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EXCEPTION OF CERTAIN CONSUMER FINANCE COMPANIES FROM PERSONAL HOLDING COMPANY TAX

September 13, 1962.—Ordered to be printed

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

REPORT

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 8824]

The Committee on Finance, to whom was referred the bill (H.R. 8824) to modify the application of the personal holding company tax in the case of consumer finance companies, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

SUMMARY OF BILL

Certain exceptions to the tax on personal holding companies are made under existing law for companies receiving dividend, interest, or other income from the active conduct of a trade or business, rather than from passive investments. Among these exceptions under present law is one for certain lending companies engaged in the small loan business.

This bill modifies this exception to conform it with the laws many States have been enacting in recent years for the regulation of consumer finance business. Thus, under this bill as amended, two of the present requirements are deleted; namely, the requirement that interest and similar charges on most of the loans not exceed a simple interest rate of 3 percent per month not payable in advance and on unpaid balances, and the requirement that most of the loans be for periods of not more than 36 months. The bill also modifies the requirement that 80 percent of the company's income be derived from interest and similar charges to provide that this 80 percent may also include lawful income received from an 80-percent-owned domestic

subsidiary. Another modification increases from $500 to $1,500 the maximum size of the loans, where no maximum is set by State statute, which must account for 60 percent of the company's gross income. On the other hand, the bill also provides that the lending company must be actively engaged in the small loan (consumer finance) business.

GENERAL STATEMENT

Under present law a special tax of from 75 to 85 percent is imposed on undistributed personal holding company income. This tax is designed to prevent the avoidance of the graduated individual income tax by placing investment funds in a corporation and retaining the income at the corporate level. This is what has become known as an "incorporated pocketbook." In general terms a corporation is a personal holding company if five of fewer individuals own more than 50 percent of the value of the outstanding stock and if 80 percent or more of the corporation's income is "personal holding company income." Personal holding company income in general consists of "passive" income, i.e., with certain exceptions includes dividends, interest, annuities, gains from the sale of stock or securities, rents, etc.

Present law provides, however, that the term "personal holding company" does not include certain types of companies although they derive their income from the sources referred to above. The exceptions are provided because the types of companies involved are engaged in an active trade or business despite the nature of their income. Thus, the exceptions include banks, life insurance companies, licensed personal finance companies, and lending companies engaged in the small loan business. It is this latter exception with which this bill is concerned.

The conditions which under present law a lending company engaged in a small loan business must meet in order to be exempt from the personal holding company tax are quite detailed. They must—

(1) Be authorized to engage in the small loan business under one or more State statutes providing for the direct regulation of such business;

(2) Derive 80 percent or more of their gross income from lawful interest, discount, or other authorized charges;

(3) Derive the 80 percent of their income, referred to above, from loans maturing in not more than 36 months made to individuals in accordance with the provisions of applicable State law;

(4) Derive this 80 percent of their income from loans where the interest and all other authorized charges do not exceed the amount equal to simple interest computed at the rate of 3 percent per month not payable in advance and only on unpaid balances;

(5) Derive 60 percent of their gross income from lawful interest, discount, other lawful authorized charges received from individuals whose indebtedness to the company does not exceed the limit prescribed by the applicable State law, or, if there is no such limit, $500;

(6) Have trade or business expense deductions (other than compensation for personal services rendered by shareholders or members of their family) equal to 15 percent or more of their gross income;

(7) Have outstanding loans with respect to any person who is a shareholder having a 10-percent interest in the stock of the company (including stock owned by members of the family) or not in excess of $5,000.

The exception in present law for licensed personal finance companies (sec. 542(c)(6)) was added to the Internal Revenue Code by the Revenue Act of 1938 to grant exemption from personal holding company taxation for companies operating under statutes similar to the Uniform Small Loan Act drafted by the Russell Sage Foundation. Under this law, interest could not be payable in advance or compounded and could be computed only on unpaid balances. The exception described above for lending companies making small business loans (sec. 542(c)(7)) was added to the code in 1950 at the request of those who live in States which allowed interest charges to be determined by the "dollar add on" or precomputed interest method. Presently, there are 23 States which allow interest charges to be computed in this manner.

