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{ REPORT
No. 2260

TAXES ON COCONUT OIL FROM THE TRUST TERRITORY OF THE PACIFIC ISLANDS

AUGUST 9 (legislative day, JULY 20), 1950.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

R E P O R T

[To accompany H. R. 8992]

The Committee on Finance, to whom was referred the bill (H. R. 8992) to eliminate the additional internal-revenue taxes on coconut oil coming from the trust territory of the Pacific islands, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE OF THE BILL

This bill would extend to coconut oil derived from copra originating in the trust territory of the Pacific islands, the same exemption from the additional processing tax of 2 cents per pound imposed by section 2470 (a) (2) of the Internal Revenue Code now provided with respect to coconut oil derived from copra originating in the Philippine Islands or in any possession of the United States. The basic processing tax of 3 cents per pound imposed under section 2470 (a) (1) of the code would still apply and the proceeds of this tax shall be paid into the Treasury of the United States instead of to the treasury of the trust territory of the Pacific islands.

GENERAL STATEMENT

The trust territory of the Pacific islands consists of a group of islands in the Pacific Ocean, and includes the Marshall, the Caroline, and the Marianna Islands (except Guam). These islands, which were formerly mandated to Japan under the League of Nations, were the subject of a trusteeship agreement approved by the Security Council of the United Nations on April 2, 1947, and approved by the United States on July 18, 1947, which declares these islands to be a strategic area and designates the United States as the administering authority. One of the obligations of the United States under this agreement is to promote the best interests of the inhabitants of the islands.

There are now about 56,000 people residing in the trust territory of the Pacific islands, comprising 96 island groups with a combined land area of 687 square miles. These islands are scattered over an ocean area of approximately 3,000,000 square miles.

The trust territories supply about 1 to 2 percent of the normal copra imports of the United States, but this accounts for 83.6 percent of the dollar value of exports from those territories and is the principal source of native income. The effect of the 2 cents per pound processing tax is to reduce the purchase price of copra in the trust territories, with a resultant 32.5 percent reduction in the principal source of native income.

The trust territory of the Pacific islands is currently under the supervision of the Secretary of the Navy, who requested enactment of the proposed legislation. In recommending enactment of the bill, the Acting Secretary of Defense stated in part, as follows:

A principal responsibility of the United States under the trusteeship agreement with the United Nations for that trust territory is the promotion of the economic advancement and self-sufficiency of the inhabitants of the area. The proposed legislation is one step toward the fulfillment of that responsibility.

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 italics, existing law in which no change is proposed is shown in roman):

SECTION 2470 (A) (2) OF THE INTERNAL REVENUE CODE

SEC. 2470. TAX.

(a) RATE.—

(1) * * *

(2) **ADDITIONAL RATE ON COCONUT OIL.**—There shall be imposed (in addition to the tax imposed by the preceding paragraph) a tax of 2 cents per pound, to be paid by the processor, upon the first domestic processing of coconut oil or of any combination or mixture containing a substantial quantity of coconut oil with respect to which oil there has been no previous first domestic processing, except that the tax imposed by this sentence shall not apply when it is established, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, that such coconut oil (whether or not contained in such a combination or mixture), (A) is wholly the production of the Philippine Islands or any possession of the United States, or (B) was produced wholly from materials the growth or production of the Philippine Islands **[**or any possession of the United States**]**, *any possession of the United States, or the trust territory of the Pacific islands, or* (C) was brought into the United States on or before June 9, 1934, or produced from materials brought into the United States on or before June 9, 1934, or (D) was purchased under a bona fide contract entered into prior to April 26, 1934, or produced from materials purchased under a bona fide contract entered into prior to April 26, 1934. The tax imposed by this paragraph shall not apply to any domestic processing after July 3, 1974.

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