Calendar No. 1277

84TH CONGRESS } SENATE { REPORT
1st Session } { No. 1260

EXCISE TAX ON CUTTING OILS

JULY 29, 1955.—Ordered to be printed

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

REPORT

[To accompany H. R. 4581]

The Committee on Finance, to whom was referred the bill (H. R. 4581) to amend the Internal Revenue Code of 1954 with respect to the tax on cutting oils, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

By virtue of this act, the Committee on Finance accepts the report of the Committee on Ways and Means, which is as follows:

PURPOSE OF BILL

This bill, as reported, revises the application of the lubricating oils excise tax in the case of cutting oils to provide that the tax on such oils is to be 3 cents per gallon. Under present law the tax on cutting oils is 6 cents per gallon but not more than 10 percent of the manufacturer's price. The bill also provides that the term "cutting oils" is to mean oils "sold for use in" cutting and machining operations (including forging, drawing, rolling, shearing, punching, and stamping) on metals, rather than oils "used primarily" in such operations and "known commercially as" cutting oils. This bill is to take effect on the first day of the first calendar quarter beginning more than 10 days after the enactment of this bill.

REASONS FOR BILL

In the Excise Tax Reduction Act of 1954 Congress reduced most ad valorem excise taxes to a 10-percent rate. In addition, that act provided that in the case of certain excises levied on a specific basis, the tax otherwise imposed was not to exceed 10 percent of the manufacturer's price. In the case of the tax on lubricating oil, it was provided that oils used for cutting and machining operations on metals and known commercially as cutting oil were to be subject to a limitation of this type.

The tax of 3 cents a gallon provided by the bill is expected to result in a tax which will average about the same as the tax of 10 percent of the manufacturer's price. The specific gallonage tax, rather than an ad valorem tax, is preferred in the case of cutting and other lubricating oils because the industry is accustomed to this type of tax and because this provides a uniform tax irrespective of whether the manufacturer sells at the wholesale or retail level.

The industry has also had difficulty with the definition of "cutting oils" placed in the Internal Revenue Code by the Excise Tax Reduction Act of 1954. This act provided that cutting oils meant oils "used primarily in" cutting and machining operations on metals and "known commercially as" cutting oils. However, there is no uniform agreement as to what oil is "used primarily in" and "known commercially as" cutting oils, since various lubricating oils are used for such purposes. For that reason this bill provides instead that the term "cutting oils" means oils "sold for use in" such operations.

The bill also adds a new subparagraph (I) to section 6416 (b) (2) of the 1954 code providing for credits or refunds in the case of lubricating oils used or resold for use as cutting oils. The credit or refund is to be available with respect to oil on which a 6 cents per gallon tax was paid, which was used or resold as cutting oil after the effective date of this bill. The credit or refund is not to exceed an amount computed at the rate of 3 cents a gallon.

This bill is to take effect on the first day of the first calendar quarter which begins more than 10 days after the enactment of this bill.

It is estimated that the revenue effect of this bill will be negligible.

This bill has been reported unanimously by your committee.

CHANGES IN EXISTING LAW

In the opinion of the Senate it is necessary in order to expedite the business of the Senate to dispense with the requirement of subsection 4 of rule XXIX of the Standing Rules of the Senate.

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