Under the precomputation method, simple interest is computed in advance as though the contract were to be repaid according to its terms, the computation is added to the principal and the total is divided into equal payments. Under the dollar-add-on method the interest and other charges are expressed in dollars rather than percentages, and computed on the original amount of the loan for the full period. This amount is then added to the net loan and the result divided into equal payments. The requirement that the interest, although computed on the precomputed or dollar-add-on basis must not exceed the 3-percent-simple-interest method, described above (No. 4), has presented serious problems in that every lender has to measure the difference between the interest it receives under the precomputation or dollar-add-on method and what it would be permitted to receive under the 3-percent-simple-interest method. It then must exclude any excess over the 3-percent-simple-interest method, in determining whether the balance meets the percentage tests for the exemption.

This bill omits this 3-percent-simple-interest requirement entirely, on the grounds that the personal holding company tax is not intended as a means of regulating the lending companies but rather as a tax applicable in certain cases, to passive investments. In any event, this is an ineffectual regulatory device since this restriction applies only to about 10 percent of the outstanding small loans. This occurs because the bulk of the small loans are made by widely held finance companies, and therefore not treated as personal holding companies since they do not have five or fewer stockholders owning more than 50 percent of their stock. Moreover, even the companies presently subject to this restriction need to meet it only with respect to 80 percent of their gross income.

In view of the factors outlined above, your committee believes that it is inappropriate to continue this 3-percent-simple-interest requirement and this bill deletes it from the restrictions imposed with respect to these lending companies.

The bill also deletes the requirement that these lending companies derive most of their income from loans maturing in not more than 36 months. Several States already have gone beyond this as a permissive period for loans and it appears likely that in the near future a number

of additional States may extend maturities to more than 36 months. Your committee agrees with the House committee that it should not impose a requirement substantially more restrictive in nature than the State laws regulating this type of lending company.

A third change made by the House bill modifies the maximum size of a loan which may qualify under the 80-percent-income requirement where there is no State law governing the maximum size of a loan. Under present law where there is no such limit under State law, a limitation of $500 is provided. Under the bill this limitation is increased to $1,500. It is understood that the only State which does not have a ceiling of its own is the State of California. When the $500 limit provided by present law was considered, this represented the usual ceiling among the States. The States have changed these ceilings materially, however, with the result that today relatively few States have a ceiling of $500 or less and even in these cases there usually is provision for supplementary loans which exceed this ceiling in certain situations. The $1,500 provided by this bill, where there is no applicable State limitation, today is substantially in conformance with the ceilings applicable in those States providing their own maximums.

A fourth modification under the bill provides that 80 percent of the company's gross income need not be derived only from loans but also may include lawful income received from a domestic subsidiary (in which the corporation in question has at least 80 percent of the voting power of all classes of stock and owns at least 80 percent of the nonvoting stock) if the subsidiaries are themselves excepted from personal holding company tax under either this same exception (par. (7)) or as a licensed personal finance company (par. (6)), a loan or investment company (par. (8)), or a finance company (par. (9)). Your committee agrees with the House that the mere fact that income is received from a subsidiary which itself meets the same requirements as the company in question, or similar requirements, should not result in such a company being subjected to personal holding company tax. It will still be necessary, however, for the companies involved to meet directly the 60 percent gross income requirement.

A fifth change relates to the use of the term "small loan business," which represents the type of business in which a lending company must be engaged in order to be removed from application of the personal holding company tax under this exception. The bill adds after the term "small loan business" the term "(consumer finance business)". This is intended to make it clear that this exception is not limited to small loans in the narrow sense, but rather is intended to encompass consumer finance loans generally. Moreover, the reference to consumer finance business will bring this exception more directly in accord with the terminology now used by a number of State legislatures which have retitled the applicable provisions governing these institutions as "consumer finance laws" as a means of providing a more descriptive title for the type of business involved.

The provisions described above liberalize the exception provided for lending companies engaged in the small loan or consumer finance business. However, the House bill has also added a provision which is restrictive in its application. It has provided that these lending companies must not only be authorized to engage in the small loan or consumer finance business but also must be "actively and regularly

engaged in" such business. This gives assurance that such companies cannot be used indirectly as holders of passive investment income or as "incorporated pocketbooks."

Your committee believes that the changes made by this bill are desirable because they conform the exception in existing law to changes which have occurred in the industry since the passage by Congress of this exception in 1950. They also will enable the smaller, closely held companies to compete on even terms with the larger publicly owned chain organizations.

DEPARTMENTAL REPORT

The bill was amended by the House Ways and Means Committee so as to incorporate certain changes recommended by the Treasury Department. Thus, the Treasury Department has no objections to the enactment of H.R. 8824 as indicated in the following report:

TREASURY DEPARTMENT,
Washington, July 23, 1962.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reference to H.R. 8824, now pending before your committee, to modify the application of the personal holding company tax in the case of consumer finance companies.

