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REPORT
No. 1616

TAX RATE EXTENSION ACT OF 1962

JUNE 22, 1962.—Ordered to be printed
Under authority of the order of the Senate of June 22, 1962

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

R E P O R T

[To accompany H.R. 11879]

The Committee on Finance, to whom was referred the bill (H.R. 11879) to provide a 1-year extension of the existing corporate normal tax rate and of certain excise-tax rates, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

I. SUMMARY

H.R. 11879, both as passed by the House and with your committee's amendments, continues the present corporate tax rate and certain existing excise tax rates for 1 year.

In addition, both the House bill and your committee's amendments reduce or eliminate the tax on the transportation of persons. Your committee's amendments provide for the expiration of the excise tax on all forms of transportation of persons, except transportation of persons by air, effective October 1, 1962, and in the case of transportation of persons by air for the reduction of the tax from 10 percent to 5 percent effective as of the same date. (The House bill would continue the present rate of 10 percent for all of these forms of transportation until December 31, 1962.)

In addition, your committee's amendments provide in the case of the tax on transportation of persons by air, where travel is either begun or ended outside of the United States, that any travel from one location in the United States to another is not to be subject to tax if any scheduled stopover in the United States is not for more than 6 hours. One other amendment made by your committee relates to the taxes

on communications. This amendment exempts from the 10-percent general telephone tax or the 10-percent wire mileage tax private lines or leased wires which permit communication from one fixed location to another, but only when they are used in a trade or business. This exempts from tax service charges for community television antennas, private line telephones or teletypewriters and similar services used in a business.

The existing tax rates which under both the House bill and your committee's amendments are continued for 1 year, or until July 1, 1963, are the present 52-percent corporate income tax rate, which would otherwise revert to 47 percent (the 5-percentage-point reduction would occur in the 30-percent normal tax) and the present rates of excise tax on distilled spirits, beer, wine, cigarettes, passenger cars, automobile parts and accessories, and general telephone service. All of the taxes affected by this bill, except those relating to general telephone service and transportation of persons, are taxes which were increased at the time of the Korean war. The Tax Rate Extension Act of 1959 added the latter two taxes to the list of taxes subject to automatic reduction.

If this bill were not enacted, it is estimated that there would be a revenue loss of about \$4 billion in a full year of operation and a loss of revenue in the fiscal year 1963 of about \$2.7 billion (taking into account the effect of the bill on tax refunds).

II. REVENUE EFFECT OF BILL

Table 1 shows the revenue effect of the tax rates extended by this bill as well as the effect of the House bill and your committee's amendments with respect to the tax on transportation of persons. This table shows total receipts anticipated from the taxes affected by this bill in the fiscal year 1963 and the effect of the changes made by the House and your committee's versions of this bill with respect to the fiscal year 1963. In addition, the table also shows the effect of both versions of the bill in a full year of operation.

The full-year effect of the House bill is to maintain receipts of \$3,992 million which would otherwise be lost. Your committee's amendments result in a reduction on a full-year basis of \$22 million, \$18 million attributable to the modifications made in the base of the tax on communications and \$4 million to the modification made in the base of the tax on transportation of persons by air. In the fiscal year 1963 the receipts maintained under the House bill amount to \$2,745 million and under your committee's amendments \$2,673 million, a decrease of \$72 million.

TABLE 1.—Estimates of the revenue effect of H.R. 11879 for the fiscal year 1963 and for a full year of operation

[Millions of dollars]

	Receipts in fiscal 1963			Revenue gain, fiscal 1963		Full-year effect	
	Under present law, i.e., assuming scheduled reductions go into effect	Under House bill	Under your committee's bill	Under House bill	Under your committee's bill	Under House bill	Under your committee's bill
Corporation income tax.....	23,460	24,600	24,600	1,150	1,150	2,500	2,500
Excises:							
Liquor taxes:							
Distilled spirits.....	2,334	2,500	2,500	166	166	169	169
Beer.....	731	820	820	89	89	91	91
Wine.....	89	100	100	11	11	11	11
Total liquor.....	3,154	3,420	3,420	266	266	271	271
Tobacco taxes: Cigarettes....	1,821	2,075	2,075	254	254	259	259
Total tobacco.....	1,821	2,075	2,075	254	254	259	259
Manufacturers' taxes:							
Passenger cars.....	1,033	1,400	1,400	367	367	420	420
Auto parts and accessories.....	134	200	200	66	66	75	75
Total manufacturers'.....	1,167	1,600	1,600	433	433	495	495
Miscellaneous taxes:							
General telephone.....	131	525	511	394	380	525	507
Transportation of persons:							
By airlines.....	117	169	163	52	46	50	54
By other carriers.....	66	74	16	8	-50	-58	-58
Total miscellaneous.....	314	708	690	454	376	467	445
Total excise tax collections.....	6,456	7,863	7,785	1,407	1,329	1,492	1,470
Deduct floor stock refunds.....	188			-188	-188		
Net excise taxes.....	6,268	7,863	7,785	1,595	1,517	1,492	1,470
Net revenues.....	29,718	32,463	32,385	2,745	2,667	3,992	3,970

¹ Adjusted for committee amendments providing exemptions.² Assuming the full year at 5-percent rate for travel by airlines and no tax on travel by other carriers.

Source: Staff of the Joint Committee on Internal Revenue Taxation.

As shown in table 1, \$2.5 billion of the full-year revenue gain of about \$4 billion provided by this bill is attributable to the corporate income tax. Of the remainder, \$271 million is attributable to the taxes on alcoholic beverages, \$259 million to the taxes on cigarettes, \$495 million to the automotive taxes, and \$507 million (\$525 million under the House bill) to the general telephone tax. There is the revenue loss of \$62 million in the case of the tax on the transportation of persons.

The difference between the estimates of the full-year effect and the effect in the fiscal year 1963 is primarily attributable to the postponement of the corporate rate reduction, which is not fully reflected in receipts in the fiscal year 1963. There is also some lag in the collections in the manufacturers' excise taxes on passenger cars and auto parts and accessories, as well as in the case of the general telephone tax.

In the case of the tax on the transportation of persons by air, the full-year effect of the bill (based on the 5-percent rate effective October 1, 1962) is slightly less than under present law because your committee amends this provision to exempt U.S. portions of certain international travel. In the case of other carriers, there is a revenue loss on a full year's basis because of the elimination of the tax on September 30, 1962 (or December 31, 1962, under the House bill), rather than a continuation of this rate at 5 percent.

III. REASONS FOR THE TAX RATE EXTENSIONS

The Secretary of the Treasury in his appearance before your committee indicated that the Treasury is now assuming a deficit of \$7¼ billion in the fiscal year 1962 for purposes of making its computations.

The budget receipt and expenditure estimates for the fiscal year 1963 appearing in the January budget are as follows:

	<i>Billion</i>
Budget receipts.....	\$93. 0
Budget expenditures.....	92. 5
Budget surplus.....	+ 0. 5

The Secretary of the Treasury in commenting on the budgetary situation for the fiscal year 1963 stated:

The estimate for the surplus of the next fiscal year as contained in the budget document was just under \$500 million. Since then the President has sent up a number of additional requests, the largest one of which was the public works program for distressed areas, and those extra expenditures under those requests would just about balance out that small surplus. * * * I think that the budget, as submitted by the President, and as modified by the President since that time, is exactly, I would say, in balance.

