

INTEREST EQUALIZATION TAX EXTENSION ACT OF 1965

SEPTEMBER 14, 1965.—Ordered to be printed

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

CONFERENCE REPORT

[To accompany H.R. 4750]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 4750) to provide an extension of the interest equalization tax, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendment numbered 29.

That the House recede from its disagreement to the amendments of the Senate numbered 1, 3, 4, 5, 6, 7, 10, 11, 12, 13, 14, 15, 17, 18, 20, 21, 22, 23, 24, 25, 26, 27, 28, and 31, and agree to the same.

Amendment numbered 2:

That the House recede from its disagreement to the amendment of the Senate numbered 2, and agree to the same with amendments as follows:

Strike out the matter proposed to be stricken out by the Senate amendment.

Insert the matter proposed to be inserted by the Senate amendment.

On page 1 of the Senate engrossed amendments, strike out the last two lines and insert the following: *such lease, is attributable to the use*

On page 2 of the Senate engrossed amendments, strike out lines 12 through 14 and insert the following: *value of the debt obligation arising out of such lease, is attributable to the use of*

And the Senate agree to the same.

## Amendment numbered 8:

That the House recede from its disagreement to the amendment of the Senate numbered 8, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

*(D) by adding at the end of such paragraph (after and below subparagraph (B)) the following new sentence:*

*"For purposes of the preceding sentence, the acquisition by a wholly owned subsidiary of a commercial bank of a debt obligation arising out of a lease made by such subsidiary shall be treated as the acquisition of a debt obligation by a commercial bank."*

And the Senate agree to the same.

## Amendment numbered 9:

That the House recede from its disagreement to the amendment of the Senate numbered 9, and agree to the same with amendments as follows:

Insert the matter proposed to be inserted by the Senate amendment.

On page 4, line 20, of the Senate engrossed amendments, strike out "OR OF" and insert the following: *OR SALE OF*

On page 5, line 3, of the Senate engrossed amendments, strike out "or of" and insert the following: *or the sale of*

And the Senate agree to the same.

## Amendment numbered 16:

That the House recede from its disagreement to the amendment of the Senate numbered 16, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

*(h) ACQUISITIONS BY CERTAIN TAX-EXEMPT ORGANIZATIONS.—*

*(1) Section 4914(f) is amended by adding at the end thereof (after and below paragraph (2)) the following new sentence:*

*"For purposes of this subsection, stock or debt obligations acquired as a result of the investment or reinvestment of such contributions or fees which consist of insurance premiums (other than premiums paid to a mutual insurance company or association described in section 501(c)(15)) paid by the members of such local organizations shall be treated as held exclusively for the benefit of such members if primarily so held, notwithstanding that such stock or debt obligations may, under certain contingencies, be used for the benefit of other members of such United States person."*

*(2) The amendment made by paragraph (1) shall apply with respect to acquisitions of stock and debt obligations made after July 18, 1963.*

And the Senate agree to the same.

## Amendment numbered 19:

That the House recede from its disagreement to the amendment of the Senate numbered 19, and agree to the same with amendments as follows:

Insert the matter proposed to be inserted by the Senate amendment.

On page 8, line 1, of the Senate engrossed amendments, strike out "subsection (i)" and insert the following: *subsection (j)*

On page 8, beginning in line 13, of the Senate engrossed amendments, strike out “, particularly privileges relating to investments in such foreign country”.

And the Senate agree to the same.

Amendment numbered 30:

That the House recede from its disagreement to the amendment of the Senate numbered 30, and agree to the same with amendments as follows:

Strike out the matter proposed to be stricken out by the Senate amendment.

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: (q); and the Senate agree to the same.

Amendment numbered 32:

That the House recede from its disagreement to the amendment of the State numbered 32, and agree to the same with amendments as follows:

Insert the matter proposed to be inserted by the Senate amendment.

On page 14, after line 3, of the Senate engrossed amendments, insert the following:

(d) *This section shall terminate at the time when the tax imposed by section 4911 of the Internal Revenue Code of 1954 terminates.*

And the Senate agree to the same.

