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H.R. 10947—THE REVENUE ACT OF 1971

ANNOUNCEMENT OF COMMITTEE DECISIONS REACHED IN EXECUTIVE SESSION

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*

NOVEMBER 9, 1971

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PRESS RELEASE

FOR IMMEDIATE RELEASE
November 8, 1971

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 New Senate Office Bldg.

FINANCE COMMITTEE REPORTS REVENUE ACT OF 1971

Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, today announced that the Committee on Finance had finished its work on H. R. 10947, the Revenue Act of 1971 and that it had ordered the bill reported to the Senate. The principal features of the bill involve restoration of the investment tax credit, a codification of the asset depreciation rules of the Treasury Department, a speed-up of individual income tax cuts, repeal of the Federal excise tax on automobiles and light-duty trucks, and enactment of tax incentives to spur exports.

The Chairman reported that he was pleased the Committee had seen fit to agree to his amendment to upgrade the tax deduction for child care and housekeeping expenses of working mothers and single parents. He said that mothers who must work in order to provide an adequate living for their family should not be penalized by a tax statute which denied them reasonable deductions for these costs which they must incur when they work.

He also indicated his regret that the Committee on Finance was not willing to increase the personal exemption from $750 to $800. He stated that he was sure this was what the Senate itself would want to do, and he would have preferred that the amendment be added to the bill in Committee. Senator Long said that "without this amendment, the bill still suffers an imbalance as between the tax relief it offers business and the tax relief provided for individuals as compared to existing law."

Senator Long also reported his understanding that the Senate would begin consideration of this bill on Wednesday, November 10, 1971.

Before completing its work on the legislation, the Committee on Finance amended the House bill in several important respects. These amendments and the revenue impact of the bill as ordered reported are described in the following paragraphs.

REVENUE IMPACT

In general the Committee bill is slightly more expensive from a revenue standpoint than was the House version. In 1972 the Committee bill involves a revenue reduction of approximately $8.0 billion compared to a loss under the House bill of about $7.8 billion. Most of this difference is accounted for by the amendment to upgrade the deduction for child care and housekeeping expenses in the case of single parents and working wives. A comparison of the revenue impact of the House bill and of the Committee bill for 1971, 1972, and 1973 follows:

REVENUE ESTIMATES OF HOUSE VERSION AND SENATE FINANCE COMMITTEE VERSION OF H. R. 10947
(In Millions of Dollars)

	1971	1972	1973
Individual income	- 1,370	- 3,230	- 1,090
Investment credit	- 1,500	- 3,600	- 3,900
ADR (3/4 yr.)	+ 2,100	+ 1,700	+ 1,500
DISC		- 100	- 200
Total of lines 2, 3, &4	+ 600	- 2,000	- 2,600
Excises	- 900	- 2,560	- 2,260
Total	- 1,670	- 7,790	- 5,950

SENATE FINANCE COMMITTEE

	1971	1972	1973
Individual income	- 1,370	- 3,460	- 1,305
Investment credit	- 1,510	- 3,610	- 3,910
"WIN" credit		- 25	- 30
ADR (3/4 yr.)	+ 2,100	+ 1,700	+ 1,500
DISC		- 100	- 170
Total of lines 2 to 5	+ 590	- 2,035	- 2,610
Excises	- 930	- 2,540	- 2,240
Total	- 1,710	- 8,035	- 6,165
Change from House	- 40	- 245	- 215

INVESTMENT TAX CREDIT

(a) Restoration of the Tax Credit. -- The Committee agreed to the proposed restoration of the 7 percent investment tax credit and approved the effective date rules in the House. Under these rules, property ordered after April 1, 1971, or property delivered after August 15, 1971 (regardless of when ordered) would qualify for the credit.

The Committee amendments will clarify that railroad track (and installation costs), certain storage facilities (primarily those used on farms) and other structures closely related to the property they house, and coin-operated laundry machines used in lodging facilities are eligible for the credit.

(b) Property Used Outside the United States. -- The Committee agreed to the provision in the House bill with respect to tax credits for communication satelites. In addition, it added amendments to the bill to assure that the tax credit will apply also to undersea telephone communication cables manufactured in this country, including cases where the cable connects points outside the United States if it is part of a link with the United States.

Also, the Committee added an amendment to the bill to extend the application of the 7 percent tax credit to special-purpose structures used on the high seas or on the continental shelf of foreign countries for exploration and extraction of undersea minerals.