The staff of the Joint Committee on Internal Revenue Taxation also has prepared estimates of receipts for the fiscal year 1963. These estimates, assuming the same budget expenditures as shown in the budget, would indicate a deficit in the fiscal year 1963 of \$3.8 billion if no account is taken of the revenue revision bill of 1962 (H.R. 10650). The staff estimated that if this bill were taken into account as it passed the House, the deficit for the fiscal year 1963 might amount to \$4.9 billion. The staff estimates can be summarized as follows:

Staff estimate of budget receipts (assuming extension of present corporate and excise tax rates) excluding revenue effect of pending bill, H.R. 10650.....	<i>Billion</i> \$88. 7
Budget expenditures (as shown in the budget).....	92. 5
Deficit (excluding revenue effect of H.R. 10650).....	3. 8
Staff estimates of receipts including revenue effect of H.R. 10650.....	87. 6
Budget expenditures (as shown in the budget).....	92. 5
Deficit (includes revenue effect of H.R. 10650).....	4. 9

NOTE.—Estimates released on Apr. 2 1962.

Your committee believes that the status of the budget as outlined above represents an impelling reason for the continuation of the present corporate and excise tax rates. The President in his budget message this last January stated:

The budget outlook for 1963 requires that the present tax rates on corporation income and certain excises be ex-

tended for another year beyond their scheduled expiration date of June 30, 1962. Existing law calls for changes which would lower the general corporation income tax rate from 52 percent to 47 percent; reduce the excise rates on distilled spirits, beers, wines, cigarettes, passenger automobiles, and automobile parts and accessories; and allow the tax on general telephone service to expire. I recommend postponement of these changes for another year to prevent a revenue loss of \$2.8 billion in 1963.

Secretary of the Treasury Dillon, in his appearance before your committee, stated:

I feel that H.R. 11879 constitutes a necessary revenue conserving measure at this time, and I recommend its approval by your committee.

With respect to the tax on the transportation of persons, the President recommended the repeal of this tax as of July 1 of this year except in the case of the tax on the transportation of persons by air. In the case of the tax on the transportation of persons by air, he recommended the continuation of the 10-percent rate until December 31, 1962, and a 5-percent rate thereafter. The President made this recommendation as one feature of a program of user charges.

The House bill continued the 10-percent tax on all transportation of persons for 6 more months, or until December 31, 1962. Your committee's amendments, because of the pressing need for action with respect to the tax on the transportation of persons, continue the 10-percent tax only until October 1, 1962. At that time your committee's amendments provide for the elimination of the tax on transportation of persons other than by air and for the reduction from 10 percent to 5 percent of the tax on the transportation of persons by air. Neither the House bill nor your committee's amendments take up the other user charge proposals of the President.

The removal of the transportation tax in the case of the railroad industry is appropriate because the railroad industry operates with a minimum of Federal aid and is subject to State, local, and Federal taxes on its roadbed, equipment, and profits. In the case of airlines there are significant Federal capital and operating expenditures. Federal expenditures for the domestic airway system (operation plus depreciation of capital items) are approximately \$500 million a year and growing. Moreover, the domestic air transport industry flew over 30 billion passenger miles in 1961 and had receipts of over \$2 billion. This industry now generates over 50 percent more intercity passenger miles than the railroads, and accounts for more than 40 percent of the common carrier intercity passenger miles.

IV. COMMITTEE AMENDMENTS

Your committee has made three amendments to the House bill.

A. TERMINATION OF TAX ON TRANSPORTATION OF PERSONS OTHER THAN BY AIR

The first amendment, already referred to above, provides for the termination of all taxes on the transportation of persons, other than

by air, and the reduction of the tax on the transportation of persons by air, as of September 30 of this year, rather than as of December 31, 1962, as provided by the House bill. As previously indicated, this amendment, except for the modifications as to the effective dates, is in accord with the President's recommendations. It is desirable to reduce the Federal taxes on railroads as soon as possible, because they are already paying heavy State and local property taxes on their railroad bed and equipment and because they are faced with substantial financial problems at the present time. At the same time your committee believes that it is undesirable to permit a differential in tax rates of more than 5 percent in the case of air carriers and other carriers. In view of these factors, your committee's amendments provide for the reduction of the tax applicable in the case of air carriers from 10 percent to 5 percent and the termination of the tax in the case of other carriers, all effective as of September 30, 1962.

B. U.S. PORTION OF INTERNATIONAL AIR TRAVEL

A second amendment made by your committee relates only to the tax on the transportation of persons by air. It exempts from the transportation tax the U.S. portion, or leg, of an uninterrupted international air trip. This exemption is desirable both because it removes a discrimination against American air carriers and also because it removes a discrimination against stopovers in the United States. Foreign air carriers make fewer stops in the United States than domestic carriers, with the result that a larger portion of an international trip provided by a foreign carrier is likely to be exempt than is true in the case of an international trip on an American airline. Flights from Chicago to Europe, for example, in the case of foreign carriers avoid any stops in the United States, while flights on an American airline generally provide for a stop in New York City. As a result, the trip, if provided by a foreign carrier, is entirely free of tax under present law, while the New York to Chicago leg of the trip in the case of the domestic carrier is taxed at 10 percent. Numerous similar situations arise in the case of flights from other American cities to foreign countries. In addition, in the case of American carriers, taxing the American leg of international air travel tends to encourage stopovers in Canada or other neighboring countries, rather than American border cities, since this avoids the imposition of tax on any American leg of the travel.

In view of the manner in which present law tends to discriminate against domestic carriers, and also to encourage foreign rather than American stops, your committee has amended this bill to provide that the U.S. portion of uninterrupted international air transportation is not to be subject to the 5-percent tax on transportation. The bill defines uninterrupted international air transportation as transportation which does not begin and end in the United States (or in the 225-mile zone along U.S. borders) if the "scheduled" interval between the beginning or end of the U.S. leg of such transportation and the end or beginning of the remainder of the transportation is not more than 6 hours. The amendment also provides that where there are two or more stops in the United States in the case of such a trip, neither of the stops, from the time of the beginning or end of one and the end or beginning of the other, may involve a "scheduled" interval

of more than 6 hours. A "scheduled interval" of not more than 6 hours may include cases where the actual time elapsing exceeds 6 hours if the longer time is attributable to the postponement of a flight by the airline and was not attributable to the cancellation of a reservation by the passenger in order to take a later flight.

In connection with this same amendment, a change is also made in the provision dealing with the payment of the tax on the transportation of persons by air in cases where the tax is not paid at the time the transportation is purchased. Generally in such cases, it must be paid by the purchaser of the ticket to the Treasury Department or to the person to whom the payment for transportation is made. The bill, as amended, provides that in the case of international travel it may also be made to any person furnishing any part of the transportation. This and other administrative provisions make possible, if the Treasury by regulations so provides, the collection of tax, on the U.S. leg of what was originally scheduled as international transportation, from the carrier providing the foreign portion of the transportation, if subsequently the foreign portion of the flight is not taken and the passenger seeks a refund from this carrier for this portion of the travel. Similarly, the Treasury may by regulations provide for the collection of the tax from such a carrier with respect to the U.S. leg of such a trip if the scheduled interval, although initially not more than 6 hours, as the result of a change in reservations is lengthened beyond 6 hours. Provision could be made for the collection of the tax in such cases by requiring that the ticket for the foreign portion of the trip be marked as being associated with U.S. travel, the ticket for which has been purchased free of tax.

This amendment is effective with respect to transportation beginning after September 30, 1962.

C. EXEMPTION FROM COMMUNICATIONS TAXES

The third amendment added by your committee deals with the taxes on communications. The amendment made by your committee in the case of these taxes provides an exemption for amounts paid for certain private lines and leased wires.

The Federal Communications Commission in 1959 set aside certain radio frequencies for private microwave communications. In so doing the FCC provided users of communications with a choice of either supplying their own communication facilities or of obtaining such services from a communications common carrier. New developments in communications are now occurring with increasing frequency and the electrical and electronic manufacturing industries are already offering a wide variety of equipment directly to users to perform communication functions through the use of microwave channels.

Under present law, if the communication services are obtained from a common carrier, the 10-percent general telephone or wire mileage service taxes are applicable. However, where the equipment is purchased and the users then provide their own communications, no tax is applicable.

