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RATE EXTENSION

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HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 6755

AN ACT TO PROVIDE A 1-YEAR EXTENSION OF THE EXISTING CORPORATE NORMAL-TAX RATE AND OF CERTAIN EXCISE-TAX RATES

JUNE 20, 1963

Printed for the use of the Committee on Finance

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RATE EXTENSION

THURSDAY, JUNE 20, 1963

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:20 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Long, Anderson, Talmadge, McCarthy, Hartke, Ribicoff, Williams, Carlson, Curtis, Morton, and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The committee has before it this morning for consideration H.R. 6755, the Tax Rate Extension Act of 1963.

(The text of H.R. 6755 follows:)

[H.R. 6755, 88th Cong., 1st sess.]

AN ACT To provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Tax Rate Extension Act of 1963".

SEC. 2. ONE-YEAR EXTENSION OF CORPORATE NORMAL-TAX RATE.

Section 11(b) (relating to corporate normal tax), section 821(a)(1) (relating to normal tax on certain mutual insurance companies), and section 821(c)(1)(A) (relating to alternative normal tax for certain small mutual insurance companies) of the Internal Revenue Code of 1954 are amended as follows:

(1) By striking out "JULY 1, 1963" each place it appears and inserting in lieu thereof "JULY 1, 1964";

(2) By striking out "July 1, 1963" each place it appears and inserting in lieu thereof "July 1, 1964";

(3) By striking out "JUNE 30, 1963" each place it appears and inserting in lieu thereof "JUNE 30, 1964"; and

(4) By striking out "June 30, 1963" each place it appears and inserting in lieu thereof "June 30, 1964".

SEC. 3. ONE-YEAR EXTENSION OF CERTAIN EXCISE-TAX RATES.

(a) EXTENSION OF RATES.—The following provisions of the Internal Revenue Code of 1954 are amended by striking out "July 1, 1963" each place it appears and inserting in lieu thereof "July 1, 1964"—

(1) section 4061 (relating to motor vehicles);

(2) section 4251(b)(2) (relating to termination of tax on general telephone service);

(3) section 4261 (relating to transportation of persons by air);

(4) section 5001(a)(1) (relating to distilled spirits);

(5) section 5001(a)(3) (relating to imported perfumes containing distilled spirits);

(6) section 5022 (relating to cordials and liqueurs containing wine);

(7) section 5041(b) (relating to wines);

(8) section 5051(a) (relating to beer); and

(9) section 5701(c)(1) (relating to cigarettes).

(b) TECHNICAL AMENDMENTS.—

(1) The following provisions of the Internal Revenue Code of 1954 are amended as follows:

(A) Subsections (a) and (b) of section 5063 (relating to floor stocks refunds on distilled spirits, wines, cordials, and beer) are amended by striking out "July 1, 1963" each place it appears and inserting in lieu thereof "July 1, 1964", and by striking out "October 1, 1963" and inserting in lieu thereof "October 1, 1964".

(B) Subsections (a) and (b) of section 5707 (relating to floor stocks refunds on cigarettes) are amended by striking out "July 1, 1963" each place it appears and inserting in lieu thereof "July 1, 1964", and by striking out "October 1, 1963" and inserting in lieu thereof "October 1, 1964".

(C) Section 6412(a)(a) (relating to floor stocks refunds on automobiles) is amended by striking out "July 1, 1963" each place it appears and inserting in lieu thereof "July 1, 1964", by striking out "October 1, 1963" and inserting in lieu thereof "October 1, 1964", and by striking out "November 10, 1963" each place it appears and inserting in lieu thereof "November 10, 1964".

(2) Section 497 of the Revenue Act of 1951 (relating to refunds on articles from foreign trade zones), as amended, is amended by striking out "July 1, 1963" each place it appears and inserting in lieu thereof "July 1, 1964".

(3) Section 5(e) of the Tax Rate Extension Act of 1962 (relating to special credit or refund of transportation tax) is amended by striking out "July 1, 1963" each place it appears and inserting in lieu thereof "July 1, 1964".

Passed the House of Representatives June 13, 1963.

Attest: RALPH R. ROBERTS,
Clerk.

The CHAIRMAN. The Secretary of the Treasury, Secretary Dillon, has a statement to make on the bill. You may proceed, Mr. Secretary.

STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Secretary DILLON. Thank you, Mr. Chairman.

H.R. 6755 extends for another year certain taxes which otherwise would automatically expire or be reduced on July 1 of this year. These rate extensions are in accord with the recommendations of the President in his budget message of January 17.

Taxes covered by the bill are the corporation income tax and certain excises. The excises are those on alcoholic beverages, cigarettes, passenger automobiles, parts and accessories for automobiles, general (local) telephone service, and transportation of persons by air.

Under present law, the corporation normal tax rate would be reduced from 30 percent to 25 percent. The tax on distilled spirits would be lowered from $10.50 to $9 a gallon and that on beer from $9 to $8 a barrel. Minor decreases would be made in the taxes on wines. Cigarettes would benefit from a tax reduction to $3.50 per thousand as compared to the present $4 rate, that is, from 8 cents to 7 cents a package. The tax on manufacturers' sales of passenger automobiles would drop from 10 percent to 7 percent. For automobile parts, the reduction would be from 8 percent to 5 percent. Two excises are scheduled to be repealed: The 10 percent tax on general (local) telephone service and the 5 percent tax on amounts paid for transportation of persons by air.

Retention of these excise taxes at present rates for another year will prevent an estimated revenue loss of $1.7 billion in fiscal 1964. The loss from alcoholic beverages would be $434 million. The cigarette tax reduction would reduce revenues by $265 million, and reductions for passenger automobiles and parts would cost $498 million. Repeal of the tax on general telephone service would curtail revenues by $430 million, while repeal of the tax on transportation of persons by air would cost $86 million.

