

EXTENSION OF TEMPORARY DUTY SUSPENSION ON  
CERTAIN ISTLE; TEMPORARY EXTENSION OF INTER-  
EST EQUALIZATION TAX

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AUGUST 11, 1969.—Ordered to be printed

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

REPORT

[To accompany H.R. 10107]

The Committee on Finance, to which was referred the bill (H.R. 10107) to continue for a temporary period the existing suspension of duty on certain istle, having considered the same, reports favorably thereon with amendments and recommends that the bill (as amended) do pass.

I. SUMMARY

The purpose of H.R. 10107 as passed by the House is to continue, until the close of September 5, 1972, the existing suspension of duty on processed istle fiber. The committee made no changes in this provision.

An amendment made by the committee temporarily extends the interest equalization tax for 1 month or through September 30, 1969. The tax otherwise would expire at the end of August 31, 1969.

A temporary extension of this tax is necessary so that various procedures for administering and enforcing the tax may continue to operate in an orderly manner and the risk of evasion of the tax may be minimized while Congress completes its consideration of the administration's request for extension of the tax.

II. DUTY SUSPENSION ON CERTAIN ISTLE

Crude istle fiber has always been afforded duty-free entry under the Tariff Act of 1930 (TSUS item 192.65). However, the processed fiber has been dutiable under the act at the rate of 20 percent ad valorem (TSUS item 192.70). Public Law 85-284, approved Septem-

ber 4, 1957, in effect suspended the duty applicable to processed fiber for a 3-year period expiring at the close of September 4, 1960. Public Law 86-456, approved May 13, 1960, Public Law 88-90, approved August 8, 1963, and Public Law 89-575, approved September 13, 1966, have continued the suspension of the duty applicable to the processed fiber until the close of September 5, 1969. H.R. 10107 would amend item 903.90 of the Tariff Schedules of the United States to further extend the period for the suspension of the duty until the close of September 5, 1972.

Istle fiber is derived from several species of the agave plant which is indigenous to Mexico. It is one of the best known and most widely used of all vegetable brush fibers. Its principal use in the United States is in the manufacture of brushes.

At the time of enactment of Public Law 85-284 (1957) there was no domestic production of the raw istle fiber and an insignificant production of the processed fiber from imported raw fiber. The object of the suspension of duty was to reduce the burden of higher prices on domestic users of the fibers and of the finished products. Your committee is informed that conditions continue to warrant the suspension of this duty.

No objection with respect to this provision of H.R. 10107 was received from the interested departments and agencies.

### III. TEMPORARY EXTENSION OF INTEREST EQUALIZATION TAX

The interest equalization tax is a part of our balance-of-payments program and is designed to reduce the outflow of dollars from the United States by raising the cost to foreigners of obtaining capital in U.S. markets. The tax which is imposed on U.S. persons acquiring foreign stocks or debt obligations, in effect, provides at present the equivalent of a three-fourths percentage point per annum increase in interest costs for foreigners obtaining capital from U.S. sources on the sale of foreign stock or debt obligations. At the present time the tax rate on stock and debt obligations with maturities of 28½ years or more is 11¼ percent. A sliding scale of lesser rates is provided for debt obligations with maturities of less than 28½ years.

On August 7, 1969, the House passed H.R. 12829 which would extend the equalization tax for 19 months or until March 31, 1971. It is appatant however, that it will not be possible for Congress to complete its consideration of this extension of the interest equalization tax prior to the recess and, thus, prior to August 31, 1969, when under present law the tax is scheduled to expire.

If the tax were allowed to expire and then at a later date continued, this would create confusion in the securities markets and significant administrative and enforcement difficulties.

Under present law, the exemption from the tax for prior American ownership and compliance generally allows foreign securities which are owned by Americans to be acquired by other Americans free of the tax. Under the procedures and requirements established in connection with this exemption, there essentially is a closed pool of the foreign securities which qualify for the exemption and which may be freely traded in the American securities markets. In essence, the procedures

and requirements provided in the law are designed to assure that additional foreign securities do not enter into the pool unless specified conditions are satisfied. One of these conditions is that the tax has been paid with respect to the securities. Present law provides for the withholding of tax by U.S. brokers (which are entitled to buy and sell foreign securities in the pool) with respect to sales of foreign securities within the pool when it is not clear that the securities qualify for the exemption.

If the tax were allowed to expire and then subsequently were continued, there would be considerable confusion as to whether these procedures, including the requirement for payment or withholding of the tax, should be followed during the period prior to the time the tax was extended. To the extent the procedures were not followed, however, this would allow foreign securities which do not qualify for the prior American ownership and compliance exemption to enter the pool of qualified securities. Subsequently, assuming the tax is extended, it would be extremely difficult for the Internal Revenue Service to identify these nonqualified foreign securities, and, thus, the functioning of the present system and the enforcement of the tax would be seriously impaired. In addition, it would be necessary for the Treasury to prescribe complex and detailed procedures for the interim period in an attempt to deal with these problems. These procedures would be a significant burden for both the Treasury Department and the securities industry and might be only partially effective.

In order to avoid the administrative and enforcement difficulties and the confusion in the securities markets which would arise if the interest equalization tax were allowed to expire and then was subsequently continued, your committee believes that the tax should be temporarily extended for a period of 1 month so as to allow Congress time to complete its consideration of the administration's request for extension of the tax. Accordingly, the bill temporarily extends the interest equalization tax for 1 month or through September 30, 1969.

The bill amends section 4911(d) of the code which specifies the termination date for the interest equalization tax by substituting for September 30, 1969, August 31, 1969. Thus, the tax would continue to apply for an additional month or until September 30, 1969.

#### IV. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

#### SECTION 4911(d) OF INTERNAL REVENUE CODE OF 1954

##### SEC. 4911. IMPOSITION OF TAX.

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(d) **TERMINATION OF TAX.**—The tax imposed by subsection (a) shall not apply to any acquisition made after **【August 31, 1969】** *September 30, 1969.*

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TARIFF SCHEDULES OF THE UNITED STATES  
APPENDIX TO THE TARIFF SCHEDULES

Item	Articles	Rates of Duty		Effective period
		1	2	
.	PART 1.—TEMPORARY LEGISLATION	.	.	.
.	Subpart B.—Temporary Provisions Amending the Tariff Schedule	.	.	.
903.90	Isle processed (provided for in item 192.70, part 15G, schedule 1).....	Free.....	Free.....	On or before [9/5/89] 9/5/78