The bill would amend section 542(c)(7) of the Internal Revenue Code of 1954. That section exempts certain lending companies from taxation as personal holding companies.

To qualify under section 542(c)(7) the company must be (1) authorized to engage in the small loan business under State statutes providing for the direct regulation of such businesses; (2) 80 percent of the gross income must be from loans; (3) made to individuals; (4) maturing in not more than 36 months; (5) the interest, discount, and other authorized charges from which do not for any loan exceed 3 percent per month not payable in advance and computed only on unpaid balances. In addition, (6) at least 60 percent of the gross income must be lawful interest, discount, or other authorized charges received from individuals each of whose indebtedness did not at any time during the taxable year exceed in principal amount the limit prescribed for small loans by the State law (or if there is no such limit, $500); (7) deductions under section 162, other than compensation for personal services rendered by shareholders, must constitute 15 percent or more of gross income; (8) loans to a person by, or for, whom 10 percent or more in value of the small loan companies' outstanding stock is held must not at any time during the taxable year exceed $5,000.

The proposed bill changes qualifications (1), (2), and (6) and deletes qualifications (4) and (5). The requirement that 80 percent of gross income be interest, discount, or other authorized charges from loans is modified to require that 80 percent of gross income consist of either or both of two categories of income; the first category consists of the type of income presently required and the second category consists of lawful income received from 80-percent-owned domestic subsidiaries which are themselves excepted under paragraph (6), (8), or (9) of section 542(c). The authorization to engage in the "small loan business" is

clarified to indicate that "small loan business" includes "consumer finance business" and the limit of $500 mentioned under qualification (6) is raised to $1,500.

Sections 541 through 547 of the Internal Revenue Code of 1954 set forth a series of rules for the taxation of so-called personal holding companies. The purpose of these provisions is to prevent taxpayers from using a corporation in order to shield their investment income from the high individual rates of taxation. Speaking generally, a corporation is a personal holding company if five, or fewer, individuals control as much as 50 percent of its stock and if 80 percent of its income is "personal holding company income." Personal holding company income is defined in section 543 to include, among other things, dividends and interest. Current earnings of a personal holding company which have not been distributed as dividends are subject, in addition to the usual corporate tax, to a surtax of 75 percent of undistributed income not in excess of $2,000 and 85 percent of the undistributed income in excess of that amount.

Section 542(c) enumerates corporations, 80 percent or more of whose income would normally be personal holding company income, which have been exempted from taxation as personal holding companies because they are operating companies. Subsections (6) through (9) have to do with companies in various phases of the lending business. These provisions treat similar problems and amendment of any one of them can be assessed only if comparison is made with the others. The pertinent sections for the purposes of assessing H.R. 8824 are subsections (6), (7), and (9)(C).

Subsection (6) exempts licensed personal finance companies if 80 percent of their gross income is lawful interest received from loans made to individuals in accordance with State law, and if at least 60 percent of their gross income is attributable to interest from loans made to individuals under State small loan laws. The interest on these latter loans must be "not payable in advance or compounded and computed only on unpaid balances." Finally, subsection (6) contains certain restrictions on loans to stockholders.

Finance companies which are "actively and regularly engaged in the business" are exempted from taxation as personal holding companies under certain conditions prescribed by section 542(c)(9). As far as here relevant, a finance company is exempted under section 542(c)(9)(C) if at least 80 percent of its gross income either is derived from a finance business carried on in accordance with State law or is not personal holding company income, and if 60 percent of gross income comes from specified transactions, one of which is loans, secured by personal property, to individuals in an amount greater than the small loan limit but less than $5,000. In addition, to qualify under subsection (9) the deductions allowable under section 162, other than compensation to shareholders or members of a shareholder's family, must constitute an amount equal to at least 15 percent of gross income. Finally, there is a restriction concerning loans to shareholders.

The complex form of section 542(c)(7) has its origins in the attempt to make that section parallel the small loan laws of the States at the time of its enactment. To some extent also the statute may have been more tightly drawn than section 542(c)(6) as an indication of congressional disapproval of the precomputed and dollar-add-on methods of interest computation. Section 542(c)(6) of the Internal

Revenue Code of 1954 as originally added to the code by the Revenue Act of 1938 was intended to grant exemption from personal holding company taxation to companies which operated under statutes similar to the uniform small loan law drafted by the Russell Sage Foundation.[1] Under this statute interest could not be payable in advance or compounded, and could be computed only on unpaid balances. Section 542(c)(7) of the Internal Revenue Code of 1954 was added to the code in 1950 at the request of those who lived in States which allowed charges to be determined by the dollar-add-on or precomputed interest method. Presently there are 23 States which allow interest charges to be computed in this manner.