Further details on excise revenue losses and rate changes are shown in the attached table.

The scheduled reduction in the corporate normal tax would reduce fiscal 1964 revenues by $1.2 billion; on a full-year basis the reduction would be $2.5 billion.

The President recommended continuation of present excise tax rates for another year even though he also recommended substantial reductions in income taxes over the next 3 years. Before the President offered these recommendations, a thorough review of the various components of our Federal tax system was undertaken. The review was made in order to determine where reductions might most appropriately be made to stimulate the growth of our economic system and to determine what changes might also increase the overall equity of the tax system. As a result of this analysis, the President decided that these objectives would best be met by giving priority to adjustments in the scope of the income taxes and through significant reductions in present income tax rates. Admittedly, it would be possible to make reductions in excise taxes which would improve the excise tax system. However, the review concluded that income tax revision should receive first priority.

I might add that this review of the excise tax system also led us to the conclusion that the excises under consideration now are not necessarily those that should have first priority in a reform or reduction of excise taxes. More than a decade has passed since the so-called temporary Korean taxes were imposed. Changes have occurred since 1951 in the economic factors affecting industries subject to excises, many of which are World War II taxes not scheduled for automatic reduction. Our review led us to the conclusion that future excise reductions should be made only in the light of an up-to-date evaluation of the entire excise tax system.

Since the President has emphasized the importance of income tax reduction plus the need for retaining a reasonable limit on the total amount of tax reduction, I should like to indicate the relationship between the amount of the automatic excise tax reductions and the President's income tax reduction proposals. The $1.7 billion of automatic excise reductions equals nearly 17 percent of the $10.3 billion of income tax reduction contemplated upon full implementation of the President's program. Total income tax reductions could be only five-sixths as large as recommended if the automatic excise tax reductions were allowed to take place. The $1.7 billion is even more significant if related only to the President's recommendation with respect to the corporation income tax. The $1.7 billion equals nearly two-thirds of the revenue loss that would result from the President's recommendation to reduce the corporation tax to 47 percent.

While the present law provides for reduction of the corporation income tax to 47 percent through reduction of the normal rate from 30 to 25 percent, the automatic reduction would differ significantly from the reduction proposed by the President. The President's recommendation would maintain the 52 percent corporation tax rate for the calendar year 1963 but would reverse the normal and surtax rates. The present normal tax of 30 percent applicable to the first $25,000 of taxable corporate income would be reduced to 22 percent, and the surtax applicable to income in excess of $25,000 would be increased from 22 to 30 percent. This reversal would reduce fiscal 1964 revenues by only $400 million and would substantially ease the burden on hundreds of thousands of small businesses which form the base of our free enterprise system. Two subsequent changes would be made in the surtax rate. It would drop to 28 percent for the calendar year 1964 and then to 25 percent for the calendar year 1965. When fully effective, the President's proposal would reduce the corporate tax liabilities by $2.6 billion at levels of income estimated for calendar year 1963.

The President's proposed revision of the corporate rate structure is part of the overall income tax program now being considered by the House Ways and Means Committee. Since there is no possibility of enactment of this larger program by July 1, it is necessary to take some action to prevent the presently scheduled corporate tax reduction from going into effect as of July 1. H.R. 6755 proposes to meet this situation by amending present law to postpone the scheduled reduction for another year. I believe that this is the simplest way to take care of this problem.

As you will remember, the President recommended that the tax on air passenger transportation be made permanent, instead of merely extended, as in the case of the other excise rates covered in this bill. The President's recommendation in this connection was part of a larger recommendation covering a user charge program for the airways and waterways. The President also made these user charge proposals last year, but the Congress did not take any action on them except with respect to transportation of persons by air. Even in that case, provision was made for repeal of the tax as of this June 30.

It was hoped at that time that maintenance of the tax until June 30, 1963, would have provided the Congress with an opportunity to review the user charge proposals this year while the most important revenue component, the tax on air passenger transportation, was still in effect. However, the extensive work being done by the House Ways and Means Committee on the President's income tax reduction and reform program necessarily has been given top priority. The 1-year extension of the tax on transportation of persons as proposed by H.R. 6755 will provide the desired continuity in this tax.

Thank you, Mr. Chairman.

(Table attached to statement follows:)

Increase in revenue resulting from extension of present tax rates

[In millions of dollars]

	Rate reduction scheduled as of July 1, 1963, under present law	Effect on net budget receipts, fiscal year 1964			Increase in revenue, full year
		Increase in receipts	Decrease in refunds	Total	
Excise taxes:					
Alcohol:					
Distilled spirits	$10.50 to $9 per gallon	190	138	328	193
Beer	$9 to $8 per barrel	83	9	92	84
Wines	Various [1]	9	5	14	9
Total, alcohol taxes		282	152	434	286
Tobacco: Cigarettes (small)	$4 to $3.50 per 1,000	241	24	265	246
Manufacturers excise taxes:					
Passenger automobiles	10 to 7 percent of manufacturers price.	380	50	430	460
Parts and accessories for automobiles.	8 to 5 percent of manufacturers price.	68		68	82
Total, manufacturers excise taxes		448	50	498	542
Miscellaneous excise taxes:					
General telephone service	10 percent to 0	430		430	570
Transportation of persons by air	5 percent to 0	86		86	105
Total, miscellaneous excise taxes		516		516	675
Total, excise taxes		1,487	226	1,713	1,749
Corporate income tax	30 to 25 percent (normal tax).	1,200		1,200	2,500
Grand total		2,687	226	2,913	4,249

[1] See the following:

Sparkling wines (champagne)	$3.40 to $3 per gallon.
Artificially carbonated wines	$2.40 to $2 per gallon.
Still wines:	
Not more than 14 percent alcohol	17 cents to 15 cents per gallon.
More than 14 percent, not over 21 percent alcohol	67 cents to 60 cents per gallon.
More than 21 percent, not over 24 percent alcohol	$2.25 to $2 per gallon.
More than 24 percent alcohol	$10.50 to $9 per gallon.
Wine, liqueurs, or cordials produced domestically containing over 2½ percent wine, which wine contains over 14 percent alcohol (in lieu of rectification tax).	$1.92 to $1.60 per gallon.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

The CHAIRMAN. Thank you, Mr. Secretary. Senator Anderson?

