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SENATE

REPORT
No. 324

EXCISE TAX REDUCTION ACT OF 1965

JUNE 14, 1965.—Ordered to be printed

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

REPORT

[To accompany H.R. 8371]

The Committee on Finance, to whom was referred the bill (H.R. 8371) to reduce excise taxes, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

I. GENERAL STATEMENT AND SUMMARY

H.R. 8371, the excise tax reduction bill of 1965, represents a comprehensive overhaul of the Federal excise tax structure. It also is designed to help sustain the economic expansion which we have enjoyed for the last 52 months.

The present excise taxes, for the most part, were initially levied as emergency revenue-raising measures at the time of the Korean war, World War II, or the depression of the 1930's. As a result, they were not developed on any systematic basis and are often discriminatory in their application to the taxed industries or to the purchasers of the taxed products. Your committee's bill either this month, next January, or in the 3 subsequent years removes substantially all of these selective excise taxes except those which represent user charges, regulatory taxes, or the sumptuary taxes on alcohol, cigars and cigarettes.

Your committee's version of this bill provides a tax reduction effective the day after the date of enactment of this bill which, when fully effective, will result in a revenue loss of $1.76 billion. A further reduction is provided for next January which, when fully effective, will decrease taxes by an additional $1.62 billion. These two reductions taken together will amount to $3.38 billion. Further reductions are scheduled to occur in 1967, 1968, and 1969. The additional reductions in these years will amount to approximately $1.3 billion, raising the total excise tax reduction, when fully effective, to about

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$4.7 billion. The comparable figures for the House bill, which differ but slightly from the totals presented here, are shown in table 1 of the report.

With three exceptions, your committee has not appreciably modified the rate reductions which would have been provided by the House bill.

The first of these exceptions relates to the 10-percent manufacturers' tax on passenger automobiles. The House bill would have repealed this tax gradually over a period of 4 years. Your committee's action would retain one percentage point of this tax to be allocated to a special fund to aid in the disposal of old and wrecked automobiles. Also, four percentage points of the reduction would be made contingent upon the cars meeting the same safety standards as required by the General Services Administration with respect to the purchase of cars by the Federal Government.

Second, the House bill would have eliminated all of the tax on lubricating and cutting oil (either by exemption or refund procedure) except that used by highway vehicles. Your committee's bill retains this tax whether or not used in highway vehicles.

Third, your committee's bill repeals the 10-cents-per-pound tax on manufactured tobacco (i.e., smoking and chewing tobacco and snuff).

Your committee also has acted to minimize to the extent possible any delay in consumer purchases arising from consumers awaiting the tax reductions made in this bill, by moving up most of the tax reductions scheduled under the House bill to become effective on July 1, 1965. Under your committee's action, these reductions will become effective on the day after the date of enactment of this bill.

In addition to the three substantive changes described above, your committee also made a number of changes dealing with floor-stock refunds, minor effective-date provisions, and related problems, as well as a series of technical and structural changes designed to improve the structure and administration of the excise taxes remaining in effect. The actions taken by your committee with respect to floor-stock refunds and related matters can be summarized as follows:

1. A floor-stock refund was provided with respect to the 13 cents-a-pack tax on playing cards repealed by this bill.
2. The provision in the House bill providing a floor-stock refund in the case of the 8-percent tax on automobile parts and accessories repealed by this bill was removed.
3. A floor-stock refund was provided with respect to the 10-percent tax on sporting goods repealed by this bill.
4. The effective date of the repeal of the stamp tax on stock and debt issuances and transfers was advanced 1 day, from January 1, 1966, to December 31, 1965.
5. The repeal of the documentary stamp tax on real estate conveyances was deferred for 3 years; that is, until January 1, 1969.
6. Provision was made for the tax-free purchase or use of electric light bulbs for incorporation in refrigerators, ranges, radios, television sets, and other articles the tax on which is removed this June (no change was made in the January 1, 1966, effective date for repeal of the tax on electric light bulbs generally).
7. Provision was made to require where an article is sold or leased on an installment basis before the date when a tax is repealed (but title is retained in the seller), that the tax would be removed on

installments paid, or lease payments made, after that date only if the tax reduction on the payments is passed on to the consumer.

The technical and structural changes made by your committee can be summarized as follows:

1. The manufacturers' tax on trucks is made inapplicable to so-called camper coaches and bodies of mobile homes.

2. The manufacturers' tax on trucks is made inapplicable to truck bodies, parts, and accessories primarily designed for use in connection with the processing, hauling, or spreading of feed, seed, or fertilizer in connection with a farm activity.

3. The manufacturers' tax on trucks is made inapplicable to 3-wheeled motor vehicles powered by a motor which does not exceed 18 brake horsepower if the chassis does not weigh over a thousand pounds.

4. The manufacturers' tax on trucks is made inapplicable to the value of used parts used in the manufacture of the truck if the part is furnished by the customer.

5. It is made clear that new parts used in rebuilding other auto parts are subject to tax in the same manner as new parts used in repairing.

6. The manufacturers' tax on trucks, buses, etc., is made inapplicable to schoolbuses purchased by independent operators for their use under a contract arrangement with a school to transport schoolchildren.

7. The definition of gasoline is modified so that casinghead and natural gasoline are taxable only when used as a fuel in a highway vehicle, motorboat, or airplane and to tax as gasoline only those products that are suitable for use as a motor fuel.

8. The requirement that manufacturers of gasoline must be bonded is eliminated.

9. An exemption certificate system, as an alternative to a registration system, is provided in the case of sales of articles free of manufacturers' taxes for use as supplies for vessels or aircraft.

10. The tax on transportation of persons is made inapplicable to the domestic portion of international travel in the case of servicemen, regardless of the elapsed time between the domestic and foreign segments of their travel, if they purchase their tickets within 6 hours of arrival and take the first available accommodation of the type their ticket calls for.

11. The Secretary of the Treasury is authorized to change the method of paying tax on policies issued by foreign insurers from the stamp to the return method.

12. The requirement that distilled spirits must be returned to the bonded premises of a distilled-spirits plant within 6 months of the time they are withdrawn, if a credit or refund is to be claimed, is repealed.

13. The mingling, etc., of distilled spirits is to be permitted without the payment of the rectification tax if the spirits are of the same type or class.

14. Proprietors of distilled-spirits plants are to be permitted to destroy (under supervision) distilled spirits returned to bonded premises.

15. The redistillation of articles containing denatured distilled spirits on the bonded premises of a distilled-spirits plant is to be allowed.

16. The relanding in the United States of exported distilled spirits is to be permitted when this is done with no intent to defraud the Government.

17. The amount of carbon dioxide permitted to be contained in still wines is increased from 0.256 gram to 0.277 gram per one hundred milliliters.

18. The requirement of present law relating to wine reserve inventories is deleted and the use of liquid sugar in the production of wine is permitted.

19. Shipment of liquors, free of tax, to all U.S. possessions is permitted.

20. The definitions of "cigarette" and "cigar" are modified to permit a more meaningful distinction to be made between the two.

21. In cases when a refund is allowable under present law with respect to the tax on tobacco products, as an alternative to the refund, a credit may be allowed.

22. The time for filing claims for refunds for gasoline tax with respect to gasoline used on farms by farmers (as well as some other types of claims for refund of gasoline tax) is changed so that these refunds generally may be taken as credits against income tax otherwise due.

23. Provision is made so that the statute of limitations on the assessment and collection of excise taxes will begin to run when an entry has been made on a return with respect to the particular type of tax in question.

24. An income tax exemption is provided for certain nonprofit exchanges for the sale of poultry.

The principal taxes reduced or eliminated under your committee's bill and the major differences between this bill and the House bill are summarized in the following tabulation:

Tax	Existing rate	Finance Committee action and effective date (provisions of House bill shown in parentheses where bills differ)	Estimated annual revenue loss when fully effective (millions)
A. Retailers' excise taxes:			
1. Jewelry	10% of retail price	Repeal, day after enactment (July 1, 1965).	$220
2. Furs	10% of retail price	Repeal, day after enactment (July 1, 1965).	30
3. Toilet preparations	10% of retail price	Repeal, day after enactment (July 1, 1965).	210
4. Luggage, handbags, etc	10% of retail price	Repeal, day after enactment (July 1, 1965).	90
B. Manufacturers' excise taxes:			
1. Passenger automobiles	10% of mfr. price	Reduce to 7% July 1, 1965; reduce to 6% Jan. 1, 1966; reduce to 5% Jan. 1, 1967; reduce to 3% Jan. 1, 1968;[1] reduce to 1% Jan. 1, 1969.[1]	[2] 1,710
		(Reduce to 7%, July 1, 1965; reduce to 6%, Jan. 1, 1966; reduce to 4%, Jan. 1, 1967; reduce to 2%, Jan. 1, 1968; repeal, Jan. 1, 1969.)	[2] (1,900)
2. Automobile parts and accessories (except truck parts).	8% of mfr. price	Extend 8% rate to Jan. 1, 1966, and then repeal, Jan. 1, 1966.[3 4 5]	230
3. Lubricating and cutting oil:			
(a) Cutting oil	3¢ per gal	Retain present law	0
(b) Lubricating oil	6¢ per gal		
((a) Cutting oil)	(3¢ per gal)	(Repeal, Jan. 1, 1966 [2])	(28)
((b) Lubricating oil)	(6¢ per gal)	(Refund tax for oil not used in highway motor vehicles, beginning Jan. 1, 1966.[5])	
4. Refrigerators, freezers, and air-conditioning units:			
(a) Refrigerators and freezers	5% of mfr. price	Repeal, day after enactment [2] (July 1,1965 [2]).	41
(b) Self-contained air-conditioning units.	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [2]).	34

See footnotes at end of table, p. 8.

Tax	Existing rate	Finance Committee action and effective date (provisions of House bill shown in parentheses where bills differ)	Estimated annual revenue loss when fully effective (millions)
B. Manufacturers' excise taxes—Continued			
5. Electric, gas, and oil appliances	5% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [3]).	$85
6. Electric light bulbs	10% of mfr. price	Repeal, Jan. 1, 1966 [3]	45
7. Radio and television sets, phonographs, records, etc.	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [3]).	255
8. Musical instruments	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [3]).	27
9. Sporting goods, except fishing equipment.	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965).	25
10. Photographic equipment:			
(a) Cameras, lenses, film	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [3]).	40
(b) Projectors	5% of mfr. price	Repeal, day after eneactmnt [2] (July 1, 1965 [3]).	
11. Business machines	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [3]).	75
12. Pens, mechanical pencils, and lighters:			
(a) Pens and pencils	10% of mfr. price	Repeal, day after enactment (July 1, 1965).	11
(b) Lighters	10¢ each, not to exceed 10% of mfr. price.	Repeal, day after enactment (July 1, 1965).	
13. Matches:			
(a) Plain	2¢ per 1,000, not to exceed 10% of mfr. price.	Repeal, day after enactment (July 1, 1965).	4
(b) Fancy	5½¢ per 1,000	Repeal, day after enactment (July 1, 1965).	

C. Facilities and services:				
1. Admissions and cabarets:				
(a) General admissions	1¢ for each 10¢ in excess of $1	Repeal, noon, Dec. 31, 1965	}	$55
(b) Race tracks	1¢ for each 5¢ of full price	Repeal, noon, Dec. 31, 1965	}	
(c) Cabarets	10% of bill	Repeal, noon, Dec. 31, 1965		47
2. Club dues	20% of annual dues, if in excess of $10.	Repeal, Jan. 1, 1966		85
3. Communications:				
(a) Local and toll telephone service and teletypewriter service.	10% of amount billed	Reduce to 3%, Jan. 1, 1966;[3] Reduce to 2%, Jan 1, 1967; Reduce to 1%, Jan. 1. 1968; Repeal, Jan. 1, 1969.	}	913
(b) Private communications services.	10% of amount billed	Repeal, Jan. 1, 1966		130
(c) Telegraph service	10% of amount billed	Repeal, Jan. 1, 1966		17
(d) Wire and equipment service	8% of amount billed	Repeal, Jan. 1, 1966		15
4. Transportation of persons by air	5% of amount paid	Extend rate on permanent basis		(6)
5. Safe deposit boxes	10% of amount paid	Repeal, July 1, 1965		7
D. Miscellaneous taxes:				
1. Documentary stamp taxes:				
(a) Bond and stock issues		Repeal, Dec. 31, 1965		
(i) Stock, except mutual funds.	10¢ per $100 of value.	(Repeal, Jan. 1, 1966.)		
(ii) Mutual fund shares	4¢ per $100 of value.			
(iii) Bonds	11¢ per $100 of value.			
(b) Bond and stock transfers		Repeal, Dec. 31, 1965		195
(i) Stock	4¢ per $100 of value but no more than 8¢ per share or less than 4¢ per sale.	(Repeal, Jan. 1, 1966.)		
(ii) Bonds	5¢ per $100 of value.			
(c) Conveyances	55¢ per $500 of value	Repeal, Jan. 1, 1969 (Repeal, Jan. 1, 1966.)		
2. Playing cards	13¢ per pack	Repeal, day after enactment[2] (July 1, 1965).		11
3. Coin-operated amusement devices (not including gaming devices).	$10 per year	Repeal, July 1, 1965		6
4. Bowling alleys, billiard and pool tables	$20 per year	Repeal, July 1, 1965		7

See footnotes at end of table, p. 8.

Tax	Existing rate	Finance Committee action and effective date (provisions of House bill shown in parentheses where bills differ)	Estimated annual revenue loss when fully effective (millions)
E. Alcohol and tobacco taxes:			
1. Alcoholic beverages:			
(a) Distilled spirits	$10.50 per proof-gal	Extend present rate on permanent basis.	([6])
(b) Beer	$9 per barrel	Extend present rate on permanent basis.	([6])
(c) Wines	Various rates	Extend present rates on permanent basis.	([6])
2. Tobacco:			
(a) Cigarettes	8¢ per pack	Extend present rate on permanent basis.	([6])
(b) Chewing, smoking and snuff	10¢ per pound	Repeal, Jan. 1, 1966 (Retain present law.)	$18 (0)

[1] Rate remains at 5 percent unless certain safety standards are met.

[2] Provision is made for floor-stock refunds. In addition, in the case of passenger cars and air conditioners, refunds are made to customers who purchased items after May 14, 1965.

[3] The existing rate is extended from June 30, 1965, through Dec. 31, 1965. In the case of the telephone taxes only the tax on general (local) telephone service was scheduled to expire and is extended to Dec. 31, 1965.

[4] Auto parts and accessories subject to floor-stock refund under House bill but not your committee's bill.

[5] Truck parts and accessories allocated to the highway trust fund under both versions of the bill. Lubricating oil for highway use allocated to this trust fund under the House bill but not your committee's bill.

[6] The bill forestalls rate reductions which would otherwise occur under present law on July 1, 1965. In the case of transportation of persons by air, the revenue loss which is prevented is $140,000,000; in the case of distilled spirits, it is $203,000,000; in the case of beer, it is $104,000,000; in the case of wines, it is $12,000,000; and in the case of cigarettes, it is $262,000,000.

Note: This tabulation does not attempt to show the technical and structural changes made by your committee.

II. REVENUE ESTIMATES

The revenue effects of the House bill and your committee's bill are summarized in table 1, below. The estimates presented in this and the subsequent tables are based on expected 1966 income levels and do not take into account any "feedback" to revenues as a result of the impact of the bill on the economy.

Table 1 indicates that your committee's bill can be expected to reduce Federal revenues, at calendar 1966 income levels, by $4.7 billion when its provisions become fully effective. This includes a $10 million reduction in administrative budget receipts (when compared to those under present law) as a result of changes affecting the amounts transferred to the highway trust fund.[1]

Table 1 also shows that the House bill would reduce administrative budget revenues by $4.9 billion, or nearly $200 million more than your committee's bill, when its provisions became fully effective. Included in this House bill total are transfers to the highway trust fund of $70 million with the result that cash collections would be reduced by $4.8 billion on a full-year basis.

Not shown separately in table 1 is the effect of the removal of July 1, 1965, termination dates for certain excise tax rates currently in force. The revenue effect of these excise tax rate extensions is shown in table 4.

TABLE 1.—*Full effect on administrative budget receipts*[1] *of H.R. 8371 as reported by Committee on Finance and as passed by the House of Representatives*

[In millions]

	Finance Committee action	House action
Excise tax collections under rates and provisions now in effect	$15,356	$15,356
Transfer to highway trust fund under provisions now in effect	3,939	3,939
Excise tax collections, administrative budget, under existing rates and provisions	11,417	11,417
Tax reductions to take effect in fiscal 1966:		
To take effect day after enactment or July 1, 1965	1,758	1,748
To take effect Dec. 31, 1965, or Jan. 1, 1966	1,624	1,676
Tax reductions to take effect in 1967, 1968, and 1969	1,266	1,414
Total effect of tax reductions	4,648	4,838
Additional transfers to the highway trust fund	10	70
Total reductions of budget receipts	4,658	4,908
Excise tax collections, administrative budget, after tax reductions and additions to highway trust fund provided by H.R. 8371	6,759	6,509

[1] Estimated on the basis of 1966 levels of income.

