida and the Senator from Indiana [Mr. HARTKE] for their support of me.

Mr. SMATHERS. Again I want to commend the Senator from Louisiana. I know that he was opposed to H.R. 10, as were several members of the committee, and many Members on the floor of the Senate. I myself was opposed to some of the amendments which are still in the bill; but, as I understand the working of the democratic process, there is such a thing as majority rule. When I had made my argument and had done everything I could to defeat the amendments with which I did not agree in committee, I felt it was necessary for the legislative process to get some kind of expression to the President, and that I would therefore go ahead and be outvoted. The same thing happened on the floor, and the same thing happened in conference.

One of the problems which seems to surface right here at the end of the session, is that those people who now oppose what has been done by committees of both Houses of Congress, and by both the House and Senate, apparently do not particularly like majority rule. In other words, they are now going to say that a minority that lost after fair and free discussion of all these matters somehow will still win. They have every right to do it. I do not for one moment try to say that they do not have the right to do it. I know as a matter of fact that we are in the closing stages of this session.

I have done the same thing, and the Senator from Louisiana has done the

same thing. We have tried to negotiate to get something that perhaps suited what we wanted, but which did not suit the majority.

We have the same thing here. All these matters have been fully discussed and aired. No suggestion has been made by anyone that anything has been done in an improper fashion, but the will of the Congress has been stated and expressed. Congress would like to go home. Its Members would like to have an opportunity to go home as soon as we can get a quorum. Those matters which have already been approved will be approved again. No change will be made. All we will have done is lost a Saturday, and maybe a Sunday, and perhaps lost the opportunity to watch a good football game, or perhaps campaign. That is all right. We all do that in order to accommodate Members. The Senator from Tennessee has accommodated me. More remarks will be made this afternoon, but finally it will be passed. That is the legislative process, and it is the way it should work.

Mr. LONG of Louisiana. Mr. President, this measure has been referred to as a grab bag. Much time has been spent discussing so-called "swap" funds. A large number of tax lawyers believe that this tax-free exchange arrangement is clearly within the present law, and that those firms that are furnishing such arrangements have the law on their side. The Treasury did not like it. It felt that it amounted to some kind of loophole. The Treasury sought changes, well realizing that the law might be against it.

In the committee, I voted against the proposal to amend the Internal Revenue Code to permit swap funds to be treated

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as tax-free exchanges. Those now in business will continue to operate, but I voted against the provision to permit others. I was against it, but when my committee, on which I am proud to serve, thought about it and voted for it, I felt I could support my committee. I am happy, when we got back from conference, that we had worked it out in a way that I think is a good settlement. The Treasury did not like the committee's original decision. Now that we have worked it out as we have in conference, the Treasury feels the compromise is all right and that it is a fair decision.

Mr. SMATHERS. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. SMATHERS. With respect to the swap fund, like the distinguished chairman of the committee, I felt it was time that the practice be brought to an end, but there is no question that the law as presently written providing for swapping of stocks in a mutual or other fund without a tax liability. As we said in the committee, though it may be legal, there

may be some question as to its merits, and we decided that as of July 1967, it will come to an end. So, for practical purposes, we have closed that loophole, if it was a loophole. We felt the Treasury Department should not be able, without legislative direction, to change the law on its own.

So we have provided that those who are now in business must file on January 1, 1967, a registration statement with the SEC and they must have deposited the stock by May 1, 1967, and they must have concluded their transfers by July 1, 1967.

Those who do not think the tax-free exchange of securities with respect to investment funds is a good practice—and I happen to be one of those—have provided for its end in July 1967. It seems to me that is a fair and logical way to handle the matter.

To get up on the floor and say something that should not have been done has been done, when there have been written approvals of such transactions by the U.S. Government, is not a fair statement. I do not know where anyone got that notion. But we are going to stop the practice completely as of July 1. We felt it should be stopped, and we so provided.

Mr. LONG of Louisiana. The Treasury Department wanted to provide by regulation that if the fund had been organized and the stocks had been deposited by July 14, 1966, those transfers prior to that would be all right and would not be taxed on those exchanges, but if such a transfer were to take place July 15 or later, a capital gains tax would have to be paid on the appreciation in value of the property transferred.

Frankly, it seemed fairer, since Treasury did not see fit to take a published position on this problem until July of this year to provide that firms would have until January 1, 1967, to file their registration statements and then 6 months later the tax-free exchanges would stop.

Mr. SMATHERS. Let me read the present law on this matter. I read from section 351(a):

SEC. 351. TRANSFER TO CORPORATION CONTROLLED BY TRANSFEROR.

[Sec. 351(a)]

(a) GENERAL RULE.—No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368 (c)) of the corporation. For purposes of this section, stock or securities issued for services shall not be considered as issued in return for property.

Source: Sec. 112(b) (5), 1939 Code.

There is the law, and there is no way it can be changed by Treasury regulation. It must be changed by Congress. That is what we are now going to do.

We are not going to let Treasury usurp our legislative responsibility.

Mr. LONG of Louisiana. The Senator is correct.

Mr. President, I have heard many complaints today about the many provisions in this bill. There are many good, structural changes in the bill which will basically improve the tax laws. They are good changes:

First, there is the section broadening the application of the provision where one corporation acquires the assets of another corporation.

