

EXEMPTION OF CERTAIN BICYCLE TIRES AND TUBES FROM MANUFACTURERS EXCISE TAX

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Mr. BYRD of Virginia, from the Committee on Finance, submitted
the following

REPORT

[To accompany H.R. 8318]

The Committee on Finance, to whom was referred the bill (H.R. 8318) to amend the Internal Revenue Code of 1954 to exempt bicycle tires and tubes used in the manufacture or production of new bicycles from the manufacturers' excise tax on tires and tubes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. SUMMARY OF BILL

At the present time bicycle tires are subject to the 5-cents-a-pound manufacturers' tax on tires, and bicycle inner tubes are subject to the 9-cents-a-pound manufacturers' tax on inner tubes. This is true both of tires and tubes manufactured in the United States and those imported. These excise taxes do not apply, however, to tires and tubes already mounted on bicycles when the latter are imported into the United States.

The bill, H.R. 8318, exempts from the tire and inner tube taxes bicycle tires and tubes sold for use, or used, in the manufacture of new bicycles. The taxes will continue to apply, however, to tires and tubes sold, or used, as replacements.

The changes made by this bill are to be effective the first day of the first month beginning more than 10 days after the date of enactment of this bill.

II. GENERAL STATEMENT

Present law (sec. 4071) imposes a manufacturers' excise tax on bicycle tires of 5 cents a pound and a manufacturers' excise tax of 9 cents a pound on inner tubes. These taxes apply to sales of tires and tubes by the manufacturers, producers or importers. As a result all

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of these tires and tubes when sold as replacements for old tires and tubes are subject to tax. In addition, bicycle tires and tubes (whether manufactured here or imported) are subject to tax when sold in the United States to bicycle manufacturers or others for mounting on new bicycles. Similarly, they are subject to tax if the tire and tube manufacturer himself mounts a tire and tube on a bicycle, since such use is deemed to be a sale.

A problem has arisen, however, in the case of bicycle tires and tubes mounted on bicycles outside of the United States where the bicycles are then sold in the United States. In such cases no U.S. excise tax is paid on the bicycle tires and tubes. The effect of this is to discriminate against American producers of bicycles, since reflected in their costs, but not the costs of their foreign competitors, is the U.S. excise tax on the tires and tubes mounted on their bicycles.

The cost of this tax per bicycle (for two tires and tubes) on the average amounts to about 25 cents. While this may appear to be a small amount, it is understood that in most cases it represents about one-third of the manufacturer's profit on a bicycle. The significance of the competition where this problem exists is shown by the fact that the U.S. Tariff Commission has estimated that in 1958, out of 2,875,000 bicycles apparently sold for use in the United States, 768,000 were imports, or about 27 percent of the total.

Another aspect of the problem is that industry surveys have shown that 90 percent of all bicycles sold in the United States are for use by children in the 5 to 12 age category. In the past, Congress has indicated that in general it did not desire to subject to excise tax articles primarily designed for children. Thus, for example, in the Revenue Act of 1951 the manufacturers tax on sporting goods was made inapplicable to various equipment of the size or kind predominantly used by children. In addition, in the same act, Congress removed the tax on solid rubber tires of small sizes and tires with internal wire fasteners which are used for such items as children's tricycles, scooters, coaster wagons, etc.

In view of these considerations your committee provided in this bill for exemption from the tire and innertube taxes of bicycle tires and tubes sold for use in the manufacture, or production of new bicycles, or used by the tire and tube manufacturer for this purpose. This is accomplished through a series of amendments to the Internal Revenue Code to provisions dealing with tax-free sales, the use of taxable articles in further manufacture and with credits and refunds.

The changes made by this bill are to be effective the first day of the first month beginning more than 10 days after the date of enactment of this bill.

It is estimated that this bill will result in an annual revenue loss of slightly over \$500,000 a year.

III. DEPARTMENTAL VIEWS

In a report to the chairman, the Department of the Treasury expressed opposition to the proposed exemption of bicycle tires and tubes because of the revenue loss involved and because it was felt a precedent that would be created for exemption of tires and tubes mounted by manufacturers on other end items not subject to manufacturers' excises.

