

EXTENDING FOR AN ADDITIONAL 2 YEARS THE SUSPENSION IN PART OF THE PROCESSING TAX ON COCONUT OIL, AND CORRECTING TYPOGRAPHICAL ERROR IN INDIVIDUAL INCOME TAX ACT OF 1944

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JUNE 21 (legislative day, MAY 9), 1944.—Ordered to be printed

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

REPORT

[To accompany H. R. 4837]

The Committee on Finance, to whom was referred the bill (H. R. 4837) to extend for an additional 2 years the suspension in part of the processing tax on coconut oil, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The general purpose of the House bill, as indicated in the title, is to extend for an additional 2 years the suspension in part of the processing tax on coconut oil. The necessity for this action is fully explained in the report of the Committee on Ways and Means of the House of Representatives (H. Rept. No. 1621, 78th Cong., 2d sess.), which is included herein.

A committee amendment corrects a typographical error in the Individual Income Tax Act of 1944, approved by the President on May 29. In the tax table in Supplement T, the alternative tax for individuals with adjusted gross income of less than \$5,000, the tax, in the case of an individual whose adjusted gross income is at least \$1,075 but less than \$1,100 and who has one surtax exemption, appears as \$100, instead of \$110, as passed by both Houses. In the enrollment of the bill the typographical error was not discovered. The committee amendment corrects the error.

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[H. Rept. No. 1621, 78th Cong., 2d sess.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 4837) to extend for an additional 2 years the suspension in part of the processing tax on coconut oil, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

## GENERAL STATEMENT

The purpose of the legislation is to extend for a period of 2 years, or until June 30, 1946, the act of September 16, 1942, which suspends in part the processing tax on coconut oil. The original legislation was enacted for the purpose of making it possible to obtain supplies of copra and coconut oil from outside the United States in order to obtain therefrom materials essential to the war effort. The necessity for continued imports of such supplies still exists.

In 1934 there was enacted a law, now section 2470 of the Internal Revenue Code, which imposed a tax of 3 cents on the first domestic processing of coconut oil, palm oil, palm kernel oil, and their derivatives. In addition, a 2-cent tax was placed on the first domestic processing of coconut oil and its combinations, except that no additional tax was payable on the processing of coconut oil that was the product of the Philippines or derived from copra produced in the Philippines.

During the period from 1937 to 1939, 99.9 percent of the crude coconut oil imported into this country and 93.1 percent of the copra imports were from the Philippines. Thus it is apparent that the effect of the additional 2-cent tax was to give the Philippines a virtual monopoly with respect to copra and coconut oil in the American market.

At the present time, the tax would be of no benefit to the Philippines, for no copra or coconut oil can be brought thence to the United States. More significant is the fact that the reinstatement of the 2-cent tax will constitute a serious obstacle to the purchase, for importation into the United States, of copra and coconut oil produced outside the Philippine Islands, to make up for the loss of the Philippine supply.

The restriction on the importation of copra, which would result from the reinstatement of the additional 2-cent tax, would limit the supply of glycerin. Copra has the highest percentage yield of vegetable oil of any raw material except babassu kernels grown in Brazil, and an important byproduct of the oil is glycerin. Copra and babassu yield from 30 to 40 percent more glycerin per unit than any other vegetable oil material.

The continued importation into this country of sizable quantities of copra and coconut oil is an urgent wartime need. The United States requirements for high lauric acid oils cannot be met without continued importation of copra and coconut oil. Their importance to the war effort is indicated by the fact that over 35 percent of the coconut oil used during the calendar year 1944 will be distributed for such essential war purposes as the synthetic-rubber program, the Chemical Warfare Service, hydraulic brake fluids for airplanes, and plasticizers. The balance will be used for soap, much of which is needed by the Army and Navy.

The following letters have been received from the Foreign Economic Administration, War Food Administration, and the Treasury Department relative to this legislation.