In addition, the Treasury Department has interpreted the 10-percent tax on wire mileage service as applying to certain amounts paid by community antenna television services. In such cases this community antenna service is privately operated by a company utilizing

taxable microwave service furnished by a telephone company from the point of pickup to the booster station, which in turn transmits the signals by means of individual wires into the homes of the users of this service. Your committee believes that no communications tax should be applied to the company in such cases since to provide a tax in this case discriminates against television viewers who, because of distance from the TV station or as a result of the presence of mountains or valleys, cannot receive programs without the use of a special community antenna service.

To prevent discrimination against the communications common carriers and also to prevent the imposition of tax on community antenna service, your committee has added a new section to the bill providing that wire-mileage service is to include only service not used in the conduct of a trade or business (of the type referred to in sec. 162 of the code). It has also provided an exemption from the tax on general telephone service for amounts paid for the use of telephone or radio telephone lines or channels constituting general telephone service if such lines or channels are furnished between specified locations in different States or between specified locations in different counties, municipalities, or similar political subdivisions of a State and if such services are used in the conduct of a trade or business (of the type referred to in sec. 162 of the code).

This exemption from the general telephone tax removes from tax amounts paid for private lines and associated equipment used predominantly for voice purposes and over which communication may be established between specified and preselected points set aside for the exclusive use of customers, for whatever purpose he chooses, without the use of switching functions of a communications company exchange. The area limitations in this case are intended to exclude interior communication systems capable of being used through exchanges to communicate within the public exchange network. The term "similar subdivisions" of a State is intended to include subdivisions similar to a county or municipality which may be otherwise denominated in a particular State. In the case of more than one level of local government, the term "municipality" means the largest subdivision below the level of county or similar subdivision.

Examples of the types of lines or channels and equipment furnished by the communications companies which if used in a trade or business would no longer be subject to tax are:

- Private line telephone (if the conditions are met).
- Private line teletypewriter.
- Educational television channels.
- Community antenna television channels.
- Closed circuit television channels.
- TELPAK.
- Private line data transmission.

This amendment is made with respect to services furnished after June 30, 1962.

V. EXPLANATION OF CORPORATE INCOME AND EXCISE TAX RATE EXTENSIONS

Both versions of this bill provide for a 1-year extension of the present corporate income tax rates and the existing rates of certain excise taxes. The rates of these taxes which are extended for 1 year are, under existing law, scheduled for reduction on July 1, 1962. The present combined 52 percent corporate tax rate, without the 1-year extension, would revert to 47 percent as of July 1, 1962, through a reduction of the normal tax rate from 30 percent to 25 percent.

The excise tax rates extended by this bill which under present law would be decreased as of July 1, 1962, are those on—

1. Distilled spirits, which would be reduced from \$10.50 to \$9 per proof gallon;
2. Beer, which would be reduced from \$9 to \$8 per barrel;
3. Wines, which are subject to various tax rates which would be reduced by approximately 11 percent;
4. Cigarettes, which would be reduced from 8 cents to 7 cents a pack;
5. Passenger cars, which would be reduced from 10 percent to 7 percent of the manufacturers' price;
6. Auto parts and accessories, which would be reduced from 8 percent to 5 percent of the manufacturers' price; and
7. General telephone service, which would be reduced from 10 percent of the amount paid to zero.

The corporate income tax rate and the tax rates referred to in the first six categories listed above reflect rate increases which were initially provided in 1951 at the time of the Korean war. Elimination of the tax on general telephone service (or local telephone service, as it formerly was called) and the reduction in the rate of tax on transportation of persons (referred to below) were first scheduled for the year 1960 in the Tax Rate Extension Act of 1959.

Both versions of the bill, in addition to making the changes referred to above, also make a number of technical changes, including the postponement for 1 more year of the floor stocks refunds or credits presently effective with respect to stocks of various tax-paid products on hand on July 1, 1962. These floor stocks refunds are available in the case of distilled spirits, wines and beer, cigarettes, and passenger cars.

The bill as amended by your committee provides for the termination of the tax on the transportation of persons by railroad, motor vehicle, or water on September 30, 1962, and for the reduction of the tax on the transportation of persons by air to 5 percent on the same date. This air tax is then continued until July 1, 1963, but at this reduced rate of 5 percent.

Table 2 shows the present tax rates which are extended and those which would become effective as of July 1, 1962, in the absence of this bill.

TABLE 2.—Tax rates affected by the bill

	Unit of tax	Rates under the bill	Rates which under present law would be effective July 1, 1962
Corporations.....	Normal tax net income.....	30 percent.....	25 percent.
Excises:			
Liquor taxes:			
Distilled spirits.....	Per proof gallon.....	\$10.50.....	\$9.
Beer.....	Per barrel.....	\$9.....	\$8.
Wine:			
Containing less than 14 percent alcohol.....	Per wine gallon.....	17 cents.....	15 cents.
Containing 14 to 21 percent alcohol.....	.....do.....	67 cents.....	60 cents.
Containing 21 to 24 percent alcohol.....	.....do.....	\$2.25.....	\$2.
Containing more than 24 percent alcohol.....	.....do.....	\$10.50.....	\$9.
Sparkling wines, liqueurs, etc.:			
Champagne or sparkling wine.....	.....do.....	\$3.40.....	\$3.
Liqueurs, cordials, etc.....	.....do.....	\$1.92.....	\$1.60.
Artificially carbonated wine.....	.....do.....	\$2.40.....	\$2.
Tobacco taxes: Cigarettes.....	Per 1,000.....	\$4.....	\$3.50.
Manufacturers excise taxes:			
Passenger cars.....	Manufacturers' sale price.....	10 percent.....	7 percent.
Auto parts and accessories.....	.....do.....	8 percent.....	5 percent.
Miscellaneous taxes:			
General telephone.....	Amount charged.....	10 percent.....	0.
Transportation of persons:			
By airline.....	Amount paid.....	10 percent ¹	5 percent.
By other carriers.....	.....do.....	10 percent ¹	5 percent.

¹ Rate of 10 percent extended through Sept. 30, 1962. Effective Oct. 1, 1962, tax on transportation by air to be 5 percent through June 30, 1963, and transportation by other carriers to be exempt.

The elimination of the tax on the transportation of persons other than by air, and the scheduled reduction of the tax on the transportation of persons by air, are effective with respect to "transportation which begins after" September 30, 1962. The scheduled elimination of the tax on the transportation of persons by air is effective with respect to transportation which begins after June 30, 1963. It is contemplated that the Internal Revenue Service, under regulations appropriately safeguarding the collection of taxes, will provide that the tax collected on tickets purchased *before* a date of rate change for travel beginning *on or after* that date may be the tax (zero or 5 percent, as the case may be) which will actually be due for this travel. For cases of this kind where the higher rate of tax is paid but not actually due, the bill makes provision for credit or refund. It provides that where excess tax with respect to transportation has been collected before a date of rate change (October 1, 1962, or July 1, 1963) for travel beginning on or after that date, the person who collected the tax (usually the carrier) is to be allowed a credit or refund for the excess tax collected if, before the transportation began, the collector of the tax repaid the excess tax to the person from whom he collected it or had obtained the consent of that person to the allowance of the credit or refund.

It is expected that with respect to transportation beginning after September 30, 1962, where a ticket is issued for transportation consisting in part of transportation by air and in part of other transporta-

tion, the Treasury by regulation or ruling will specify proper allocation rules to determine the portion of such ticket subject to tax.

The bill, as amended by your committee, rewrites subchapter C of chapter 33, presently dealing with the transportation of persons, to make it applicable only to transportation of persons by air as of October 1, 1962. The changes made in this subchapter, except for the committee amendment previously explained, however, are only those necessary to delete language relating to transportation of persons other than by air and to continue the rules presently applicable in the case of air travel.