IV. TECHNICAL EXPLANATION OF BILL

The first section of the bill deals with the situation where the manufacturer of the tire or tube and the manufacturer of the bicycle are separate and distinct persons. This section of the bill amends section 4221 of the code to provide that the tax imposed by section 4071 on tires and tubes shall not apply to any bicycle tire or tube which is sold by its manufacturer, producer, or importer to another person for use in the manufacture or production of, or as a component part of, a new bicycle, subject to the requirement that within 6 months the manufacturer of the tire or tube receive (and make available to the Secretary or his delegate) adequate proof that it was actually so used. A rebuilt or reconditioned bicycle would not be considered a new bicycle for purposes of this exemption (or for purposes of the exemption under sec. 4218, discussed below). Section 4221(a)(1) presently provides an exemption from tax for articles which are sold by the manufacturer for use in further manufacture, but tires and tubes of all types are specifically excluded from this exemption (except where the product of such further manufacture is sold for export or for use by a vessel or aircraft, a State or local government, or a nonprofit educational organization); so that the effect of the amendment made by the first section of the bill is to provide for bicycle tires and tubes a special exemption from tax which is similar to the general exemption presently provided in cases of further manufacture by section 4221(a)(1), although it is more limited than the general exemption in that it applies only where the further manufacture involves a specified product.

Section 2 of the bill deals with the situation where the manufacturer of the tire or tube is also the manufacturer of the bicycle and himself uses the tire or tube in the manufacture or production of the latter. It amends section 4218 of the code to provide in effect that if a person manufactures, produces, or imports a bicycle tire or tube and uses it as material in the manufacture or production of, or as a component part of, a new bicycle, he shall not be liable for tax. Section 4218(b) presently provides that the use *for any purpose* of a tire or tube by its manufacturer, producer, or importer renders him liable for tax as though he had sold it (this being an exception to the general rule, stated in sec. 4218(a), that the use of an article by its manufacturer, producer, or importer renders him liable for tax as though he had sold it *unless* such use is for the further manufacture of a taxable article); so that the effect of the amendment made by section 2 of the bill is to provide for bicycle tires and tubes a special exemption from tax which is similar to the general exemption permitted under section 4218(a) in cases of further manufacture, although it differs from the general exemption in that it applies only where the further manufacture involves a specified product (and is available even though that product is not a taxable article under the code).

Section 3 of the bill deals with the taxpayer's entitlement to credit or refund in the situation where tax under section 4071 of the code was paid on a bicycle tire or tube which is used in the further manufacture of a new bicycle, but where (1) such tire or tube could have been sold tax free under section 4221 (discussed above), or tax-free treatment was denied solely because of a failure to provide proof of its use in further manufacture within 6 months as required, or (2)

such tire or tube was sold by its manufacturer, producer, or importer to a third party who in turn resold it to the bicycle manufacturer, and it could have been sold tax free under such section 4221 but for the intervention of such third party. Section 3 of the bill amends section 6416 of the code to provide that the payment of the tax on a bicycle tire or tube in a situation of this kind shall be deemed an overpayment (by the bicycle manufacturer in the direct-sale situation and by the tire or tube manufacturer in the three-party situation) in respect of which a credit or refund of such tax can be allowed or made. Under the existing provisions of section 6416(b), a credit or refund can be allowed or made with respect to any tire or tube only if it (or the article in the further manufacture of which it is used) is exported or sold for use by a State or local government, a nonprofit educational institution, or a vessel or aircraft. A rebuilt or reconditioned bicycle would not be considered a new bicycle for purposes of determining a person's right to a credit or refund under these provisions.

Section 4 of the bill (the effective date section) provides that the amendments made by the bill shall apply only with respect to bicycle tires and tubes sold by the manufacturer, producer, or importer on or after the first day of the first month beginning more than 10 days after the bill is enacted.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italic; existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

SEC. 4221. CERTAIN TAX-FREE SALES.