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

*Managers on the Part of the House.*

HARRY F. BYRD,  
 RUSSELL B. LONG,  
 GEO. A. SMATHERS,  
 JOHN J. WILLIAMS,  
 FRANK CARLSON,

*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. 4750) to provide an extension of the interest equalization tax, and for other purposes, 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 following Senate amendments made technical, clerical, clarifying, or conforming changes: 1, 3, 4, 6, 7, 10, 11, 12, 13, 14, 15, 17, 20, 21, 22, 25, 27, 28, and 30.

With respect to these amendments (1) the House either recedes or recedes with amendments which are technical, clerical, clarifying, or conforming in nature; or (2) the Senate recedes in order to conform to other action agreed upon by the committee of conference.

### CERTAIN EXPORT LEASES

Amendments Nos. 2, 5, and 8: The bill as passed by the House excluded from the interest equalization tax obligations acquired by a U.S. person in connection with a lease of personal property to a foreign obligor if at least 85 percent of the amount to be paid under the lease is attributable to the use of tangible personal property which was produced or extracted in the United States by such U.S. person (or by a related corporation) or to the performance of services pursuant to the terms of the lease by such U.S. person (or by a related corporation) with respect to such personal property, or to both.

Senate amendment No. 2 provides that the tax is not to apply to the acquisition from a foreign obligor by a U.S. person of a debt obligation of such obligor arising out of a lease of personal property to such obligor by such U.S. person if (1) at least 30 percent of the value of the property subject to the lease, or 60 percent of the actual value of the debt obligation, is attributable to the use of tangible personal property which was produced or extracted in the United States by such U.S. person (or by a related corporation), or to the performance of services pursuant to the lease by such U.S. person (or by a related corporation) with respect to such personal property, or to both, and (2) at least 50 percent of the value of the property subject to lease, or 100 percent of the actual value of the debt obligation arising out of such lease, is attributable to the use of tangible personal property which was produced or extracted in the United States, or to the performance of services pursuant to the lease by U.S. persons, or to both.

The House recedes on amendment numbered 2 with clerical amendments.

Senate amendment No. 5 amends section 4914(j)(1)(A)(iii) of the code to exclude from the tax a transfer of a debt obligation described in the new section 4914(c)(6) (relating to certain export leases) to

any transferee where the extension of credit by the U.S. person leasing the property or services and the acquisition of the debt obligation related thereto were reasonably necessary to accomplish the lease of property or services out of which the debt obligation arose, and the terms of the debt obligation are not unreasonable in light of credit practices in the business in which such person is engaged.

The House recedes on amendment numbered 5.

Senate amendment No. 8 adds a sentence to section 4931(c)(1) of the code providing that for purposes of chapter 41 of the code (which imposes the interest equalization tax) the acquisition by a wholly owned subsidiary of a commercial bank of a lease made by such subsidiary shall be treated as the acquisition of a debt obligation by such bank.

The House recedes on amendment numbered 8 with a clarifying amendment.

#### SALES OF FOREIGN BRANCHES

Amendment No. 9: Under existing section 4914(g) of the code, an exclusion from the interest equalization tax is provided where a U.S. shareholder acquires foreign debt obligations in connection with the sale of substantially all of the stock of a foreign-owned subsidiary, or as a result of the liquidation of a wholly owned foreign subsidiary following the sale of substantially all of its assets to a foreign person who gives the foreign debt obligation in exchange as part or all of the purchase price of the assets.

Senate amendment No. 9 amends such section 4914(g) to provide an exclusion from tax where the debt obligation is acquired as part or all of the purchase price in a sale by a U.S. person of substantially all of the assets of a branch of such U.S. person located outside the United States.

The House recedes with clerical amendments.