Table 2 shows that excise tax reductions and repeals scheduled in your committee's bill for the day after the date of enactment or July 1, 1965, involve a total reduction in revenues of $1,758 million on an annual rate basis. Because of delays in collections, however,

[1] The revenues from the tax on truck parts and accessories, which are retained in the general fund under present law, are transferred to the trust fund under both versions of the bill increasing the revenues of the trust fund by $20 million. However, exemptions provided by your committee for school buses, camper coaches, mobile homes, etc., reduce highway trust fund revenues by $10 million. The result of these changes is to decrease general fund revenues by $20 million but increase highway trust fund revenues by only $10 million.

these reductions will reduce fiscal 1966 revenues by an estimated $1,495 million.

Table 2 also indicates that the reductions scheduled for December 31, 1965, and January 1, 1966, involve an additional reduction in revenues of $1,624 million on an annual rate basis. The reduction in fiscal 1966 receipts expected to stem from this second series of reductions is only $505 million because the reductions will be in effect only half the year and because of anticipated lags in collections.

Thus the full-year effect of reductions which will go into effect by January 1, 1966, is $3,382 million while the impact of these reductions on actual fiscal 1966 revenue is limited to a reduction of $2,000 million.

The revenue effects of the House bill also are shown in table 2. The provisions of the House bill would have an impact on revenue which differs only slightly from the impact of your committee's bill as far as those reductions scheduled to go into effect by January 1, 1966, are concerned. The full-year revenue effect of the reductions and repeals scheduled for July 1, 1965, in the House bill is only $10 million less than the revenue effect of the provisions in your committee's bill which are scheduled to go into effect by that date. The House bill provides for $42 million more in the way of tax reduction, on a full-year basis, than the Senate bill when all the reductions scheduled for fiscal 1966 are considered (largely because of the 3-year postponement made by your committee in the repeal of the real estate conveyance tax).

Administrative budget receipts in fiscal 1966 will be reduced as a result of two other factors not reflected in table 2. It is expected that the floor stock refunds authorized by both the House bill and your committee's bill in connection with excise taxes to be eliminated or reduced by July 1, 1965, will involve tax refunds in the fiscal year 1966 of about $170 million. Administrative budget receipts during the fiscal year will also be reduced as a result of additional transfers to the highway trust fund. On a full-year basis, your committee's bill transfers an additional $10 million to the highway trust fund while the House bill would transfer $70 million to the trust fund. The latter transfers will not affect actual cash collections from the public. These factors raise the estimated impact of your committee's bill on fiscal 1966 administrative budget receipts to nearly $2.2 billion or about the same as the estimated impact of the House bill.

The estimates presented here of the effect of this bill on receipts in the fiscal year 1966 also do not take into account any increase in general revenues which might result from an increase in the level of economic activity generated by tax reductions. The Treasury estimated, in connection with the House bill, that such effects would increase fiscal 1966 revenues from all Federal taxes by about $400 million. Thus the Treasury estimated that the net effect of H.R. 8371 on fiscal 1966 administrative budget receipts would be a reduction of $1.8 billion, including the effect on administrative budget receipts of additional transfers to the highway trust fund. The Treasury also estimated that the "feedback" effect would grow to nearly $1.5 billion in the fiscal year 1967, reducing the revenue loss for that year to $2.2 billion. These Treasury estimates of the "feedback" effects associated with your committee's bill do not differ substantially from the estimates of feedback effects presented in connection with the House bill.

The Treasury estimates the net effect of your committee's bill on receipts in the fiscal year 1966 will be $1.8 billion and in the fiscal year 1967, $2.0 billion.

TABLE 2.—*Tax reduction under those provisions of H.R. 8371 which take effect in fiscal year 1966 (or late in the fiscal year 1965)*

[In millions of dollars]

	Full year revenue loss under bill as—		Reduction in tax collections, fiscal year 1966, under bill as—	
	Reported by your committee	Passed by House of Representatives	Reported by your committee	Passed by House of Representatives
I. Provisions which take effect day after enactment or July 1, 1965:				
1. Repeal retail taxes:				
Jewelry	220	220	183	183
Furs	30	30	25	25
Toilet preparations	210	210	175	175
Luggage	90	90	75	75
Subtotal	550	550	458	458
2. Repeal following manufacturers taxes:				
Business machines	75	75	62	62
Sporting goods except fishing equipment	25	25	21	21
Phonograph records	30	30	25	25
Musical instruments	27	27	22	22
Television sets	135	135	112	112
Radios and phonographs	90	90	75	75
Photographic equipment	40	40	33	33
Refrigerators	34	34	28	28
Freezers	7	7	6	6
Air conditioners	34	34	28	28
Electric, gas, and oil appliances	85	85	71	71
Pens and pencils	8	8	7	7
Lighters	3	3	2	2
Matches	4	4	3	3
Playing cards	11	11	11	11
Subtotal	608	608	506	506
3. Other taxes repealed:				
Coin-operated amusement devices	6	6	6	6
Bowling alleys, billiard and pool tables	7	7	7	7
Safe deposit boxes	7	7	6	6
Subtotal	20	20	19	19
4. Rate reduction: Passenger automobiles, 3 points	570	570	475	475
5. Technical changes:				
(a) Exemptions:				
Schoolbuses	4	----	3	----
Camper coaches	6	----	4	----
(b) Other	(1)	----	(1)	----
Subtotal	10	----	7	----
6. Effective date changed from July 1, 1965, to day after enactment	----	----	[2] 30	----
Subtotal	1,758	1,748	1,495	1,458
II. Provisions to take effect Dec. 31, 1965, or Jan. 1, 1966: [3]				
1. Repeal taxes on admissions and club dues:				
General admissions	55	55	18	18
Cabarets	47	47	16	16
Club dues	85	85	28	28
Subtotal	187	187	62	62

See footnotes at end of table, p. 12.

TABLE 2.—*Tax reduction under those provisions of H.R. 8371 which take effect in fiscal year 1966 (or late in the fiscal year 1965)*—Continued

[In millions of dollars]

	Full year revenue loss under bill as—		Reduction in tax collections, fiscal year 1966, under bill as—	
	Reported by your committee	Passed by House of Representatives	Reported by your committee	Passed by House of Representatives
II. Provisions to take effect Dec. 31, 1965, or Jan. 1, 1966—Continued				
2. Communications taxes:				
Repeal taxes on—				
Private communications services	130	130	32	32
Telegraph service	17	17	4	4
Wire and equipment service	15	15	4	4
Rate reduction on general and long distance, 7 points	639	639	160	160
Subtotal	801	801	200	200
3. Repeal of other taxes:				
Automobile parts and accessories, except truck parts	230	230	77	77
Lubricating oil (except highway use)		28		2
Electric light bulbs	45	45	15	15
Documentary stamps (except foreign insurance policies)	153	195	79	98
Chewing and smoking tobacco and snuff	18		9	
Subtotal	446	498	180	192
4. Other rate reductions:				
Passenger automobiles, 1 point	190	190	63	63
Subtotal	1,624	1,676	505	517
III. Total fiscal year 1966 program	3,382	3,424	2,000	1,975

[1] Less than $1,000,000.
[2] Assumes an effective date 10 days prior to July 1, 1965.
[3] The effective date is Dec. 31, 1965, for repeal of the taxes on general admissions and cabarets under both versions of the bill. Under your committee's bill the effective date for repeal of the documentary stamp taxes on issuance and transfers of bonds and stocks is Dec. 31, 1965, and the effective date for repeal of the tax on conveyances is Jan. 1, 1969.

The most marked difference between the revenue impact of your committee's bill and the House bill concerns provisions scheduled to go into effect after the calendar year 1966. The House bill provides for reductions of 2 percentage points in the manufacturers' excise tax on passenger automobiles to become effective on January 1, 1967, 1968, and 1969. Under your committee's bill, the excise tax on passenger automobiles is to fall by 1 percentage point on January 1, 1967, and by 2 percentage points on each of the following January 1 dates provided that certain safety devices are built into the cars. Your committee's bill also extends the documentary stamp tax on real estate conveyances beyond January 1, 1966 (repeal date set in the House bill) to January 1, 1969. As a result of these differences, the revenue effect of provisions which would go into effect on and after January 1, 1967, is a reduction of $1,414 million under the House bill while it is only $1,266 million under your committee's bill with the assumption that all passenger cars sold after January 1, 1968, will contain the required safety devices. This difference of $148 million can be accounted for by the $190 million of additional revenue produced under your committee's bill by retaining the 1 percentage point

of tax for passenger cars, less the $42 million revenue loss from the repeal of the tax on real estate conveyances which under your committee's bill occurs in this period. The estimated effects of those provisions of your committee's bill and of the House bill which take effect after 1966 are presented in table 3.

TABLE 3.—*Tax reduction under those provisions of H.R. 8371 which take effect after fiscal year 1966*

[In millions of dollars]

	Full year revenue loss under—	
	Finance committee action	House action
I. Rate reductions to take effect Jan. 1, 1967:		
1. Passenger automobiles, 1 point	190	
(Under House bill, 2 points)		380
2. Telephone services, 1 point	91	91
Subtotal	281	471
II. Rate reductions to take effect Jan. 1, 1968:		
1. Passenger automobiles, 2 points if safety devices provided	[1] 380	380
2. Telephone services, 1 point	91	91
Subtotal	471	471
III. Provisions to take effect Jan. 1, 1969:		
1. Rate reduction, passenger automobiles 2 points if safety devices provided	[1] 380	380
2. Repeal of taxes on—		
Telephone services	92	92
Conveyances	42	
Subtotal	514	472
IV. Cumulative effect of provisions to take effect Jan. 1, 1967, 1968, and 1969	1,266	1,414

[1] This estimate assumes all cars sold are provided with the required safety devices.

Table 4 contains estimates of the revenue effect of provisions in both your committee's bill and the House bill which strike out certain provisions of present law which would reduce or eliminate selected excise tax rates on July 1, 1965. Shown in the table are the effects of extending existing tax rates on alcoholic beverages, cigarettes, and transportation of persons by air. Not shown in the table are the revenue effects of extending the present tax rate on automobile parts and accessories and the present tax on communications services from July 1, 1965, through December 31, 1965.

TABLE 4.—*Revenue effect of removal of termination dates for certain excise taxes*

[In millions of dollars]

	Full year gain	Gain in fiscal year 1966 [1]
Alcohol:		
Distilled spirits	203	330
Beer	104	112
Wines	12	18
Total, alcohol	319	460
Tobacco, cigarettes (small)	262	283
Transportation of persons by air	140	117
Total	721	860

[1] Gain consists of increased collections and elimination of floor stock refunds.

III. REASONS FOR THE BILL

H.R. 8371 constitutes a major revision of the Federal excise tax system. It also provides a substantial excise tax cut which will help sustain the current upswing in economic activity—an upswing that has already lasted 52 months, longer than any other period of continued, uninterrupted peacetime economic expansion.

A major change made by your committee in the House bill provides that substantially all of the excise tax reductions scheduled under that bill to become effective on July 1 are, under your committee's bill, to become effective the day after the date this bill is enacted. Your committee has taken this action to minimize to the full extent possible any deferral of purchases on the part of consumers in expectation of the excise tax reductions provided by the bill.

A second major change made by your committee in the House bill relates to the 10-percent manufacturers' excise tax on passenger automobiles. The House bill would have provided a 3-percentage-point reduction in this tax at the end of this month, another percentage-point reduction on January 1, 1966, and thereafter would have eliminated the tax over the next 3 years. Your committee's action modifies the House bill with respect to this tax in two ways. First, it provides that 1 percentage point of this tax is to be retained and allocated to a special fund which will be used (subject to appropriations) by the President to aid in the disposal of old and wrecked automobiles. The disposal of old and wrecked automobiles has become an important problem, the cost of which your committee believes appropriately should be borne by the purchasers of automobiles as a user charge.

An additional 4 percentage points of the reduction in the passenger car automobile tax is made contingent upon the provision of certain safety devices on the passenger automobile by the manufacturer. These safety devices are those which the General Services Administration will require on passenger automobiles purchased by the Federal Government. The requirements are designed to help prevent collisions, to minimize the effect of collisions which do occur, and to control exhaust emission in accordance with the Federal Clean Air Act. In your committee's view, the accident toll on the highways presents such a serious problem that it is appropriate to use the tax system in this way.

The bill both as passed by the House and as amended by your committee calls for the repeal outright, or on a scheduled basis, of a large number of excise taxes. In large part, these taxes were imposed as emergency wartime measures either in the Korean war or as emergency revenue-raising measures at the time of the depression of the 1930's. By eliminating these taxes the bill will leave a tax system in which substantially all of the remaining excise taxes fall in one of three categories:

1. Excises which are levied on the benefit principle. Under this principle those who benefit from particular Government services help to pay the cost of the services by paying charges (in the form of excises) which to some extent measure the benefit they derive from the use of the services. Included in this category are such taxes as those

on gasoline, tires, and tubes, and other revenues allocated to the highway trust fund. Also included in this category are such taxes as those on fishing equipment and firearms, which are, in effect earmarked for special purposes.

2. Regulatory taxes, such as those on marihuana, opium, white phosphorus matches, and gambling.

3. Sumptuary taxes, such as those on alcohol, cigars, and cigarettes.

The elimination which this bill provides for, of practically all of these other excise taxes (here called selective excises) will improve the fairness of the tax system and substantially simplify the administration of the tax law, as well as contribute to the economic well-being of the Nation. The present selective system of excise taxes places discriminatory tax burdens on the consumers and producers of the taxed products. Most of these taxes were imposed in time of national emergency to raise needed revenues and in many cases to stem inflationary pressures and divert essential resources to defense-related uses. With these emergencies past, the selective taxes are now the source of undesirable discrimination. Consumers of the taxed products where the tax is passed forward must pay a premium, over and above the market value, for the taxed items, which consumers of untaxed items do not pay. These selective excise taxes tend to reduce sales and therefore reduce incomes and jobs in the industries which produce the taxed goods. In these ways selective excise taxation results in arbitrary and undesirable distortions in the allocation of resources and in this manner interferes with the free play of competitive markets.

Many of these excises are objectionable in that they are regressive in their impact, absorbing a larger share of the income of low-income persons than of those with higher incomes. This stems from the fact that low-income families find it necessary to spend a higher proportion of their incomes for consumption than those with larger incomes. Moreover, the present system of manufacturers' excises tends to impose heavier tax burdens on newly formed families who must invest heavily in purchases of appliances and other taxed commodities.

Another undesirable aspect of many of the selective excise taxes is that they fall in part on items used in business. They therefore place arbitrary tax burdens on firms which must use the taxed items. Moreover, these business cost taxes may discourage the use of the most advanced and efficient machines or other products, and their inclusion in the costs of business introduce price distortions in markets for final goods and services. Since these costs tend to be reflected in the prices of final or end consumer products, they are probably regressive in impact.

In many instances the selective excises also create heavy compliance burdens. The imposition of Federal excises on a variety of relatively inexpensive commodities burdens retailers and manufacturers with compliance duties which are often disproportionately heavy, viewed in relation to the revenues produced by the taxes. Moreover, this burden tends to be heavier for smaller businesses. Removal of this burden, a hidden cost of taxation, will free businessmen to spend more time managing their own affairs.

The $1.76 billion tax reduction provided by this bill effective late this month will help to insure that the growth in the rate of

economic activity does not fall short of growth in the size of the productive capacity of the Nation, and in the size of the labor force. The further $1.6 billion excise tax reduction effective next January will help to offset any possible adverse effect from other scheduled tax rate increases. This second and the later stages of tax reduction scheduled in the bill will help to sustain the rate of economic expansion required to prevent a rise in the level of unemployment.

It is expected that for the most part, the excise tax reduction will result in increased general consumer spending in response to price reductions made on the products now taxed. Much of this increased spending may well be for products other than those taxed. In addition, where businesses do not pass the reductions along to consumers, (as, for example, where they had previously absorbed the tax) it is believed this will provide business firms with both the means and the incentive to modernize and expand production capacity.