The Treasury Department is deeply concerned with the problems presented by small loans, but believes that the limitations presently contained in section 542(c)(7) are ineffectual regulatory instruments in view of the changes in State law since enactment of those limitations in 1950.

The 3-percent-per-month rule is the most important of those prescribed by section 542(c)(7). In the first place, this rule applies only to those finance companies of which five or less stockholders own at least 50 percent of the stock. Since only 80 percent of gross income need meet the 3-percent-per-month test even these companies can charge above this amount on some of their loans. Of course, there is no Federal limit on interest if it is computed under section 542(c)(6). Although it has been impossible to completely assess the effect of section 542(c)(7), the fact that its rules apply only to part of the income of part of the industry part of the time makes this tax statute seem an inadequate regulatory instrument. Figures given to this Department by the Federal Reserve Board and by industry representatives indicate that the restrictions contained in section 542(c)(7) apply to 10 percent of outstanding small loans.[2]

It has been the Department's consistent position that taxpayers in like situations should be subject to the same rules and rates of taxation. The effectiveness of our self-assessing system to a large extent depends upon each taxpayer's willing compliance with laws which are regarded as rational and fair. Since section 542(c)(7) selects only a portion of the small loan industry for regulation, and since that portion is similar to other businesses not subject to these rules, the Department has no objection to the removal of the 3-percent-a-month and 36-month regulatory limitations.

The limit of $500 which applies when the State small loan law has no limit would be amended by the bill to $1,500. We have been informed that only California and Missouri would be affected by this amendment. The remaining States have raised their maximum dollar limitations from the original limit of $300 contained in the Russell-Sage law. For example, Oregon allows small loans up to $1,500. The Department has no objection to the proposed amendment.

It is estimated that enactment of H.R. 8824 would have no significance revenuewise.

[1] Robinson & Nugent, "Regulation of the Small Loan Business" (Russell Sage Foundation, 1935).

[2] Companies with outstanding loans of over $25 million account for 69 percent of outstanding loans. Another 11 percent of outstanding loans have been made by companies with total outstanding loans of $5 to $25 million. The remaining 20 percent of outstanding loans come from companies whose total outstanding loans amount to less than $5 million. Although the Department does not have precise figures as to the stock distribution of these companies, it is the Department's estimate, concurred in by the Federal Reserve Board and industry economists, that personal holding company stock ownership is found only among companies with total outstandings of less than $5 million. Of these it is estimated that only one-half are subject to the personal-holding-company provisions.

Accordingly, the Department is not opposed to enactment of H.R. 8824.

The Bureau of the Budget has advised the Treasury Department that there is no objection from the standpoint of the administration's program to the presentation of this report.

Sincerely yours,

STANLEY S. SURREY,
Assistant Secretary.

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 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):

SECTION 542(c) OF THE INTERNAL REVENUE CODE OF 1954

SEC. 542. DEFINITION OF PERSONAL HOLDING COMPANY.

* * * * * * *

(c) EXCEPTIONS.—The term "personal holding company" as defined in subsection (a) does not include—

(1) a corporatiou except from tax under subchapter F (sec. 501 and following);

(2) a bank as defined in section 581;

(3) a life insurance company;

(4) a surety company;

(5) a foreign personal holding company as defined in section 552;

(6) a licensed personal finance company under State supervision, 80 percent or more of the gross income of which is lawful interest received from loans made to individuals in accordance with the provisions of applicable State law if at least 60 percent of such gross income is lawful interest—

(A) received from individuals each of whose indebtedness to such company did not at any time during the taxable year exceed in principal amount of the limit prescribed for small loans by such law (or, if there is no such limit, $500), and

(B) not payable in advance or compounded and computed only on unpaid balances, and if the loans to a person, who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by the members of his family as defined in section 544(a)(2)), outstanding at any time during such year do not exceed $5,000 in principal amount;

[(7) a lending company, not otherwise excepted by this subsection authorized to engage in the small loan business under one or more State statutes providing for the direct regulation of such business, 80 percent or more of the gross income of which is lawful interest, discount or other authorized charges—