Finally, the Committee approved an amendment to assure that financial institutions which make financial leases relating to vessels and aircraft used in the foreign trade of the United States would not suffer a reduction in their foreign tax credit by virtue of the transaction. In essence, the Committee amendment will provide that income under such a lease will be treated as income from domestic sources rather than income from foreign sources. This will facilitate arrangements under which lessors will obtain the benefit of the investment tax credit.

(c) Buy America . -- The Committee generally agreed to the provision in the House bill denying the tax credit to property manufactured abroad for the period within which the import surcharge remains effective. However, this portion of the bill was amended to authorize the President to defer the restoration of the investment tax credit beyond the day on which the import surcharge is terminated. The Committee also agreed to the House provision which authorizes the President, in the public interest, to extend the credit to a class of foreign products, but amended it to allow him to make the credit applicable in such cases on a retroactive basis of up to two years.

In addition, it is provided in the Committee amendments that foreign property ordered after March 31 and before the President's State of the Economy Message on August 15 will be eligible for the tax credit. As under the House bill, foreign property acquired thereafter will be ineligible.

It was also agreed that the report of the Committee on Finance will indicate that the President may find that it would be in the public interest to extend the investment tax credit to foreign property, such as agricultural implements, which has long been duty-free under the tariff laws.

(d) Livestock . -- The Committee agreed to provisions in the House bill extending the investment tax credit to livestock, but it modified the House bill in two important respects. First, horses would not be eligible for the credit in any case. Second, livestock purchased within six months before, or six months after, the sale of similar livestock would be ineligible for the credit unless the investment tax credit on the livestock being sold has been subjected to the recapture rules. For this purpose, young breeding stock acquired to replace animals culled from a herd at the end of their useful life for that purpose would not be "similar" and the credit on the new animals would not be denied.

(e) Used Property . -- Under the House bill, used property purchases of up to $65,000 would be eligible for the tax credit, but the $65,000 limitation would be reduced or offset by

the amount of investment in new property during the year. The Committee deleted the offset feature and reduced the limitation from $65,000 to $50,000.

(f) Regulated Utilities. -- The Committee agreed to eliminate an inequity between regulated communication utilities which qualify for a 4 percent tax credit and nonregulated communications systems owned by private business which, under the House bill, qualify for a 7 percent credit. The Committee decision equates the two situations by allowing only a 4 percent credit in both cases.

The Committee agreed to restore the full 7 percent tax credit to international telegraph companies. The House bill had cut them back to a 4 percent credit, as if they competed with domestic utilities. Actually, they compete with foreign government-supported international telegraph companies.

The House bill provides that if a utility commission acts contrary to the flow-through rules, and rate base rules, in the bill, the utility would be denied the tax credit for all open years in the past and all future years. The Committee modified the House bill so that the credit would be denied only with respect to the particular commission's area -- not nationwide -- and only for the period the commission does not follow these rules -- not forever.

The House bill exerted a pressure on regulatory agencies to comply with the flow-through, and rate base, rules in the bill by April 1, 1972. The Committee amended the House bill to eliminate the April 1 deadline, and to provide instead that the new rules must be complied with in all final determinations of regulatory agencies after the effective date of the bill.

In addition, the Committee clarifies the House bill to prevent avoidance of the flow-through rules by regulatory agencies insisting on one rule for ratemaking purposes consistent with the bill, and a different rule for accounting purposes. Under the bill, the same rules would be required for ratemaking purposes and in the utilities' "regulated books of account."

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Finally, the Committee bill makes the flow-through rules inapplicable in those instances where a regulatory body determines that the natural domestic supply of the product furnished by the regulated company is insufficient to meet present and future needs of the domestic economy.

(g) Lessee - Lessor . -- The House bill provides that the investment tax credit is not to apply in the case of individuals who are lessors of property unless they are manufacturers or lease on short-term bases. The Committee clarifies the House bill so that corporate partners of a partnership will not be denied the credit.

The Committee also agreed that a lessor may pass through the full tax credit to a lessee only if the lease is for a period in excess of 80 percent of the "class life" of the property. In the case of short-term leases not qualifying for the pass-through of the full investment credit, a proportionate part of the credit -- related to the period of the lease as a percentage of the class life for the property -- may be passed through, but only to the first lessee.