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(e) SPECIAL RULES.—

(1) RECIPROcity REQUIRED IN CASE OF CIVIL AIRCRAFT.—In the case of articles sold for use as supplies for aircraft, the privileges granted under subsection (a)(3) in respect of civil aircraft employed in foreign trade or trade between the United States and any of its possessions, in respect of aircraft registered in a foreign country, shall be allowed only if the Secretary of the Treasury has been advised by the Secretary of Commerce that he has found that such foreign country allows, or will allow, substantially reciprocal privileges in respect of aircraft registered in the United States. If the Secretary of the Treasury is advised by the Secretary of Commerce that he has found that a foreign country has discontinued or will discontinue the allowance of such privileges, the privileges granted under subsection (a)(3) shall not apply thereafter in respect of civil aircraft registered in that foreign country and employed in foreign trade or trade between the United States and any of its possessions.

(2) TIRES, TUBES, AND AUTOMOBILE RECEIVING SETS.—

(A) TAX-FREE SALES.—Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under

section 4071 or 4141 on the sale by the manufacturer of a tire, inner tube, or automobile radio or television receiving set if—

(i) such tire, tube, or receiving set is sold for use by the purchaser for sale on or in connection with the sale of another article manufactured or produced by such purchaser; and

(ii) such other article is to be sold by such purchaser in a sale which either will satisfy the requirements of paragraph (2), (3), (4), or (5) of subsection (a) for a tax-free sale, or would satisfy such requirements but for the fact that such other article is not subject to tax under this chapter.

(B) **PROOF.**—Where a tire, tube, or receiving set has been sold free of tax under this paragraph, this paragraph shall cease to apply unless, within the 6-month period which begins on the date of the sale by him (or, if earlier, on the date of the shipment by him), the manufacturer of such tire, tube, or receiving set receives proof that the other article referred to in clause (ii) of subparagraph (A) has been sold in a manner which satisfies the requirements of such clause (ii) (including in the case of a sale for export, proof of export of such other article).

(C) **SUBSECTION (a)(1) DOES NOT APPLY.**—Paragraph (1) of subsection (a) shall not apply with respect to the tax imposed under section 4071 or 4141 on the sale of a tire, inner tube, or automobile radio or television receiving set.

(3) **MUSICAL INSTRUMENTS SOLD FOR RELIGIOUS USE.**—Under regulations prescribed by the Secretary or his delegate, the tax imposed by section 4151 shall not apply to musical instruments sold to a religious institution for exclusively religious purposes.

(4) **BICYCLE TIRES OR TUBES SOLD TO BICYCLE MANUFACTURER.**—

(A) **IN GENERAL.**—Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed under section 4071 on the sale of a bicycle tire (or an inner tube for such a tire) by the manufacturer thereof if such tire or tube is sold for use by the purchaser as material in the manufacture or production of, or as a component part of, a bicycle (other than a rebuilt or reconditioned bicycle).

(B) **BICYCLE TIRE DEFINED.**—As used in this paragraph the term “bicycle tire” means a tire, composed of rubber in combination with fabric or other reinforcing element, which is not more than 28 inches in outer diameter and not more than 2¼ inches in cross section and which is primarily designed or adapted for use on bicycles.

(C) **PROOF.**—Where a bicycle tire or tube has been sold free of tax under this paragraph, this paragraph shall cease to apply unless, within the 6-month period which begins on the date of the sale by him (or, if earlier, on the date of shipment by him), the manufacturer of such bicycle tire or tube receives proof that the tire or tube has been used in the manner described in subparagraph (A).

SEC. 4218. USE BY MANUFACTURER OR IMPORTER CONSIDERED SALE.

(a) GENERAL RULE.—If any person manufactures, produces, or imports an article (other than an article specified in [subsection (b) or (c)]) *subsection (b), (c), or (d)* and uses it (otherwise than as material in the manufacture production of, or as a component part of, another article taxable under this chapter to be manufactured or produced by him), then he shall be liable for tax under this chapter in the same manner as if such article were sold by him.

(b) TIRES, TUBES, AND AUTOMOBILE RECEIVING SETS.—[If any] *Except as provided in subsection (d), if any* person manufactures, produces, or imports a tire or inner tube taxable under section 4071, or an automobile radio or television receiving set taxable under section 4141, and sells it on or in connection with the sale of any article, or uses it, then he shall be liable for tax under this chapter in the same manner as if such article were sold by him.