VI. 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, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

SEC. 11. TAX IMPOSED.

(a) **CORPORATIONS IN GENERAL.**—A tax is hereby imposed for each taxable year on the taxable income of every corporation. The tax shall consist of a normal tax computed under subsection (b) and a surtax computed under subsection (c).

(b) **NORMAL TAX.**—

(1) **TAXABLE YEARS BEGINNING BEFORE JULY 1, [1962] 1963.**—
In the case of a taxable year beginning before July 1, [1962] 1963, the normal tax is equal to 30 percent of the taxable income.

(2) **TAXABLE YEARS BEGINNING AFTER JUNE 30, [1962] 1963.**—
In the case of a taxable year beginning after June 30, [1962] 1963, the normal tax is equal to 25 percent of the taxable income.

* * * * *

SEC. 821. TAX ON MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE OR MARINE OR FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES).

(a) **IMPOSITION OF TAX ON MUTUAL COMPANIES OTHER THAN INTERINSURERS.**—There shall be imposed for each taxable year on the income of every mutual insurance company (other than a life or a marine insurance company or a fire insurance company subject to the tax imposed by section 831 and other than an interinsurer or reciprocal underwriter) a tax computed under paragraph (1) or paragraph (2), whichever is the greater.

(1) If the mutual insurance company taxable income (computed without regard to the deduction provided in section 242 for partially tax-exempt interest) is over \$3,000, a tax computed as follows:

(A) **NORMAL TAX.**—

(i) **TAXABLE YEARS BEGINNING BEFORE JULY 1, [1962] 1963.**—In the case of taxable years beginning before July 1, [1962] 1963, a normal tax of 30 percent of the mutual insurance company taxable income, or 60

percent of the amount by which such taxable income exceeds \$3,000, whichever is the lesser;

(ii) **TAXABLE YEARS BEGINNING AFTER JUNE 30, [1962] 1963.**—In the case of taxable years beginning after June 30, [1962] 1963, a normal tax of 25 percent of the mutual insurance company taxable income, or 50 percent of the amount by which such taxable income exceeds \$3,000, whichever is the lesser; plus

(B) **SURTAX.**—A surtax of 22 percent of the mutual insurance company taxable income (computed without regard to the deduction provided in section 242 for partially tax-exempt interest) in excess of \$25,000.

(2) If for the taxable year the gross amount of income from the items described in section 822(b) (other than paragraph (1)(D) thereof) and net premiums, minus dividends to policyholders, minus the interest which under section 103 is excluded from gross income, exceeds \$75,000, a tax equal to 1 percent of the amount so computed, or 2 percent of the excess of the amount so computed over \$75,000, whichever is the lesser.

(b) **IMPOSITION OF TAX ON INTERINSURERS.**—In the case of every mutual insurance company which is an interinsurer or reciprocal underwriter (other than a life or a marine insurance company or a fire insurance company subject to the tax imposed by section 831), if the mutual insurance company taxable income (computed as provided in subsection (a)(1)) is over \$50,000, there shall be imposed for each taxable year on the mutual insurance company taxable income a tax computed as follows:

(1) **NORMAL TAX.**—

(A) **TAXABLE YEARS BEGINNING BEFORE JULY 1, [1962] 1963.**—In the case of taxable years beginning before July 1, [1962] 1963, a normal tax of 30 percent of the mutual insurance company taxable income, or 60 percent of the amount by which such taxable income exceeds \$50,000, whichever is the lesser:

(B) **TAXABLE YEARS BEGINNING AFTER JUNE 30, [1962] 1963.**—In the case of a taxable year beginning after June 30, [1962] 1963, a normal tax of 25 percent of the mutual insurance company taxable income, or 50 percent of the amount by which such taxable income exceeds \$50,000, whichever is the lesser; plus

(2) **SURTAX.**—A surtax of 22 percent of the mutual insurance company taxable income (computed as provided in subsection (a)(1)) in excess of \$25,000, or 33 percent of the amount by which such taxable income exceeds \$50,000, whichever is the lesser.

* * * * *

SEC. 4061. IMPOSITION OF TAX.

(1) **AUTOMOBILES.**—There is hereby imposed upon the following articles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to the specified percent of the price for which so sold:

(0) Articles taxable at 10 percent, except that on and after July 1, 1972, the rate shall be 5 percent—

- Automobile truck chassis.
- Automobile truck bodies.
- Automobile bus chassis.
- Automobile bus bodies
- Truck and bus trailer and semitrailer chassis.
- Truck and bus trailer and semitrailer bodies.
- Tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer.

A sale of an automobile, truck, bus, truck or bus trailer or semitrailer shall, for the purposes of this paragraph, be considered to be a sale of the chassis and of the body.

(2) Articles taxable at 10 percent except that on and after July 1, [1962] 1963, the rate shall be 7 percent—

Automobile chassis and bodies other than those taxable under paragraph (1).

Chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles.

A sale of an automobile, trailer, or semitrailer shall, for the purposes of this paragraph, be considered to be a sale of the chassis and of the body.

(b) PARTS AND ACCESSORIES.—There is hereby imposed upon parts or accessories (other than tires and inner tubes and other than automobile radio and television receiving sets) for any of the articles enumerated in subsection (a) sold by the manufacturer, producer, or importer a tax equivalent to 8 percent of the price for which so sold, except that on and after July 1, [1962] 1963, the rate shall be 5 percent.

* * * * *

SEC. 4251. IMPOSITION OF TAX.

(a) IN GENERAL.—There is hereby imposed on amounts paid for the communication services enumerated in the following table a tax equal to the percent of the amount so paid as is specified in such table:

Taxable service	Rate of tax
	<i>Percent</i>
General telephone service.....	10
Toll telephone service.....	10
Telegraph service.....	10
Teletypewriter exchange service.....	10
Wire mileage service.....	10
Wire and equipment service.....	8

The taxes imposed by this section shall be paid by the person paying for the services.

(b) TERMINATION OF TAX ON GENERAL TELEPHONE SERVICE.—

(1) IN GENERAL.—Effective as provided in paragraph (2), the tax imposed by this section on amounts paid for general telephone service shall cease to apply.

(2) EFFECTIVE DATE.—

(A) Subject to the provisions of subparagraph (B), paragraph (1) shall apply with respect to amounts paid on or after July 1, [1962] 1963, for services rendered on or after date.

(B) Paragraph (1) shall not apply with respect to amounts paid pursuant to bills rendered before July 1, [1962] 1963. In the case of amounts paid pursuant to bills rendered on or after such date for services for which no previous bill was rendered, paragraph (1) shall apply except with respect to such services as were rendered more than 2 months before such date. Paragraph (1) shall not apply with respect to amounts paid for services rendered more than 2 months before such date.

SEC. 4252. DEFINITIONS.

(a) GENERAL TELEPHONE SERVICE.—For purposes of this subchapter, the term “general telephone service” means any telephone or radio telephone service furnished in connection with any fixed or mobile telephone or radio telephone station which may be connected (directly or indirectly) to an exchange operated by a person engaged in the business of furnishing communication service, if by means of such connection communication may be established with any other fixed or mobile telephone or radio telephone station. Without limiting the preceding sentence, any service described therein shall be treated as including the use of—

(1) any private branch exchange (and any fixed or mobile telephone or radio telephone station connected, directly or indirectly, with such an exchange), and

(2) any tie line or extension line.

The term “general telephone service” does not include any service which is toll telephone service or wire and equipment service.

(b) TOLL TELEPHONE SERVICE.—For purposes of this subchapter, the term “toll telephone service” means a telephone or radio telephone message or conversation for which (1) there is a toll charge, and (2) the charge is paid within the United States.