The current strength of the economy testifies to the success of the Revenue Act of 1964. The magnitude of current tax collections testifies to the validity of the proposition that a prosperous economy is the best guarantee of a balanced budget. While the Revenue Act of 1964 reduced individual and corporate liabilities by an estimated $14 billion, at 1965 income levels, it is currently estimated that fiscal 1965 administrative budget revenues will exceed fiscal 1964 administrative budget revenues by $3.1 billion. It is further estimated that fiscal 1966 revenues, after account is taken of the excise tax reductions proposed in your committee's bill, will exceed fiscal 1965 revenues by $2.8 billion. The excise tax reductions proposed in this bill will be an important factor promoting the continued strength of the economy. As a result, it will also hasten the time when Federal budget receipts will equal expenditures.

Present unused productive capacity and unemployed members of the labor force mean that your bill is unlikely to have an inflationary impact. Inflationary pressures have not developed significantly as a consequence of the Revenue Act of 1964 and the tax reduction provided by this bill is far less than the amount provided by that act. Moreover, the reductions provided by this bill will exert direct pressure to lower prices on a broad range of important consumer goods, including automobiles and major appliances.

IV. GENERAL EXPLANATION OF TAX RATE ADJUSTMENT PROVISIONS (TITLES I–VII)

A. RETAILERS' EXCISE TAXES

1. Jewelry and related items (sec. 101 of the bill and sec. 4001 of the code)

Under present law a tax equivalent to 10 percent of the retail sales price is imposed on jewelry, various precious and semiprecious stones, watches, clocks, sterling silverware, silver-plated hollowware, and certain other items. The full list of items subject to tax is shown in table 5.

TABLE 5.—*Items subject to 10-percent jewelry, etc., tax*

All articles commonly or commercially known as jewelry, whether real or imitation
The following stones, by whatever name called, whether real or synthetic:
- Amber
- Beryl of the following types:
  - Aquamarine
  - Emerald
  - Golden beryl
  - Heliodor
  - Morganite
- Chrysoberyl of the following types:
  - Alexandrite
  - Cat's eye
  - Chrysolite
- Corundum of the following types:
  - Ruby
  - Sapphire
- Diamond
- Feldspar of the following type:
  - Moonstone
- Garnet
- Jadeite (jade)
- Jet
- Lapis lazuli
- Nephrite (jade)
- Opal
- Pearls (natural and cultured)
- Peridot
- Quartz of the following types:
  - Amethyst
  - Bloodstone
  - Citrine
  - Moss agate
  - Onyx
  - Sardonyx
  - Tiger-eye
- Spinel
- Topaz
- Tourmaline
- Turquoise
- Zircon

Articles made of, or ornamented, mounted, or fitted with precious metals or imitations thereof
Watches
Clocks
Cases and movements for watches and clocks
Gold, gold-plated, silver, or sterling flatware or hollowware and silver-plated hollowware
Opera glasses
Lorgnettes
Marine glasses
Field glasses
Binoculars

The retail excise tax on jewelry and related items is a burdensome tax on retailers and produces only $220 million of revenue annually. In all, it is believed that 100,000 to 200,000 retail outlets are involved in the collection of this tax. The compliance burden imposed by the tax is often a severe one in an industry which contains a large number of small, one-family concerns. Moreover, there are difficult problems in determining the actual sales price in the auditing of these returns.

Both the House bill and your committee's bill repeal the retail excise tax on jewelry. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Procedures for retail taxes.—Procedures will be provided for recouping the taxes on jewelry, as well as the taxes on other items subject to retail tax, with respect to articles held by a retailer on the effective date of the bill where the tax was prepaid by the distributor on his sale to the retailer under an agreement with the Internal Revenue Service. Similarly, prepayments of retailers' taxes by a retailer as of the time taxable articles are received in his inventory will be treated as an overpayment, giving rise to a credit or refund. Although generally the retail taxes will not apply to sales after the date the tax is eliminated, where an article (purchased when tax was applicable) is returned after the tax is removed and then either the same, or a like, article immediately purchased, this is not to be treated as a "sale" and therefore the tax initially paid will still be due.

Revenue effect.—It is estimated that this provision will reduce revenues by $220 million in a full year.

2. Furs (sec. 101 of the bill and sec. 4011 of the code)

A tax equivalent to 10 percent of the retail sales price is currently imposed on articles made of fur on the hide or pelt and on articles of which fur is the component material of chief value.

As in the case of jewelry, the administrative cost of compliance is high relative to the revenue collected from the retail excise on furs. In addition, the tax has been a depressant on the fur industry, which in recent years has not fully shared in the general prosperity.

Both the House bill and your committee's bill repeal the retailers' excise tax on furs. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

It is estimated that this provision will reduce revenues by $30 million in a full year.

3. Toilet preparations (sec. 101 of the bill and sec. 4021 of the code)

A tax equivalent to 10 percent of the retail sales price is currently imposed on various types of toilet preparations. These are more fully described in table 6.

TABLE 6.—*Articles subject to 10-percent tax on toilet preparations*

Perfume	Hair oils
Essences	Pomades
Extracts	Hair dressings
Toilet waters	Hair restoratives
Cosmetics	Hair dyes
Petroleum jellies	Toilet powders

Any other similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

Many of the items currently taxed as toilet preparations are so widely used that the retailers' excise tax has a substantially regressive impact. Persons with low incomes, therefore, pay a larger portion of their incomes for this tax than do those with larger incomes. Moreover, the tax entails high compliance and administration costs. This is attributable to the large number of retail outlets handling these taxed products and to difficulties in distinguishing between taxable and nontaxable sales in the ordinary drugstore.

Both the House bill and your committee's bill repeal the tax on toilet preparations. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

It is estimated that this provision will reduce revenues by $210 million in a full year.

4. Luggage, handbags, etc. (sec. 101 of the bill and sec. 4031 of the code)

Present law imposes a tax equivalent to 10 percent of the retail sales price on ladies' handbags and many different forms of luggage. The items subject to tax are set forth in table 7.

TABLE 7.—*Articles subject to 10-percent tax on luggage, handbags, etc.*

Bathing suit bags	Memorandum pad cases (suitable for use as card or pass cases, billfolds, purses, or wallets)
Beach bags or kits	
Billfolds	
Briefcases	Musette bags
Brief bags	Overnight bags
Camping bags	Pocketbooks
Card and pass cases	Purses and handbags
Collar cases	Ring binders, capable of closure on all sides
Cosmetic bags and kits	
Dressing cases	Salesmen's sample or display cases, bags, or trunks
Dufflebags	
Furlough bags	Satchels
Garment bags designed for use by travelers	Shoe and slipper bags
	Suitcases
Hat boxes designed for use by travelers	Tie cases
Haversacks	Toilet kits and cases
Key cases or containers	Traveling bags
Knapsacks	Trunks
Knitting or shopping bags (suitable for use as purses or handbags)	Vanity bags or cases
	Valises
Makeup boxes	Wallets
Manicure set cases	Wardrobe cases

This retailers' excise tax covers a wide range of items of varied types and uses yet produces revenues of less than $100 million a year. Administrative compliance costs are high and the impact of the tax in the case of such items as ladies' handbags and men's wallets is regressive.

Both the House bill and your committee's bill repeal the retailers' excise tax on luggage, handbags, etc. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

It is estimated that this provision will reduce revenues by $90 million a year.

B. MANUFACTURERS' EXCISE TAXES

1. Passenger automobiles (sec. 201 of the bill and sec. 4061 of the code)

Present law imposes a 10-percent tax on sales, by a manufacturer (or importer), of passenger automobiles, trucks, truck tractors, buses, trailers and semitrailers (but not house trailers). For purposes of imposing this tax, chassis and bodies of automobiles and trucks are separately classified.

The tax on trucks, buses, and truck and bus trailers is allocated to the highway trust fund and, except for structural amendments described in part V of this report, is not dealt with in this bill.

The proposal of the administration would have reduced the tax on passenger cars by 3 percentage points on July 1, 1965; 1 percentage point on January 1, 1966; and 1 additional point on January 1, 1967. Thus, the administration proposal would have left the tax on passenger automobiles at a permanent rate of 5 percent.

The House bill was in accord with the administration proposal with respect to the changes made effective on July 1, 1965, and January 1, 1966. Thus, as of July 1, 1965, it would have reduced the passenger car tax from 10 to 7 percent and on January 1, 1966, it would have reduced the tax 1 point further to 6 percent. However, it would have reduced the tax to 4 percent effective January 1, 1967, 2 percent effective January 1, 1968, and repealed the tax effective January 1, 1969.

The House repealed the entire tax on passenger cars rather than retain the 5 percent as recommended by the administration primarily because it did not believe it was appropriate to select this tax alone for retention when all other excise taxes except those considered to be user charges, regulatory taxes, or sumptuary taxes are repealed. Despite this, the House concluded that it was undesirable to make too large a decrease in the tax as of any one time. It was noted, for example, that the prices of new cars have an important bearing on the prices of used cars in the hands of dealers and owners. Too sharp a reduction in the tax on new cars at any one time might, therefore, produce severe dislocations in the used car market. Additionally, any substantial rate reduction scheduled any appreciable time in advance could be expected to have the effect of discouraging purchases in the interval before the reduction takes place. It was for this reason that the so-called consumer refund (described below), which your committee has retained, is provided with the 3-percentage-point reduction scheduled for July 1, 1965, under the House bill or the day after the date of enactment under your committee's bill. Because consumers might postpone purchases and because of the impact of the tax reduction on the used car market, the House concluded that future reductions in any one year should be limited to 2 percentage points.

Your committee is in general accord with the House with respect to this tax reduction. This willingness of your committee to agree to the elimination of most of the tax on passenger cars is based on the statement by the automobile manufacturers that they will pass the benefits of any reductions they receive on to the dealers and that the full amount of the reduction will be reflected in their suggested prices for the purchasers from the dealers. The pledges received from the manufacturers to do this are presented in Appendix A.

Nevertheless your committee concluded that it would be appropriate to retain a small portion of this tax and set it aside for use in the disposition of old and wrecked automobiles. Your committee also concluded that the full reduction should not be made unless the automobile manufacturers design and equip automobiles to provide specified safety features to protect persons against injury and death.

To meet these conditions, your committee has provided that 1 percentage point of the tax on passenger automobiles is to be retained and with respect to amounts received in the fiscal year 1966 (in the case of liabilities incurred after June 30, 1965) and subsequent years set aside in a fund to be known as the Old and Wrecked Automobile Disposal Fund. From this fund appropriated moneys are to be available for expenditure by the President for carrying out a program to alleviate the blight existing along many of the Nation's highways and in many of its open spaces, caused by the ever-increasing number of aged and wrecked motor vehicles which have been abandoned or relegated to scrap or salvage. Under this program it is intended that the President would be enabled to make payments to individuals, corporations, or other private entities and to public bodies or instrumentalities to carry out procedures for the alleviation of this blight. The President is specifically required in this program to take into account the effect of his action on the market price of iron and scrap steel.

As a result of this action taken by your committee, the reduction of the passenger car tax rates scheduled by the House would be modified to retain on January 1, 1967, and thereafter, one more percentage point of

tax than provided by the House bill. Thus, your committee's bill provides the following schedule of passenger car tax rates in the case of cars which meet the safety standards (described below) also required by your committee's bill:

Period:	*Applicable rate (percent)*
For the period beginning the day after the enactment of the bill and ending Dec. 31, 1965	7
Jan. 1, 1966, to Dec. 31, 1966	6
Jan. 1, 1967, to Dec. 31, 1967	5
Jan. 1, 1968, to Dec. 31, 1968	3
Jan. 1, 1969, and thereafter	1

It will be noted that the first two rates in the above schedule are the same as proposed by the President and the same as in the House bill. Thereafter, the rate schedule provided by your committee's bill is at all times 1 percentage point higher than the schedule in the House bill in order to provide for the fund for old and wrecked automobile disposal. Thus, after 1968 the tax on passenger automobiles will not be eliminated as under the House bill, but will be continued at a rate of 1 percent of the manufacturer's, producer's, or importer's selling price.

As is indicated above, part of the rate reductions described above will not be available under your committee's bill unless certain safety standards are met. Thus, unless the prescribed safety devices are provided on the passenger car, the tax rate, with respect to automobile chassis and bodies sold, will never decrease below the 5-percent level. Thus, in effect, 4 percentage points of the tax reduction ultimately is dependent upon compliance with the safety standards prescribed.

The safety standards required are those which would be required (under Public Law 88–515, passed August 30, 1964) if the automobile were purchased for use by the Federal Government and conformed with the commercial standards prescribed by the Administrator of General Services under Public Law 88–515. The safety specifications the GSA proposes to require under its initial regulations are designed to help avert collisions initially and also if a collision does occur, to minimize the effect of the crash momentum and effect. In addition, exhaust emission control standards are established in conformance with California Test Procedure and Criteria for Motor Vehicle Exhaust Emission Control. The standards initially proposed to help prevent the collision are:

1. Dual operation of brake system.
2. Safe tires and safety rims.
3. Standard gear quadrant—PRNDL (park, reverse, neutral, drive, and low) for automotive vehicles equipped with automatic transmissions.
4. Glare reduction surfaces (instrument panel and windshield wipers).
5. Design of windshield wipers-washers.
6. Backup lights.
7. Outside rearview mirror(s).
8. Four-way flasher (hazard-warning signal light system).

To minimize the crash momentum and to protect the occupants, the GSA proposed standards also require the following:

1. Anchorages for seat-belt assemblies.
2. Padded instrument panel and visors.
3. Recessed instrument panel instruments and control devices.

4. Impact-absorbing steering wheel and column displacement.
5. Safety door latches and hinges.
6. Anchorage of seats.
7. Safety glaring materials (safety glass).
8. Standard bumper heights.

These 16 specifications, plus the exhaust emission control system, previously referred to, represent 17 safety features initially proposed to be required. The GSA will, of course, be in a position from time to time in the future to require additional safety features on passenger cars if the 4 percentage points of the manufacturers' tax is not to apply. These safety-feature requirements, and the conditional excise tax reduction described above are to apply not only to domestically produced passenger autos, but to foreign vehicles as well.

Combination of chassis and body.—Since the 10-percent manufacturers' excise tax is retained for truck and bus chassis, bodies, and trailers, while the rates applicable to passenger car chassis and bodies are gradually reduced to 1 percent, questions may arise with respect to the imposition of tax on the sale of a chassis which may be used interchangeably with either a passenger automobile or truck body. To provide for such cases, both the House bill and your committee's bill amend the statute to provide that the sale of a passenger automobile is to be considered as a sale of a passenger car chassis and of a passenger car body. A similar rule is provided in the case of a sale of a truck or bus. Thus, where the completed unit is a passenger car, the chassis will be classified as a passenger car chassis even though it could have been used with a truck body. Where a chassis is sold by the manufacturer without a body being mounted on it, it is intended that the category for the chassis be determined on the basis of all of the facts available including the predominant use of such types of chassis in the industry.

Consumer refunds.—In the case of new automobiles sold to ultimate purchasers on or after May 15, 1965, and before the day after enactment (July 1 under the House bill), both the House bill and your committee's bill make provision for consumer refunds equal to the 3-percentage-point reduction effective on the day after the date of enactment of the bill (or July 1 under the House bill). For this purpose a dealer is considered to be an ultimate purchaser of cars which he uses as demonstrators. The bill provides that the Government will refund or credit to the manufacturer or importer of the passenger car an amount equal to the 3 percentage points of tax paid by the manufacturer or importer on his sale of the article. However, to obtain this credit or refund, the manufacturer or importer must file a claim with the Treasury Department on or before February 10, 1966, based on the information submitted to him before January 1, 1966, by the dealer who sold the passenger car to the ultimate purchaser. Also on or before February 10, 1966, the ultimate purchaser must be reimbursed for this 3 percentage points of the tax paid with respect to the passenger car he purchased during the interval from May 15 to the date of the tax reduction.

It is expected that in the case of a consumer who purchases a passenger car between May 15 and the date of the tax reduction, the dealer will inform him that, if the excise tax reduction bill is enacted as scheduled, he will be refunded the amount of the reduction in tax paid by the manufacturer or importer on the passenger car. The dealer will notify the manufacturer of the specific automobiles he sold

during this post-May 14 period. This notification to the manufacturer as to the persons qualifying for consumer refunds will have to reach the manufacturer before January 1, 1966. This gives the manufacturer time to process the claims, make reimbursement, and file his overall claim with the Internal Revenue Service by February 10, 1966. Since this is the time he also usually files a quarterly excise tax return, these amounts can be claimed as credits against the tax otherwise due. The reimbursement by the manufacturer can be made directly by him to the consumer or may be made through the dealer who originally sold the article. The time the sale was made to the consumer for purposes of this refund will be determined on the basis of when the consumer obtained possession of the passenger car; that is, whether before or on or after May 15. The amount of the tax refund to be made will be computed on the basis of the manufacturer's sales price exclusive of tax.