[(A) received from loans maturing in not more than 36 months made to individuals in accordance with the provisions of applicable State law, and

[(B) which do not, in the case of any individual loan, exceed in the aggregate an amount equal to simple interest at the rate of 3 percent per month not payable in advance and computed only on unpaid balances, if at least 60 percent of the gross income is lawful interest, discount or other authorized charges received from individuals each of whose indebtedness to such company did not at any time during the taxable year exceed in principal amount the limit prescribed for small loans by such law (or, if there is no such limit, $500), and if the deductions allowed to such company under section 162 (relating to trade or business expenses), other than for compensation for personal services rendered by shareholders (including members of the shareholder's family as described in section 544(a)(2)) constitute 15 percent or more of its gross income, and the loans to a person, who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by the members of his family as defined in section 544(a)(2)), outstanding at any time during such year do not exceed $5,000 in principal amount;]

(7) a lending company, not otherwise excepted by this subsection, authorized to engage in and actively and regularly engaged in the small loan business (consumer finance business) under one or more State statutes providing for the direct regulations of such business, 80 percent or more of the gross income of which consists of either or both of the following—

(A) lawful interest, discount, or other authorized charges received from loans made to individuals in accordance with the provisions of applicable State law, and

(B) lawful income received from domestic subsidiary corporations (of which stock possessing at least 80 percent of the voting power of all classes of stock and of which at least 80 percent of each class of the nonvoting stock is owned directly by such lending company), which are themselves excepted under this paragraph or paragraph (6), (8), or (9) of this subsection,

if at least 60 percent of the gross income is lawful interest, discount, or other authorized charges received from loans made in accordance with the provisions of such small loan (consumer finance) laws to individuals each of whose indebtedness to such company did not at any time during the taxable year exceed in principal amount the limit prescribed for small loans by such law (or, if there is no such limit, $1,500), and if the deductions allowed to such company under section 162 (relating to trade or business expenses), other than for compensation for personal services rendered by shareholders (including members of the shareholder's family as described in section 544(a)(2)), constitute 15 percent or more of its gross income, and the loans to a person, who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by the members of his family as defined in section 544(a)(2)), outstanding at any time during such year do not exceed $5,000 in principal amount;

(8) a loan or investment corporation, a substantial part of the business of which consists of receiving funds not subject to check and evidenced by installment or fully paid certificates of indebtedness or investment, and making loans and discounts, and the loans to a person who is a shareholder in such corporation during such taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by the members of his family as defined in section 544(a)(2)) outstanding at any time during such year do not exceed $5,000 in principal amount;

(9) a finance company, actively and regularly engaged in the business of purchasing or discounting accounts or notes receivable or installment obligations, or making loans secured by any of the foregoing or by tangible personal property, at least 80 percent of the gross income of which is derived from such business in accordance with the provisions of applicable State law or does not constitute personal holding company income as defined in section 543, if 60 percent of the gross income is derived from one or more of the following classes of transactions—

(A) purchasing or discounting accounts or notes receivable, or installment obligations evidenced or secured by contracts of conditional sale, chattel mortgages, or chattel lease agreements, arising out of the sale of goods or services in the course of the transferor's trade or business;

(B) making loans, maturing in not more than 36 months, to, and for the business purposes of, persons engaged in trade or business, secured by—

(i) accounts or notes receivable, or installment obligations, described in subparagraph (A);

(ii) warehouse receipts, bills of lading, trust receipts, chattel mortgages, bailments, or factor's liens, covering or evidencing the borrower's inventories;

(iii) a chattel mortgage on property used in the borrower's trade or business;

except loans to any single borrower which for more than 90 days in the taxable year of the company exceed 15 percent of the average funds employed by the company during such taxable year;

(C) making loans, in accordance with the provisions of applicable State law, secured by chattel mortgages on tangible personal property, the original amount of each of which is not less than the limit referred to in, or prescribed by, paragraph (6)(A), and the aggregate principal amount of which owing by any one borrower to the company at any time during the taxable year of the company does not exceed $5,000; and