(c) TELEGRAPH SERVICE.—For purposes of this subchapter, the term “telegraph service” means a telegram, cable, or radio dispatch or message for which the charge is paid within the United States.

(d) TELETYPEWRITER EXCHANGE SERVICE.—For purposes of this subchapter, the term “teletypewriter exchange service” means any service where a teletypewriter (or similar device) may be connected (directly or indirectly) to an exchange operated by a person engaged in the business of furnishing communication service, if by means of such connection communication may be established with any other teletypewriter (or similar device).

(e) WIRE MILEAGE SERVICE.—For purposes of this subchapter, the term “wire mileage service” means—

(1) any telephone or radio telephone service *not used in the conduct of a trade or business*, and

(2) any other wire or radio circuit service *not used in the conduct of a trade or business*,

not included in any other subsection of this section; except that such

term does not include service used exclusively in furnishing wire and equipment service.

(f) **WIRE AND EQUIPMENT SERVICE.**—For purposes of this subchapter, the term “wire and equipment service” includes stock quotation and information services, burglar alarm or fire alarm service, and all other similar services (whether or not oral transmission is involved). Such term does not include teletypewriter exchange service.

SEC. 4253. EXEMPTIONS.

* * * * *

(j) **CERTAIN PRIVATE COMMUNICATIONS SERVICES.**—No tax shall be imposed under section 4251 on any amount paid for the use of any telephone or radiotelephone line or channel which constitutes general telephone service (within the meaning of section 4252(a)), if—

- (1) such line or channel is furnished between specified locations in different States or between specified locations in different counties, municipalities, or similar political subdivisions of a State, and
- (2) such use is in the conduct of a trade or business.

* * * * *

SUBCHAPTER C—TRANSPORTATION OF PERSONS BY AIR

- Sec. 4261. Imposition of tax.
 Sec. 4262. Definition of taxable transportation.
 Sec. 4263. Exemptions.
 Sec. 4264. Special rules.

SEC. 4261. IMPOSITION OF TAX.¹

(a) **AMOUNTS PAID WITHIN THE UNITED STATES.**—There is hereby imposed upon the amount paid within the United States for taxable transportation (as defined in section 4262) of any person by rail, motor vehicle, water, or air a tax equal to[—

- [(1) 10 percent of the amount so paid before July 1, 1962; or
- [(2) 5 percent of the amount so paid on or after July 1, 1962.]

10 percent of the amount so paid for transportation which begins before October 1, 1962.

(b) **AMOUNTS PAID OUTSIDE THE UNITED STATES.**—There is hereby imposed upon the amount paid without the United States for taxable transportation (as defined in section 4262) of any person by rail, motor vehicle, water, or air, but only if such transportation begins and ends in the United States, a tax equal to[—

- [(1) 10 percent of the amount so paid before July 1, 1962; or
- [(2) 5 percent of the amount so paid on or after July 1, 1962.]

10 percent of the amount so paid for transportation which begins before October 1, 1962.

(c) **SEATS, BERTHS, ETC.**—There is hereby imposed upon the amount paid for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) or (b) a tax equivalent to[—

- [(1) 10 percent of the amount so paid before July 1, 1962; or
- [(2) 5 percent of the amount so paid on or after July 1, 1962.]

10 percent of the amount so paid in connection with transportation which begins before October 1, 1962.

¹The amendments shown to this section are effective from July 1, 1962, through September 30, 1962.

(d) **BY WHOM PAID.**—Except as provided in section 4264, the taxes imposed by this section shall be paid by the person making the payment subject to the tax.

SEC. 4261. IMPOSITION OF TAX.¹

(a) **AMOUNTS PAID WITHIN THE UNITED STATES.**—There is hereby imposed upon the amount paid within the United States for taxable transportation (as defined in section 4262) of any person by [rail, motor vehicle, water, or] air a tax equal to [—

[(1) 10 percent of the amount so paid before July 1, 1962; or

[(2) 5 percent of the amount so paid on or after July 1, 1962.]

5 percent of the amount so paid for transportation which begins after September 30, 1962, and before July 1, 1963.

(b) **AMOUNTS PAID OUTSIDE THE UNITED STATES.**—There is hereby imposed upon the amount paid without the United States for taxable transportation (as defined in section 4262) of any person by [rail, motor vehicle, water, or] air, but only if such transportation begins and ends in the United States, a tax equal to [—

[(1) 10 percent of the amount so paid before July 1, 1962; or

[(2) 5 percent of the amount so paid on or after July 1, 1962.]

5 percent of the amount so paid for transportation which begins after September 30, 1962, and before July 1, 1963.

(c) **SEATS, BERTHS, ETC.**—There is hereby imposed upon the amount paid for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) or (b) a tax equivalent to [—

[(1) 10 percent of the amount so paid before July 1, 1962; or

[(2) 5 percent of the amount so paid on or after July 1, 1962.]

5 percent of the amount so paid in connection with transportation which begins after September 30, 1962, and before July 1, 1963.

(d) **BY WHOM PAID.**—Except as provided in section 4264, the taxes imposed by this section shall be paid by the person making the payment subject to the tax.

SEC. 4262. DEFINITION OF TAXABLE TRANSPORTATION.

(a) **TAXABLE TRANSPORTATION; IN GENERAL.**—For purposes of this [part] *subchapter*, except as provided in subsection (b), the term “taxable transportation” means—

(1) transportation which begins in the United States or in the 225-mile zone and ends in the United States or in the 225-mile zone; and

(2) in the case of transportation other than transportation described in paragraph (1), that portion of such transportation which is directly or indirectly from one port or station in the United States to another port or station in the United States, *but only if such portion is not a part of uninterrupted international air transportation (within the meaning of subsection (c)(3)).*

(b) **EXCLUSION OF CERTAIN TRAVEL.**—For purposes of this [part] *subchapter*, the term “taxable transportation” does not include that portion of any transportation which meets all 4 of the following requirements:

(1) such portion is outside the United States;

¹ The amendments shown to this section and to the remaining provisions of the subchapter are effective beginning after September 30, 1962.

(2) neither such portion nor any segment thereof is directly or indirectly—

(A) between (i) a point where the route of the transportation leaves or enters the continental United States, or (ii) a port or station in the 225-mile zone, and

(B) a port or station in the 225-mile zone;

(3) such portion—

(A) begins at either (i) the point where the route of the transportation leaves the United States, or (ii) a port or station in the 225-mile zone, and

(B) ends at either (i) the point where the route of the transportation enters the United States, or (ii) a port or station in the 225-mile zone; and

(4) a direct line from the point (or the port or station) specified in paragraph (3)(A), to the point (or the port or station) specified in paragraph (3)(B), passes through or over a point which is not within 225 miles of the United States.

(c) DEFINITIONS.—For purposes of this section—

(1) CONTINENTAL UNITED STATES.—The term “continental United States” means the District of Columbia and the States other than Alaska and Hawaii.

(2) 225-MILE ZONE.—The term “225-mile zone” means that portion of Canada and Mexico which is not more than 225 miles from the nearest point in the continental United States.

(3) UNINTERRUPTED INTERNATIONAL AIR TRANSPORTATION.—The term “uninterrupted international air transportation” means any transportation by air which is not transportation described in subsection (a)(1) and in which—

(A) the scheduled interval between (i) the beginning or end of the portion of such transportation which is directly or indirectly from one port or station in the United States to another port or station in the United States and (ii) the end or beginning of the other portion of such transportation is not more than 6 hours, and

(B) the scheduled interval between the beginning or end and the end or beginning of any two segments of the portion of such transportation referred to in subparagraph (A)(i) is not more than 6 hours.

SEC. 4263. EXEMPTIONS.

(a) COMMUTATION TRAVEL, ETC.—The tax imposed by section 4261 shall not apply to amounts paid for transportation which do not exceed 60 cents, to amounts paid for commutation or season tickets for single trips of less than 30 miles, or to amounts paid for commutation tickets for one month or less.