(c) AUTOMOBILE PARTS, RADIO COMPONENTS, CAMERA LENSES, ETC.—If any person manufactures, produces, or imports a part or accessory taxable under section 4061(b), a radio or television component taxable under section 4141, or a camera lens taxable under section 4171, and uses it (otherwise than as material in the manufacture or production of, or as a component part of, any other article to be manufactured or produced by him), then he shall be liable for tax under this chapter in the same manner as if such article were sold by him.

(d) BICYCLE TIRES AND TUBES.—*If any person manufactures, produces, or imports a bicycle tire (as defined in section 4221(e)(4)(B)) or an inner tube for such tire, and uses it (otherwise than as material in the manufacture or production of, or as a component part of, a bicycle, other than a rebuilt or reconditioned bicycle, to be manufactured or produced by him), then he shall be liable for tax under this chapter in the same manner as if such article were sold by him.*

[d] (e) COMPUTATION OF TAX.—Except as provided in section 4223(b), in any case in which a person is made liable for tax by the preceding provisions of this section, the tax, (if based on the price for which the article is sold) shall be computed on the price at which such or similar articles are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Secretary or his delegate.

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SEC. 4223. SPECIAL RULES RELATING TO FURTHER MANUFACTURE.

(a) PURCHASING MANUFACTURER TO BE TREATED AS THE MANUFACTURER.—For purposes of this chapter, a manufacturer or producer to whom an article is sold or resold free of tax under section 4221(a)(1) for use by him in further manufacture shall be treated as the manufacturer or producer of such article.

(b) COMPUTATION OF TAX.—If the manufacturer or producer referred to in subsection (a) incurs liability for tax under this chapter on his sale or use of an article referred to in subsection (a) and the tax is based on the price for which the article is sold, the article shall be treated as having been sold by him—

(1) at the price for which the article was sold by him (or, where the tax is on his use of the article, at the price referred to in [section 4218(d)] *section 4218(e)*); or

(2) if he so elects and establishes such price to the satisfaction of the Secretary or his delegate—

(A) at the price for which the article was sold to him; or

(B) at the price for which the article was sold by the person who (without regard to subsection (a)) is the manufacturer, producer, or importer of such article.

For purposes of this subsection, the price for which article was sold shall be determined as provided in section 4216. For purposes of paragraph (2) no adjustment or readjustment shall be made in such price by reason of any discount, rebate, allowance, return or repossession of a container or covering, or otherwise. An election under paragraph (2) shall be made in the return reporting the tax applicable to the sale or use of the article, and may not be revoked.

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SEC. 6416. CERTAIN TAXES ON SALES AND SERVICES

(a) **CONDITION TO ALLOWANCE.—**

(1) **GENERAL RULE.—**No credit or refund of any overpayment of tax imposed by section 4231 (4), (5), or (6) (cabarets, etc.), chapter 31 (retailers taxes), or chapter 32 (manufacturers taxes) shall be allowed or made unless the person who paid the tax establishes, under regulations prescribed by the Secretary or his delegate, that he—

(A) has not included the tax in the price of the article, admission, or service with respect to which it was imposed and has not collected the amount of the tax from the person who purchased such article, admission, or service;

(B) has repaid the amount of the tax—

(i) in the case of any tax imposed by chapter 31 (other than the tax imposed by section 4041 (a) (1) or (b) (1)), to the purchaser of the article,

(ii) in the case of any tax imposed by chapter 32 and the tax imposed by section 4041 (a) (1) or (b) (1) (diesel and special motor fuels), to the ultimate purchaser of the article, or

(iii) in the case of any tax imposed by section 4231 (4), (5), or (6) (cabarets, etc.) to the person who paid for the admission, refreshment, service, or merchandise;

(C) in the case of an overpayment under subsection (b) (2), (b) (3) (C) or (D), or (b) (4) of this section—

(i) has repaid or agreed to repay the amount of the tax to the ultimate vendor of the article, or

(ii) has obtained the written consent of such ultimate vendor to the allowance of the credit or the making of the refund; or

(D) has filed with the Secretary or his delegate the written consent of the person referred to in subparagraph (B) (i), (ii), or (iii), as the case may be, to the allowance of the credit or the making of the refund.

(2) **EXCEPTIONS.—**This subsection shall not apply to—

(A) the tax imposed by section 4041(a)(2) or (b)(2) (use of diesel and special motor fuels), and

(B) an overpayment of tax under paragraph (1), (3) (A) or (B), or (5) of subsection (b) of this section.