Floor stock refunds.—Floor stock refunds with respect to the passenger car tax will also be made available with respect to passenger cars in dealers' inventories on the various reduction dates for the passenger car tax. These are the day after the date of enactment (July 1, under the House bill), January 1, 1966, January 1, 1967, January 1, 1968, and January 1, 1969. This credit or refund with respect to dealers' floor stocks is available with respect to passenger cars sold by the manufacturer or importer before the tax reduction date, which are held by the dealer on that date, and which have not been used and are intended for sale by him. The credit or refund for these floor stocks must be claimed by the manufacturer or importer of the passenger automobile on or before the 10th day of the 8th month after the reduction date based upon reports he obtained from the dealer before the 1st day of the 7th month after the reduction date. Also on or before the 10th day of the 8th month after the reduction, the manufacturer or importer must have reimbursed the dealer for the tax reduction or obtained his written consent to the allowance of the refund or credit. The amount to be credited or refunded will be the difference between the manufacturer's sales price exclusive of the amount of the tax reduction and his sales price including the tax, or the amount refunded if smaller. Where approved by the Internal Revenue Service, formulas approximating the sales prices may be used.

Revenue effect.—Under both the House bill and your committee's bill, the 3-percentage-point reduction to be effective in late June or July 1, 1965, is expected to reduce revenues by $570 million a year when fully effective. Also the 1-percentage-point reduction effective under both versions of the bill on January 1, 1966, when fully effective, is expected to reduce revenues by $190 million a year. On January 1, 1967, your committee's bill provides for a further 1-percentage-point reduction, resulting again in an annual revenue loss of $190 million as contrasted to the $380 million reduction provided under the 2-percentage-point reduction under the House bill. The remaining reductions of 2 percentage points a year on January 1, 1968 and 1969, under both versions of the bill (under your committee's bill contingent on the compliance with safety standards) are expected to result in a further annual revenue loss of $380 million in each of these years. Thus the revenue loss when all of the reductions are fully effective under your committee's bill is expected to be about $1.7 billion, assuming full compliance with safety standards. This can be contrasted with the revenue loss of $1.9 billion a year under the House version of the bill.

2. Automobile parts and accessories (sec. 201 of the bill and sec. 4061 of the code)

Generally, parts and accessories for automobiles, trucks, etc., are, when sold separately, presently subject to an 8-percent tax based upon the manufacturer's or importer's price. Tires and inner tubes and automobile radio and television receiving sets presently are subject to other taxes in lieu of the auto parts tax. However, to the extent of the manufacturer's markup on these parts, the auto tax in effect applies here also when they are included as original equipment.

The automobile parts and accessories tax is an undesirable tax because it is regressive in its impact on the incomes of purchasers and an estimated 30 percent of this tax represents a business cost item. In addition, this tax presents serious compliance and administrative burdens because of the large number of taxpayers. It is estimated that there are close to 8,000 manufacturers or importers of automobile parts and accessories, which is many times the number of taxpayers involved in any other manufacturers' excise tax except those on gasoline.

For the reasons indicated above, both the House bill and your committee's bill repeal the general 8-percent tax on automobile parts and accessories. However, the 8-percent manufacturer's excise tax on automotive parts and accessories in continued by both versions of the bill during the remainder of 1965. At that time, the general parts and accessories tax is repealed but, as indicated below, the 8-percent tax will continue to apply to truck parts and accessories until October 1, 1972, at which time the rate will revert to the permanent rate of 5 percent.

Parts and accessories included as original equipment on automobiles will continue to be included in the base of the passenger car tax. Although the 10-percent radio and television set tax is repealed as of the day after the date of enactment of this bill, the 8-percent auto parts and accessories tax will apply to these automobile radio and television sets for the period from this date to January 1, 1966, the date of the repeal of the general tax on automobile parts and accessories. (The radio and television floor stock refund in these cases will therefore be limited to 2 percentage points.)

Tax on truck parts.—Both the House bill and your committee's bill, although repealing the general tax on automobile parts and accessories, retain the present 8-percent manufacturer's tax on truck and bus parts and accessories. Since the tax on trucks and buses is considered a highway user charge and allocated to the highway trust fund, your committee agrees with the House that it is also appropriate to classify the tax on truck and bus parts as a highway user charge. In addition it believes that attempts might be made to avoid the truck tax by selling parts separately if no tax were imposed on truck parts. Both versions of the bill, therefore, retain this tax and assign it to the highway trust fund effective January 1, 1966.

The taxable truck or bus part or accessory is one which is not suitable for use (or is not ordinarily used) on or in connection with, or as a component part of, a passenger automobile (or trailer used with a passenger car) or house trailer. Under this definition, parts and accessories which are used interchangeably on automobiles and trucks (or buses) will not be taxed. For example, a battery which ordinarily is used in either an automobile or a light truck will not be taxed as a

truck part although a heavy duty battery which ordinarily is used only in a truck will be so taxed.

It has come to your committee's attention that most manufacturers of light and medium trucks also produce a complete line of passenger cars and that many of the parts and accessories which they manufacture or purchase may be used interchangeably on their trucks and their line of passenger cars. However, there are other manufacturers who produce light and medium trucks which are competitive with the comparable trucks produced by the larger group of manufacturers. But these latter manufacturers do not produce any, or produce incomplete, lines of passenger cars which would use the same parts and accessories. As a result, many of the parts and accessories manufactured by these manufacturers are not interchangeably used in their passenger cars. It is your committee's intention that these parts and accessories be deemed "suitable for use" on passenger cars within the meaning of the statute and, therefore, exempt from the truck part tax if they are comparable to parts and accessories of other manufacturers which are interchangeably used in their trucks and passenger cars.

No floor stock refunds.—The House bill made provisions for floor stock refunds with respect to parts and accessories (other than truck parts and accessories) held in dealers' inventories on January 1, 1966. Your committee, after considering this matter, has concluded that floor stock refunds in this case are not appropriate. It has concluded that the very large number of manufacturers and the many more thousands of wholesalers, jobbers, and retailers in this line of business make it difficult to determine the proper amount of the refund in each case. This is compounded by the fact that manufacturers sell auto parts and accessories in many different ways. Thus, if the wholesaler or jobber or garage or filling station does not keep these parts separately upon the basis of from whom obtained, he may not be able to determine how large a refund to request. This is true because the price may differ in these various cases according to the markup involved in the particular distribution process followed. For these reasons, your committee concluded that provision for floor stock refunds in the case of automotive parts and accessories was not feasible and has deleted provision for these floor stock refunds from the bill.

Revenue effect.—It is estimated that the repeal of the tax on parts and accessories for automobiles will reduce revenues by $230 million a year. Assignmant of the revenues derived from the tax on truck parts and accessories to the highway trust fund will reduce general fund revenues by an additional $20 million a year but increase the revenues of the highway trust fund by a like amount.

3. Lubricating and cutting oils (sec. 202 of the House bill and sec. 4091 of the code)

Sales by the manufacturer of cutting oils are taxed under present law at the rate of 3 cents a gallon and sales of other lubricating oils at the rate of 6 cents a gallon.

The House bill, in effect, removed the tax on all lubricating oils except those used in highway motor vehicles. In the case of cutting oil, this would be accomplished by exempting such oil from tax. In the case of other lubricating oil, the 6-cents-per-gallon manufacturers' excise tax would be continued. However, when this lubricating oil

would be used in other than highway motor vehicles, the user could obtain a refund with respect to the amount of tax paid. The procedures for obtaining these refunds would be similar to those now in effect with respect to gasoline used for nonhighway purposes. Generally, a refund could be claimed directly from the Government by the ultimate user on an annual basis.

Under the House bill, the revenue collected from the lubricating oil tax—to the extent not refunded for nonhighway use—would be assigned to the highway trust fund.

Your committee has decided to restore the 3 cents a gallon tax on cutting oils and retain the 6 cents a gallon tax on other lubricating oils with no refund provision for nonhighway use.

The House recognized that the outright repeal of this tax might present problems for the re-refiners of oil who presently are not subject to the lubricating oil tax and whose profit margin generally is smaller than the amount of this tax. The House recognized that to repeal this tax outright would drive many re-refiners out of business and it was noted that this would have the effect of encouraging the dumping of used oils in our streams rather than salvaging it through re-refining.

It was pointed out to your committee that much the same type of problem exists in the case of nonhighway use. Re-refined oil is also used by the railroad industry and in the manufacture of nontaxable grease. In addition, cutting oils used by industry also in some cases are re-refined and reused as cutting oils. Thus, retaining the tax on lubricating oils used for highway purposes alone does not completely remove the competitive problem of the re-refining industry nor remove the encouragement to dump used oil. It was for these reasons that your committee fully restored the present tax in the case of cutting oils and other lubricating oils. Since much of this tax, as reconstituted by your committee, is not basically a highway use revenue, your committee also removed the provision in the House bill which would have allocated this revenue source to the highway trust fund.

As compared to present law, the changes made by your committee with respect to lubricating oil will have no effect. However, when compared to the action taken by the House, the action taken by your committee will restore approximately $28 million a year in revenue. In addition, it will retain approximately $50 million a year in the general fund which under the House bill would be transferred to the highway trust fund.

4. Refrigerators, freezers, and air-conditioning units (sec. 202 of the bill and sec. 4111 of the Code)

Section 4111 of the Internal Revenue Code imposes a 5-percent manufacturers' excise tax on sales of household type refrigerators, freezers, and quick-freeze units and a 10-percent manufacturers' excise tax on sales of self-contained air-conditioning units.

Present living standards have made the refrigerator a standard household item. This is true to a lesser extent of household type freezers. As a result, the burden of these taxes is regressive in its application on various income levels, falling relatively more heavily on low-income families and on families purchasing their first home. In the case of self-contained air-conditioning units, since the present tax does not apply to central air-conditioning units, there is dis-

crimination against the window type unit as contrasted to the larger, more expensive types.

For the reasons indicated above, both the House bill and your committee's bill repeal the manufacturers' excise tax on refrigerators, freezers, quick-freeze units, and self-contained air-conditioning units. The House bill repeals the tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

In the case of air conditioners, because sales tend to be concentrated heavily in the months of May and June—approximately 40 percent of the total year's sales—the bill makes provision for refunds to the consumers for the tax paid on units purchased on or after May 15, 1965, and before the day the tax is repealed. The procedure for processing these consumer refunds will be essentially the same as that described previously in the case of passenger automobiles.

Floor stock refunds will be made to dealers with respect to their inventories on hand of any of the items referred to above at the time the taxes are repealed. The procedure is essentially the same as that previously described in the case of the passenger car tax.[1]

It is estimated that this provision will reduce revenues by $75 million in a full year.

5. Electric, gas, and oil appliances (sec. 202 of the bill and sec. 4121 of the code)

A 5-percent tax is imposed under present law on the price for which manufacturers or importers sell various electric, gas, and oil appliances of the household type. The taxed items are listed in table 8.

TABLE 8.—*Electric, gas, and oil appliances subject to 5-percent appliance tax*

Electric, gas, or oil water heaters	Electric exhaust blowers
Electric flatirons	Electric or gas clothes driers
Electric air heaters (not including furnaces)	Electric door chimes
	Electric dehumidifiers
Electric immersion heaters	Electric dishwashers
Electric blankets, sheets, and spreads	Electric food choppers and grinders
Electric, gas, or oil appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises	Electric hedge trimmers
	Electric ice cream freezers
	Electric mangles
	Electric pants pressers
Electric mixers, whippers, and juicers	Electric, gas, or oil incinerator units and garbage disposal units
Electric direct-motor and belt-driven fans and air circulators	Power lawnmowers

The electric, gas, and oil applicances now subject to tax include many basic items of household equipment. As a result, as might be expected, the distribution of the burden of these taxes is regressive, bearing relatively more heavily on low-income groups. Both the House bill and your committee's bill, therefore, repeal this tax on electric, gas, and oil appliances. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Provision is made for floor stock refunds in the same manner as in the case of passenger cars.[2] A special problem in floor-stock refunds occurs in the case of appliances and some of the other taxed articles.

[1] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

[2] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

This involves combination appliances, such as washer-dryers. These are held to be subject to tax when the manufacturer "uses" the dryer to combine it with the washer, rather than when the combination is sold. The tax paid on such appliances is to be eligible for a floor-stock refund since such "use" by the manufacturer will be considered a sale for this purpose.

It is estimated that this provision will reduce revenues by $85 million a year in a full year of operation.

6. Electric light bulbs (sec. 202 of the bill and sec. 4131 of the code)

Under existing law, a tax is imposed on the manufacturer or importer of electric light bulbs and tubes equal to 10 percent of the price for which the manufacturer or importer sells the items.

This tax both is imposed upon an essential household item and also substantially affects business costs. It has been estimated that approximately 65 percent of these items are used for business purposes. Both because of the bulbs' essential character as household necessities and the tax's significance as a business cost, this tax on electric light bulbs is a highly regressive tax, bearing much more heavily on families with relatively low income levels.

Both the House bill and your committee's bill repeal this tax, effective January 1, 1966.

Your committee has made one technical amendment to the House bill applicable in the case of electric light bulbs. Electric light bulbs or tubes sometimes are used in other articles, such as the bulbs which light the interior of refrigerators when the doors are opened, lamps in the panel or hood of electric or gas ranges, and miniature bulbs usually used in radios or television sets, as well as bulbs used in other household appliances or business machines. Under present law, these electric light bulbs or tubes can be sold or used for incorporation in such taxable articles without the payment of tax on the sale of the bulbs. Both the House bill and your committee's bill, however, repeal the tax on these various appliances effective either on July 1 or the day after the date of enactment of this bill. However, the tax on electric light bulbs remains in effect until January 1, 1966. Therefore, under the House bill, a tax would be applicable to bulbs sold or used for incorporation in these appliances for approximately the 6-month interval ending on December 31, 1965. As a result, manufacturers who in the past have been purchasing these bulbs tax free would for this interval have to change their purchasing procedures to buy the bulbs on a tax-paid basis. In addition, bulbs which they previously have purchased but which they use in this period would become taxable upon use by the manufacturer in these appliances which are no longer subject to excise tax. Your committee concluded that it was undesirable to impose these new procedures with respect to these purchases and uses of electric light bulbs for this limited period of time. The minimal amount of revenue obtained from newly imposing tax in these cases is not worth the administrative bother to the manufacturers and the Internal Revenue Service in establishing the new procedure. Therefore your committee's bill provides that bulbs which are sold, or used in appliances during this approximately 6-month interval until January 1, 1966, can still be sold or used free of tax, for this limited period of time, in these appliances which previously were taxable.

Provision is made for floor stock refunds in a manner similar to that indicated previously with respect to passenger cars.

It is estimated that this provision will reduce revenues by $45 million a year in a full year of operation.

7. Radio and television sets, phonographs, records, etc. (sec. 203 of the bill and sec. 4141 of the code)

Present law imposes upon the sale by the manufacturer or importer a tax of 10 percent of the manufacturers' price with respect to radios, television sets, phonographs, radio and television components, and records. The full description set forth in the code is shown in table 9.

TABLE 9.—*Items subject to 10-percent radio, television, etc., tax*

Radio receiving sets	Phonographs
Automobile radio receiving sets	Combinations of any of the foregoing
Television receiving sets	Radio and television components
Automobile television receiving sets	Phonograph records

The above listed items are a widely employed source of home and family entertainment. The manufacturers' excises imposed on these items have the effect of discriminating against these sources of entertainment relative to other such sources. Moreover, the taxes in general have a regressive impact, for while high-income families buy more expensive models, nearly every home contains a radio and a television set. The tax, therefore, represents a larger percentage of the low-income family's income.

For the reasons indicated above, both the House bill and your committee's bill repeal the tax on radios, television sets, etc. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Provision is made for floor stock refunds with respect to the above listed items in the same manner as that indicated previously in the case of passenger cars.[3]

It is estimated that this provision will reduce revenues by $255 million a year when fully effective.

8. Musical instruments (sec. 203 of the bill and sec. 4151 of the code)

Present law imposes a 10-percent tax on sales of musical instruments by the manufacturer or importer.

The manufacturers' excise tax on musical instruments has a discriminatory impact on sales of this particular type of item used in providing individual recreation and entertainment. Moreover, it has been pointed out that instruments purchased by individuals for use by students in school bands, etc., are taxed while instruments purchased by the schools for the use of students are exempt.

Both versions of the bill repeal the manufacturers' excise tax on musical instruments. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day beginning after the date of enactment of this bill.