[(b) SMALL VEHICLES ON NONESTABLISHED LINES.—The tax imposed by section 4261 shall not apply to transportation by motor vehicles having a passenger seating capacity of less than ten adult passengers, including the driver, except when such vehicle is operated on an established line.

[(c) FISHING TRIPS.—The tax imposed by section 4261 shall not apply to amounts paid for transportation by boat for the purpose of fishing from such boat.]

[(d)] (b) CERTAIN ORGANIZATIONS.—The tax imposed by section 4261 shall not apply to the payment for transportation or facilities furnished to an international organization, or any corporation created by act of Congress to act in matters of relief under the treaty of Geneva of August 22, 1864.

[(e)] (c) MEMBERS OF THE ARMED FORCES.—The tax imposed by section 4261 shall not apply to the payment for transportation or facilities furnished under special tariffs providing for fares of not more than 2.5 cents per mile applicable to round-trip tickets sold to personnel of the United States Army, Air Force, Navy, Marine Corps, and Coast Guard traveling in uniform of the United States at their own expense when on official leave, furlough, or pass, including authorized cadets and midshipmen, issued on presentation of properly executed certificate.

[(f)] (d) SMALL AIRCRAFT ON NONESTABLISHED LINES.—The tax imposed by section 4261 shall not apply to transportation by aircraft having—

(1) a gross takeoff weight (as determined under regulations prescribed by the Secretary or his delegate) of less than 12,500 pounds, and

(2) a passenger seating capacity of less than 10 adult passengers, including the pilot,

except when such aircraft is operated on an established line.

SEC. 4264. SPECIAL RULES.

(a) PAYMENTS MADE OUTSIDE THE UNITED STATES FOR PREPAID ORDERS.—If the payment upon which tax is imposed by section 4261 is made outside the United States for a prepaid order, exchange order, or similar order, the person furnishing the initial transportation pursuant to such order shall collect the amount of the tax.

(b) TAX DEDUCTED UPON REFUNDS.—Every person who refunds any amount with respect to a ticket or order which was purchased without payment of the tax imposed by section 4261, shall deduct from the amount refundable, to the extent available, any tax due under such section as a result of the use of a portion of the transportation purchased in connection with such ticket or order, and shall report to the Secretary or his delegate the amount of any such tax remaining uncollected.

(c) PAYMENT OF TAX.—Where any tax imposed by section 4261 is not paid at the time payment for transportation is made, then, under regulations prescribed by the Secretary or his delegate, to the extent that such tax is not collected under any other provision of this subchapter—

(1) such tax shall be paid by the person paying for the transportation or by the person using the transportation;

(2) such tax shall be paid within such time as the Secretary or his delegate shall prescribe by regulations after whichever of the following first occurs:

(A) the rights to the transportation expire; or

(B) the time when the transportation becomes subject to tax; and

[(3) payment of such tax shall be made to the person to whom the payment for transportation was made or to the Secretary or his delegate.]

(3) *payment of such tax shall be made to the Secretary or his delegate, to the person to whom the payment for transportation was made, or, in the case of transportation other than transportation described in section 4262(a)(1), to any person furnishing any portion of such transportation.*

(d) APPLICATION OF TAX.—The tax imposed by section 4261 shall apply to any amount paid within the United States for transportation of any person *by air* unless the taxpayer establishes, pursuant to regulations prescribed by the Secretary or his delegate, at the time of payment for the transportation, that the transportation is not transportation in respect of which tax is imposed by section 4261.

(e) ROUND TRIPS.—In applying this [part] *subchapter* to a round trip, such round trip shall be considered to consist of transportation from the point of departure to the destination, and of separate transportation thereafter.

(f) TRANSPORTATION OUTSIDE THE NORTHERN PORTION OF THE WESTERN HEMISPHERE.—In applying this [part] *subchapter* to transportation any part of which is outside the northern portion of the Western [Hemisphere—

[(1) If the route of such transportation leaves and reenters the northern portion of the Western Hemisphere, such transportation shall be considered to consist of transportation to a point outside such northern portion, and of separate transportation thereafter.]

Hemisphere, if the route of such transportation leaves and reenters the northern portion of the Western Hemisphere, such transportation shall be considered to consist of transportation to a point outside such northern portion, and of separate transportation thereafter.

[(2) If such transportation is transportation by water on a vessel which makes one or more intermediate stops at ports within the United States on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere, a stop at an intermediate port within the United States at which such vessel is not authorized both to discharge and to take on passengers shall not be considered to be a stop at a port within the United States.]

For purposes of this subsection, the term “northern portion of the Western Hemisphere” means the area lying west of the 30th meridian west of Greenwich, east of the International Date Line, and north of the equator, but not including any country of South America.

* * * * *

SEC. 5001. IMPOSITION, RATE, AND ATTACHMENT OF TAX.

(a) RATE OF TAX.—

(1) GENERAL.—There is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of \$10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon. On and after July 1, [1962] 1963, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50.

(2) PRODUCTS CONTAINING DISTILLED SPIRITS.—All products of distillation, by whatever name known, which contain distilled

spirits, on which the tax imposed by law has not been paid, shall be considered and taxed as distilled spirits.

(3) **IMPORTED PERFUMES CONTAINING DISTILLED SPIRITS.**—There is hereby imposed on all perfumes imported into the United States containing distilled spirits a tax of \$10.50 per wine gallon, and a proportionate tax at a like rate on all fractional parts of such wine gallon. On and after July 1, **[1962] 1963**, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50.

* * * * *

SEC. 5022. TAX ON CORDIALS AND LIQUEURS CONTAINING WINE.

On all liqueurs, cordials, or similar compounds produced in the United States and not produced for sale as wine, wine specialties, or cocktails, which contain more than 2½ percent by volume of wine of an alcoholic content in excess of 14 percent by volume, there shall be paid, in lieu of the tax imposed by section 5021, a tax at the rate of \$1.92 per wine gallon and a proportionate tax at a like rate on all fractional parts of such wine gallon until July 1, **[1962] 1963**, and on or after July 1, **[1962] 1963**, at the rate of \$1.60 per wine gallon and a proportionate tax at a like rate on all fractional parts of such wine gallon. The last sentence of section 5021 shall not be construed to limit the imposition of tax under this section. All other provisions of law applicable to rectification shall apply to the products subject to tax under this section.

* * * * *

SEC. 5041. IMPOSITION AND RATE OF TAX.

(a) **IMPOSITION.**—There is hereby imposed on all wines (including imitation, substandard, or artificial wine, and compounds sold as wine) having not in excess of 24 percent of alcohol by volume, in bond in, produced in, or imported into, the United States, taxes at the rates shown in subsection (b), such taxes to be determined as of the time of removal for consumption or sale. All wines containing more than 24 percent of alcohol by volume shall be classed as distilled spirits and taxed accordingly. Still wines shall include those wines containing not more than 0.256 gram of carbon dioxide per hundred milliliters of wine; except that the Secretary or his delegate may by regulations prescribe such tolerance to this maximum limitation as may be reasonably necessary in good commercial practice.

(b) **RATES OF TAX.**—

(1) On still wines containing not more than 14 percent of alcohol by volume, 17 cents per wine gallon, except that on and after July 1, **[1962] 1963**, the rate shall be 15 cents per wine gallon;

(2) On still wines containing more than 14 percent and not exceeding 21 percent of alcohol by volume, 67 cents per wine gallon, except that on and after July 1, **[1962] 1963**, the rate shall be 60 cents a wine gallon;

(3) On still wines containing more than 21 percent and not exceeding 24 percent of alcohol by volume, \$2.25 per wine gallon, except that on and after July 1, **[1962] 1963**, the rate shall be \$2.00 per wine gallon;

(4) On champagne and other sparkling wines, \$3.40 per wine gallon, except that on and after July 1, **[1962] 1963**, the rate shall be \$3.00 per wine gallon; and

(5) On artificially carbonated wines, \$2.40 per wine gallon, except that on and after July 1, [1962ff 1963, the rate shall be \$2.00 per wine gallon.

