89TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 2327

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.

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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) 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 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

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 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 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 1,5000,000 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.

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