Senator ANDERSON. The proposal you have here about about the reversal of the normal and surtax rate, is that provided for in the House bill?

Secretary DILLON. That is now being considered by the Ways and Means Committee as part of the overall income tax proposals that are before the committee now.

Senator ANDERSON. Then there is no provision in here to do that?

Secretary DILLON. Oh, no, not at this time.

Senator ANDERSON. How about this tax on airplane travel? Has that not been reduced somewhat?

Secretary DILLON. That was reduced last year from 10 to 5 percent, and the recommendation was that the 5 percent rate be made permanent as part of the overall user charge system, to compensate the Government for some of the expenditures it makes in maintaining airways facilities. Since it was not possible to get time to consider the remainder of that user charge program, the recommendation of the House committee, which we concur in, in this case, is to extend it for another year, with the idea that it will thus be possible to consider the overall program. But it has been reduced last year from 10 to 5 percent, to answer your question.

Senator ANDERSON. It came very nearly being taken out entirely last year.

Secretary DILLON. Well, I think last year even the airline industry recognized and so stated publicly that there was a case for certain user charges in connection with airlines and they were willing to accept this 5 percent rate. They thought that was adequate. They don't want any more than that. And our proposals involve certain other taxes which I think they do not agree with, but those have not been debated or discussed as yet.

Senator ANDERSON. Will this bill continue the $200 special allowance to the Virgin Islands?

Secretary DILLON. No. That is not in this particular bill. That would be in the bill that the House is considering on the House floor today, which is the bill to continue the reduction in tourist exemption from $500 to $100 for another 2 years. That would otherwise run out on June 30 and part of that bill which passed 2 years ago gave the Virgin Islands the special $200 instead of the $100 that everybody else had.

Senator ANDERSON. That is not involved in this legislation?

Secretary DILLON. No, it is not part of this.

Senator ANDERSON. And it is not involved in this, is it?

Secretary DILLON. No, it is not involved in this particular legislation.

Senator ANDERSON. Does Guam come in on this $200?

Secretary DILLON. The bill that was reported by the Ways and Means Committee, on the tourist duty provisions is being considered in the House today, and the House Ways and Means Committee did add to the Virgin Islands all the other insular possessions of the United States, of which Guam is the chief one.

Senator ANDERSON. What does the Department report on that?

Secretary DILLON. The Department accepted the addition of Guam because it had been requested by the government of Guam and we felt that there was no justice in giving one insular possession, the Virgin Islands, a special privilege, and not giving it to our other insular possessions which have the exact same status as the Virgin Islands. In addition, as far as the balance of payments is concerned, very few tourists go to Guam or American Samoa, and therefore we felt that the effect on the balance of payments of adding those two areas would be relatively negligible, so we thought if the Virgin Islands were going to be included, it was fair to include the others.

Senator ANDERSON. Mr. Chairman, I will not go into this more except to point out that the tourist business in the Virgin Islands has boomed out of all proportion. These cruise ships come down and the merchants send their people out with order books and they order material from Scandinavian countries because of these exemptions. And now we are going to give that to Guam, and then we will be giving it to Puerto Rico——

Secretary DILLON. No; Puerto Rico is different, it is part of our tariff wall, so it does not apply there. It is treated as part of continental United States.

Senator ANDERSON. Do you get any revenue from these tariffs from Puerto Rico?

Secretary DILLON. No, we do not. We have revenues from tariffs, yes, but the same laws apply there as in the continental United States.

Senator ANDERSON. But do you get any revenue?

Secretary DILLON. No, I do not think we do.

Senator ANDERSON. Mr. Chairman, I have no more questions, but I do hope that the other bill, if it comes over, will come over right away, so that we can take a really good look at it. This was written in very quickly, without much study, and I think what it needs is very much study and a great many questions; they will be coming out, blossoming out with taxes all over, when they talk about reducing taxes.

Secretary DILLON. It was not originally suggested by the Treasury Department when it came up 2 years ago.

Senator ANDERSON. I have no more questions. I do hope we get rid of the airplane tax and the telephone tax. Thank you.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Mr. Secretary, when is this bill to which you refer coming over to the Senate?

Secretary DILLON. It ought to be here tomorrow morning.

Senator WILLIAMS. Tomorrow morning?

Secretary DILLON. It is being taken up on the House floor this afternoon under the 2-hour rule and presumably it will be passed this afternoon unless there is any significant opposition.

Senator WILLIAMS. Was there any speeding up on it?

Secretary DILLON. No—well, if no action is taken on that bill, returning tourists who return after the first of July would have a $500 limit rather than a $100 limit, so if it is enacted later than that there would be an area of whatever number of days it took during which people would have that higher limit. This would be somewhat complicated for the customs service, and they would much prefer to have it enacted prior to that, but that is merely a matter of administrative convenience for the customs service.

Senator WILLIAMS. Are you recommending that that be made a part of this bill to make sure it is enacted?

Secretary DILLON. I think it is difficult to do that because it has not yet passed the House.