* * * * *

SEC. 5051. IMPOSITION AND RATE OF TAX.

(a) **RATE OF TAX.**—There is hereby imposed on all beer, brewed or produced, and removed for consumption or sale within the United States, or imported into the United States, a tax of \$9 for every barrel containing not more than 31 gallons and at a like rate for any other quantity or for fractional parts of a barrel. On and after July 1, [1962] 1963, the tax imposed by this subsection shall be at the rate of \$8 in lieu of \$9. Where the Secretary or his delegate finds that the revenue will not be endangered thereby, he may by regulations prescribe tolerances for barrels and fractional parts of barrels, and, if such tolerances are prescribed, no assessment shall be made and no tax shall be collected for any excess in any case where the contents of a barrel or a fractional part of a barrel are within the limit of the applicable tolerance prescribed.

* * * * *

SEC. 5063. FLOOR STOCKS REFUNDS ON DISTILLED SPIRITS, WINES, CORDIALS, AND BEER.

(a) **GENERAL.**—With respect to any article upon which tax is imposed under this part, upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed has been paid or determined, and which, on July 1, [1962] 1963, is held by any person and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as may be prescribed by the Secretary or his delegate, an amount equal to the difference between the tax so paid or determined and the rate made applicable to such articles on and after July 1, [1962] 1963, if claim for such credit or refund is filed with the Secretary or his delegate prior to October 1, [1962] 1963, or within 30 days from the promulgation of such regulations, whichever is later.

(b) **LIMITATIONS ON ELIGIBILITY FOR CREDIT OR REFUND.**—No person shall be entitled to credit or refund under subsection (a), unless such person, for such period or periods both before and after July 1, [1962] 1963 (but not extending beyond 1 year thereafter), as the Secretary or his delegate shall by regulations prescribe, makes and keeps, and files with the Secretary or his delegate, such records of inventories, sales, and purchases as may be prescribed in such regulations.

(c) **OTHER LAWS APPLICABLE.**—All provisions of law, including penalties, applicable in respect of internal revenue taxes on distilled spirits, wines, liqueurs and cordials, imported perfumes containing distilled spirits, and beer shall, insofar as applicable and not inconsistent with this section, be applicable in respect of the credits and refunds provided for in this section to the same extent as if such credits or refunds constituted credits or refunds of such taxes.

* * * * *

SEC. 5701. RATE OF TAX.

* * * * *

(c) CIGARETTES.—On cigarettes, manufactured in or imported into the United States, there shall be imposed the following taxes:

(1) SMALL CIGARETTES.—On cigarettes, weighing not more than 3 pounds per thousand, \$4 per thousand until July 1, [1962] 1963, and \$3.50 per thousand on and after July 1, [1962] 1963;

(2) LARGE CIGARETTES.—On cigarettes, weighing more than 3 pounds per thousand, \$8.40 per thousand; except that, if more than 6½ inches in length, they shall be taxable at the rate prescribed for cigarettes weighing not more than 3 pounds per thousand, counting each 2¾ inches, or fraction thereof, of the length of each as one cigarette.

* * * * *

SEC. 5707. FLOOR STOCKS REFUND ON CIGARETTES.

(a) IN GENERAL.—With respect to cigarettes, weighing not more than 3 pounds per thousand, upon which the tax imposed by subsection (c)(1) of section 5701 has been paid, and which, on July 1, [1962] 1963, are held by any person and intended for sale, or are in transit from foreign countries or insular possessions of the United States to any person in the United States for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as shall be prescribed by the Secretary or his delegate, an amount equal to the difference between the tax paid on such cigarettes and the tax made applicable to such articles on July 1, [1962] 1963, if claim for such credit or refund is filed with the Secretary or his delegate before October 1, [1962] 1963.

(b) LIMITATIONS ON ELIGIBILITY FOR CREDIT OR REFUND.—No person shall be entitled to credit or refund under subsection (a) unless such person, for such period or periods both before and after July 1, [1962] 1963 (but not extending beyond 1 year thereafter), as the Secretary or his delegate shall by regulation prescribe, makes and keeps, and files with the Secretary or his delegate, such records of inventories, sales, and purchases as may be prescribed in such regulations.

* * * * *

SEC. 6412. FLOOR STOCKS REFUNDS.

(a) IN GENERAL.—

(1) PASSENGER AUTOMOBILES, ETC.—Where before July 1, [1962] 1963, any article subject to the tax imposed by section 4061(a)(2) has been sold by the manufacturer, producer, or importer and on such date is held by a dealer and has not been used and is intended for sale, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer an amount equal to the difference between the tax paid by such manufacturer, producer, or importer on his sale of the article and the amount of tax made applicable to such article on and after July 1, [1962] 1963, if claim for such credit or refund is filed with the Secretary or his delegate on or before November 10, [1962] 1963, based upon a request submitted to the manufacturer, producer or importer before October 1, [1962] 1963, by the dealer who held the article in respect of which the credit or refund is claimed, and, on or before November 10, [1962] 1963, reimbursement has been made to such dealer by such manufac-

turer, producer, or importer for the tax reduction on such article or written consent has been obtained from such dealer to allowance of such credit or refund.

* * * * *

SEC. 6416. CERTAIN TAXES ON SALES AND SERVICES.

(a) **CONDITION TO ALLOWANCE.**—* * *

(b) **SPECIAL CASES IN WHICH TAX PAYMENTS CONSIDERED OVERPAYMENTS.**—Under regulations prescribed by the Secretary or his delegate, credit or refund (without interest) shall be allowed or made in respect of the overpayments determined under the following paragraph:

(1) **PRICE READJUSTMENTS.**—If the price of any article in respect of which a tax, based on such price, is imposed by chapter 31 or 32, is readjusted by reason of the return or repossession of the article or a covering or container, or by a bona fide discount, rebate, or allowance, including (in the case of a tax imposed by chapter 32) a readjustment for local advertising (but only to the extent provided in section 4216(f) (2) and (3)), the part of the tax proportionate to the part of the price repaid or credited to the purchaser shall be deemed to be an overpayment. The preceding sentence shall not apply in the case of an article in respect of which tax was computed under section 4223(b)(2); but if the price for which such article was sold is readjusted by reason of the return or repossession of the article, the part of the tax proportionate to the part of such price repaid or credited to the purchaser shall be deemed to be an overpayment.

(2) **SPECIFIED USES AND REALES.**—The tax paid under chapter 32 (or under section 4041 (a)(1) or (b)(1)) in respect of any article shall be deemed to be an overpayment if such article was, by any person—

(A) * * *

* * * * *

(H) in the case of a liquid in respect of which tax was paid under section 4041 at the rate of 3 cents or 4 cents a gallon, used during any calendar quarter in vehicles while engaged in furnishing scheduled common carrier public passenger land transportation service along regular routes; except that (i) this subparagraph shall apply only if the 60 percent passenger fare revenue test set forth in section 6421(b)(2) is met with respect to such quarter, and (ii) the amount of such overpayment for such quarter shall be an amount determined by multiplying 1 cent (where tax was paid at the 3-cent rate) or 2 cents (where tax was paid at the 4-cent rate) for each gallon of liquid so used by the percentage which such person's [tax-exempt passenger] *commuter* fare revenue (as defined in section 6421(d)(2)) derived from such scheduled service during such quarter was of his total passenger fare revenue [(not including the tax imposed by section 4261, relating to the tax on transportation of persons)] derived from such scheduled service during such quarter;

* * * * *

SEC. 6421. GASOLINE USED FOR CERTAIN NONHIGHWAY PURPOSES OR BY LOCAL TRANSIT SYSTEM.