Floor stock refunds.—Provision is made for floor stock refunds with respect to musical instruments in the hands of wholesale or retail dealers on the reduction date. In addition to musical instruments which the dealer holds on this date, floor stock refunds are also available with respect to musical instruments where, as of such date, possession has been transferred to a prospective purchaser of the article

[3] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

if the article is returned to the dealer and the amount paid is returned to the prospective purchaser (other than amounts to cover damages to the article and, of course, transportation charges. The article must have been returned to the dealer by July 31, 1965. In such cases (and in cases where the article was returned before the reduction date and is held by the dealer on that date) the article will be considered as not having been used. This exception to the requirement that the dealer have possession of the articles on the reduction date applies only if title to the musical instrument remains with the dealer. While the attention of your committee was called to the need for a provision of the above type in connection with musical instruments, this applies also in the case of refrigerators, freezers, and air-conditioning units; electric, gas, and oil appliances; radio and television sets; phonographs and related items; sporting goods (other than fishing equipment); photographic equipment, etc.; and business machines.

Revenue effect.—It is estimated that the repeal of the musical instrument tax will reduce revenues by $27 million in a full year of operation.

9. Sporting goods (sec. 204 of the bill and sec. 4161 of the code)

A wide variety of different types of items are subject to the 10-percent manufacturers' excise tax on sporting goods. These items are listed in table 10.

TABLE 10.—*Items subject to 10-percent sporting goods tax*

Badminton nets, rackets and racket frames (measuring 22 inches overall or more in length), racket string, shuttlecocks, and standards.
Billiard and pool tables (measuring 45 inches overall or more in length) and balls and cues for such tables.
Bowling balls and pins.
Clay pigeons and traps for throwing clay pigeons.
Cricket balls and bats.
Croquet balls and mallets.
Curling stones.
Deck tennis rings, nets, and posts.
Fishing rods, creels, reels and artificial lures, baits and flies.
Golf bags (measuring 26 inches or more in length), balls, and clubs (measuring 30 inches or more in length).
Lacrosse balls and sticks.
Polo balls and mallets.
Skis, ski poles, snowshoes, and snow toboggans and sleds (measuring more than 60 inches overall in length).
Squash balls, rackets and racket frames (measuring 22 inches overall or more in length), and racket string.
Table tennis tables, balls, nets, and paddles.
Tennis balls, nets, rackets and racket frames (measuring 22 inches overall or more in length), and racket string.

Present law singles out for tax selected items of sporting equipment while leaving others untaxed. Thus, this tax represents a discriminatory tax on limited forms of recreation.

Both the House bill and your committee's bill eliminate this source of discriminatory tax treatment by repealing the manufacturers' excise tax on all of the above listed items except fishing rods, creels, reels, and artificial lures, baits, and flies (including parts or accessories of such articles). The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill. The 10 percent manufacturers' excise tax on fishing equipment is continued because revenues equivalent to the tax on these items are distributed under the provisions of Public Law 681, 81st Congress, to aid the States in fish restoration and management having material value for sport and recreation.

The House bill made no provision for floor stock refunds in the case of sporting goods. Your committee, however, believes that such a refund is desirable; and has added a provision achieving this effect.[4]

It is estimated that the repeal of the sporting goods tax (other than fishing equipment) will reduce revenues by $25 million in a full year of operation.

10. Photographic equipment (sec. 204 of the bill and sec. 4171 of the code)

Existing law imposes a 10-percent manufacturers' excise tax on sales of certain cameras, camera lenses, and unexposed photographic film (in rolls and including motion picture film). In addition, a 5-percent manufacturers' tax is imposed on the sales of electric motion or still picture projectors of the household type.

The taxes on photographic equipment impose a discriminatory burden on those making use of such equipment for recreational or entertainment purposes. Both the House bill and your committee's bill, therefore, repeal the manufacturers' excise tax on photographic equipment. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Provision is made for floor stock refunds in a manner similar to that provided for in passenger cars.[5]

It is estimated that the repeal of these taxes will reduce revenues by $40 million in a full year of operation.

11. Business machines (sec. 205 of the bill and sec. 4191 of the code)

Existing law imposes a 10-percent manufacturers' tax on the sale of some 44 different types of business machines. The types of machines with respect to which tax is imposed are listed in table 11.

TABLE 11.—*Items subject to 10-percent business machine tax*

Adding machines
Addressing machines
Autographic registers
Bank proof machines
Billing machines
Bookkeeping machines
Calculating machines
Card punch machines
Cash registers
Change making machines
Check writing, signing, canceling, perforating, cutting, and dating machines and other check protector machine devices
Computing machines
Coin counters
Dictographs
Dictating machines
Dictating machine record shaving machines
Duplicating machines
Embossing machines
Envelope opening machines
Erasing machines
Folding machines
Fanfold machines
Fare registers and boxes
Listing machines
Line-a-time and similar machines
Mailing machines
Multigraph machines, typesetting machines and type justifying machines
Numbering machines
Portable paper fastening machines
Payroll machines
Pencil sharpeners
Postal permit mailing machines
Punch card machines
Sorting machines
Stencil cutting machines
Shorthand writing machines
Sealing machines
Tabulating machines
Ticket counting machines
Ticket issuing machines
Typewriters
Transcribing machines
Time recording devices
Combinations of any of the foregoing

[4] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

[5] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

As is suggested by the name of the tax, substantially all of these machines represent business cost items. The burden of the manufacturers' excise tax on these machines is distributed among various firms upon the basis of the particular business requirements of each firm. This distribution is rendered even more erratic by the fact that many of the larger automatic data processing machines have been held not to be subject to this tax. To the extent that the costs of the taxable machines are reflected in product prices, the tax tends to distort relative prices of final goods. To the extent that the tax influences investment decisions, it tends to discourage the use of the taxed machines. In this manner, the tax tends to discourage the introduction of improved management and administrative techniques.

Both the House bill and your committee's bill repeal the manufacturers' tax on business machines. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Provision is made for floor stock refunds in a manner similar to that indicated above in the case of passenger automobiles.[6]

It is estimated that the repeal of the excise tax on business machines will reduce revenues by $75 million in a full year of operation.

12. Pens, mechanical pencils, and lighters (sec. 205 of the bill and sec. 4201 of the code)

Mechanical pencils, fountain pens, and ballpoint pens are currently taxed at a rate of 10 percent of the manufacturers' or importers' sales price. The tax on lighters is 10 cents per lighter but not more than 10 percent of the manufacturers' or importers' sales price.

Your committee agrees with the House that it is undesirable to continue the tax on mechanical pencils, fountain pens, and ballpoint pens, most of which are used either by schoolchildren or in businesses. The tax on lighters is a nuisance tax bringing in only a minimal amount of revenue.

Both the House bill and your committee's bill, therefore, repeal the manufacturers' excise taxes on pens, mechanical pencils, and lighters. The House bill repeals these taxes effective July 1, 1965. Your committee's bill repeals these taxes as of the day after the date of enactment of this bill.

It is estimated that this provision will reduce revenues by $11 million in a full year of operation.

13. Matches (sec. 205 of the bill and sec. 4211 of the code)

Existing law imposes upon the manufacturer or importer of matches a tax at the rate of 2 cents per 1,000, but not to exceed 10 percent of the price for which sold. An exception is made in the case of fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem and packed in boxes, which are taxed at the rate of 5½ cents per 1,000 matches.

The tax on matches is quite regressive in the distribution of the tax burden among various income levels. Therefore, this tax tends to impose heavier burdens on those with relatively low incomes.

Both the House bill and your committee's bill repeal the excise tax on matches. The House bill repeals this tax effective July 1, 1965.

[6] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax of musical instruments.

Your committee's bill repeals the tax as of the day after the date of enactment of this bill. It is estimated that this will result in a revenue loss of approximately $4 million a year.

C. FACILITIES AND SERVICES

1. Admissions and cabarets (sec. 301 of the bill and sec. 4231 of the code)

Under existing law, in the case of general admissions a tax of 1 cent for each 10 cents (or major fraction thereof) is imposed on the amount in excess of $1 paid for admission to any place other than racetracks and cabarets. In the case of admission to a horse or dog racetrack, the tax is 1 cent for each 5 cents (or major fraction thereof). In the case of cabarets (including roofgardens or similar places) the tax is 10 percent of the amounts paid for admission, refreshment, service, or merchandise.

In the case of sales outside of the box office in excess of the established price for admissions to theaters, operas, and other places of amusement, a tax of 10 percent (or 20 percent in the case of racetracks) is imposed on the excess of the price charged over the established price. In the case of sales by proprietors, managers, or employees of an opera house, theater, or other place of amusement in excess of the regular or established price, a tax of 50 percent of this excess is imposed.

The present excise tax on general admissions is undesirable in that it selects certain types of entertainment for tax when many other forms of entertainment are free of tax. The present admissions tax with the $1 exclusion has its primary impact upon the cultural arts and professional athletic exhibitions. Your committee agrees with the House that there is no reason for continuing to tax these forms of entertainment while other forms are largely free of tax. In the case of the cabaret tax, it is believed that the tax tends to discourage the hiring of professional musicians. In addition, there are very difficult problems of administration and compliance in determining precisely under what conditions the cabaret tax applies or does not apply in the case of restaurants where entertainment is provided at some hours and not at others.

Both the House bill and your committee's bill repeal all of these taxes on admissions effective at noon on December 31, 1965. The end of the day was avoided in this case in order to select a time for termination of the tax when general admissions or entertainment at cabarets was likely to be at a low point. In the case of season tickets the tax will not apply with respect to the proportion of the total admissions occurring after such time. This, of course, will mean that there will be no tax on the football bowl games on New Year's day or on cabaret events on New Year's eve. Tax will not apply in these cases even though the tickets may have been purchased in advance of that date.

It is estimated that the repeal of all of the admissions taxes other than the tax on cabarets would result in a revenue loss of $55 million in a full year of operation. The repeal of the tax on cabarets would result in an additional loss of $47 million, raising the aggregate loss to $102 million in a full year of operation.

2. Club dues (sec. 301 of the bill and sec. 4241 of the code)

Present law imposes a tax of 20 percent of the amounts paid as dues or membership fees to a social, athletic, or sporting club (if the total dues or fees paid exceed $10 a year). In the case of life memberships, the tax payable is the same as that of other members having privileges most nearly comparable to that of the life member; or, if the life member so elects, 20 percent of the amount paid for the life membership. Special provisions exempt from this tax amounts paid for capital improvements to the clubs provided the amounts are actually expended for such purposes within 3 years of the date of payment. Exemptions are also available in the case of dues paid to fraternal organizations and nonprofit swimming and skating clubs.

The present tax represents a tax on recreation which applies if the recreational outlet is a private club. Many other recreational facilities generally are not subject to excise tax. Moreover, the tax, which is substantial in this case, adds materially to the cost of club memberships, discouraging the formation and use of clubs. This is true not only of country clubs but also of other types of social or athletic clubs enjoyed by middle and lower income people.

Both the House bill and your committee's bill repeal the tax on club dues for payments attributable to periods beginning on or after January 1, 1966. Where the dues year straddles the effective date, the tax applies only to the dues (regardless of when paid) attributable to the portion of the year before that date. In the case of life memberships attributable in part to periods before 1966, in which the member has elected to pay a tax equal to 20 percent of the amount paid for the life membership, the full tax applies. However, in the case of life memberships where the tax is equivalent to the tax on amounts paid by members having privileges most nearly comparable to the life member, no tax will be due for periods beginning on or after January 1, 1966.

Where dues or membership fees attributable to periods beginning before January 1, 1966, have been free of tax because they were paid to be used for capital improvements, if they are not used for this purpose within 3 years of the date of payment, a tax is to apply since tax would have been due initially in the absence of the exemption.

It is estimated that the repeal of this tax will reduce revenues by $85 million in a full year of operation.

3. Communications (sec. 302 of the bill and sec. 4251 of the code)

Under existing law, amounts paid for general telephone, toll telephone, telegraph, teletypewriter exchange, and wire mileage service are taxed at the rate of 10 percent of the amounts paid for the service. A tax at the rate of 8 percent is imposed on amounts paid for wire and equipment service. The tax is paid by the person paying for the service.

(*a*) *Rates of tax for local telephone service, toll telephone service, and teletypewriter exchange service.*—Your committee agreed with the conclusion of the House that the tax on local and toll telephone service and teletypewriter exchange service is undesirable as a permanent feature of our excise tax system. This conclusion was reached on the grounds, first, that these taxes are regressive and therefore fall with greater severity on those with low incomes than those with higher incomes. Second, the charges for telephone services enter heavily into business costs. Therefore, the tax discriminates against those

firms that must make extensive use of the taxed services. However, while elimination of the tax is desirable on the grounds listed above, since the tax is an important source of revenue for the Federal Government, the reduction should be staged over a period of years. Both versions of the bill, therefore, provide for the repeal of the communications service tax on local telephone service, toll telephone service, and teletypewriter exchange service over a period of 4 years. The first reduction, a substantial one, is a reduction of 7 percentage points effective January 1, 1966. In January of each of the three succeeding years, the rate is reduced by 1 percentage point. No tax, therefore, will apply for the calendar year 1969 and subsequent years. As a result, under both versions of the bill, the rate of tax on the three services will be reduced from the present level of 10 percent to—

3 percent for amounts paid pursuant to bills first rendered on or after January 1, 1966, and before January 1, 1967;

2 percent for amounts paid pursuant to bills first rendered on or after January 1, 1967, and before January 1, 1968; and

1 percent for amounts paid pursuant to bills first rendered on or after January 1, 1968, and before January 1, 1969.

The tax is not to apply to amounts paid pursuant to bills first rendered on or after January 1, 1969.

In applying the new tax rates referred to above, in the case of communication services rendered before November 1 of any calendar year for which a bill has not been rendered before the close of such year, a bill is to be treated as having been first rendered during such year. The existing 10 percent tax rate will continue to apply in the case of bills first rendered before January 1, 1966 (whether the services are rendered before, on, or after such date), and in the case of communication services rendered before November 1, 1965, even though the bill is first rendered on or after January 1, 1966.

The definitions of local telephone service (previously general telephone service), toll telephone service, and teletypewriter exchange service have been updated and modified to make it clear that it is the service as such which is being taxed and not merely the equipment being supplied. Thus, in the case of local telephone service, the definition makes it clear that it is the right of access to a local telephone system and the privilege of telephonic quality communication which is taxed together with facilities or services provided with this service. Toll telephone service is defined as being a telephonic quality communication for which a toll charge is made which varies in amount with the distance and the elapsed transmission time of individual communications, but only if the charge is paid within the United States. Also included in this definition of toll telephone service is WATS (wide area telephone service). This is a long-distance service whereby, for a flat charge, the subscriber is entitled to make unlimited calls within a defined area (sometimes limited as to the maximum number of hours). A teletypewriter exchange service is defined as access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part and the privilege of intercommunication by such station with substantially all persons having teletypewriter or other data stations in the same exchange system.

It is estimated that the reduction of the tax rate from 10 to 3 percent effective January 1, 1966, will result in a revenue loss of $639 million in a full year of operation. The elimination of the remaining

3 percentage points of tax over the next 3 years, it is estimated, will result in an additional revenue loss of $274 million when fully effective.

(*b*) *Private communications services.*—Under present law, a private communications system such as a private line or a private intercommunication system set up for a single subscriber (such as a PBX system or Centrex service) is taxed as a part of general telephone service if the telephones in this system have access to the local exchange system.

This has presented problems under present law because of competition from untaxed private equipment performing similar services. The telephone companies presently are losing intrapremise business (and interpremise business within local areas) to those providing telephone and microwave equipment which can be purchased and operated by the users themselves. Installation of equipment in this manner is accompanied by a reduction in the service from the local telephone company. Businesses installing their own internal communications systems in this manner avoid the tax on the telephone company's charge for both equipment and services. With the ever-increasing number of varied services which modern science makes it possible for telephone companies to provide, the tax on private communication systems represents a severe competitive handicap to the expanded use of these new and varied services.

For the reasons indicated above, both the House bill and your committee's bill provide an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems—where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber—generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service.

The definition of a private communication service refers to a communication service where a subscriber is entitled to the exclusive or priority use of a communication channel or groups of channels. This is sometimes referred to as a private line. The reference to an intercommunications system is intended to refer to a private exchange system for a single subscriber and thus to cover private PBX systems (whether or not they have in-dialing). Included in the definition of a private communication system is channel mileage for communication between a telephone station located outside a local exchange system and a central office in such local telephone system, if a separate charge is made for this service.

This exemption is to take effect as of January 1, 1966.

Questions have been raised as to the application of this exemption to so-called answering services where, when the subscriber is not at home, the telephone is answered for him by the answering service. In such cases, it is understood that the line running to the answering service together with the board on which the signal is flashed is usable only for answering the subscriber's telephone. Where this is true, this line and the board provided in connection with it will be exempt from tax as a private communication service.

It is estimated that repeal of the tax on private communication services will reduce revenues by $130 million in a full year of operation.