Senator WILLIAMS. Amendments are in order, are they?

Secretary DILLON. Pardon?

Senator WILLIAMS. Amendments would be in order if you would recommend it, it could be considered.

Secretary DILLON. Well, we have not made that particular recommendation because we thought this was a tax or tariff bill that has to be originated in the House, and it has not been passed, so we did not think we could do anything about that.

Senator WILLIAMS. When that does come over, it is the understanding that the administration is recommending it be extended to Guam, and that it be continued for the Virgin Islands?

Secretary DILLON. We have no objection to a continuation of the Virgin Islands because that was specifically put in by the Congress. It was not our suggestion 2 years ago. We assumed Congress would want to continue it, although it was not our suggestion. We do feel that if the Virgin Islands is continued, then it is fair to approve it for other insular possessions which are in exactly the same situation.

Senator WILLIAMS. Perhaps I did not make my question clear. What is your recommendation as to continuation for the Virgin Islands? Are you for it or against it?

Secretary DILLON. We are for the extension to Guam if the Virgin Islands is kept. I don't think we have taken a position there. I would like to have the opportunity to consider that further regarding a proposal to remove from the Virgin Islands the special $200 which Congress gave them at the last time the law was passed. At that time, as I said, we did not recommend that but we accepted it, so I think our position on that was more or less neutral. We thought it was supposedly meant to help the Virgin Islands which is an insular possession. But it is true that they have used it primarily to have tourist boats just pass through there and buy very large and substantial volumes of goods, and in that way it does increase our balance-of-payments deficit and does lose us some customs revenue, and I don't know whether that is particularly necessary or equitable.

Senator WILLIAMS. Would you give the committee a letter stating your position on that?

Secretary DILLON. Yes, we will. It did not come up and we were not even asked that question in the House. They continued it without discussion so we did not—we assumed that is what Congress wants to do, and we did not positively recommend it be changed. But if you have that question, I will be glad to have a letter for you.

Senator WILLIAMS. And will you make specific reference to your recommendation as to the Virgin Islands?

Secretary DILLON. Yes.

Senator ANDERSON. Would the Senator yield?

Senator WILLIAMS. Yes.

Senator ANDERSON. There were 291,000 tourists to the Virgin Islands last year, helped along by this practice, and I think the local budget which was $3 million in 1954 has risen—for 1962 the budget is $15,644,000. I think that the Guamanians are smart to recognize that this might do the same thing for them in the Pacific, as far as the tourists. Thank you.

Senator WILLIAMS. Mr. Secretary, I notice in this bill that the corporate rate is to be extended a full year. As I understand it over in the House they recommended that that be reduced to 47 percent effective January 1.

Secretary DILLON. There are two stages. Effective January 1 it will be reduced to 50 percent and to 47 percent on January 1, 1965.

Senator WILLIAMS. My question is: If you are making that recommendation, why not just extend it 6 months and make any recommendations you plan for the next year?

Secretary DILLON. It would have been possible to make a recommendation here to extend the rate for 6 months under the assumption that the tax bill would be fully enacted by that time. However, the Ways and Means Committee thought it would be simpler and we thought that it would be simpler, simply to reenact this for the year with the understanding, or the hope, that the Congress would toward the end of the year, the end of the calendar year, act on a tax bill which would include corporate income tax reduction.

Now, we do not know whether they will accept the timing or the type of reduction we recommended. So, this is something that will be considered, has yet to be considered in the Ways and Means Committee, and they may change the timing or they may change the amount of the reduction. In their report on the bill they pointed out that they thought it was better just that it be completely fluid, but the fact that this was extended for a full year should not be taken to indicate there would be no change in the course of the year. They just thought it more conservative and more sensible not to give themselves too tight a limit, as January 1 might be if the Senate were to delay and remain inactive for any reason.

Senator WILLIAMS. I happen to be one of those who felt most of this talk on tax reduction was just so much political propaganda, and I am still of that opinion, and I think that is borne out by the fact that the administration is here asking for an extension for a full year in the corporate rates, because I assume you, too, think that the corporations will be paying 52 percent next June 30——

Secretary DILLON. I hope not.

Senator WILLIAMS. Now—what was that?

Secretary DILLON. I hope not.

Senator WILLIAMS. Now, I was wondering—this has nothing to do with this act, really—but I am reminded of the fact that just a couple of weeks ago you were here under threat of emergency for action on the debt ceiling, and at that time the Senate extended if for a full year and later, upon your recommendation, the Senate reversed itself because there was a dire emergency confronting the Treasury Department.

Now, I want you to note, and I want these figures to go in the record, that you underestimated your revenues by about $1 billion throughout this period, and as of the 14th, the report that came in this morning, the total permitted you was a debt of $306.8 billion, and you only had a debt of $305 billion and there was only $100 million difference in the cash, and throughout most of this period your cash had been running about $1 billion over what you had estimated. So, you had overestimated that emergency at that time. I want to ask you, in this emergency with which you will be confronted again next August, if you cannot get down here sometime when you will not be operating under such a state of emergency, so that we can sit down and consider this a little more intelligently. I am so much concerned with this shotgun approach, where we do not have time for study. I do know, and I think you will agree, that even up to the 14th of June, which was the latest statement which came in this morning, that you still could have operated under the old debt ceiling of $305 billion with little inconvenience and we could have had adequate time to consider the extension of that debt limit for the full year. I am hoping that we can get away from these continuous emergencies, because sometime we may find ourselves calling somebody's bluff.

Secretary DILLON. Well, I would like to comment on a couple of things there. I was well aware of and sympathized with the view of the Senate and of this committee that there was not adequate time to consider this bill, and I thought this was made very clear in the consideration and the colloquy on the floor between yourself and Senator Mansfield. Certainly I brought that to the attention of the chairman of the House committee, and I would expect and hope that there would be more time in the future.