(3) SPECIAL RULES.—For purposes of this subsection—

(A) any tax collected under section 4231(6) from a concessionaire and paid to the Secretary or his delegate shall be treated as paid by the concessionaire;

(B) if tax under chapter 31 was paid by a supplier pursuant to an agreement under section 6011(c), either the person who (without regard to section 6011(c)) was required to return and pay the tax or the supplier may be treated as the person who paid the tax;

(C) in any case in which the Secretary or his delegate determines that an article is not taxable, the term “ultimate purchaser” (when used in paragraph (1)(B)(ii) of this subsection) includes a wholesaler, jobber, distributor, or retailer who, on the 15th day after the date of such determination, holds such article for sale; but only if claim for credit or refund by reason of this subparagraph is filed on or before the day for filing the return with respect to the taxes imposed under chapter 32 for the first period which begins more than 60 days after the date of such determination; and

(D) in applying paragraph (1)(C) to any overpayment under paragraph (2)(F), (3)(C) or (D), or (4) of subsection (b), the term “ultimate vendor” means the ultimate vendor of the other article.

(b) SPECIAL CASES IN WHICH TAX PAYMENTS CONSIDERED OVERPAYMENTS.—Under regulations prescribed by the Secretary or his delegate, credit or refund (without interest) shall be allowed or made in respect of the overpayments determined under the following paragraphs:

(1) PRICE READJUSTMENTS.—If the price of any article in respect of which a tax, based on such price, is imposed by chapter 31 or 32, is readjusted by reason of the return or repossession of the article or a covering or container, or by a bona fide discount, rebate, or allowance, the part of the tax proportionate to the part of the price repaid or credited to the purchaser shall be deemed to be an overpayment. The preceding sentence shall not apply in the case of an article in respect of which tax was computed under section 4223(b)(2); but if the price for which such article was sold is readjusted by reason of the return or repossession of the article, the part of the tax proportionate to the part of such price repaid or credited to the purchaser shall be deemed to be an overpayment.

(2) SPECIFIED USES AND REALES.—The tax paid under chapter 32 (or under section 4041(a)(1) or (b)(1)) in respect of any article shall be deemed to be an overpayment if such article was, by any person—

(A) exported (except in any case to which subsection (g) applies);

(B) used or sold for use as supplies for vessels or aircraft;

(C) sold to a State or local government for the exclusive use of a State or local government;

(D) sold to a nonprofit educational organization for its exclusive use;

(E) resold to a manufacturer or producer for use by him as provided in [subparagraph (A) or (B)] *subparagraph (A), (B), or (E)* of paragraph 3;

(F) in the case of a tire, inner tube, or receiving set, resold for use as provided in subparagraph (C) or (D) or paragraph (3) and the other article referred to in such subparagraph is by any person exported or sold as provided in such subparagraph;

(G) in the case of a liquid taxable under section 4041, sold for use as fuel in a diesel-powered highway vehicle or as fuel for the propulsion of a motor vehicle, motorboat, or airplane, if (i) the vendee used such liquid otherwise than as fuel in such a vehicle, motorboat, or airplane or resold such liquid, or (ii) such liquid was (within the meaning of paragraphs (1), (2), and (3) of section 6420(c)) used on a farm for farming purposes;

(H) in the case of a liquid in respect of which tax was paid under section 4041 at the rate of 3 cents a gallon, used during any calendar quarter in vehicles while engaged in furnishing scheduled common carrier public passenger land transportation service along regular routes; except that (i) this subparagraph shall apply only if the 60 percent passenger fare revenue test set forth in section 6421(b)(2) is met with respect to such quarter, and (ii) the amount of such overpayment for such quarter shall be an amount determined by multiplying 1 cent for each gallon of liquid so used by the percentage which such person's tax-exempt passenger fare revenue (as defined in section 6421(d)(2)) derived from such scheduled service during such quarter was of his total passenger fare revenue (not including the tax imposed by section 4261, relating to the tax on transportation of persons) derived from such scheduled service during such quarter;