(D) if 30 percent or more of the gross income of the company is derived from one or more of the classes of transactions described in subparagraphs (A), (B), and (C), purchasing, discounting, or lending upon the security of, installment obligations of individuals where the transferor or borrower acquired such obligations either in transactions of the classes described in subparagraphs (A) and (C) or as a result of loans made by such transferor or borrower in

accordance with the provisions of subparagraphs (A) and (B) of paragraph (6) or of subparagraphs (A) and (B) of paragraph (7) of this subsection, if the funds so supplied at all times bear an agreed ratio to the unpaid balance of the assigned installment obligations, and documents evidencing such obligations are held by the company;

provided that the deductions allowable under section 162 (relating to trade or business expenses), other than compensation for personal services rendered by shareholders (including members of the shareholder's family as described in section 544(a)(2)), constitute 15 percent or more of the gross income, and that loans to a person who is a shareholder in such company during such taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by members of his family as defined in section 544(a)(2)), outstanding at any time during such year do not exceed $5,000 in principal amount;

(10) a foreign corporation if—

(A) its gross income from sources within the United States for the period specified in section 861(a)(2)(B) is less than 50 percent of its total gross income from all sources, and

(B) all of its stock outstanding during the last half of the taxable year is owned by nonresident alien individuals, whether directly or indirectly through other foreign corporations;

(11) a small business investment company which is licensed by the Small Business Administration and operating under the Small Business Investment Act of 1958 and which is actively engaged in the business of providing funds to small business concerns under that Act. This paragraph shall not apply if any shareholder of the small business investment company owns at any time during the taxable year directly or indirectly (including, in the case of an individual, ownership by the members of his family as defined in section 544(a)(2)) a 5 per centum or more proprietary interest in a small business concern to which funds are provided by the investment company or 5 per centum or more in the value of the outstanding stock of such concern.

SUPPLEMENTARY STATEMENT BY SENATOR PAUL DOUGLAS

No hearings were held on this bill either in the House or in the Senate. It is impossible therefore to determine whether or not it is in the public interest. I think this is poor procedure and that therefore this bill probably needs more thorough scrutiny.

We have drifted into loose procedures on these bills rushed through at the end of the session. They have been going through Congress with little examination and this has sometimes had unfortunate results. I believe our Senate procedures should be revised to provide for a more thorough examination of their possible merits and demerits. In the meantime the Senate should in my opinion go slowly.

SUPPLEMENTARY STATEMENT BY SENATOR HARRY F. BYRD, CHAIRMAN

The Senate Finance Committee, in formal meeting September 10, 1962, ordered to be reported 11 bills with recommendations that they be considered favorably by the Senate. This bill was among those ordered to be reported at that time.

As a member of the committee, the Senator from Illinois, Mr. Douglas, voted against committee approval of all of these bills except one. He voted affirmatively to report only H.R. 12529 which affected his State.

He voted against reporting all other bills before the committee on that date with the statement that he was voting in the negative because public hearings had not been held.

In his supplementary statements on these bills the Senator from Illinois creates the impression—intentional or not—that the Finance Committee is not giving proper and adequate attention to legislation reported to the Senate.

With respect to all of these bills he apparently tries to leave the inference that the committee has drifted into a loose procedure of rushing bills through at the end of the session which he claims produces unfortunate results.

On behalf of the majority of the Senate Finance Committee I want to make it clear to the Senate that, in the case of the bills ordered to be reported by the committee on September 10, 1962:

(1) Each of the bills has been passed by the House of Representatives;

(2) No request was made for Senate hearings on these bills, and this includes the bill for which the Senator from Illinois voted in the affirmative;

(3) Each of the bills ordered to be reported, except H.R. 12529 in which the Senator from Illinois is interested, was formally approved by the executive agencies having jurisdiction over their administration;

(4) The contents of each bill were fully outlined by members of the committee staff, and discussed by members of the committee; and

(5) When the committee voted, members had full knowledge of the purpose and effects of the proposed legislation.

Momentous matters are referred to the Senate Committee on Finance, including legislation with respect to taxation, tariffs and customs, social security, veterans, and so forth, and the committee has always been meticulous in exploring the effects of all legislation it recommends.

The current tax bill—H.R. 10650—now in conference is a case in point. More than 200 witnesses were heard on this bill, and the legislation was under committee consideration more than 4 months.

The Senator from Virginia cannot recall that the Senate has rejected a bill recommended by the Senate Finance Committee. It suffices to say that when the need for hearings is indicated, the committee will hold them.

The procedure followed by the committee in consideration of the agenda for the meeting of September 10 involved no departure from committee practice over the 30 years during which I have been a member.

The committee always holds hearings when they are necessary for the enlightenment of the membership, and the procedure of the past, so far as the chairman is concerned, will be continued in the future.