As to the emergency, it was real, with the $305 billion limit. We did say that limit was going to be exceeded when we had to invest the trust funds at the end of May, and that did occur and it was exceeded by some $300 to $400 million at the end of that week, and the day after the bill was passed and taken over and signed by the President, it went over the $305 billion limit.

Senator WILLIAMS. By a very small amount.

Secretary DILLON. A small amount. And then the next day, by about $300 or $400 million, and so that there was this increase. Now, we have been doing some very special operations which were brought on by this debt limit—it is fortunate they were somewhat more successful than we had originally thought. We did invest in the period of about 10 days or 2 weeks some $650 million of trust funds in outstanding issues of the Government that we had to buy and market in New York. This was a very heavy investment program which ordinarily would have been something that can disrupt the market, but it so happened that it coincided with a period of weakness in the Government buying market when prices were tending to to decline, so there were adequate offerings and we were able to get a volume that we had not expected. If we had not been able to do that, we would have had a debt that much higher, every one of these dollars that were put into these purchase bonds meant that we did not have to issue a special issue, which is the ordinary procedure.

Now, the other thing that has been done right now, to make the figures look somewhat better, we did raise, as you know, we wanted to raise some funds in June, which is a better time to raise it rather than in July. We did do that but we postponed the date of payment on that until a later time in June when the tax anticipation bills would be in. We instituted a special procedure throughout our tax receiving offices, which receive the taxes, these bills, to report these bills and to get them on to our books quicker than usual, so we have had these tax anticipation bills in much larger volume by the 15th of the month than there ordinarily would be, so that actually had an effect, a temporary effect on our debt that otherwise would not have been the case.

Senator WILLIAMS. I am not questioning that, but last summer, for instance, you provided yourself with some $600 to $800 million more cash than you estimated you would need, and I reckon you are paying interest on that. In addition to that, the record shows that as of the date of the report that you sent down today you could have operated. We did have ample time to consider that, and today we are confronted with a ridiculous situation where September 1 you go back to $285 million—and we all know that you cannot do that.

Secretary DILLON. That is right.

Senator WILLIAMS. So recognizing that you will be coming down with another emergency, I want you to be here in time.

Secretary DILLON. I think that is very reasonable and it will certainly be our intention to act promptly and give you plent of time.

Senator WILLIAMS. Would you furnish for the committee the amounts of money that you have borrowed from foreign governments or from foreign banks up to the present? Do you have that figure?

Secretary DILLON. Well, the figure has been—I think it was furnished that last time, I think it was $530 million. But we will furnish you with that.

Senator WILLIAMS. Will you furnish that for the record?

Secretary DILLON. Yes, sir.

Senator WILLIAMS. Now, those borrowings are, in effect, calls on our gold, are they not?

Secretary DILLON. Well, we simply borrow foreign currency. They are not calls on gold, because they can be repaid in the same foreign currency which was borrowed, and these foreign currencies of course can be converted into dollars, and the dollars can be——

Senator WILLIAMS. Coverted into gold.

Secretary DILLON. Into gold, so they could eventually be, but they do not add to any calls on gold. In fact, they reduce the calls on gold as long as they are outstanding.

Senator WILLIAMS. They reduce it momentarily, but the point I am making is, as they mature, and assuming the mathematics that the price of gold had been changed, they could be payable in the currencies of these respective countries and in turn that would mean that they would get the advantage of any depreciation of the American dollar.

Secretary DILLON. Well, if you assume that the American dollar would be devalued, if you assume it is going to be devalued——

Senator WILLIAMS. I am not assuming it, I am just——

Secretary DILLION. If it is otherwise, the United States would get it.

Senator WILLIAMS. I am not assuming it, I am just giving a hypothetical case.

Secretary DILLION. Yes.

Senator WILLIAMS. Mathematically. Now, of course, borrowings in these international currencies are, in effect, guarantees against any depreciation of a dollar that had to go out of their own country.

Secretary DILLION. Yes, and we are guaranteed against any depreciation the other way around. We would gain if their currencies——

Senator WILLIAMS. Except with this difference. If they were going to devalue their currency they would know it in advance and make certain to call it to take advantage of it, and this other way we would not know of it—I mean, it is a one-way street on guarantees, and it is a postponement of a call, or it could be a postponement of a call, on American gold.

Secretary DILLON. Well, if we were to devalue the American dollar, we would know it ahead, so it would work the same both ways, we could pay them off——

Senator WILLIAMS. Yes, you could pay them off if you had the money.

Secretary DILLON. I assume the United States would have the money.

Senator WILLIAMS. Now, how much has been collected over the past 2 years in these advance repayments from each of these countries? Will you put that in the record?

Secretary DILLON. I will be glad to.

Senator WILLIAMS. Because that, too, is a nonrecurring item which diminishes the call on gold.

Secretary DILLON. That is right.

Senator WILLIAMS. And we have practically utilized that recently, have we not?

Secretary DILLON. No, there is still room for advance payments, although not as large as we have had in the last 2 years, and I would say that is likely to continue for the next—for this year and next year and possibly the year after. It is mostly in the case of France. It still owes about $1 billion to the United States, and it was on a surplus, so it was glad to make advance repayments out of a part of the surplus.

Senator WILLIAMS. How much was collected, do you know offhand, of these governments in advance payments in the past 2 years?

Secretary DILLON. We collected a total of roughly $650 million in each of the last 2 years.

Senator WILLIAMS. Each of the last 2 years?

Secretary DILLON. Each of the past 2 years. I have not got it clearly in my mind, the exact breakdown. I will furnish that for the record. But about $650 million in each of the 2 years.

