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SENATE

{ REPORT
No. 280

PLUMBERS UNION LOCAL NO. 12 PENSION FUND

MAY 19, 1961.—Ordered to be printed

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

R E P O R T

[To accompany H.R. 1877]

The Committee on Finance, to whom was referred the bill (H.R. 1877) relating to the effective date of the qualification of Plumbers Union Local No. 12 Pension Fund as a qualified trust under section 401(a) of the Internal Revenue Code of 1954, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

A. SUMMARY OF HOUSE BILL

The Plumbers Union Local No. 12 Pension Fund, Boston, Mass., for years ending on or after June 3, 1959, has been held to be a qualified trust (under code sec. 401(a)) and to be exempt from taxation (under sec. 501(a)). H.R. 1877 as passed by the House and as approved by your committee provides that this trust also is to be considered a qualified and exempt trust from the time of its establishment in 1954 up until June 3, 1959, but only if it is shown to the satisfaction of the Secretary of the Treasury or his delegate that the trust was not operated in this period in a manner which would jeopardize the interests of its beneficiaries. The effect of this will be to permit employers deductions for their contributions to this trust during this period and to grant the trust an exemption from income tax for income earned in this period.

The Treasury Department has no objection to this provision but if a significant number of additional cases should arise it may prefer general legislation on this problem.

B. SUMMARY OF COMMITTEE AMENDMENTS

1. The first amendment extends for 2 years, 1960 and 1961, the period within which certain stock life insurance companies may make deductible distributions to shareholders (in acquisition of their stock) in pursuance of a plan of mutualization adopted prior to January 1, 1958.

2. The second amendment provides a reduced tariff in the case of hair of animals, like the cashmere goat.

C. EXPLANATION OF HOUSE BILL

Under present law, a pension trust is qualified for income tax exemption only if it meets certain requirements relating to coverage of employees and nondiscrimination of contributions or benefits. Where the pension trust is properly qualified, not only is it exempt from Federal taxation with respect to its income, but also contributions paid to it by an employer on behalf of his employees are deductible for Federal income tax purposes.

Occasionally it is difficult for a pension trust to achieve qualified status before employer contributions are received by it. This is particularly true in the case of pension plans, such as that of the Plumbers Union Local No. 12, negotiated under collective-bargaining agreements with many employers, both large and small. Often, considerable time is required to obtain sufficient factual data to establish the actuarial soundness of the plan. Sometimes, also, a technicality may prevent initial compliance with the requirements.

Where a pension plan operates for a period as a nonqualified plan before meeting all of the necessary requirements under the Internal Revenue Code, any income it may earn during this period is subject to income tax and any employer contributions made during the period are not deductible.

Last year Congress in seven similar cases (Public Laws 86-779 and 86-781) concluded that this loss of exemption for the fund and the denial of deduction for the employer for a past period was too severe a penalty where it was the intention of both the employers and the employees to qualify the fund, but they failed to do so through inadvertence or for technical reasons, and they in fact operated in the same manner as if they had been qualified trusts. Therefore, last year Congress provided in the case of these seven funds that they were to be considered as qualified, and as exempt funds, in the intervening period between their inception and the time they actually qualified for this treatment, but only if the Secretary of the Treasury or his delegate found that they in the interval had not been operated in a manner to jeopardize the interests of the beneficiaries.

This bill provides the same treatment for the Plumbers Union Local No. 12 Pension Fund, Boston, Mass., for the period beginning on September 1, 1954, and ending on June 3, 1959. September 1, 1954, was the date the fund was established by a collective-bargaining agreement and for years ending on or after June 3, 1959, it was held to be a qualified fund. For the specified period from 1954 to 1959, the fund is to be held and considered to have been a qualified trust under section 401(a) and to have been exempt from taxation under section 501(a), but only if it is shown to the satisfaction of the Secretary or

his delegate that the trust did not, during the period referred to, operate in a manner which would jeopardize the interests of the beneficiaries.