#### ACQUISITIONS BY CERTAIN TAX-EXEMPT ORGANIZATIONS

Amendment No. 16: This amendment adds a new sentence at the end of section 4914(f) of the code (relating to acquisitions by certain tax-exempt labor, fraternal, and similar organizations having foreign branches or chapters) providing that, for purposes of section 4914(f), stock or debt obligations acquired as a result of the investment of the contributions or membership fees which consist of insurance premiums (other than premiums paid to a mutual insurance company or association described in section 501(c)(15)) paid by the members of such local organizations shall be treated as held exclusively for the benefit of such members if primarily so held, notwithstanding that such stock or debt obligations may, under certain contingencies be used for the benefit of other members of such U.S. person. Under the amendment, this provision is to apply with respect to acquisitions of stock and debt obligations made after July 18, 1963.

The House recedes with a clarifying amendment.

#### REDUCTION OF EXCLUSION IN CASE OF LATE FILING OF CERTAIN NOTICES OF ACQUISITION

Amendment No. 18: Existing section 4917 of the code provides the President with authority to exclude from tax original or new issues

of stock or debt obligations originating in any foreign country if the application of the interest equalization tax would imperil or threaten to imperil international monetary stability. The exclusion applies only if a notice of the acquisition is filed within a period which is to be prescribed by regulations.

Senate amendment No. 18 adds a new subsection (d) at the end of section 4917 providing that if, with respect to an acquisition after the date of the enactment of the bill of stock or a debt obligation which is all or part of an original or new issue to which an Executive order issued under section 4917(a) is applicable (other than an Executive order which is applicable to a limited aggregate amount of such issues), the notice of acquisition required by section 4917(a) is not filed on or before the last day (including extensions of time) specified in the regulations prescribed by the Secretary of the Treasury or his delegate, the exclusion provided by such Executive order shall not apply to 5 percent of such acquisition for each 30-day period or fraction thereof after such last day during which such failure continues, except that in no event shall such exclusion be reduced under the new section 4917(d) by more than 25 percent of such acquisition.

The House recedes.

#### FULFILLMENT OF TREATY OBLIGATIONS

Amendment No. 19: This amendment adds a new subsection (e) at the end of section 4917 of the code providing that, in determining whether to issue an Executive order under section 4917(a) with respect to a foreign country, and in determining whether to revoke or modify an Executive order issued under section 4917(a) (whether issued before or after the enactment of the bill), the President may take into account whether such foreign country is according privileges to U.S. persons in conformity with treaties of friendship, commerce, and navigation between the United States and such country, particularly privileges relating to investments in such foreign country.

The House recedes with amendments, including an amendment which strikes out the phrase “, particularly privileges relating to investments in such foreign country”. Under the conference action the President may take into account all aspects of whether the foreign country is according privileges to U.S. persons in conformity with the treaties of friendship, commerce, and navigation between the United States and such foreign country, including privileges relating to investments in such country.

#### FOREIGN BRANCHES OF U.S. FINANCING COMPANIES

Amendments Nos. 23 and 24: The bill as passed by the House inserted a new paragraph (5A) in section 4920(a) of the code under which a foreign branch of a U.S. financing company which makes foreign currency loans to finance the purchase of products of related corporations could be treated as a separate foreign corporation. In order to qualify, the branch, and the financing company as a whole, must, for the taxable year involved, be primarily engaged (90 percent) in the trade or business of making loans to finance the purchase of products produced or assembled by a related corporation.

Senate amendment No. 23 modifies this 90-percent test to provide that the financing may cover not only products produced by a related corporation but also products received in partial or full payment for products produced by a related corporation.

The House recesses.

The bill as passed by the House also provided that the U.S. financing company and the foreign branch must be exclusively engaged in the trade or business of acquiring debt obligations. Senate amendment No. 24 provides that the financing company and the foreign branch may, in addition to being engaged in the business of acquiring debt obligations, also be in the business of servicing debt obligations arising out of the sale of tangible personal property produced by a related corporation or out of the sale of tangible personal property traded in for property so produced.

The House recesses.