(The following was later received for the record:)

THE SECRETARY OF THE TREASURY,
Washington, June 20, 1963.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: At the Finance Committee hearings this morning on the Tax Rate Extension Act of 1963, Senator John J. Williams inquired as to the amount of our borrowings abroad and the amounts of debt prepayments that have been made over the past 2 years.

In reply to the first question, I am enclosing a schedule of our foreign currency security issues now outstanding which also shows in some detail the terms of the various issues.

With regard to debt prepayment, the amounts totaled as follows over recent years:

	Millions
1959	$435
1960	48
1961	668
1962	666
To date, 1963	25

Sincerely,

DOUGLAS DILLON.

Treasury foreign currency security issues

Country	Amount in—		Interest rate	Date issued	Maturity	Payment date
	Local currency	U.S. dollar equivalent				
	Millions	*Millions*	*Percent*		*Months*	
Swiss francs	110	25	2.00	[1] Oct. 22, 1962	8	July 1, 1963
Do	100	23	2.75	Oct. 18, 1962	15	Jan. 20, 1964
Do	120	28	2.75	Nov. 8, 1962	16	Mar. 9, 1964
Do	130	30	2.82	Jan. 24, 1963	16	May 25, 1964
Do	97	22	2.82	[1] Apr. 1, 1963	15	July 1, 1964
Do	100	23	2.83	Apr. 4, 1963	17	Sept. 4, 1964
Do	100	23	2.82	May 16, 1963	18	Nov. 16, 1964
Italian lire	46,500	75	3.00	Nov. 7, 1962	15	Feb. 7, 1964
Do	31,000	50	3.00	Nov. 30, 1962	15	Feb. 28, 1964
Do	31,000	50	3.00	Dec. 7, 1962	15	Mar. 9, 1964
Do	15,500	25	3.27	[1] Mar. 29, 1963	24	Mar. 29, 1965
German marks	200	50	3.13	[1] Jan. 24, 1963	15	Apr. 24, 1964
Do	200	50	3.18	[1] Jan. 24, 1963	18	July 24, 1964
Do	200	50	3.09	[1] Feb. 14, 1963	21	Nov. 16, 1964
Do	200	50	3.14	[1] Feb. 14, 1963	24	Feb. 15, 1965
Austrian shillings	650	25	3.23	[1] Apr. 26, 1963	18	Sept. 26, 1964
Belgian francs	1,000	20	3.26	[1] May 16, 1963	24	May 16, 1965
Do	500	10	3.22	[1] May 20, 1963	24	May 20, 1965
Total		[2] 630				

[1] Indicates bond contains convertibility feature.
[2] Figures do not add to total because of rounding.

Senator WILLIAMS. And altogether that represents operations of about $1.8 billion which is——

Secretary DILLON. $1.3 billion.

Senator WILLIAMS. No.

Secretary DILLON. Oh, I see.

Senator WILLIAMS. A total of about $1.8 billion which has reduced the call on gold proportionally.

Secretary DILLON. That is right. One thing we are doing which I think would interest you, Senator, and probably be helpful; we thought it would be helpful in view of the interest in all these matters, the Department of Commerce—we have collaborated with them in this—in reporting our balance of payments statistics will be using in their report which comes out, I think, next week—it is a report that will give the details of the first-quarter results and will also give a review of last year—are using a new statistical table which will clearly identify and separate out all of these transactions of the type you are talking about and list them as special Government transactions so it will be very easy for anyone to see exactly what is a special transaction and what is an ordinary transaction. All this information always has been there, but it will be in a much clearer form.

Senator WILLIAMS. The point I am making is this, that this $1.8 billion which reduced the call on gold temporarily is drawn from a source that we do not have protected in advance. Maybe we won't have that.

Secretary DILLON. That could be, yes, that certainly is not a continuing source.

Senator WILLIAMS. That is what I mean. Therefore, as time moves on now you are going to be confronted more directly with the draw on our gold.

Secretary DILLON. That would be the case unless the balance of payments improves, fundamentally.

Senator WILLIAMS. That is all. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Long?

Senator LONG. Mr. Secretary, I want to ask only one long-winded question which you might be able to answer "yes" or "no."

Secretary DILLON. Thank you.

Senator LONG. Senator Smathers led the charge in this committee to put American airlines and shipping companies on the same basis as foreign shippers, so that if you got on an airline, let us say in San Francisco and you were flying to Europe, you would not pay the transportation tax on the American airline, in view of the fact that you would not pay that tax if you were on a foreign airline.

Now, our shipping people came in a little bit late, to point out that a lot of people like to go over by ship and come back by air, or vice versa, and that they have to pay that 5 percent tax if they are going over by ship, if you fly to the port, say, and then take a ship over; or if you return the same way, and they would like to—I think if we had thought of it we would have taken care of that in the past.

Now, Senator Smathers would like, and if he does not I will, to take care of that situation, and he would like also to extend the time of layover from 6 hours to 12 hours, and I would hope that he might be able evento go on to make it as much as 24 hours in hopes that some of those people might spend some of that money in New Orleans or Miami or New York. Would you care to indicate how far you think you might want to go along with that proposition with us?

Secretary DILLON. Well, when this was adopted last year we in Treasury supported the idea that you pointed out, because it is a situation where a foreign airline or some foreign airlines have the right to fly across the United States to Europe, or across the United States from the east coast to Japan, and they did not pay any tax all the way. Our own international airlines pay no tax on transoceanic flights but, as you pointed out, it was unfair as far as our competition with foreign airlines. So, the tax was waived and I think if there had been time to consider it and talk with the industry, that as a matter of technical drafting probably a provision would have been put in to take care of the ocean travel which would make them in the same position as the airlines.