(h) Carryover of Pre-1971 Tax Credits . -- Under existing law, there is a special limitation under which not more than 20 percent of accumulated tax credits could be used in a year subsequent to 1969. The House bill repeals this limitation effective January 1, 1972. A Committee amendment accelerates the repeal of the 20 percent limitation so that it (as well as the regular 50 percent limitation on use of tax credits) would apply with respect to only five-eighths of a calendar year taxpayers' liability for 1971, and the 50 percent limitation (but not the 20 percent limitation) would be applied to the remaining three-eighths of tax liability for 1971.

(i) Accounting Principles and the Tax Credit . -- The Committee agreed to include in its report language to indicate that nothing in the bill should be construed to preclude the use of "flow through" in the financial reporting of net income in nonregulated industries, but that taxpayers should indicate on their financial reports the method they used to account for the investment tax credit.

ASSET DEPRECIATION RANGE (ADR)

The Committee generally agreed to the provisions in the House bill which incorporate into the statute the basic rules (other than the first-year convention) of the ADR system announced by the Treasury Department in January, 1971. Among the new statutory rules is one calling for a "class life" system for all assets.

In order to provide time for the Treasury Department to determine class lives for real property (and for so-called subsidiary assets, such as jigs, dies, textile mill cam assemblies, returnable containers, glassware and silverware), the Committee agreed to permit taxpayers to continue to use, for up to three years, shorter useful lives for those types of property if the shorter life is one which can be justified under the 1962 depreciation guidelines. Under this amendment, the transition period would end sooner than three years if the Treasury promulgates class lives for the property in question.

The Committee also agreed that railroads would be given an option, on a year-by-year basis, to use the repair allowance rules in existing law as added by the Tax Reform Act of 1969 or those under the ADR rules being codified by the bill.

PERSONAL TAX PROVISIONS

(a) Withholding Changes . -- The House bill makes changes in the withholding taxes to reflect higher personal exemptions and low income allowances and to reduce underwithholding. The new rules would become effective under the House bill in two steps. The first occurring November 15, 1971; and the second occuring on January 1, 1973. The Committee bill makes the entire change in the withholding rates effective January 1, 1972.

(b) Deduction for Child Care-Housekeeping Expenses . -- The Committee agreed to an amendment under which (i) single parents -- those who are widows or widowers, divorced or separated, (ii) taxpayers with disabled spouses, and (iii) married couples whose combined income does not exceed $12,000 per year, would be allowed to deduct up to $400 per month of the expenses involved in obtaining care, including housekeeping services, for children under age 14 or for disabled dependents in the taxpayer's home in order for the person to become gainfully employed. If the taxpayer chooses to have his children cared for in a child care center or in other child care facilities outside his home he could apply up to $200 per month

of this deductible amount toward the expense of caring for one child, $300 if two children are involved and the full $400 if more than two children are so cared for. In such a case, the remaining amount not used for outside child care would be available as a deduction with respect to amounts paid as housekeeping expenses.

Where a disabled dependent is being cared for, the amount of the deduction under this amendment must be offset by disability benefits received with respect to the dependent. In the case of married couples, the amendment would provide for a reduction in the total deduction that may be claimed so that for each $1 of additional earnings the amount deductible would be reduced by $. 50.

EXCISE TAX ON AUTOMOBILES, TRUCKS, ETC.

(a) General. -- The Committee generally agreed with the features in the House bill providing for repeal of the 7 percent excise tax in the case of passenger automobiles and the 10 percent excise tax in the case of light trucks, those having a gross vehicle weight of 10, 000 pounds or less. However, the Committee amended the House bill in a number of relatively minor respects.

First, it provided that the effective date of the repeal of the tax on light trucks will be fixed at August 15, 1971, thus conforming with the effective date provided by the House bill with respect to repeal of the automobile tax. Under the House bill, repeal of the light truck tax would have been September 22, 1971.

Second, the Committee agreed to impose a tax on original equipment tires on imported automobiles, trucks and other equipment and implements conforming the treatment of these tires with the treatment of tires for domestically produced vehicles.

Third, the Committee amended the House bill to repeal the 10 percent tax on light trailers generally used in connection with the light trucks the tax on which would be repealed by the bill. The trailers eligible for this tax exemption are those having

a gross vehicle weight of 10,000 pounds or less. The Committee understands that the savings from repeal of the tax on these trailers will be passed on to the ultimate purchase of the trailers.