(c) *Telegraph service and wire and equipment service.*—Telegraph service presently is subject to a tax of 10 percent of the amount paid while a tax of 8 percent is imposed on wire and equipment service. Wire and equipment service includes stock quotation and information services, burglar alarm and fire alarm service, and similar services.

In the case of telegraph service, the present tax presents an added handicap to an industry which has been experiencing a decline in business for a long period of time. The tax on wire and equipment service not only taxes the communication feature of the service, but other services provided as well. Moreover, in many cases, the services provided are in competition with similar services provided on a tax-free basis.

Because of the factors indicated above, both the House bill and your committee's bill repeal the tax on telegraph service and wire and equipment service effective January 1, 1966.

The repeal of the tax on telegraph service is expected to result in a revenue loss of $17 million a year when fully effective, and the repeal of the wire and equipment service tax is expected to result in an annual revenue loss of $15 million a year.

4. Transportation of persons by air (sec. 303 of the bill and sec. 4261 of the code)

Under present law, a 5-percent tax is imposed on amounts paid within the United States for the taxable transportation of any person by air, and on amounts paid without the United States for transportation which begins and ends within the United States. Under existing law, this tax is scheduled to terminate on July 1, 1965.

The administration has pointed out that aviation should contribute a larger percentage of the cost of developing and maintaining the Federal airways. For this reason, the administration included among its recommendations with respect to aviation user charges the proposal that the present tax on the transportation of persons by air be continued to give assurance that commercial airline passengers would pay a portion of the cost of maintaining the service they enjoy.

Both the House bill and your committee's bill continue indefinitely the present 5-percent tax in order that it may be considered subsequently in connection with any review of administration proposals with respect to user charges. Your committee has also made a technical change in the application of the tax to military personnel in the case of trips originating or ending abroad. This change is described in part V of this report.

It is estimated that this provision will forestall a revenue loss of $140 million a year.

5. Safe deposit boxes (sec. 304 of the bill and sec. 4286 of the code)

Present law imposes a 10-percent tax on amounts collected for the use of safe-deposit boxes. The tax is paid by the person paying for the use of the box.

This item represents a tax on the safeguarding of essential papers. In addition, it produces so little revenue that its separate imposition can hardly be justified.

Both the House bill and your committee's bill repeal this tax effective with respect to rentals or renewals taking effect on or after July 1, 1965.

It is estimated that this provision will reduce revenues by $7 million in a full year of operation.

D. MISCELLANEOUS TAXES

1. Documentary stamp taxes (sec. 401 of the bill and secs. 4301, 4311, 4321, 4331, and 4361 of the code)

Present law imposes documentary stamp taxes on the issuance of capital stock and certificates of indebtedness, sales or transfers of capital stock and certificates of indebtedness, conveyances of realty, and premiums on insurance policies issued by foreign insurers. The taxes are imposed at the following rates:

10 cents per $100 or major fraction thereof of the actual value on the issuance of capital stock (4 cents per $100 in the case of stock in regulated investment companies);

11 cents per $100 or fraction thereof of face value on the issuance of certificates of indebtedness;

4 cents per $100 or major fraction thereof of actual value on the sale or other transfer of shares or certificates of stock, or rights to receive such shares, but in no case shall the tax exceed 8 cents per share or be less than 4 cents per transfer;

5 cents per $100 or fraction thereof of face value on each sale or other transfer of a certificate of indebtedness;

55 cents per $500 or fractional part thereof of the consideration or value (when it exceeds $100) for which realty is conveyed; and in the case of policies insured by foreign insurers, at varying rates.

The tax rates imposed on insurance policies issued by foreign insurers are not changed by either version of the bill. (However, as explained in part V, a technical change is made in the manner of paying this tax.)

The taxes are administered through the sale of stamps.

The Federal documentary stamp taxes are frequently business cost items. In addition, they complicate the large variety of security transactions to which they apply. In the case of real estate conveyances, there is no effective means of Federal administration. Therefore, your committee agrees with the House conclusion that this latter tax could better be left to the administration of State or local governments.

Both the House bill and your committee's bill repeal the documentary stamp taxes on the issuance of stock and certificates of indebtedness, on sales or transfers of stock and certificates of indebtedness, and on conveyances of real estate. The bill does not affect the existing rate of tax imposed with respect to insurance policies issued by foreign insurers. (But see the explanation in pt. V of the committee amendment changing the method of reporting and paying the tax.)

The House bill would repeal all of the documentary stamp taxes (except those on insurance policies of foreign insurers) as of January 1, 1966. Your committee has advanced by 1 day the date of repeal of the taxes on the issuance of capital stock and certificates of indebtedness and on sales or transfers of capital stock and certificates of indebtedness. Thus, in the case of issuances or transfers of stock or certificates of indebtedness occurring on December 31, 1965, there will be no documentary stamp tax due. Your committee has taken this action to prevent a substantial tax differential between those transactions which must be completed before the end of the year and those which can be completed at any time thereafter. In the case of the stamp tax on real estate conveyances, the attention of your

committee was called to the fact that this tax often is used by local assessment authorities in determining changes in value of real estate in their locales. For that reason, States may want to impose this tax, or adopt alternative valuation procedures, as the Federal Government removes itself from this field of taxation. To be sure States have sufficient time to accomplish this result, and in accordance with recommendations of the Advisory Commission on Intergovernmental Relations, your committee has postponed the effective date of the repeal of this tax until January 1, 1969.

It is estimated that these provisions will reduce revenues by $195 million in a full year of operation.

2. Playing cards (sec. 402 of the bill and sec. 4451 of the code)

Under existing law, a tax of 13 cents per pack is imposed on every pack of playing cards (containing not more than 54 cards) at the time of its sale or withdrawal for consumption or sale. The tax is administered through the sale of stamps which are affixed to the packs of cards.

In the interest of removing minor excise taxes, both the House bill and your committee's bill repeal this tax. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

It is contemplated that inventories of stamps not yet affixed to playing cards which are on hand on the reduction date, can be returned to the Internal Revenue Service and the amount paid for them refunded. In addition, it is understood that the amounts paid for stamps affixed to playing cards by manufacturers or importers will be refunded without removal of the stamps where the manufacturer or importer has not yet sold or removed the cards for consumption or sale on the reduction date. The House, however, made no provision for floor stock refunds in the case of playing cards in the hands of wholesalers or retailers. Your committee believes that floor stock refunds should be made available with respect to playing cards as in the case of most of the manufacturers' excise taxes. For that reason, it has added a provision to achieve that effect.

It is estimated that the repeal of this provision will reduce revenues by $11 million a year.

3. Coin-operated amusement devices (sec. 403 of the bill and sec. 4461 of the code)

Under existing law, an occupational tax must be paid by every person who maintains or permits the use of coin-operated amusement devices at any place or premise occupied by him. The tax is assessed at the rate of $10 a year for each device. A coin-operated amusement device includes music machines operated by coins or similar objects, penny vending machines which dispense merchandise prizes worth not more than 5 cents, and amusement machines not including gambling devices.

The occupational tax on coin-operated amusement devices is essentially a tax on a form of entertainment which does not constitute gambling. As taxes on other forms of entertainment (to the extent now taxed) are repealed by both versions of this bill; both the House bill and your committee's bill have also repealed the $10-a-year tax on coin-operated amusement devices. No change is made in the

present $250-a-year tax on coin-operated gambling devices (such as slot machines).

The repeal of this tax in both versions of the bill is made effective as of July 1, 1965.

It is estimated that the repeal of this tax will reduce revenues by $6 million in a full year of operation.

4. Bowling alleys, billiard and pool tables (sec. 404 of the bill and sec. 4471 of the code)

Currently every person who operates a bowling alley, billiard parlor, or poolroom must pay an occupational tax at the rate of $20 a year with respect to each alley or table.

Consistent with the treatment provided in this bill for other entertainment and recreation items (other than those which involve gambling), both the House bill and your committee's bill repeal the occupational tax on bowling alleys and billiard and pool tables.

The effective date of the repeal of this tax in both versions of the bill is July 1, 1965.

It is estimated that the repeal of this tax will reduce revenues by $7 million a year.

E. ALCOHOLIC BEVERAGE AND TOBACCO TAXES

1. Rates made permanent (sec. 501 of the bill and secs. 5001, 5022, 5041, 5051 and 5701 of the code)

At the time of the Korean war, the taxes on distilled spirits, beer, wine, and cigarettes were increased by varying amounts. These increases, however, applied only until April 1, 1954. These rates have been continued on a year-to-year basis since that time. Currently, these rates are scheduled, on July 1, 1965, to revert to the rates applicable before the Korean war.

In the case of the tax on distilled spirits, in the absence of this bill, the tax would be reduced from $10.50 to $9.00 per proof gallon. In the case of beer, the tax would be reduced from $9.00 to $8.00 per barrel. In the case of wines, which are subject to various tax rates, the reduction would be approximately 11 percent. In the case of cigarettes, the tax would be reduced from 8 cents to 7 cents a pack. The specific rates are shown in table 12.

It is estimated that retaining the present taxes on distilled spirits will prevent a revenue loss of $203 million; in the case of beer, a loss of $104 million; and in the case of wines, a loss of $12 million. Retaining the present tax on cigarettes will prevent a revenue loss of $262 million.

Your committee agrees with the House that given present revenue requirements, it is desirable to retain these taxes at their present rates. Should further excise reductions be desirable in the future, these rates of tax can be reviewed at that time.

For the reasons indicated above, both the House bill and your committee's bill make the present tax rates on distilled spirits, beer, wines, and cigarettes part of the permanent law. They also repeal the floor stock refund provisions in the present law which were to apply in the case of these taxes were the rates to be reduced as provided under present law.

TABLE 12.—*Present tax rates on alcoholic beverages and tobacco, which under the bill are retained on a permanent basis*

	Unit of tax	Present law rate	Rates scheduled for July 1, 1965, in absence of bill
Liquor taxes:			
Distilled spirits	Per proof gallon	$10.50	$9.
Beer	Per barrel	$9	$8.
Wine:			
Still wine			
Containing not over 14 percent alcohol	Per wine gallon	17 cents	15 cents.
Containing over 14 to 21 percent alcohol	do	67 cents	60 cents.
Containing over 21 to 24 percent alcohol	do	$2.25	$2.
Containing more than 24 percent alcohol	do	$10.50	$9.
Sparkling wines, liqueurs, cordials, etc.:			
Champagne or sparkling wine	do	$3.40	$3.
Liqueurs, cordials, etc	do	$1.92	$1.60.
Artificially carbonated wines	do	$2.40	$2.
Tobacco taxes: Cigarettes	Per 1,000	$4	$3.50.

2. Manufactured tobacco (sec. 502 of the bill and sec. 5701(a) of the code)

A tax of 10 cents per pound presently is imposed on tobacco manufactured in, or imported into, the United States. The revenues from this tax are derived chiefly from pipe tobacco, snuff, chewing tobacco, and tobacco used by individuals who roll their own cigarettes. This tobacco for tax purposes is known as manufactured tobacco and the tax imposed on it is separate from the taxes imposed on cigars, cigarettes, cigarette papers, and cigarette tubes. Table 13 shows the volume of sales of the different forms of manufactured tobacco sold in the fiscal year 1964. Manufactured tobacco provides only a small proportion of the revenue derived from tobacco products generally. Manufactured tobacco in the fiscal year 1965 is expected to account for only $18 million of total tobacco tax collections of $2.1 billion. Manufactured tobacco in large part is consumed by persons of relatively low-income levels and therefore the tax imposed on it is highly regressive. In addition, the production of manufactured tobacco has been declining over a long period of time.

The House bill took no action with respect to this tax. Your committee's bill, however, repeals the tax on manufactured tobacco effective January 1, 1966.

Since the tax is repealed as to all forms of tobacco other than cigars and cigarettes, the provisions of the code which impose controls on the handling and shipment of tobacco materials (tobacco other than manufactured tobacco, cigars, and cigarettes) no longer have any revenue protection significance and, hence, also are eliminated.

It is estimated that this provision when fully effective will result in an annual revenue loss of $18 million.

TABLE 13.—*Sales of manufactured tobacco, fiscal year 1964*

	Thousands of pounds
Plug	25, 862
Twist	2, 772
Fine-cut chewing	3, 442
Scrap chewing	34, 208
Smoking	80, 665
Snuff	31, 940
Total	178, 889

F. MISCELLANEOUS PROVISIONS

1. Partial payments and sales of installment accounts (sec. 206 of the bill and sec. 4216 of the code)

Present law specifies the amount of manufacturers excise tax to be paid with each partial payment in the case of a lease, an installment sale where title does not pass until a future date, a conditional sale, or a chattel mortgage arrangement in which the sales price is paid in installments. The tax payment due with each partial payment is a proportion of the total tax due equal to the proportion of the full sales price represented by the given partial payment.

Both the House bill and your committee's bill, to cover situations where payments made with respect to a sale straddle effective dates, amend present law to provide that the tax paid with respect to each such partial payment will be a percentage of each payment based

on the rate of tax, if any, in effect on the date the partial payment is due.

Under existing law, if installment accounts in which tax is being paid under the partial payment method are sold or otherwise disposed of, then, in general, any remaining tax due (determined by subtracting the amount paid on partial payments previously received from the total tax due), must then be paid. An exception is made if the sale of such accounts is connected with a bankruptcy or insolvency proceeding. In such a case the tax to be paid is not to exceed the amount of tax which would have been due if the tax had been based on the sale price, rather than on the original value on which the installment account was based.

Both the House bill and your committee's bill amend the present law to provide that in the case of a sale of an installment account, the tax to be paid at the time of sale will be the difference between the amount of tax previously paid and the total tax which would be due if the account were not sold; that is, if the total tax were computed on the basis of reduced tax rates over the life of the contract as described above. In the case of sales connected with bankruptcy or insolvency proceedings, the tax to be paid cannot exceed the sum of the amounts computed by multiplying the proportionate share of the present sales price which is allocable to each unpaid installment by the rate of tax which would apply at the time of such installment as provided in this bill.

2. Effective dates in the case of installment sales, etc. (sec. 701 of the bill)

Both the House bill and your committee's bill provide with regard to the effective dates for the repeal or reduction of certain retailers' and manufacturers' excise taxes as provided by the bill, that an article shall not be considered sold before the date of the reduction unless possession passes to the purchaser before such date. In the case of a lease, an installment sale where title does not pass until a future date, a conditional sale, or a chattel mortgage arrangement in which the sales price is paid in installments, entered into before one of the above dates, the tax to be paid in connection with partial payments made on or after such date will be based on the tax rate in effect on the date the partial payment is made. An amendment made by your committee provides that the lower rate of tax (or the repeal of a tax) is to apply with respect to installment or other partial payments after a rate reduction date (where the transaction occurred before the date of the reduction) only if the seller (or lessor) establishes that the price charged the purchaser (or lessee) has been reduced by the amount of the tax reduction attributable to the installment or other partial payments after the reduction date.

V. GENERAL EXPLANATION OF STRUCTURAL AND TECHNICAL CHANGES

1. Camper coaches (sec. 801 of the bill and sec. 4063 of the code)

Under existing law, house trailers are specifically exempt from the manufacturers' excise tax on motor vehicles. House trailers which have been held to be exempt from tax under present law are both those which are suitable for use in connection with passenger automobiles and with trucks.

Presently, the Internal Revenue Service holds this exemption for house trailers does not apply to camper coaches, which are units designed to be mounted on a truck for use as living quarters, or to mobile homes, which typically are bus-type bodies equipped for family living and mounted on truck chassis.

Historically, the rationale for exempting house trailers centered on the fact that such trailers were thought of as more or less permanent living quarters which were seldom moved about on the highways. However, small camper-type trailers have also been held exempt as house trailers.

In reality, the mobile-type motor home much more closely follows the initial rationale for exempting house trailers than is true of many of the small trailers now exempt under this provision. Camper coaches, also, although generally too small to serve as permanent living quarters, nevertheless are, in some cases, larger and provide more nearly permanent living quarters than many of the smaller trailers now exempt from tax. As a result, the traditional distinction as to these different types of mobile living quarters has become blurred and, in your committee's opinion, to continue tax on any such quarters while exempting others would result in unfair competitive problems for the manufacturers as well as treating unfairly those who may desire to purchase one particular type of mobile living quarters rather than another.

For the reasons given above, your committee's bill adds a provision to the House bill providing an exemption from the manufacturers' excise tax on trucks, buses, automobiles, parts, etc., for camper coaches and bodies for self-propelled mobile homes. This exemption applies in the case of articles designed to be mounted or placed on trucks, truck chassis, or automobile chassis and to be used primarily as living quarters. The exemption applies whether the articles are sold as original equipment or as separate parts to be placed in use. In the case of self-propelled mobile homes, the exemption does not extend to the chassis upon which such a body is mounted (regardless of the manner in which the entire unit is constructed). The bill makes it clear that house trailers are exempt from tax even though, from a practical standpoint, they may be too large to be drawn by a passenger automobile.