We have looked at that as far as revenue is concerned and we cannot find that it would make very much difference in revenues, maybe somewhere around $500,000 to $1 million at the most.

Now, the 6-hour rule was adopted for a specific purpose. We do not want to discriminate against ordinary domestic travel that is subject to tax, and so all travel that is for the purpose of really having a vacation, a real layover, we think should pay the tax. And industry—we worked with them—suggested the 6-hour rule which was satisfactory with us.

But it turned out apparently that there is one airline, Northwest Airlines, that has some flights where the 6-hour rule does not do any good, because the only connecting airlines come in the night before and the flight goes out the following morning, so they got no benefit from this 6-hour rule. So, they are still at the same disadvantage, and I think it was on account of them that this 12-hour rule provision was suggested, and I think that we would consider that as the same sort of a technical classification. If it was larger and led to a real layover, I think we would feel that was getting into another area, and we would prefer not to go beyond 12 hours.

Senator LONG. You do not object to the 12 hours?

Secretary DILLON. No, we would not. We consider that not a change in tax rate or anything, just a technical amendment as was done last year.

Senator LONG. Thank you.

The CHAIRMAN. Senator Morton?

Senator MORTON. Mr. Secretary, on this particular bill that you came up here to discuss this morning, I would like to talk about that for a moment. The amount involved in this excise tax is in the area of $1.7 billion?

Secretary DILLON. That is right.

Senator MORTON. In other words if we fail to take action these so-called Korean taxes would expire and would reduce the total about $1.7 billion?

Secretary DILLON. That is right.

Senator MORTON. The corporate tax amounted to about the same, did it?

Secretary DILLON. The corporate tax—the effect for this fiscal year would be about $1.2 billion and for the full year it would be $2.5 billion, the reason being that the full rate is in effect half the calendar year and those corporations are on a calendar year basis.

Senator MORTON. Well, let us assume that no general tax measure affecting corporate rates for this coming fiscal year were adopted by

Congress—I gather it is your hope that some measure will be, but assuming it is not, then the total amount involved is $1.7 billion plus——

Secretary DILLON. $2.5 billion.

Senator MORTON. Well, we are talking in the area of a little over $100 million?

Secretary DILLON. Right.

Senator MORTON. And if the President's recommendations are accepted by the Congress in the general corporate tax field, what would that reduce it for this fiscal year?

Secretary DILLON. Just to make it clear, the $2.5 billion of corporate revenue here is not for this fiscal year, it is only about half of that, $1.2 billion for this fiscal year and it would be $2.5 billion in the ensuing fiscal year. But the President's recommendations as they went to Congress would have involved a corporation reduction which would have an effect in the fiscal year of about $400 million, and that was the result of the reversal of the normal and surtax for the calendar year 1963. That would be the only item that would affect fiscal year revenues, and there was also a recommendation that the tax rate be reduced on January 1, 1964, and further reduced on January 1, 1965, but neither of those actions would have affected in any way fiscal year 1964 revenues.

Senator MORTON. But if the President's recommendation should be adopted and sent up insofar as corporate revenue is concerned, rates on corporations—surtax and normal tax—how would that affect it, what would that amount to over the period of time that this bill prevails—the total over the life of this bill would be $2.5 billion?

Secretary DILLON. For the life of the bill? This bill is to carry on a continuation of these corporation taxes for 1 more year, and if the bill does not pass it will have certain revenue effects in fiscal 1964 and then, unless a bill like it passes, it would have larger revenue effects thereafter, twice as big. So, as compared to fiscal 1964, the difference between the President's proposals and this proposal—there would be a difference of $400 million in the President's proposal and $1.2 billion if no action was taken here, and that is a difference of $800 million.

In the ensuing year if no action is taken here it would be $2.5 billion of revenue effect and the President's proposal would have given about $1.5 billion or so, and then the following year the President's proposals would amount to about $100 million more than the $2.5 billion because of the reversal of the normal and the surtax.

Senator MORTON. Thank you.

The CHAIRMAN. Senator Talmadge.

Senator TALMADGE. Mr. Secretary, do I correctly understand that the bill as it came from the House merely extends the existing law without change or amendment in any way whatever?

Secretary DILLON. That is correct.

Senator TALMADGE. Thank you. No further questions.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. No questions.

The CHAIRMAN. Senator Hartke?

STATEMENT BY SENATOR VANCE HARTKE BEFORE THE SENATE FINANCE COMMITTEE ON H.R. 6755

Senator HARTKE. Mr. Chairman, I asked to appear here today to ask the members of this committee to favorably consider an amendment I intend to offer to H.R. 6755, the tax rate extension bill.

The amendment is a simple one, but one I feel is badly needed. It would amend the Internal Revenue Code of 1954 so as to exempt from tax musical instruments sold to students for school use.

Section 4151 of the Internal Revenue Code reads as follows:

Sec. 4151. Imposition of Tax.

There is hereby imposed upon the sale of musical instruments by the manufacturer, producer, or importer a tax equivalent to 10 percent of the price for which so sold.

However, section 4221, entitled "Certain Tax-Free Sales," prescribes that:

* * * no tax shall be imposed under this chapter on the sale by the manufacturer of an article * * * to a nonprofit educational organization for its exclusive use * * *.

The result of these provisions is that musical instruments owned by schools and used by school music students are tax exempt while instruments purchased by the students themselves for use in school are taxed. I believe this situation is grossly unfair. The tax on instruments purchased by the students for school use is, in effect, a tax on musical textbooks.

It is for this reason that I introduced S. 1520 on May 13, 1963, and that I now offer the text of this bill as an amendment to H.R. 6755.