(a) **NONHIGHWAY USES.**—If gasoline is used otherwise than as a fuel in a highway vehicle (1) which (at the time of such use) is registered, or is required to be registered, for highway use under the laws of any State or foreign country, or (2) which, in the case of a highway vehicle owned by the United States, is used on the highway, the Secretary or his delegate shall pay (without interest) to the ultimate purchaser of such gasoline an amount equal to 1 cent for each gallon of gasoline so used on which tax was paid at the rate of 3 cents a gallon and 2 cents for each gallon of gasoline so used on which tax was paid at the rate of 4 cents a gallon.

(b) **LOCAL TRANSIT SYSTEMS.**—

(1) **ALLOWANCE.**—If gasoline is used during any calendar quarter in vehicles while engaged in furnishing scheduled common carrier public passenger land transportation service along regular routes, the Secretary or his delegate shall, subject to the provisions of paragraph (2), pay (without interest) to the ultimate purchaser of such gasoline the amount determined by multiplying—

(A) 1 cent for each gallon of gasoline so used on which tax was paid at the rate of 3 cents a gallon and 2 cents for each gallon of gasoline so used on which tax was paid at the rate of 4 cents a gallon, by

(B) the percentage which the ultimate purchaser's [tax-exempt passenger] *commuter* fare revenue derived from such scheduled service during such quarter was of his total-passenger fare revenue [(not including the tax imposed by section 4261, relating to the tax on transportation of persons)] derived from such scheduled service during such quarter.

(2) **LIMITATION.**—Paragraph (1) shall apply in respect of gasoline used during any calendar quarter only if at least 60 percent of the total passenger fare revenue [(not including the tax imposed by section 4261, relating to the tax on transportation of persons)] derived during such quarter from scheduled service described in paragraph (1) by the person filing the claim was attributable to [tax-exempt passenger] *commuter* fare revenue derived during such quarter by such person from such scheduled service.

(c) **TIME FOR FILING CLAIMS; PERIOD COVERED.**—

(1) **GENERAL RULE.**—Except as provided in paragraph (2), not more than one claim may be filed under subsection (a), and not more than one claim may be filed under subsection (b), by any person with respect to gasoline used during the one-year period ending on June 30 of any year. No claim shall be allowed under this paragraph with respect to any one-year period unless filed on or before September 30 of the year in which such one-year period ends.

(2) **EXCEPTION.**—If \$1,000 or more is payable under this section to any person with respect to gasoline used during a calendar quarter, a claim may be filed under this section by such person with respect to gasoline used during such quarter. No claim

filed under this paragraph shall be allowed unless filed on or before the last day of the first calendar quarter following the calendar quarter for which the claim is filed.

(d) DEFINITIONS.—For purposes of this section—

(1) GASOLINE.—The term “gasoline” has the meaning given to such term by section 4082(b).

[(2) TAX-EXEMPT PASSENGER FARE REVENUE.—The term “tax-exempt passenger fare revenue” means revenue attributable to fares which were exempt from the tax imposed by section 4261 by reason of section 4263(a) (relating to the exemption for commutation travel, etc.).]

(2) COMMUTER FARE REVENUE.—The term “commuter fare revenue” means revenue attributable to fares derived from the transportation of persons and attributable to—

(A) amounts paid for transportation which do not exceed 60 cents,

(B) amounts paid for commutation or season tickets for single trips of less than 30 miles, or

(C) amounts paid for commutation tickets for one month or less.

(e) EXEMPT SALES; OTHER PAYMENTS OR REFUNDS AVAILABLE.—

(1) EXEMPT SALES.—No amount shall be paid under this section with respect to any gasoline which the Secretary or his delegate determines was exempt from the tax imposed by section 4081. The amount which (but for this sentence) would be payable under this section with respect to any gasoline shall be reduced by any other amount which the Secretary or his delegate determines is payable under this section, or is refundable under any provision of this title, to any person with respect to such gasoline.

(2) GASOLINE USED ON FARMS.—This section shall not apply in respect of gasoline which was (within the meaning of paragraphs (1), (2), and (3) of section 6420(c)) used on a farm for farming purposes.

(f) APPLICABLE LAWS.—

(1) IN GENERAL.—All provisions of law, including penalties, applicable in respect of the tax imposed by section 4081 shall, insofar as applicable and not inconsistent with this section, apply in respect of the payments provided for in this section to the same extent as if such payments constituted refunds of overpayments of the tax so imposed.

(2) EXAMINATION OF BOOKS AND WITNESSES.—For the purpose of ascertaining the correctness of any claim made under this section, or the correctness of any payment made in respect of any such claim, the Secretary or his delegate shall have the authority granted by paragraphs (1), (2), and (3) of section 7602 (relating to examination of books and witnesses) as if the claimant were the person liable for tax.

(g) REGULATIONS.—The Secretary or his delegate may by regulations prescribe the conditions, not inconsistent with the provisions of this section, under which payments may be made under this section.

(h) EFFECTIVE DATE.—This section shall apply only with respect to gasoline purchased after June 30, 1956, and before October 1, 1972.

(i) **CROSS REFERENCES.—**

(1) For reduced rate of tax in case of diesel fuel and special motor fuels used for certain nonhighway purposes, see subsections (a) and (b) of section 4041.

(2) For partial refund of tax in case of diesel fuel and special motor fuels used for certain nonhighway purposes, see section 6416(b)(2) (I) and (J).

(3) For partial refund of tax in case of diesel fuel and special motor fuels used by local transit systems, see section 6416(b)(2) (H).

(4) For civil penalty for excessive claims under this section, see section 6675.

(5) For fraud penalties, etc., see chapter 75 (section 7201 and following, relating to crimes, other offenses, and forfeitures).

SECTION 497 OF THE REVENUE ACT OF 1951

SEC. 497. REFUNDS ON ARTICLES FROM FOREIGN TRADE ZONES.

(a) **IMPORTED ARTICLES.**—With respect to any article specified in section 2000(c)(2), 2800(a), 3030(a), or 3150(a) of the Internal Revenue Code of 1939 (or section 5701(c), 5001(a), 5022, 5041(b), or 5051(a) of the Internal Revenue Code of 1954) on which internal revenue tax at the applicable rate prescribed in such section has been determined pursuant to section 3 of the Act of June 18, 1934, as amended (U.S.C., title 19, sec. 81c), prior to July 1, [1962] 1963, and which on or after such date is brought from a foreign trade zone into customs territory of the United States and the tax so determined thereon paid, there shall be credited or refunded (without interest) to the taxpayer, subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the amount of tax made applicable to such articles on and after July 1, [1962] 1963, if claim for such credit or refund is filed with the Secretary within thirty days after payment of the tax.

(b) **PREVIOUSLY TAXPAID ARTICLES.**—With respect to any article specified in section 2000(c)(2), 2800(a), 3030(a) or 3150(a) of the Internal Revenue Code of 1939 (or section 5701(c), 5001(a), 5022, 5041(b), or 5051(a) of the Internal Revenue Code of 1954), upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed in such section has been paid, and which was taken into a foreign trade zone from the customs territory of the United States and placed under the supervision of the collector of customs, pursuant to the second proviso of section 3 of the Act of June 18, 1934, as amended (U.S.C., title 19, sec. 81c), prior to July 1, [1962] 1963, and which on or after such date is (without loss of identity) returned from a foreign trade zone to customs territory of the United States, there shall be credited or refunded (without interest) to the person so returning such article, subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the amount of tax made applicable to such articles on and after July 1, [1962] 1963, if claim for such credit or refund is filed with the Secretary within thirty days after the return of the article to customs territory.