

EXTENSION OF EXISTING SUSPENSION OF DUTY ON CERTAIN COPYING SHOE LATHES

 MAY 30, 1974.—Ordered to be printed

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

REPORT

[To accompany H.R. 8215]

The Committee on Finance, to which was referred the bill (H.R. 8215) to provide for the suspension of duty on certain copying shoe lathes until the close of June 30, 1976, having considered the same, reports favorably thereon with amendment(s) and recommends that the bill as amended do pass.

I. GENERAL STATEMENT

House bill.—The House bill would provide for the suspension of duty until the close of June 30, 1976, on copying shoe lathes used for making rough or finished shoe lasts from models of shoe lasts and capable of producing more than one sized shoe from a single sized model of shoe last.

Committee amendment.—The committee bill includes a technical amendment to the House bill to make it explicit that item 911.70 appears in the appendix to the Tariff Schedule of the United States, rather than in the main body of the Tariff Schedules.

In addition the Committee added an amendment which is intended to make it clear that cooperative arrangements formed by educational organizations, and certain organizations supporting educational organizations, for the collective investment of their funds are to be exempt from federal income taxation.

II. EXTENSION OF EXISTING SUSPENSION OF DUTY ON CERTAIN COPYING SHOE LATHES

Since 1956, the duty on copying shoe lathes has been temporarily suspended on a successive basis for 2- and 3-year periods. Copying lathes are highly specialized and expensive machinery used by domestic shoe-last manufacturers. Since these lathes are available only from foreign sources, the duty suspension was initially made and has been continued in order to make such lathes available to domestic shoe-last manufacturers on a duty-free basis. No objection to the suspension of duty on copying shoe lathes has been made known to any government agency or to the Committee.

The Committee, therefore, believes that duty suspension as provided in H.R. 8215 will continue to benefit the shoe-last manufacturing industry in the United States without detriment to any domestic interests.

The last preceding period of suspension terminated as of June 30, 1972. Accordingly, the bill provides that entry or withdrawal of any article made after June 30, 1972, and on or before the date of enactment of this bill, may be liquidated or reliquidated as though such entry or withdrawal had been made after the date of enactment. Such liquidation or reliquidation of any withdrawal or entry is subject to a request being filed therefor with the customs officer concerned on or before the 120th day after the date of enactment.

The Committee approved a technical amendment to the text of the House bill to make it explicit that item 911.70 is contained in the Appendix to the Tariff Schedules of the United States.

III. COOPERATIVE INVESTMENT ACTIVITIES OF EDUCATIONAL INSTITUTIONS

The Common Fund ("the Fund"), a cooperative arrangement formed by a large group of educational organizations for the collective investment of their funds, has been held to be exempt from Federal income taxation under a ruling issued by the Internal Revenue Service in 1970. The Fund was organized by a number of educational institutions to provide a cooperative investment fund that could contract with professional advisors for research, advice, and actual investment of the colleges' and universities' contributions to the Fund. The Fund receives capital from the participating exempt organizations, which capital is then placed in one or more common funds and invested upon the advice of independent investment counsel retained by the organization. It now has more than \$220 million in assets, including investment assets of approximately 270 participating colleges and universities.

The 1970 ruling issued to the Fund provided that its exempt status would continue only so long as the investment services of the Fund are provided to members at a charge substantially below cost. The practical effect of this requirement is that the Fund must receive support from outside sources, either in the form of grants or through income from an endowment fund. During the formative years of the Fund, its management and administrative expenses were met by start-up grants from a private foundation and the member organizations paid only a nominal fee for the services performed. How-

ever, since the start-up grants from the foundation have now been terminated and the Fund must depend solely upon member institutions for payment of continued operational costs, it appears to be in danger of losing its exemption.

This amendment would make it clear that cooperative arrangements for investment of the type represented by The Common Fund will be exempt from taxation. The new provision is limited to organizations formed and controlled by the investing educational institutions themselves, and is not to apply to any organization formed to promote the furnishing of investment services by private interests even though those services might be made available only to educational organizations. In other words, if the schools that were involved formed their own cooperative investing organization, then it would be exempt under this provision. However, if a private brokerage company or investment advisory company were to initiate the formation of a cooperative investing organization, in order to obtain customers for its business, such an organization would not be exempt under this provision even though it were limited to schools.

