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TEMPORARY SUSPENSION OF DUTY ON CERTAIN CARBOXYMETHYL CELLULOSE SALTS

AUGUST 1, 1974.—Ordered to be printed

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

REPORT

[To accompany H.R. 12035]

The Committee on Finance, to which was referred the bill (H.R. 12035) to suspend for a one-year period the duty on certain carboxymethyl cellulose salts, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

I. SUMMARY

House bill.—The House bill would provide for the temporary suspension of duty until July 1975 on certain cellulose salts used in making permanent press clothing materials. The committee bill does not modify the House bill, but includes an amendment unrelated to the subject matter of the House bill.

Committee amendment.—The committee amendment would provide for an extension of time to allow charitable remainder trusts to conform to the requirements provided in the Tax Reform Act for purposes of an estate tax deduction. As a result of the 1969 Act, charitable remainder trusts must meet certain requirements in order for an estate tax deduction to be allowed for the transfer of a remainder interest to charity. In general, these requirements must be met in the case of a decedent dying after December 31, 1969. Present transitional rules have been provided to allow a trust created after July 31, 1969, to qualify if the governing instrument of the trust is amended to meet these new requirements by December 31, 1972. However, because of the complexity of these rules, many nonconforming charitable remainder trusts have been unable to meet this deadline. Accordingly, the committee provision extends these transitional rules to December 31, 1975.

II. GENERAL STATEMENT

A. TEMPORARY SUSPENSION OF DUTY ON CERTAIN CARBOXYMETHYL CELLULOSE SALTS

The subject of this bill, sodium carboxymethyl cellulose salts of a purity range between 95 and 98 percent, is a product used principally by the domestic textile industry as a synthetic sizing agent, primarily in the making of permanent press materials. Such chemical of less than 95 percent purity is the so-called detergent grade, and exceeding 98 percent purity is the so-called food grade. All grades of this chemical along with other salts are currently classified under items 465.87 of the Tariff Schedules of the United States (TSUS) at a duty of 8 cents per pound (rate column numbered 1, applicable to countries receiving most-favored-nation treatment) and 45 cents per pound (rate column numbered 2, applicable to Communist countries except Poland and Yugoslavia).

Judging from import unit values for carboxymethyl cellulose salts in 1972 and 1973, the bulk of the imports appear to be sodium carboxymethyl cellulose of a purity range between 95 and 98 percent. The import unit values correspond closely to the domestic selling price for this product. In 1972, total imports of carboxymethyl cellulose salts amounted to 254,914 pounds and in the first nine months of 1973, approximately 200,000 pounds. The Netherlands supplies about 80 percent of U.S. imports of this product.

There is only one producer of the type of sodium carboxymethyl cellulose salt considered here. Domestic shipments amounted to between 40 and 50 million pounds in 1972. This single producer has been unable to meet domestic demand and has had to limit shipments to its customers, particularly compounders, the chemical firms which blend carboxymethyl cellulose salts with other chemicals for sale to the textile industry. While the single domestic producer has scheduled an expansion in production, the increase is not expected to affect the current severely short domestic supply situation. In this regard, the Department of the Treasury, in its favorable report on this legislation to your committee, states as follows:

The Department supports the enactment of H.R. 12035. The salts covered by the bill are used in providing a chemical permanent press finish on wearing apparel. There is presently one manufacturer of these salts in the United States. It is unable to produce sufficient quantities of these salts to satisfy the needs of its customers. A temporary suspension of the duty would enable it to use imported salts to help supply its customers until it can increase production sufficiently to provide for all of its customer demand.

Likewise, the Department of Commerce in its favorable report of June 28, 1974, advised the committee:

The temporary suspension of duty on CMC salts would reduce the cost to the compounders during a period in which conditions make it necessary to rely on imports having a relatively high AVE duty. The sole domestic producer of CMC salts does not oppose the proposed temporary duty suspension and this Department believes that suspension would not have an adverse effect on U.S. industry.

No unfavorable comment was received by the committee from the general public on this legislation to temporarily suspend the duty on carboxymethyl cellulose salts. No objection to H.R. 12035 has been received from the executive departments or from any other source.