(b) Foreign Automobiles and Light-Duty Trucks. -- In addition to the repeal of the excise tax on domestic automobiles and light-duty trucks, the Committee agreed to suspend the tax on foreign automobiles and light trucks, also effective August 16, 1971. However, the President would be authorized after the date of enactment of this Act to terminate the suspension and in effect to reimpose the excise tax on imported cars and light-duty trucks from any foreign country which discriminates against automobiles of US manufacturers. The President's authority will be limited by the provisions in existing law which provide for a progressive reduction and ultimate repeal of the automobile excise tax by 1982, and a reduction of the 10 percent tax on trucks to 5 percent on October 1, 1977. After 1981, his authority with respect to both automobiles and light-duty trucks would terminate.

This amendment could be applied by the President, for example, to automobiles imported from those countries which impose special horsepower or weight taxes which discriminate against US automobiles, or which impose higher consumption taxes on US automobiles than are imposed on domestic cars, unless the discrimination is removed.

(c) Truck Parts. -- The Committee declined to approve an amendment which would have repealed the tax on parts suitable for use on light-duty trucks. In making its decision, the Committee was aware that today there is no tax on automobile parts and, in many instances, parts used on automobiles are interchangeable with those used on light-duty trucks, the tax on which is repealed by this bill. Thus, in many situations, the truck part involved will not be subject to tax. Where the part involved is not interchangeable with an automobile part, the Committee felt it unwise to write an exemption which might apply to parts used on larger, taxable trucks.

(d) Highway Trust Fund - Alcoholic Beverage Tax. -- The proposed repeal of the excise tax on light-duty trucks and trailers reduces the amount of revenues flowing into the highway trust fund for use in construction of the interstate highway system by about $350 million.

In order to restore an approximately equivalent amount to the highway trust fund so that the highway construction schedule will not be impaired, the Committee agreed to divert 7 percent of the revenues from the Federal excise tax on alcoholic beverages to the highway trust fund.

Under this amendment, these revenues will be made available to the highway trust fund for each year through 1977.

Fourth, the Committee will clarify the tax exemption of demonstrator vehicles and cars made available by dealers to schools for driver training prior to August 15, but which are returned to the dealer and sold by him subsequent to that date. Under this Committee decision, a refund of the tax on demonstrator automobiles and cars will be available if more than 50 percent of the mileage remaining under the warranty is unexpired on the date the vehicle is sold (under the House bill more than 80 percent of the warranty mileage must have been unexpired).

STRUCTURAL IMPROVEMENTS

(a) Standard Deduction and Personal Exemption - Trust Income. -- Under the House bill, the beneficiary of a reversionary trust would not be allowed to use his personal exemption or standard deduction to offset the trust income if he is related to the grantor of the trust. The Committee substitutes for this provision in the House bill a new rule under which the standard deduction (but not the personal exemption) would be denied with respect to unearned income of a child entitled to be claimed as a dependent of another taxpayer.

(b) Hobby Losses . -- The Committee approved the provisions in the House bill relating to farm losses incurred by subchapter S corporations but added to the bill an amendment to clarify the treatment of hobby losses under the Tax Reform Act of 1969. Under the Act there is a presumption that an activity is engaged in for profit if the taxpayer realizes a profit in two out of the last five years (two out of seven if the activity relates to the racing of horses). Under the 1969 Act, this presumption would not apply if the loss year preceded the profit year during the first five (or seven) years of a trade or business or during the transition period following the effective date of the 1969 Act. The Committee amendment makes it clear that the presumption does apply regardless of the order in which the profit years occur in these transition periods.

(c) Western Hemisphere Trade Corporations . -- The House bill contained an amendment to make the Western Hemisphere Trade Corporations provision inapplicable if less than 95 percent of a corporation's gross income was derived from sources outside the United States and the Virgin Islands. Under existing law, Virgin Island income was treated as qualifying income. The Committee approved the provision in the House bill in principle with a relatively significant modification.

The Committee narrowed the scope of the House provision so that for Virgin Island tax purposes, the Western Hemisphere Trade Corporation provisions would be inapplicable. Thus, income taxable in the Virgin Islands would not be eligible for the 14 point tax reduction.