The new provision provides that the term "charitable" as used in section 501(c)(3) is to include a common investment fund of educational organizations, including government educational organizations and certain organizations organized for the benefit of these organizations. This means that such an organization would qualify under section 501(c)(3) only if the other relevant requirements of that provision are also met. In other words, the organizations would still have to comply with the rules prohibiting electioneering, limiting lobbying, and prohibiting inurements of benefits to private shareholders. It is intended that school investment funds qualifying under section 501(c)(3) but organized separately from the particular college in connection with and for the benefit of which it operates, could participate (on the same basis as the school itself) in the cooperative investment organization, unless they represent private foundations. This type of fund is principally illustrated by a foundation that operates as an arm of a State college or university, and is already recognized as a "public charity" under the Internal Revenue Code (sec. 170(b)(1)(A)(iv)).

This amendment is to apply with respect to taxable years ending on or after January 1, 1974. However, it is not intended to imply that such a cooperative investing organization would not be exempt for prior years. Also, in adding this provision relating specifically to cooperative investment funds, it is not intended that any inference be drawn as to the exempt status of other organizations formed by educational institutions or by other charities on their behalf to carry out their normal functions in a cooperative manner.

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

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs to be incurred in carrying out this bill and the effect on the revenues of the bill. The Committee estimates that the provisions of the House bill will not result in any additional revenue losses or administrative

costs. The Committee amendment concerning the Common Fund has no effect on existing revenues. It merely continues the exempt status of cooperative investment activities of educational institutions.

V. VOTE OF COMMITTEE IN REPORTING THE BILL

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

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

* * * * *

TARIFF SCHEDULES OF THE UNITED STATES

APPENDIX TO THE TARIFF SCHEDULES

Item	Articles	Rates of duty		Effective period	
		1	2		
	PART I.—TEMPORARY LEGISLATION				
*	* * *	*	*	*	*
	Subpart B.—Temporary Provisions Amending the Tariff Schedules				
*	* * *	*	*	*	*
911.70	Copying lathes used for making rough or finished shoe lasts from models of shoe lasts and, in addition, capable of producing more than one size shoe last from a single size model of a shoe last (provided for in item 674.42, part 4F, schedule 6), and parts thereof provided for in items 674.50, 674.51, and 674.53-----	Free	Free	On or before [6/30/72] 6/30/76	

* * * * *

INTERNAL REVENUE CODE OF 1954

* * * * *

SUBCHAPTER F—EXEMPT ORGANIZATIONS

Part I. General rule.

Part II. Private foundations.

Part III. Taxation of business income of certain exempt organizations.

Part IV. Farmers' cooperatives.

Part V. Shipowners' protection and indemnity associations.

Part I—General Rule

SEC. 501. Exemption from tax on corporations, certain trusts, etc.
 SEC. 502. Feeder organizations.
 SEC. 503. Requirements for exemption.

* * * * *

(f) *COOPERATIVE SERVICE ORGANIZATIONS OF OPERATING EDUCATIONAL ORGANIZATIONS.*—*For purposes of this title, if an organization is—*

(1) *organized and operated solely to hold, commingle, and collectively invest and reinvest (including arranging for and supervising the performance by independent contractors of investment services related thereto) in stocks and securities, the moneys contributed thereto by each of the members of such organization, and to collect income therefrom and turn over the entire amount thereof, less expenses, to such members,*

(2) *organized and controlled by one or more such members, and*

(3) *comprised solely of members that are organizations described in clause (ii) or (iv) of section 170(b)(1)(A)—*

(A) *which are exempt from taxation under subsection (a), or*

(B) *the income of which is excluded from taxation under section 115(a),*

then such organization shall be treated as an organization organized and operated exclusively for charitable purposes.

[(f)] (g) *Cross Reference.*—

For nonexemption of Communist-controlled organizations, see section 11(b) of the Internal Security Act of 1950 (64 Stat. 997; 50 U.S.C. 790(b)).

○