FOREIGN ECONOMIC ADMINISTRATION,  
OFFICE OF THE ADMINISTRATOR,  
Washington, D. C., June 6, 1944.

Hon. R. L. DOUGHTON,  
Chairman, Committee on Ways and Means,  
House of Representatives, Washington, D. C.

DEAR MR. DOUGHTON: Your letter of May 22, 1944, requests the views of this Administration with respect to H. R. 4837, a bill to extend for an additional 2 years the suspension in part of the processing tax on coconut oil.

In 1934 there was enacted a law, now section 2470 of the Internal Revenue Code, which imposed a tax of 3 cents on the first domestic processing of coconut oil, palm oil, palm kernel oil, and their derivatives. In addition, a 2-cent tax was placed on the first domestic processing of coconut oil and its combinations, except that no additional tax was payable on the processing of coconut oil that was the product of the Philippines or derived from copra produced in the Philippines.

The additional 2-cent tax was not imposed for revenue purposes, but to extend economic benefits to the Philippines because of the strong ties between them and this country. Its purpose and effect was to give the Philippines a virtual monopoly in this field and to bar the importation of coconut oil or copra from non-Philippine sources. During the period from 1937 to 1939, 99.9 percent of the crude coconut oil imported into this country and 93.1 percent of the copra imports were from the Philippines.

The continuation of the additional tax after the fall of the Philippines could not have benefited those islands, but would have continued to make prohibitive the cost of importing copra and coconut oil from non-Philippine sources. The

price ceiling fixed by the Office of Price Administration took into account the 3-cent processing tax but not the additional tax. Recognizing the continued need for the importation of copra and coconut oil, the act of September 16, 1942, suspended the collection of the additional tax until June 30, 1944, subject to the proviso that, upon request of the Government of the Commonwealth of the Philippine Islands and upon a finding that adequate supplies of copra, coconut oil, or both, produced in the Philippine Islands are available for processing in the United States, the President should by proclamation terminate the suspension of the tax.

The purpose of the bill now under consideration is to extend for a further period of 2 years the act of September 16, 1942. The proviso giving the President the power to terminate the effect of the act in the event that copra and coconut oil from Philippine sources become available would remain in full force and effect.

The continued importation into this country of sizable quantities of copra and coconut oil is an urgent wartime need. The United States requirements for high lauric acid oils cannot be met without continued importation of copra and coconut oil. Their importance to the war effort is indicated by the fact that over 35 percent of the coconut oil used during the calendar year 1944 will be distributed for such essential war purposes as the synthetic rubber program, the chemical warfare service, hydraulic brake fluids for airplanes, and plasticizers. The balance will be used for soap, much of which is needed by the Army and Navy.

Prior to the suspension of the tax, no appreciable amount of coconut oil or copra from non-Philippine sources was imported. Accordingly, the suspension of the tax had no effect on the tax revenues. In making possible the importation of non-Philippine coconut oil and copra, the tax revenues were in fact enhanced to the extent of the basic 3-cent tax on the processing of that coconut oil which was imported or derived from copra imported from non-Philippine sources.

The United States Commercial Company, a corporate agency of this Administration, is responsible for the importation of copra and coconut oil into this country. If the bill is not enacted, it would be compelled to sell the copra and coconut oil which it imports at a lower price, since the current price will not permit processors to pay the 2-cent tax. This would involve a loss of revenues to United States Commercial Company in the next fiscal year estimated at \$3,950,000. Since the copra program currently results in a small net profit, the net loss to the Company for that year would be \$2,860,000 if the world prices of copra and coconut oil are not increased. Present indications are that those prices may increase to a certain extent, in which event the net loss for that year might be increased to as much as \$3,775,000.

In addition, the Commodity Credit Corporation, a corporate agency of the War Food Administration, which, prior to January 1, 1944, handled the importation of coconut oil and copra and now purchases from United States Commercial Company such of the imports as have been stock-piled, would for similar reasons take a loss of approximately \$1,500,000 since it, too, would be compelled to sell its inventory at lower prices in order to enable the processors to sell within the ceiling.