The amendment would add a new section to the Internal Revenue Code which would have the effect of extending the exemption now granted to educational organizations to include students who purchase instruments for school use.

Mr. Chairman, school music programs provide a wholesome cultural stimulus to thousands of young people throughout the country. I do not believe we should discourage these worthwhile activities of our children by the continuation of an inequitable tax on musical instruments. Therefore, I urge the members of this committee to take the first step in remedying this situation by accepting my amendment.

(The amendment proposal by Senator Hartke follows:)

[H.R. 6755, 88th Con., 1st Sess.]

AMENDMENT Intended to be proposed by Mr. HARTKE to the bill (H.R. 6755) to provide a one-year extension of the existing corporate normal-tax rate and of certain excise-tax rates, viz: At the end of the bill insert the following new section:

SEC. 4. MUSICAL INSTRUMENTS SOLD TO STUDENTS FOR SCHOOL USE.

(a) EXEMPTION FROM TAX.—Part II of subchapter C of chapter 32 of the Internal Revenue Code of 1954 (relating to tax on musical instruments) is amended by adding at the end thereof the following new section:

"SEC. 4152. EXEMPTION FOR EDUCATIONAL USE.

"The tax imposed by section 4151 shall not apply to any musical instrument sold to an individual who is a student in an educational institution if such instrument is to be used by such student in an orchestra, band, or similar organization sponsored by, or in a course of instruction offered by, such institution. For purposes of this section, the term 'educational institution' means an educational institution (1) which is a nonprofit educational organization (as defined in section 4221 (d) (5)) or (2) which is an agency or instrumentality of any government or any political subdivision thereof, or is owned or operated by a government or any political subdivision thereof or by any agency or instrumentality of one or more governments or political subdivisions. The right to exemption under this section shall be evidenced in such manner as the Secretary or his delegate may prescribe by regulations."

(b) TECHNICAL AMENDMENT.—Section 6416(b)(2)(P) of the Internal Revenue Code of 1954 (relating to certain sales of musical instruments) is amended by inserting before the semicolon at the end thereof the following: "or sold to an individual who is a student in an educational institution (as defined in section 4152) for use by such student in an orchestra, band, or similar organization sponsored by, or in a course of instruction offered by, such institution".

(c) CLERICAL AMENDMENT.—The table of sections for part II of subchapter C of chapter 32 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new item:

"Sec. 4152. Exemption for educational use."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to sales of musical instruments made after the date of the enactment of this Act to students in an educational institution (as defined in section 4152 of the Internal Revenue Code of 1954, as added by subsection (a) of this section).

The CHAIRMAN. Thank you, Senator Hartke.

Senator Fulbright is chairing a hearing in his own committee this morning. He would like to have an answer to these questions which I submit for the record.

QUESTION WHICH SENATOR FULBRIGHT WISHES ASKED OF SECRETARY DILLON OR THE TREASURY DEPARTMENT OFFICIAL REPRESENTING HIM

Q. I should like to know what the position of the Treasury Department would be if an amendment were offered to this bill to eliminate the present excise tax on admissions to the legitimate theater?

Mr. August Heckscher, the recently resigned special consultant to the President on the arts, has stated in his report as follows:

"Other countries give positive support to their theaters; the United States by contrast 'penalizes' the theater by imposing a 10-percent admissions tax. Such a tax has been considered a legitimate excise tax traditionally levied on 'luxuries'. It has been defended on the ground that its remission would not necessarily have the effect of lowering ticket prices or benefiting the actor or playwright. But the theater is not a mere 'luxury.' And it is quite possible, as the recent agreement between Actors Equity and the New York producers has shown, to insure that a tax saving will be used in ways which advance the true interests of the theater and of the acting profession.

"The repeal of the Federal admissions tax on the legitimate theater, expecially if combined with other acts aimed at promoting the American stage, would give a vital stimulus to this basic and enduring art form."

And in a letter in which President Kennedy accepted Mr. Heckscher's resignation, he stated: "Government can never take over the role of patronage and support filled by private individuals and groups in our society. But Government surely has a significant part to play in helping establish the conditions under which art can flourish—in encouraging the arts as it encourages science and learning."

Q. In view of these positions taken by Mr. Heckscher and by the President, I would appreciate knowing, for the benefit of the committee, plans the administration has to implement these recommendations as they relate to the legitimate theater's excise tax.

THE SECRETARY OF THE TREASURY,
Washington, June 20, 1963.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: In connection with the hearings today of the Finance Committee on the Tax Rate Extension Act of 1963, you have requested me to respond to an inquiry of Senator Fulbright concerning the recommendation of Mr. August Heckscher that the present excise tax on admissions to the legitimate theater be eliminated. Mr. Heckscher is the former special consultant to the President on the arts.

I do not believe that we can request implementation of Mr. Heckscher's recommendation for exemption of the legitimate theater from the admissions tax this year. The President's tax program for this year contemplates a large reduction and revision of our income taxes. At the same time, the President requested continuation of present excise tax rates, since he had decided that improvements in our tax system might best be achieved by first making changes in the income taxes. There are revisions which would better our system of exercises, but a review of the revenue system led the President to conclude that income tax revision should be given priority.

As to our future policy position, I can only say that the administration will certainly give full and sympathetic consideration to Mr. Heckscher's recommendation as we continue our work looking toward additional ways of improving the Federal tax system. The President's interest in the relation of the Government to the arts, of course, is well illustrated by the quotation you cited.

With best wishes,

Sincerely,

DOUGLAS DILLON.

The CHAIRMAN. If there are no further questions, thank you very much, Mr. Secretary. The committee will now go into executive session.

(Whereupon, at 11:05 a.m., the committee retired into executive session.)

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