The effective date of this provision is the day after the date of enactment of the bill.

No inference should be drawn from this provision regarding the taxable status of mobile homes and camper coaches under existing law. The question is left to judicial interpretation.

It is estimated that this provision will reduce revenues by $6 million a year. This will affect Highway Trust Fund revenues, and not the administrative budget.

2. Farm feed, seed, and fertilizer equipment (sec. 801 of the bill and sec. 4063 of the code)

Under present law, a manufacturers' excise tax is imposed on the sale of truck chassis and bodies, bus chassis and bodies, etc. In the statute, there is no requirement that the vehicle be designed for use on the highways although this result has in effect been achieved by administrative ruling. However, there are types of farm equipment designed primarily for use on a farm or to provide a farming activity which, nevertheless, incidentally may use the highway.

The principal equipment of this type involves that designed to process or prepare, or haul, or spread, or load or unload feed, seed, or fertilizer as a farming activity. Your committee believes that it is unfortunate to tax this type of farm equipment and sees no reason for revenue derived from the sale of such equipment being allocated to the highway trust fund. For these reasons, your committee has provided an exemption for this type of farm equipment from the manufacturers' tax on the sale of trucks, buses, etc. No inference is intended, however, as to the present tax status of this equipment.

This provision is to be effective the day after the date of enactment of this bill.

It is estimated that this provision will have a negligible effect on the revenues.

3. Small three-wheeled motor vehicles (sec. 801 of the bill and sec. 4061 of the code)

Prior to 1955 a manufacturers' excise tax was imposed on motorcycles as well as passenger automobiles, trucks, and buses. Included by ruling in the motorcycle classification were small three-wheeled vehicles used primarily for intracity or intraplant purposes. The tax on motorcycles was repealed in 1956 (Public Law 379, 84th Cong., 1st sess.). That action was taken on the grounds that the domestic industry had been undergoing a steady decline. In 1958 the Internal Revenue Service reversed its ruling which treated these three-wheeled vehicles as motorcycles. Under the new ruling these vehicles were considered taxable as trucks, rather than tax free as motorcycles.

The manufacturers of the small three-wheeled utility vehicles have been experiencing a steady deterioration in profits and a leveling off in sales. Exemption from the tax on such vehicles would grant relief to this industry in much the same manner as relief was granted to the manufacturers of motorcycles in 1955. The principal users of such vehicles purchase them for reasons of economy and, therefore, a price reduction occasioned by repeal of the excise tax would be particularly significant.

For the reasons given above, your committee's bill provides an exemption from the manufacturers' tax on trucks for small three-wheel vehicles meeting certain specifications. They must be powered by a motor which does not exceed 18 brake horsepower (rated at 4,000 revolutions per minute) and the chassis must not exceed 1,000 pounds gross weight. The exemption applies to not only the chassis for these vehicles but also to bodies designed to be mounted on them.

This exemption is to apply with respect to articles sold on or after the day following the date of enactment of the bill.

It is anticipated that the revenue loss from this provision will be negligible.

4. Manufacturers price of trucks in which used parts are incorporated (sec. 801 of the bill and sec. 4061 of the code)

A problem has arisen with respect to the manufacturers' excise tax on trucks concerning the tax base in the case of trucks which are constructed on special order for a purchaser who furnishes some of the parts to be incorporated in the vehicle. This situation arises, for example, when a person builds a truck for a customer incorporating usable parts from a wrecked vehicle owned by the customer. In

some cases, the tax base of the truck has been held to be the value of the truck in the hands of the customer, on the grounds that he is the manufacturer.

Your committee believes that including the used parts in the tax base in this type of case is inappropriate because to do so would impose a second tax on the used parts.

For the reasons set forth above, your committee's bill provides that in determining the manufacturers' price for the purposes of the manufacturers' excise tax on trucks and buses, the value of any previously used component furnished by the customer is to be excluded from the tax base of the final article.

The effective date of this provision is the day after the date of enactment of this bill.

No inference is intended regarding the tax base for such vehicles under prior law.

The revenue effect of this provision is negligible.

5. Rebuilding of auto parts (sec. 801 of the bill and sec. 4221 of the code).

Prior to 1965, rebuilt auto parts were subject to the manufacturers' excise tax on automobile parts and accessories since rebuilding was then considered a manufacturing process. Because difficulties arose over the proper distinction between taxable rebuilt parts and nontaxable repaired or reconditioned parts, and because it was believed that rebuilt and reconditioned parts should be treated in the same manner, the law was amended in 1964 to exempt rebuilt auto parts from tax.

The 1964 amendments have not, however, entirely eliminated controversy over the distinction between rebuilding on the one hand and repairing and reconditioning on the other hand. Some have asserted that, in contrast to a person who repairs or reconditions, a person who rebuilds can purchase parts tax free for use in his operations under a provision (sec. 4221) which exempts from tax parts used in further "manufacturing." Treasury regulations promulgated under the authority granted by the 1964 law provide that the process of rebuilding tax-exempt parts is not to be considered manufacturing for the purposes of the provision referred to above.

Your committee believes that the use of new parts in rebuilding and reconditioning should be treated in the same way. For that reason it agrees with the regulations issued by the Treasury but believes that the matter should be clarified by statute. This bill, therefore, provides that rebuilding is not to be considered a manufacturing process for the purposes of section 4221.

The effective date of this provision is January 1, 1965, the date the tax was removed from rebuilt parts.

It is estimated that the revenue effect of this provision will be negligible.

6. Schoolbuses (sec. 801 of the bill and sec. 4061 of the code)

Under existing law, a schoolbus may be purchased free of the manufacturers' excise tax on trucks, buses, etc., if it is purchased for the exclusive use of a State, school district, or other local government or for a nonprofit educational organization. However, a bus purchased by an independent operator for use as a schoolbus under a contract arrangement with a school cannot be purchased tax free.

Your committee's bill amends present law to provide that the manufacturers' excise tax on trucks, buses, etc., is not to apply to a

bus sold to a person for use exclusively in transporting students and employees of schools operated by States or local governments or by nonprofit educational organizations. However, incidental use of the bus in providing transportation for a State or local government or a tax-exempt nonprofit organization described in section 501(c) (such as the Boy Scouts or Girl Scouts) is not to be taken into account in this determination. The tax exemption in this case applies to both the schoolbus body and chassis.

The effective date of this provision is the day after the date of enactment of this bill.

It is estimated that the revenue effect of this provision will be $4 million. This will affect highway trust fund revenues, and not the administrative budget.

7. Definition of gasoline (sec. 802 of the bill and sec. 4082 of the code).

Existing law imposes a tax of 4 cents a gallon on gasoline sold by producer or importer. For the purpose of the tax gasoline is define as "all products commercially known or sold as gasoline (including casinghead and natural gasoline)." The present definition of gasoline is difficult to apply administratively, in part because rapid technological change requires frequent reinterpretation. Moreover, the definition includes certain products, such as casinghead and natural gasoline and certain petrochemicals, which cannot be used in modern motor vehicles.

Your committee doubts whether gasoline which is unsuitable for use in motors should be taxed to support the highway trust fund.

This bill, therefore, amends the definition of gasoline to include only products commonly or commercially known or sold as gasoline which are suitable for use as a motor fuel. This definition exempts casinghead and natural gasoline from tax unless they are blended with other compounds to make gasoline which is used in motors, or unless they are actually used to propel a motor vehicle, motorboat, or airplane. In the former case, the final product of the blending process will be taxed as "gasoline" while in the latter case the bill provides that casinghead or natural gasoline will be taxed as a special motor fuel (under sec. 4041) if sold for use or used to propel a motor vehicle, motorboat, or airplane. No inference is intended as to what constitutes a taxable use of casinghead and natural gasoline under present law.

The effective date of the provision pertaining to the definition of gasoline is July 1, 1965.

The provisions regarding the taxation of casinghead or natural gasoline as a special motor fuel in certain circumstances is to apply with respect to such fuels sold or used after July 1, 1965, unless they were sold by a producer or importer before July 1 and were taxed as "gasoline" (under sec. 4081).

The revenue loss resulting from these provisions is expected to be negligible.

8. Bonding requirements for gasoline (sec. 802 of the bill and sec. 4082 of the code)

Producers and importers of gasoline are currently required to secure bond to insure that they comply with the manufacturers' excise tax provisions. This is the only instance remaining in which domestic manufacturers subject to a manufacturers' excise tax are required to obtain a bond. The requirement was established at an earlier time

when some of the producers involved apparently were not considered to be reliable. At the present time the bonding requirement constitutes a discriminatory administrative burden on gasoline producers.

Your committee's bill eliminates the bonding requirements for producers and importers of gasoline effective July 1, 1965. This provision is not expected to have any revenue effect.

9. Exception to registration in the case of vessels and aircraft (sec. 802 of the bill and sec. 4222 of the code)

Present law permits the tax-free sale of articles otherwise subject to manufacturers' excise tax if such articles are for use by the purchaser as supplies for vessels or aircraft. The exemption applies, however, only if the manufacturer and the purchaser are registered with the Internal Revenue Service.

Your committee has been informed that the registration procedure has not worked efficiently in the case of articles, particularly gasoline, sold as supplies to vessels and aircraft. The purchasers in these cases are often casual purchasers who are unfamiliar with the registration requirement. The seller must either undertake the often difficult task of trying to obtain a registration number with respect to such purchaser, or else must make the sale on a taxpaid basis and claim a credit, often, as a practical matter, on the same return on which the tax is reported.

This bill, therefore, amends present law to require the Secretary of the Treasury or his delegate to establish regulations permitting the use of exemption certificates to cover tax-free sales, in lieu of the registration procedure, in the case of articles sold for use as supplies in a vessel or aircraft.

The effective date of this provision is July 1, 1965.

10. Air transportation of servicemen on leave (sec. 803 of the bill and sec. 4262 of the code)

Under existing law, payment outside the United States for domestic air transportation which is part of a trip beginning or ending outside the United States is exempt from tax. Payments in the United States for "uninterrupted international air transportation" are exempt if the air transportation begins or ends outside the United States or the 225-mile zone in Canada or Mexico. To be exempt as uninterrupted air transportation, all parts of the trip must be scheduled in advance so that each scheduled layover period at a domestic airport does not exceed 6 hours.

Servicemen traveling at their own expense have difficulty in qualifying for the exemption. A serviceman coming from overseas may not be able to purchase tickets for domestic flight connections while abroad because he is to receive funds when he arrives in this country. Even though he pays for the domestic part of his air trip in this country, he would be entitled to exemption if his domestic portion met the 6-hour test for uninterrupted international air transportation. But often he cannot meet the test. First, he cannot make the domestic reservations from abroad because of uncertainties as to his schedule from abroad. Secondly, when he gets to the United States, he may wish to purchase a standby ticket (that is, a ticket

which entitles him to a place on an aircraft only if that place is not otherwise sold) in order to secure the lower fare on this type of service. No definite schedule is possible with such tickets.

Your committee's bill amends present law to provide that servicemen traveling in uniform at their own expense on authorized leave can obtain the exemption from the 5-percent tax on domestic air transportation in connection with international trips even though they do not meet the 6-hour test contained in the law. Exemption from the tax will be available to servicemen with respect to the domestic portion of an international trip even if they do not schedule the entire trip in advance. To qualify, servicemen must travel in uniform on an authorized leave, furlough, or pass and must purchase their tickets within 6 hours of the time they land at the first domestic airport. They also must accept the first accommodation of the type their ticket calls for which becomes available. This exemption will apply to the domestic portion of trips taken by servicemen both entering and leaving the country.

This provision shall apply with respect to amounts paid for transportation beginning on or after July 1, 1965.

11. Policies issued by foreign insurers (sec. 804 of the bill and sec. 4374 of the code)

Under existing law, a tax is imposed on the premiums charged for a policy of insurance, indemnity bond, annuity contract, or policy of reinsurance issued by a foreign insurer. The tax is administered through the sale of stamps which must be affixed to each policy, bond, or contract.

The use of stamps to administer this tax creates certain administrative burdens for the taxpayers involved, primarily brokers. The fact that stamps in the proper denomination must be affixed to each policy may mean that frequent trips must be made to the local internal revenue office or post office. Moreover, the fact that tax must be paid on the basis of the premium charged causes difficulty in certain cases in which the premium is paid in installments. The broker is sometimes unable to collect the full tax when the premium is charged This, in turn, involves bookkeeping and other problems for the broker.

This bill, therefore, permits the Secretary of the Treasury or his delegate to institute a return system for the payment of this tax which would supersede the use of stamps. The bill further provides that when such a return system is instituted, tax will be imposed on the basis of the premiums paid rather than on the basis of the premiums charged. It is contemplated that returns on a monthly, or longer period will be instituted.

The effective date of this provision, insofar as it authorizes the Secretary of the Treasury to change the method of payment of the tax, is July 1, 1965.

Only a negligible revenue loss is contemplated as a result of this provision.

12. Return of distilled spirits to bonded premises (sec. 805 of the bill and sec. 5008 of the code)

Under existing law, a refund or credit of tax can be obtained with respect to distilled spirits found unsuitable for their originally intended

use only if such spirits are returned to the bonded premises of a distilled spirits plant within 6 months of the time they were withdrawn from bond. The refund or credit is limited to the quantity of spirits returned to the bonded premises in the original containers in which they were withdrawn from bond.

The 6-month restriction is not important for the protection of revenue since the original container provision serves that purpose. Moreover, the restriction occasionally creates hardships when the unsuitability of certain quantities of spirits is not discovered until more than 6 months have elapsed from the time the spirits are withdrawn from bond.

Your committee's bill repeals the requirement that distilled spirits found unsuitable for their originally intended use must be returned to the bonded premises of a distilled spirits plant (or customs custody in the case of imported spirits eligible for allowance of tax under 5062) within 6 months of the time they were withdrawn for the purposes of claiming a credit or refund with respect to such spirits.

The effective date of this provision is July 1, 1965.

It is expected that the revenue effect of this provision will be negligible.

13. Exemption from rectification tax for certain mingling of distilled spirits (sec. 805 of the bill and sec. 5025 of the code).

While present law (sec. 5021) imposes a tax of 30 cents a proof gallon (or fraction thereof) on distilled spirits which have been rectified in certain ways, elsewhere (sec. 5025) the product of a number of processes of mingling, blending, refining, and treating of distilled spirits is exempted from this tax. As a result present law creates complicated problems of administration and applies the rectification tax in a discriminatory manner to some, but not all, spirits of the same type or class. Frequent problems arise in the bottling premises; for example, in determining whether certain mingling operations or treatments of spirits, desirable in preparing the spirits for sale, involve tax liability or not under the rectification laws.

This bill amends present law to provide that the rectification tax is not to apply to the mingling of any spirits of the same type or class, or to the treatment of any spirits which does not change the type or class, if the process is carried out on the bottling premises of a distilled spirits plant.

As used in this provision, class (e.g., whisky) and type (e.g., bourbon) are intended to have the same meaning as prescribed for class and type in the standards of identity for distilled spirits in the regulations issued pursuant to the Federal Alcohol Administration Act (49 Stat. 977; 27 U.S.C. 8).

It is intended that these provisions will apply to spirits on which the rectification tax has not yet been determined prior to October 1, 1965. The new provisions are not to be interpreted as authorizing the labeling of spirits in bottles contrary to regulations issued pursuant to the Federal Alcohol Administration Act.

The revenue effect of this amendment is expected to be inconsequential since the tax presently applies in only a limited number of cases in this area.

14. Voluntary destruction of distilled spirits (sec. 805 of the bill and sec. 5215 of the code)

Present law requires that distilled spirits found to be unsuitable for the purposes originally intended must be immediately redistilled, denatured, or, in certain limited circumstances, mingled with other spirits if a refund or credit of tax is to be claimed when they are returned to bonded premises. Proprietors of distilled spirits plants find these alternatives unduly restrictive.

This amendment authorizes the proprietor of a distilled spirits plant to destroy, under supervision, distilled spirits returned to bonded premises because they are unsuitable for the purpose originally intended. This procedure would be available in addition to the alternatives listed above. It is consistent with the provision of existing law which permits the destruction of distilled spirits held in bond. It is also consistent with the amendment approved last year (Public Law 88-539) which authorized the voluntary destruction of imported distilled spirits returned to customs custody.

The effective date of this provision is July 1, 1965.

It is expected that this provision will have no revenue effect.