In addition, it is estimated that the trade will have on hand on June 30, 1944, 20,000,000 pounds of crude coconut oil. This inventory would be subject to the tax. It is estimated that the trade would, in processing and selling its inventory, suffer a loss of \$400,000 unless a Government subsidy program should be initiated.

It is impractical to remedy this situation by requesting the Office of Price Administration to increase the price ceilings on processed coconut oil. Related fats and oils are highly competitive with each other. The current price ceilings have been fixed so as to maintain the normal competitive relations among the several groups of fats and oils products. An increase in the price of one type of fats and oils would inevitably require reconsideration of the ceiling prices on all fats and oils. Since fats and oils as a group are important for a large number of industrial purposes, including many essential war purposes, as well as for shortening, margarine, mayonnaise, and similar edible purposes, a general price increase in the cost of fats and oils would have marked inflationary effects in contravention of the policy of the Congress as embodied in the Price Control Act.

In view of these considerations, this Administration recommends the enactment of the proposed legislation.

The Bureau of the Budget advises that it has no objection to the submission of this report.

Sincerely yours,

LEO T. CROWLEY, *Administrator.*

4 EXTEND SUSPENSION OF PROCESSING TAX ON COCONUT OIL

WAR FOOD ADMINISTRATION,  
Washington, June 7, 1944.

Hon. R. L. DOUGHTON,  
*Chairman, Committee on Ways and Means,  
House of Representatives, Washington, D. C.*

DEAR MR. DOUGHTON: This is in reply to your request of May 22, 1944, for a report on H. R. 4837, a bill to extend for an additional 2 years the suspension in part of the processing tax on coconut oil.

Until the sources of copra in the Far East are again available, the supply of coconut oil will be very limited. It is believed that the interests of American agriculture are safeguarded in the original act of September 16, 1942. A continuation of the suspension of the processing tax to enable us to sell this oil under the ceiling would be helpful.

The War Food Administration recommends passage of the bill.

The Bureau of the Budget advises that it has no objection to the submission of this report.

Sincerely,

MARVIN JONES, *Administrator.*

TREASURY DEPARTMENT,  
Washington, June 7, 1944.

Hon. ROBERT L. DOUGHTON,  
*Chairman, Committee on Ways and Means,  
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: Further reference is made to your letter dated May 22, 1944, enclosing two copies of bill H. R. 4837 entitled "A bill to extend for an additional 2 years the suspension in part of the processing tax on coconut oil." You desire an expression of this Department's views regarding the enactment of the proposed legislation.

The proposed bill would amend section 2 of the act of September 16, 1942, Public Law 711 (77th Cong., 2d sess.), entitled "An act to suspend in part the processing tax on coconut oil by striking out 'June 30, 1944' and inserting in lieu thereof 'June 30, 1946.'" The bill relates to the suspension of the 2 cents per pound additional tax imposed by section 2470 (a) (2) of the Internal Revenue Code on the processing of coconut oil other than that wholly the production of the Philippine Islands or any other possession of the United States, or which was produced wholly from materials the growth or production of the Philippine Islands or any other possession of the United States.

This Department offers no comment on the general policy question involved concerning the enactment of the proposed legislation, believing that to be a matter for the determination of the Congress.

The Director, Bureau of the Budget, has advised the Treasury Department that there is no objection to the presentation of this report.

Very truly yours,

JOHN L. SULLIVAN,  
*Acting Secretary of the Treasury.*

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, 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 italics, and existing law in which no change is proposed is shown in roman):

Section 2 of the act of September 16, 1942, entitled "An act to suspend in part the processing tax on coconut oil":

"Sec. 2. This Act shall become effective the day following its enactment, and shall terminate on [June 30, 1944.] *June 30, 1946.*"