(d) Capital Gains - Minimum Tax . -- The House bill provided that foreign capital gains and stock options would be treated as tax preference items for purposes of the minimum tax if the foreign country imposes no significant tax with respect to them. Under the House bill, this treatment applied retroactively to the effective date of the minimum tax, January 1, 1970. The Treasury Department had originally issued proposed regulations to the effect that if a country imposed no or a very small tax on all income, the amounts in question would not be tax

preferences under the minimum tax. On June 24, 1971, the regulations were reproposed to indicate that these items would involve preferential income. The Committee bill clarifies the past by treating the items as tax preferences for minimum tax purposes from June 24, 1971. It also agreed to clarify that foreign non-taxable transactions, such as corporate reorganizations are not to cause a capital gain to be treated as a tax preference if it is considered to arise for United States tax purposes because of an allocation of income or a deemed distribution under the corporate reorganization provisions.

(e) Net Leases - Real Estate . -- The Committee generally agreed to the provision in the House bill regarding the determination of excess interest for purposes of the minimum tax and, effective in 1972, the denial of a deduction for one-half of net investment interest. However, the Committee modified the House bill (and the existing law) in three significant respects. First, it amends the definition of excess investment interest so that to the extent the taxpayer incurs an "economic loss" as contrasted to a "tax loss," the interest involved would not be "excess investment interest," and therefore would remain deductible. In addition, the Committee bill will provide that in determining "excess investment interest" under the so-called 15 percent method taxpayers may elect to aggregate their leases in a single property making it unnecessary to characterize each lease separately as a business lease (the interest on which would be deductible) or as an investment lease (the interest on which would be a preference).

Finally, the Committee agreed to omit properties five years or older from the calculation of excess investment interest unless the taxpayer elects to include all such properties as investment properties.

(f) Capital Gains Income of Trusts - Throwback Rules . -- The Tax Reform Act of 1969 included a provision to become effective in 1972 under which capital gain income of trusts would be subjected to an unlimited throwback, just as other income of the trusts. A Committee amendment to the bill would defer for one additional year until January 1, 1973, the effective date of the 1969 provision.

(g) Bribes and Kickbacks. -- Under the Tax Reform Act of 1969 certain bribes and kickbacks (which under the prior law had not been deductible) inadvertently were made deductible. The Committee amended the House bill to restore the prior law by denying the deduction for bribes and kickbacks or other illegal payments where the payment involved was in violation of a State statute which is being generally enforced, or in violation of a Federal law. In addition, the Committee bill makes medical referral fees (bribes or kickbacks) illegal under the Medicare-Medicaid Program and other Federal health programs.

(h) Dividend Distribution to Foreign Corporations. -- Present law limits the portion of a non-cash distribution from one corporation to another which may be treated as a dividend to the lower of the fair market value of the property or its adjusted basis. In the case of distributions to foreign corporations this rule may permit avoidance of US tax on the gain when the property (on which dividends were limited to adjusted basis) is later sold by the foreign corporation. To deal with this possibility, the Committee bill includes an amendment under which the taxable amount of a dividend in property to a foreign corporation will be the fair market value of the property distributed.

(i) Original Issue Discount. -- The Tax Reform Act of 1969 provided rules for taxing original issue discount on bonds, but makes no provision for collecting tax on this discount in the case of bonds held by a non-resident alien. The Committee bill includes amendments under which the issuer of bonds (with a maturity of more than six months) to a non-resident alien individual would withhold tax (at the regular rate of 30 percent), not only on the interest paid on such bonds, but also on the original issue discount attributable to the period to which the interest relates.

(j) Foreign Beneficiary of Domestic Trust. -- The Committee bill changes the rules for taxing rental income received by a foreign beneficiary of a US trust (such as a real estate investment trust) to correct a situation under which the 30 percent withholding tax has been diluted by assessment

against a "net" income of the trust rather than a "gross" income. Under the Committee decision, the amount of trust income taxed to the foreign beneficiary will be "grossed-up," by in effect adding back in the foreign beneficiary's share of deductions taken by the trust.

DOMESTIC INTERNATIONAL SALES CORPORATION

(a) General. -- The Committee on Finance agreed to the provisions of the House bill relating to Domestic International Sales Corporations (DISC) with three important amendments:

(1) In lieu of the approach of the House bill to allow deferral only with respect to profits on sales above base-period sales (the base period would be 75 percent of export profits in the three-year period 1968 - 1970), the Committee amendment permits tax deferral on 50 percent of the export profit of the DISC.

(2) Whereas the DISC provisions of the House bill were written as permanent law, the Committee amendment would terminate the deferral privilege after 1982. Under this Committee amendment, income deferred during the intervening ten years could remain deferred beyond the termination of the DISC legislation.