(I) in the case of a liquid in respect of which tax was paid under section 4041(a)(1) at the rate of 3 cents a gallon, used or resold for use as a fuel in a diesel-powered highway vehicle (i) which (at the time of such use or resale) is not registered, and is not required to be registered, for highway use under the laws of any State or foreign country, or (ii) which, in the case of a diesel-powered highway vehicle owned by the United States, is not used on the highway; except that the amount of any overpayment by reason of this subparagraph shall not exceed an amount computed at the rate of 1 cent a gallon;

(J) in the case of a liquid in respect of which tax was paid under section 4041(b)(1) at the rate of 3 cents a gallon, used or resold for use otherwise than as a fuel for the propulsion of a highway vehicle (i) which (at the time of such use or resale) is registered, or is required to be registered, for highway use under the laws of any State or foreign country, or (ii) which, in the case of a highway vehicle owned by the United States, is used on the highway; except that the amount of any overpayment by reason of this subparagraph

shall not exceed an amount computed at the rate of 1 cent a gallon;

(K) in the case of any article taxable under section 4061 (b) (other than spark plugs and storage batteries), used or sold for use as repair or replacement parts or accessories for farm equipment (other than equipment taxable under section 4061(a));

(L) in the case of tread rubber in respect of which tax was paid under section 4071(a)(4), used or sold for use otherwise than in the recapping or retreading of tires of the type used on highway vehicles (as defined in section 4072(c)) unless credit or refund of such tax is allowable under subsection (b)(3);

(M) in the case of gasoline, used or sold for use in production of special motor fuels referred to in section 4041(b);

(N) in the case of lubricating oil, used or sold for non-lubricating purposes;

(O) in the case of lubricating oil in respect of which tax was paid at the rate of 6 cents a gallon, used or sold for use as cutting oils (within the meaning of section 4092(b)); except that the amount of such overpayment shall not exceed an amount computed at the rate of 3 cents a gallon;

(P) in the case of any musical instrument taxable under section 4151, sold to a religious institution for exclusively religious purposes;

(Q) in the case of unexposed motion picture film, used or sold for use in the making of newsreel motion picture film.

(3) TAX-PAID ARTICLES USED FOR FURTHER MANUFACTURE, ETC.—If the tax imposed by chapter 32 has been paid with respect to the sale of any article by the manufacturer, producer, or importer thereof to a second manufacturer or producer, such tax shall be deemed to be an overpayment by such second manufacturer or producer if—

(A) in the case of any article other than an article to which [subparagraph (B), (C), or (D)] *subparagraph (B), (C), (D), or (E)* applies, such article is used by the second manufacturer or producer as material in the manufacture or production of, or as a component part of, another article taxable under chapter 32 manufactured or produced by him;

(B) in the case of—

(i) a part or accessory taxable under section 4061(b),

(ii) a radio or television component taxable under section 4141, or

(iii) a camera lens taxable under section 4171,

such article is used by the second manufacturer or producer as material in the manufacture or production of, or as a component part of, any other article manufactured or produced by him;

(C) in the case of—

(i) a tire or inner tube taxable under section 4071, or

(ii) an automobile radio or television receiving set taxable under section 4141,

such article is sold by the second manufacturer or producer on or in connection with, or with the sale of, any other article

manufactured or produced by him and such other article is by any person exported, sold to a State or local government for the exclusive use of a State or local government, sold to a nonprofit educational organization for its exclusive use, or used or sold for use as supplies for vessels or aircraft; **[or]**

(D) in the case of a radio receiving set or an automobile radio receiving set—

(i) such set is used by the second manufacturer or producer as a component part of any other article manufactured or produced by him, and

(ii) such other article is by any person exported, sold to a State or local government for the exclusive use of a State or local government, sold to a nonprofit educational organization for its exclusive use, or used or sold for use as supplies for vessels or aircraft **[.]**; or

(E) *In the case of—*

(i) a bicycle tire (as defined in section 4221(e)(4)(B)), or

(ii) an inner tube for such a tire, such article is used by the second manufacturer or producer as material in the manufacture or production of, or as a component part of, a bicycle (other than a rebuilt or reconditioned bicycle).

For purposes of subparagraphs (A) and (B), an article shall be treated as having been used as a component part of another article if, had it not been broken or rendered useless in the manufacture or production of such other article, it would have been so used.