The law provides that when one acquires 80 percent of a corporation he does not have to pay a tax, but if he acquires 60 percent from one source and indirectly acquires 40 percent from another source where he has acquired control of a company, he must pay a tax because he acquired this stock from a controlled corporation other than by purchase. It is a technicality. It is a trap some people fall into. It is much like a manhole cover being left open to trap the unwary. So we have taken care of that technicality.

Another provision is the one excluding rents from property manufactured by a taxpayer from the personal holding company tax.

A third provision is the one improving the tax treatment of straddles.

That is another good, constructive change.

Another provision is the one dealing with the taxation of cooperatives and patrons with respect to per-unit retain certificates, making their treatment comparable to that of patronage dividends under present law.

That is a matter which has been studied for some time, and it is a good structural change in the law.

There are three provisions removing discrimination in the case of the interest equalization tax. These are provisions very much needed by businessmen and companies abroad, which help bring the services of banks to visiting American company representatives and Americans who have investments there.

Then there is the Williams amendment, offered by the Senator from Delaware, providing for a new type retirement savings bond for those holding bonds 10 to 30 years, which should also improve the balance of our debt between long- and short-term obligations.

Here is an amendment by the same Senator who made that charge about special interests. His amendment provides for a bond bearing a higher interest rate, designed to attract retirement money into the purchase of those bonds.

The Treasury thinks this is a good amendment.

The Senator stated that everything in this bill was for special interests. How about the Williams amendment, the amendment of the very Senator who made that statement?

Mr. SMATHERS. Is it not the belief of many of us, even though we finally voted for it, that this particular Williams amendment would do more to freeze high interest rates in the country than anything else we have done this session?

Mr. LONG of Louisiana. I was not too happy about that one, because I favor low interest rates, and some of us feared that it might be regarded as congressional approval of higher interest rates, but in the spirit of getting on with the business, since the Treasury thought the Senator had a good point, I did not vote against it.

The amendment was agreed to by a small majority, and we, as sincere conferees speaking for the Senate, fought to retain it and did retain it in the bill, because the Senate accepted the amendment. And so it is there.

Then there is another amendment, by the Senator from Massachusetts [Mr. SALTONSTALL] which requires that we have reports on the contingent liabilities of the U.S. Government which it was felt would be useful in helping to understand the nature of our U.S. obligations.

The Senator from Massachusetts retires this year. He has been working in that vineyard for more than 12 years, trying to get a statement somewhere of all the contingent liabilities of the United States, so we could know what they are.

The Senator from Massachusetts accepted an amendment I suggested to his amendment to get a statement of what assets we have available to us, even on a contingent basis, to meet these liabilities.

As I recall, the amendment was offered by the Senator from Delaware [Mr. WILLIAMS] in behalf of Senator SALTONSTALL. The Senator from Delaware has said, "We admit that everything in here is a special privileged matter." But I suppose that here is another Williams amendment—though offered on behalf of the Senator from Massachusetts by the fine Senator from Delaware—which I am sure does not meet the Senator's description of everything being an item of special privilege, for the special advantage of some special group, of everything being tailor made.

In fact, Mr. President, there is nothing in the bill that meets that standard at all.

The Foreign Investment Tax Act should be adopted. It is highly desirable. It will help our balance-of-payments problems and will also help improve the equity in our tax laws, as they apply to foreign corporations and nonresident aliens who invest money here.

We need this bill. It is badly needed to attract foreign money and foreign investments into the United States, to help in our balance of payments and to help our total situation around the world.

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Mr. President, I very much hope that the conference report will be agreed to.

Mr. GORE. Mr. President, before suggesting the absence of a quorum, I wish to advise the Senate that I shall withdraw the proceeding under the quorum call after it has gone on for a sufficient time to advise Senators that at least there has been another Senator recognized to speak.

Mr. President, I ask unanimous consent that without it being counted as a speech by the Senator from Tennessee, I may suggest the absence of a quorum.

The PRESIDING OFFICER. Without objection, it is so ordered. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. GORE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. GORE. Mr. President, I am pleased that finally I am recognized to address the Senate upon the pending conference report, even though it be Saturday afternoon, October 22.

It is not a new experience, Mr. President, for the Senate to face a complicated, technical tax bill, or a sugar bill, in the dying hours of a session.

Admittedly, this renders debate and meaningful consideration most difficult. For this circumstance, which I regret, I neither claim nor accept responsibility.

Mr. President, I wish to advise that from here on, though in the past I have done so, I shall not diminish the exercise of my duty and responsibility because of either the lateness of the day on the calendar or the lateness of the hour on the clock.

One's responsibility as a Senator does not diminish by the length of the term nor the duration of the session.

This is an important measure. I find myself in agreement with the opinion expressed by the junior Senator from Florida [Mr. SMATHERS] that the provision in the bill having to do with the use of public money for political campaigns is the most important part of the bill. It surely is the most ingenious, novel, bizarre, and, I think, the most unwise and dangerous.

Mr. President, I would like to make a preliminary statement before proceeding to discuss this feature of the bill.

My address shall be divided roughly into two parts: One, a discussion of this most important part of the bill, the campaign contribution section; and two, the tax favoritism in the bill.

The senior Senator from Delaware, assisted so ably by the senior Senator from Ohio in interrogation, covered several of the tax favoritism amendments so ably and concisely that I am per-