(3) Deferral is not to be allowed to the extent DISC profits are invested in foreign plant or equipment. Under this "fugitive capital" feature, a DISC's profits will be considered invested in foreign plant or equipment to the extent foreign plant and equipment investments of the DISC's parent (and affiliates) are in excess of (a) 50 percent of the group's foreign earnings, plus (b) the amount of funds raised abroad by the group in the form of debt or equity.

(b) Export Trade Corporations. -- The Committee also approved an amendment which would retain in the law provisions authorizing tax deferral in the case of Export Trade

Corporations. Under the House bill, these deferral provisions would have been terminated with the enactment of the DISC. Under the Committee amendment, existing Export Trade Corporations may continue to be used as an alternative to Domestic International Sales Corporations.

JOB DEVELOPMENT - WORK INCENTIVE PROGRAM

The Committee approved an amendment (the text of S. 1019) to develop job opportunities for welfare recipients through a job development tax credit and through improvements in the existing Work Incentive Program for welfare recipients.

As an incentive for employers in the private sector to hire individuals placed in employment through the Work Incentive Program, the amendment would provide a tax credit equal to 20 percent of the wages and salaries paid to these individuals. The credit would only apply to wages paid to these employees during their first 12 months of employment. It would be recaptured if the employer terminated employment of an individual during the first 12 months of his employment or before the end of the following 12 months.

The amendment would also make a number of structural improvements in the existing Work Incentive Program for welfare recipients. First, it would require that 40 percent of the funds spent for the WIN Program be for on-the-job training and public service employment. Second, it would require the Secretary of Labor to establish local labor market advisory councils whose function would be to identify present and future local labor market needs. These findings would have to serve as the basis for local training plans under the WIN Program to assure that future training was related to actual labor market demands. Third, it would simplify the financing and increase the Federal share of the cost of public service employment (special work projects) by providing 100 percent Federal funding for the first year and 90 percent Federal sharing of the costs in subsequent years.

BALANCE OF PAYMENTS EMERGENCY AMENDMENT

The Committee approved an amendment to provide the President with discretionary authority to protect the balance of trade and balance of payments of the United States by allowing him to: (1) impose selective or general import quotas, or (2) impose an import surcharge of up to 15 percent of the value of the imported article, during a "balance of payments emergency."

Under the amendment, the "national emergency" proclaimed by the President on August 15 under Proclamation numbered 4074 is deemed to be a balance of payments emergency for the purpose of this amendment. In addition, for future emergencies, the President may, from the date of enactment until December 31, 1976, proclaim a balance of payments emergency whenever he determines that --

(1) The balance of payments has been in deficit for four consecutive calendar quarters;

(2) The United States has suffered a serious decline in its international monetary reserves; and

(3) There is a serious threat to the international financial or international trade position of the United States.

The President could terminate a balance of payments emergency period at any time. In any event, it would terminate three years after he initially proclaims it, unless within that period, he proclaims it is necessary to continue the authority, in which case it may continue until December 31, 1976.

The quota and surcharge authority may be used selectively with respect to countries and products, except that the President may not impose a quota and surcharge on the same product, and must relate any quota to a recent representative base period of imports. The surcharge may not be applied to duty-free products. The President may increase, or decrease, or terminate the quotas or surcharges in effect or impose new ones, in accordance with the criteria specified above.

In general, the quota features of this amendment are patterned after Article XII of the General Agreement on Tariff and Trade, which permit countries suffering balance of payments difficulties to protect their external monetary reserves by imposing quotas. The amendment would make it unnecessary for the President to invoke the broader authority included in the "Trading With the Enemy Act" against friendly trading partners. The authority granted by this amendment with respect to surcharges clarifies the President's authority to impose surcharges on imported goods, enabling him to impose a uniform surcharge without regard to the amount of prior tariff concessions. The surcharge he proclaimed on August 15 was less than 10 percent in some cases because the authority under which he acted limited his action to a termination of suspension of past concessions. The Committee felt that the flexibility afforded the President by this provision to impose surcharges and quotas selectively is necessary in the light of the continuing balance of payments crisis and the negotiations over trade and monetary matters which are likely to continue over the next several years.

<u>GENERAL</u>

Provisions of the House Bill Not Described Herein were generally approved by the Committee without substantive change.

PR #18