#### FOREIGN STOCK ISSUES TREATED AS DOMESTIC

Amendment No. 26: Under existing section 4920 of the code certain shares of stock of foreign corporations are treated as stock not issued by a foreign issuer. The bill as passed by the House extended the exemption to new shares of the same class issued by such a corporation so long as certain safeguards are met and the original tests requiring a specific degree of American involvement are met. Subparagraph (D) of the second sentence of section 4920(b)(2) of the bill as passed by the House set forth certain requirements for additional shares to qualify under such subparagraph (D). One of these requirements, contained in clause (iv) of such subparagraph, was that all such additional shares, if acquired by U.S. persons, would be excluded from the interest equalization tax by reason of section 4914(a)(6), 4916 or 4917 of the code.

Senate amendment No. 26 modifies the requirement of clause (iv) of the new section 4920(b)(2)(D) to provide as an alternative that such additional shares may be shares exchanged in a reorganization described in section 368(a)(1)(B) of the code for shares of a domestic corporation which was engaged in the active conduct of a trade or business (other than as a dealer in securities) immediately before the date of such exchange.

The House recesses.

#### CERTAIN STOCK AND DEBT OBLIGATIONS ACQUIRED BY NEWSPAPER PUBLISHERS

Amendment No. 29: This amendment adds at the end of section 4914 of the code (relating to exclusions for certain acquisitions) a new subsection (k) providing that the interest equalization tax is not to apply to the acquisition of stock or a debt obligation by a U.S. person engaged in publishing newspapers if acquired with funds derived from advertisements in such newspapers by corporations incorporated under the laws of a contiguous foreign country, or by citizens of such a country, and if the stock acquired is stock of a corporation incorporated under the laws of such country, or the debt

obligation acquired is a debt obligation of such a corporation or of a citizen of such country.

The Senate recesses.

PREEXISTING COMMITMENTS; CERTAIN DEBT OBLIGATIONS OF FORMER  
LESS-DEVELOPED COUNTRIES

Amendment No. 31: Under existing law, the interest equalization tax does not apply to acquisitions of debt obligations made pursuant to commitments which were entered into before the effective date of the tax (July 19, 1963). As part of such a commitment (unless the obligation to acquire was actually unconditional or was subject only to conditions contained in a partially performed formal contract) the U.S. person acquiring the debt obligations not only must have taken every action to signify approval under its ordinary procedures but must also have sent to the borrower (before such date) a commitment letter, memorandum of terms, purchase contract, or other document setting forth the principal terms of the acquisition. Senate amendment No. 31 provides that such a commitment will be found to have existed in cases where (before such effective date) a memorandum of terms, purchase contract, or other document setting forth the principal terms of the acquisition had been received from the borrower by the U.S. person (assuming such person had taken the customary actions to signify approval) as well as in cases where the U.S. person had sent such a document to the borrower.

Senate amendment No. 31 also adds to the bill as passed by the House a new provision exempting from the interest equalization tax the acquisition of debt obligations of a foreign country which was previously (but on the date of enactment is no longer) designated as an economically less developed country, in cases where (before such acquisition) the Secretary of State has certified to the Secretary of the Treasury that the foreign government, on or before April 6, 1965, had communicated to the State Department its intention to issue such obligations and commenced negotiations with U.S. persons relative thereto, and that exemption from such tax is in the best interests of the United States.

The House recesses.

USE OF FOREIGN CURRENCIES OWNED BY THE UNITED STATES

Amendment No. 32: This amendment adds to the bill as passed by the House a new section requiring that international agreements negotiated with foreign countries (other than those negotiated under title I of Public Law 480) under which foreign currencies will be generated for the use of the United States must in the future contain provisions insuring that such currencies may be used for paying U.S. obligations in such countries, and, if not needed for that purpose, may be converted into dollars or other foreign currencies, in amounts determined by the Secretary of the Treasury to be necessary for U.S. requirements. The Secretary is directed to determine periodically the amount (both in dollars and in foreign currency) of funds needed by the United States to meet its requirements in each country, and to report annually to the Senate Committee on Finance and the



House Committee on Ways and Means with respect to the management of U.S.-owned foreign currencies.

The House recedes with an amendment under which the new section will terminate at the time at which the interest equalization tax terminates.

W. D. MILLS,  
CECIL R. KING,  
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EUGENE J. KEOGH,  
JOHN BYRNES,  
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*Managers on the Part of the House.*

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