D. EXPLANATION OF AMENDMENT RELATING TO CERTAIN MUTUALIZATION DISTRIBUTIONS

Under the Life Insurance Company Income Tax Act of 1959, it was provided that in the case of certain stock companies which had adopted a plan of mutualization before January 1, 1958, a special deduction was to be allowed in computing gain from operations (for purposes of the so-called phase 2 tax) of amounts paid by the company to its stockholders in acquisition of their stock under the mutualization plan. A problem was presented by some of the mutualized companies where they did not have funds to spare—over and above funds needed to protect policyholders—to redeem all the stock outstanding at the time they adopted the plan of mutualization. Consequently, these companies had been redeeming their stock gradually out of annual earnings since adoption of their mutualization plan. The purpose of the 1959 act was to make it plain that those stock companies which had adopted a plan of mutualization before January 1, 1958, would be permitted to continue to acquire their stock out of annual earnings and to receive a deduction for amounts so used but only for the 2 years—1958 and 1959. It has developed that at least one of such mutualized companies was unable to complete its mutualization by the end of 1959 and your committee believes it advisable to allow 2 additional years—that is, 1960 and 1961—to complete the plan of mutualization. The amendment is limited to funds actually paid to the shareholders in 1960 and 1961 and does not include accruals paid in subsequent years. The special deduction is also limited to the amount of phase 2 income and is not to be available to any extent to an underwriting loss which may reduce phase 1 income subject to tax.

E. EXPLANATION OF AMENDMENT RELATING TO CASHMERE GOAT HAIR

The proposed amendment, if enacted, would reduce the rates of duty presently applicable, under paragraph 1102(b) of the Tariff Act of 1930, to hair of the cashmere goat, as follows:

Item	Rates of duty (per pound of clean content)	
	Present	Proposed
Hair of the cashmere goat:	<i>Cents</i>	<i>Cents</i>
In the grease or washed.....	34	18
Scoured.....	37	21
On the skin.....	32	16
Sorted, or matchings, if not scoured.....	35	19

The existing rates of duty on cashmere goat hair are the rates originally enacted by the Congress in 1930. The proposed rates are the same as those which were proclaimed and in effect on and after June 28, 1944, through August 25, 1960, pursuant to concessions granted in the bilateral trade agreement with Iran. However, with the termination of this trade agreement the rates of duty reverted to the original statutory rates.

Under the authority of section 5 of the Trade Agreements Extension Act of 1951, as amended, the President withdrew the reduced rates of duty in effect pursuant to trade-agreement concessions, including the concessions in the Iran trade agreement, from the products of certain Communist-dominated nations or areas, including Outer Mongolia, effective September 1, 1951. Thus, cashmere goat hair from Outer Mongolia, a principal supplier, has been subject to the higher statutory rates of duty since that time. The proposed amendment, if enacted, would completely supersede the existing provisions, with the result that the reduced rates provided for therein would apply to cashmere goat hair the product of any foreign country, including such hair the product of Outer Mongolia and other Communist-controlled nations or areas whose products are denied trade-agreement reductions.

There is no known commercial production of cashmere hair in the United States. Further, it does not appear that imported cashmere is closely competitive with domestically produced sheep's wool and mohair.

American spinners and weavers of cashmere appear to have been adversely affected by the increase in rates on cashmere hair coincident with termination of the trade agreement with Iran inasmuch as it resulted in an increase in duty on their raw material—cashmere hair—with no compensatory increase in the specific portion of the compound duty on manufactures of cashmere.

The American spinners and weavers of cashmere are already handicapped in meeting foreign competition by foreign assets control regulations which do not permit American mills to use Chinese cashmere yet permit importation of manufactures of Chinese cashmere from third countries. Good quality Chinese cashmere goat hair is available to third countries at comparatively low prices.