B. EXTENSION OF TIME TO CONFORM CHARITABLE REMAINDER TRUSTS FOR ESTATE TAX PURPOSES

The Tax Reform Act of 1969 imposed new requirements which must be satisfied by a charitable remainder trust¹ for an estate tax deduction to be allowed for the transfer of a remainder interest to a charity. Under these new requirements, no estate tax deduction is allowable for a remainder interest in property passing at the time of a decedent's death in trust unless the trust is in the form of a charitable remainder annuity trust or unitrust. These rules generally apply in the case of decedents dying after December 31, 1969. However, certain exceptions were provided in the case of wills executed or property transferred in trust on or before October 9, 1969. In order to allow a reasonable period of time to take the new rules into account, in these cases the new rules did not apply to these wills until October 9, 1972 (unless the will was modified in the meantime).

While the new requirements were provided so that the amount received would be consistent with the charitable deduction allowed to the donor on the creation of the trust, they have resulted during this transitional period in the prospect of many charities actually losing funds. Many charities today are beneficiaries of charitable remainder trusts created after October 9, 1969, which neither qualify as a charitable remainder annuity trust or unitrust nor are covered by the exception indicated above. By failing to qualify, an estate tax deduction will not be allowed to the estate for the transfer of the remainder interest in trust. As a result, the value of the trust remainder going to charity in these cases will be substantially decreased.

To help alleviate this problem, the Treasury Department issued regulations which provide additional transitional rules allowing a trust to qualify if the governing instrument is amended by December 31, 1972. However, because of the complicated nature of the statutory and regulatory requirements, many trusts were unable to make the necessary conforming amendments by December 31, 1972. As a result, the committee believes that the period allowed to make the required changes should be extended, thereby increasing the funds that will be available to many charities.

For this reason the committee has extended the date by which the governing instrument of a charitable remainder trust must be amended in order to qualify as a charitable remainder annuity trust or unitrust (under sec. 664). Under the amendment, if by December 31, 1975 the governing instrument of the trust is amended so that it meets the requirements of a charitable remainder annuity trust or unitrust, an estate tax deduction will be allowed for the charitable interest which passed in trust from the decedent (even though a deduction was not allowable for this interest because the trust failed to qualify at the time of the decedent's death). Where a judicial proceeding is required

¹ In general, a charitable remainder trust is a trust which provides for a specified distribution at least annually for life or a term of years, to one or more beneficiaries, at least one of which is not a charity, with an irrevocable remainder interest to be held for the benefit of, or paid over to, charity. The amount received each year by the income beneficiary, generally, will be either a stated dollar amount or a fixed percentage of the value of the trust property.

to amend the governing instrument, the judicial proceeding must begin before December 31, 1975, and the governing instrument must be amended to conform to these requirements by the 30th day after judgment becomes final.

In addition, in any case where the trust has become a wholly charitable trust before the due date for filing the estate tax return, no actual amendment of the governing instrument is to be necessary. Thus, if the noncharitable interest in the trust is terminated by the decedent's death and there are no remaining noncharitable interests, a deduction is to be allowed as if the governing instrument had been amended to conform to the charitable remainder trust requirements.

In any case where the governing instrument is amended (or is treated as being amended) after the due date for filing the estate tax return, the provision specifies that the deduction will be allowed upon the filing of a timely claim for credit or refund (sec. 6511) of an overpayment. However, no interest will be allowed for the period prior to the end of 180 days after the claim for credit or refund is filed.

This provision applies with respect to decedents dying after December 31, 1969.

It is estimated that this provision will decrease estate tax liability by less than \$10 million during the four-year period 1973-1976.

III. COSTS OF CARRYING OUT THE BILL AND EFFECT ON THE REVENUES OF THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs to be incurred in carrying out this bill and the effect on the revenues of the bill. The committee estimates that the temporary suspension of duties on certain carboxymethyl cellulose salts provided by the bill will result in a revenue loss of approximately \$20,000 during the first full year in which this provision is effective. The Committee also estimates that the amendment providing for an extension of time to conform certain charitable remainder trusts for estate tax purposes will decrease estate tax liability by less than \$10 million during the four-year period 1973-1976.

IV. VOTE OF COMMITTEE ON REPORTING THE BILL

In compliance with section 133 of the Legislative Reorganization Act, as amended, the following statement is made relative to the vote of the committee on reporting the bill. This bill was ordered favorably reported by the committee without a roll call vote and without objection.

V. CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