Hair of the cashmere goat: U.S. imports for consumption, by countries, 1955-60

Country	1955	1956	1957	1958	1959 ¹	1960 ¹
Quantity (pounds of clean content)						
Iran.....	3,219,475	1,830,938	2,652,210	4,097,239	2,218,198	3,304,527
Outer Mongolia.....	1,317,182	921,688	431,498	1,276,974	915,680	227,622
India.....	87,228	140,710	58,674	110,716	222,281	123,584
Afghanistan.....	33,425	19,840	91,509	73,529	126,129	393,391
Turkey.....	97,164	126,980	61,640	138,195	126,064	82,491
Israel.....		9,552			13,362	17,970
Belgium and Luxembourg.....				7,852		
Iraq.....	14,488	8,512	10,735			
Malta, Gozo, and Cyprus Islands.....	1,364	35,447				
France.....		1,102				
Netherlands.....	10,282					
Total.....	4,780,606	3,094,769	3,306,266	5,704,505	3,621,714	4,059,585
Foreign value						
Iran.....	\$11,111,726	\$7,970,229	\$9,520,167	\$11,437,879	\$6,457,863	\$9,228,029
Outer Mongolia.....	7,093,590	5,562,087	2,975,511	4,491,178	3,777,855	1,173,971
India.....	408,588	840,165	335,300	353,799	668,526	405,126
Afghanistan.....	125,694	91,965	368,013	225,777	382,260	971,110
Turkey.....	122,605	215,501	109,319	198,005	194,218	119,030
Israel.....		35,060			46,729	46,351
Belgium and Luxembourg.....				29,064		
Iraq.....	48,793	28,001	47,033			
Malta, Gozo, and Cyprus Islands.....	5,194	276,152				
France.....		6,500				
Netherlands.....	47,219					
Total.....	18,963,409	15,025,660	13,355,349	16,735,702	11,527,451	11,943,617
Unit value (per pound clean content)						
Iran.....	\$3.45	\$4.35	\$3.59	\$2.79	\$2.91	\$2.79
Outer Mongolia.....	5.39	6.03	6.90	3.52	4.13	5.16
India.....	4.68	5.97	5.71	3.20	3.01	3.28
Afghanistan.....	3.76	4.64	4.02	3.07	3.03	3.20
Turkey.....	1.26	1.70	1.77	1.43	1.64	1.44
Israel.....		3.67			3.50	2.58
Belgium and Luxembourg.....				3.70		
Iraq.....	3.37	3.29	4.38			
Malta, Gozo, and Cyprus Islands.....	3.81	7.79				
France.....		5.90				
Netherlands.....	4.59					
Total.....	3.97	4.86	4.04	2.93	3.18	2.94

¹ Preliminary.

Source: Compiled from official statistics of the U.S. Department of Commerce.

F. 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 italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

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Subtitle A—Income Taxes

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CHAPTER 1—NORMAL TAXES AND SURTAXES

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Subchapter L—Insurance Companies**PART I—LIFE INSURANCE COMPANIES**

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Subpart C—Gain and Loss From Operations**SEC. 809. IN GENERAL.**

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(d) DEDUCTIONS.—For purposes of subsections (b) (1) and (2), there shall be allowed the following deductions:

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(11) CERTAIN MUTUALIZATION DISTRIBUTIONS.—The amount of distributions to shareholders made in [1958 and 1959] 1958, 1959, 1960, and 1961 in acquisition of stock pursuant to a plan of mutualization adopted before January 1, 1958.

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(g) LIMITATIONS ON DEDUCTION FOR CERTAIN MUTUALIZATION DISTRIBUTIONS.—

(3) APPLICATION OF SECTION 815.—That portion of any distribution with respect to which a deduction is allowed under subsection (d)(11) shall not be treated as a distribution to shareholders for purposes of section 815; except that in the case of any distribution made in 1959, 1960, or 1961, such portion shall be treated as a distribution with respect to which a reduction is required under section 815(c)(2)(B).

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TARIFF ACT OF 1962**TITLE I—DUTIABLE LIST**

SECTION 1. That on and after the day following the passage of this Act, except as otherwise specially provided for in this Act, there shall be levied, collected, and paid upon all articles when imported from any foreign country into the United States or into any of its possessions (except the Virgin Islands, American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, and the island of Guam) the rates of duty which are prescribed by the schedules and paragraphs of the dutiable list of this title, namely:

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SCHEDULE 11.—WOOL AND MANUFACTURES OF

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PAR. 1102. (a) * * *

(b) Wools, not specially provided for, and hair of the Angora goat, **[Cashmere goat,]** alpaca, and other like animals (*including hair of animals like the Cashmere goat*), in the grease or washed, 34 cents per pound of clean content; scoured, 37 cents per pound of clean content; on the skin, 32 cents per pound of clean content; sorted, or matchings, if not scoured, 35 cents per pound of clean content.

(c) *Hair of the Cashmere goat, in the grease or washed, 18 cents per pound of clean content; scoured, 21 cents per pound of clean content; on the skin, 16 cents per pound of clean content; sorted, or matchings, if not scoured, 19 cents per pound of clean content.*

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