15. Redistillation of articles containing denatured distilled spirits (sec. 805 of the bill and sec. 5223 of the code)

Present law prohibits the reclaiming of distilled spirits from articles containing denatured alcohol. Denatured distilled spirits are spirits to which have been added denaturants (such as wood alcohol, various oils, formaldehyde, etc.) in order to render the spirits unfit for beverage or internal human medicinal use. Denatured spirits are transferred from the distilled spirits plant, the place of manufacture, to persons holding use permits which employ the denatured spirits in the manufacture of articles such as perfumes, toilet waters, rubbing alcohol, and antifreezes. Occasionally, some of these articles are found to be unsalable because of deterioration, error in formulation, or contamination, and must be disposed of. A problem of disposition also exists in the case of residues of manufacturing processes. In the absence of the prohibition in present law, such unsalable articles and residues could be returned to distilled spirits plants and redistilled. Such a procedure would not jeopardize the revenue, is equitable, and is a practical and economical way of disposing of certain waste products.

This bill amends present law to permit the redistillation of articles containing denatured distilled spirits on the bonded premises of a distilled spirits plant under regulations prescribed by the Secretary of the Treasury or his delegate. The bill also permits the redistillation of residues from related manufacturing processes.

The effective date of these provisions is October 1, 1965.

It is expected that the revenue effect of this provision will be negligible.

16. Relanding of exported distilled spirits (sec. 805 of the bill and sec. 5608 of the code)

Present law imposes severe penalties on persons who are involved in intentionally relanding in the United States distilled spirits which were exported. These provisions have created administrative prob-

lems and now appear unduly restrictive. The fact that the bonding period has been extended from 8 to 20 years and the more liberal provisions regarding the mingling of spirits in bond now in effect make these stringent provisions no longer necessary.

Your committee's bill, therefore, amends present law to permit the return of exported distilled spirits provided there is no intent to defraud the United States by so doing. The penalty and forfeiture provisions are retained to discourage unlawful relanding.

The effective date of this provision is July 1, 1965.

It is expected that this provision will have no revenue effect.

17. Carbon dioxide used in still wines (sec. 806 of the bill and sec. 5041 of the code)

Existing law imposes tax on wines at different rates depending on the alcohol content of the wine and whether it is a still wine or a sparkling wine. Still wines are defined as those which contain not more than 0.256 gram of carbon dioxide per one hundred milliliters of wine.

The existing definition of still wines was adopted to clarify the distinction between still wines and effervescent wines and to make it clear that some carbon dioxide can be added to, or retained in, still wine to improve its character and flavor without changing its tax status. This provision was also intended to permit the use domestically of manufacturing processes in the production of still wine comparable to those commonly used abroad. Experience has shown, however, that the present definition is too restrictive to serve adequately the purpose intended.

To alleviate the present situation, your committee's bill raises the quantity of carbon dioxide that can be contained in still wine from 0.256 gram per one hundred milliliters to 0.277 gram per one hundred milliliters effective July 1, 1965.

It is expected that this provision will have no revenue effect.

18. Deletion of wine reserve inventory provisions and certain restrictions relating to the use of sugar (sec. 806 of the bill and secs. 5383, 5384, and 5392 of the code)

The provisions concerning the amelioration and sweetening limitations for natural wines currently require the establishment of a reserve inventory of wines when high acid fruits are used for wine production. The mandatory reserve inventory provision was enacted to provide a basis for calculating the amount of amelioration and sweetening materials available for use within prescribed limitations. In practice it has been found that the reserve inventory requirement imposes burdensome recordkeeping problems on winemakers and produces administrative difficulties for the Government.

Existing law, by defining pure sugar, limits the kinds of sugar which may be used in the amelioration or sweetening of natural wines, and also requires that dry sugar only may be used in certain instances. These provisions prevent the industry from using sugars of a quality similar to what is defined as pure sugar, and unduly restricts the use of liquid sugar. This limitation has prevented winemakers from taking full advantage of the economies made available by modern technology.

Your committee's bill amends present law to delete the reserve inventory requirement with respect to the amelioration or sweetening of wines. It also authorizes the use of other sugars and the limited use of liquid sugar at appropriate points where the use of pure dry sugar is presently prescribed.

The effective date of these provisions is January 1, 1966.

It is expected that this provision will have no revenue effect.

19. Shipment of liquors to U.S. possessions (sec. 807 of the bill and sec. 5002 of the code)

Under existing law, liquors can be shipped free of tax or with the benefit of a tax drawback to some but not all U.S. possessions. While shipments to Puerto Rico, the Virgin Islands, Guam, and American Samoa are tax free, tax must be paid on liquor shipped to other possessions, such as Midway Island and Wake Island. It has been pointed out that in these other possessions little U.S. liquor is sold to U.S. personnel because tax-free foreign liquors can be obtained there.

Your committee's bill amends present law to provide that the exemption for exports include shipments to any possession of the United States.

This provision is to be effective July 1, 1965.

No revenue diversion is foreseen, since under customs requirements, an administration must exist which, at the point of destination, can properly account for the receipt of merchandise, before it is released for shipment from the United States.

20. Use of reconstituted tobacco as a wrapper (sec. 808 of the bill and sec. 5702 of the code)

Ordinary cigarettes are currently taxed at the rate of $4 per thousand while cigars of the same weight are taxed at the rate of 75 cents per thousand. Under existing law, a cigarette is defined as a roll of tobacco wrapped in paper or any substance other than tobacco. A cigar is defined as a roll of tobacco wrapped in tobacco.

The introduction of reconstituted (homogenized) tobacco for use as a wrapper for rolls of tobacco has created problems regarding the existing distinction between a cigar and a cigarette. Reconstituted tobacco can be used to wrap rolls of tobacco that closely resemble cigarettes. Moreover, it possesses many of the properties of paper, including suitability for use in high-speed cigarette manufacturing machinery.

Your committee's bill amends present law to clarify the definition of cigars and cigarettes. The effect of the present definition of a cigarette is retained in that it is defined as any roll of tobacco wrapped in paper or in any substance not containing tobacco. The definition also is expanded, however, to include a roll of tobacco wrapped in a subtance containing tobacco, if, because of its appearance, the type of tobacco used in its filler, its packaging and labeling, it is likely to be sold as, or purchased as, a cigarette. The effect of the present definition of a cigar is retained in that it is defined as a roll of tobacco wrapped in leaf tobacco or in any substance containing tobacco which is not defined as a cigarette.

The effective date of this provision is July 1, 1965.

This provision is not expected to have any revenue effect.

21. Credit as well as refund permitted for tobacco products (sec. 808 of the bill and sec. 5705 of the code)

Under present law, a manufacturer, importer, or export warehouse proprietor may claim a refund of tax paid with respect to tobacco products, cigarette papers, and cigarette tubes withdrawn from the market or destroyed by fire, casualty, or act of God. Under present law this tax must be refunded, it cannot be claimed as a credit on a subsequent tobacco tax return. This practice is in contrast to the procedure permitted in the case of alcoholic beverages where a tax-refund claim arises for similar reasons. A credit is easier to administer than a refund and its use in the tobacco tax area was recommended as an economy by the General Accounting Office in a report to Congress filed on June 30, 1961.

Your committee's bill, therefore, amends present law to provide that a credit or a refund may be claimed in those situations in which refund of tobacco tax is now authorized. Such a credit or refund is also provided in the case of products manufactured in the Virgin Islands and Puerto Rico and transported to the United States.

The effective date of this provision is October 1, 1965.

This is not expected to have any effect on revenues.

22. Credits against income tax for gasoline tax refunds (sec. 809 of the bill and secs. 6420 and 6421 of the code)

Under present law, a farmer may claim a refund of the gasoline tax paid with respect to gasoline used on his farm for farming purposes. The farmer claims this refund annually for the period July 1 to June 30 on a form which must be filed by September 30.

It is more efficient from an administrative standpoint to permit farmers to claim their gasoline tax refunds as a credit against tax liability on their annual income tax returns. Adoption of this procedure will simplify tax administration for both farmers and the Government. Farmers will no longer have to file a separate return to claim their gasoline tax refund. This in turn will encourage the more than half of the 3.5 million farmers who presently file income tax returns but do not file for gasoline tax refunds to claim the refunds for which they are eligible. Moreover, the credit procedure will enable farmers to obtain the benefit of the refund at an earlier date than is possible under present law. From the standpoint of the Government, the credit procedure will relieve the Internal Revenue Service of the burden of processing some 1.4 million separate gasoline tax refund claims.

This bill provides that gasoline tax refunds are to be claimed by farmers under the procedures of existing law for the period ending on June 30, 1965. Thereafter, the refunds are to be claimed as a credit against tax when the farmer's annual income tax return is filed. This credit will be treated in the same manner as the credit for tax withheld from wages. That is, if the refund due exceeds the liability on the annual return, a refund of such excess will be paid. Furthermore, a farmer who would not otherwise have to file an income tax return will have to do so to obtain a gasoline tax refund.

The credit for gasoline tax refund will first be taken on the return for the first full taxable year beginning after June 30, 1965. The credit on the first return will also include a claim for the refund of any tax on gasoline used after June 30, 1965, but before the beginning of such taxable year. In the typical case of a calendar year taxpayer, a credit for gasoline tax refund will first be taken on the income tax return filed for the year 1966 and will cover the period from June 30, 1965, through December 31, 1966.

The procedure outlined above with respect to gasoline used by farmers will also be available in the case of gasoline used for off-highway purposes or by local transit systems. However, the quarterly refund system, where the amounts involved are more than $1,000, will still continue to be available. In addition, the refund provision will continue to be available for the United States, States, or local governmental units, and tax-exempt organizations.

It is expected that the revenue effect of this provision will be negligible.

23. Statute of limitations on assessment and collection (sec. 810 of the bill and sec. 6501 of the code)

Recent court decisions have taken the position that unless a particular transaction is listed on the quarterly excise tax return, the statute of limitations does not begin to run with respect to that transaction. These decisions, which are contrary to the practice the Internal Revenue Service has followed, have led some manufacturers to believe they must list every sale on the quarterly return if they wish to begin the running of the statute of limitations with respect to the sale. In the case of taxes which are levied on the customer but paid by the business firm, as in the case of the telephone tax, it is the customer, rather than the company who would be denied the protection of the statute of limitations if the standard adopted in recent court decisions was adhered to uniformly.

Your committee's bill provides that when an excise tax return is filed which has an entry with respect to a particular tax, the statute of limitations will begin to run. Provision will also be made on the return for the "use" of an article.

The bill also provides that in the case of a return which fails to list properly reportable tax, the statute of limitations will be 6 years if the amount omitted exceeds 25 percent of the tax reported on the return.

The effective date of these provisions is July 1, 1965. It is expected that the revenue effect of this provision will be negligible.

24. Exchanges for sale of poultry (sec. 811 of the bill and sec. 501(c)(18) of the code)

The attention of your committee has been called to the problem of nonprofit poultry growers exchanges, such as the Eastern Shore, Poultry Growers' Exchange, Inc. These exchanges act as a sales agent for the growers and buyers of poultry in the localities in which they operate. They are nonprofit organizations and have no capital stock. The directors and officers of the exchanges do not receive compensation for the services they render. After ample working capital is provided for the operation of these exchanges, any excess

funds are donated to agricultural enterprises, such as 4–H Clubs, Future Farmers of America, and poultry improvement associations. Moreover, upon liquidation of these exchanges, provision has been made that all their assets be transferred to educational organizations. Thus, under no circumstances can officers, directors, or members receive distributions from the exchange for their private benefit.

The Internal Revenue Service has held that organizations of this type are subject to income tax on the reserves they accumulate. This is true despite the fact that the Internal Revenue Service has ruled (Rev. Rul. 56–245) that organizations composed of fur ranchers which, as one of their activities, obtain agreements from private auction companies for the marketing of the products of their members and the furnishing of certain services in connection therewith and advertise the type of fur products produced by members qualify as exempt agricultural organizations under the Internal Revenue Code. While it is recognized that there are some differences in the poultry exchanges and these organizations composed of fur ranchers (in that the former actually perform the auctioneering services for their members whereas the latter only arrange for the auctioneering services to be performed for their members by private, profit-making companies), your committee believes that essentially both are properly considered as agricultural organizations and should be exempt from income tax.

For the reasons given above your committee has added a new paragraph to the list of tax-exempt organizations providing an exemption for corporations, associations, and organizations organized and operated exclusively for the purpose of providing an exchange for the sale of poultry for the poultry growers of a particular locality where four conditions are met:

First, the organization must be organized as a nonprofit organization with no capital stock.

Second, no member of the board of directors receives any compensation from the organization.

Third, the net earnings of the organization (except for reasonable additions to working capital for the exchange) must be devoted exclusively to disseminating information as to the best methods of poultry culture and for other agricultural purposes.

Fourth, at all times on and after June 10, 1965 (the date of announcement of this decision by your committee), it must be provided that upon liquidation of the organization, all of the net assets would be transferred to an educational organization which is a private tax-exempt organization or a State agency.

Because your committee believes that such organizations should have been exempt from income tax in the past, it has made this exemption available for all taxable years to which the 1954 code generally is applicable; namely, taxable years beginning after December 31, 1953, and ending after August 16, 1954. However, the provision does not open years closed by the statute of limitations.

Your committee believes that this exemption will result in a minimal loss of revenue; probably less than $50,000 for all prior years for which this provision is applicable.

VI. EXCISE TAXES REMAINING IN EFFECT

The excise taxes remaining in effect after all of the reductions made by your committee's bill become effective are shown in table 14. This table shows only those excise taxes remaining in effect after the scheduled reductions in 1967, 1968, and 1969 are fully effective. This table shows the present rates of these taxes and also the revenue expected to be derived from them under the expected yields for the fiscal year 1966. The total revenue of $10,623 million can be compared with the revenue derived from excise taxes under present law of $15,356 million. (The interest equalization tax is not included in this table.)

TABLE 14.—*Excise taxes remaining after all reductions made by H.R. 8371 become effective*

[Presented in the order and under the headings which are used in the code]

	Rate	Estimated revenue (millions) [1]
Retailers' excise taxes: Diesel fuel and special motor fuels	4¢ per gal	$195
Manufacturers' excise taxes:		
Automobiles	1% of mfrs. price [2]	190
Trucks, buses, trailers	10% of mfrs. price	400
Truck parts and accessories	8% of mfrs. price	20
Tires, etc.:		
Highway type	10¢ per lb	450
Other	5¢ per lb	
Inner tubes	10¢ per lb	
Tread rubber	5¢ per lb	
Gasoline	4¢ per gal	2,800
Lubricating and cutting oil [3]	6¢ and 3¢ per gal	78
Fishing equipment	10% of mfrs. price	8
Pistols and revolvers	10% of mfrs. price	2
Other firearms, shells and cartridges	11% of mfrs. price	19
Miscellaneous excise taxes:		
Transportation of persons by air	5% of amount paid	140
Foreign insurance policies	4¢ or 1¢ per dollar of premium	5
Wagering:		
Wagers	10% of amount of wager	7
Occupation of accepting wagers	$50 per year	
Coin-operated gaming devices	$250 per device per year	18
Use tax on certain highway vehicles	$3 per 1,000 lbs. per year	108
Sugar	0.53¢ per lb	105
Import tax on oleomargarine	15¢ per lb	(4)
Regulatory taxes:		
Narcotic drugs:		
Opium, opiates	1¢ per ounce	
Opium for smoking	$300 per lb	
Occupational	$1 to $24 per year	
Marihuana:		
Transfers	$1 or $100 per ounce	
Occupational	$1 to $24 per year	

White phosphorus matches	2¢ per hundred	
Adulterated butter	10¢ or 15¢ per lb	
Process butter	¼¢ per lb	
Occupational taxes: adulterated or process butter	$48 to $600 per year	(4)
Filled cheese	1¢ or 8¢ per lb	
Occupational taxes: filled cheese	$12 to $400 per year	
Cotton futures	2¢ per lb	
Bank circulation tax (other than national banks)	½ of 1%; ⅛ of 1%; 10%	
Alcohol taxes:		
Distilled spirits	$10.50 per proof gal	2,750
Beer	$9 per barrel	940
Wine	Various rates	118
Rectification tax	30¢ per proof gal	25
Occupational taxes:		
Rectifiers	$110 or $220 per year	
Brewers	$55 or $110 per year	
Manufacturers of stills	$55 per year plus $22 per still	22
Wholesale dealers	$123 or $255 per year	
Retail dealers	$24 or $54 per year	
Other	$25 to $100 per year	
Tobacco taxes: [5]		
Cigarettes	$4 per 1,000	2,150
Cigars	$2.50 to $20 per 1,000	70
Cigarette paper or tubes	½ or 1¢ per 50	2
Machineguns, etc.:		
Transfers	$5 or $200 per firearm	(4)
Occupational	$10 to $500 per year	
Total		[6] 10,623

[1] The estimated revenue shown is for a full year of liability based upon expected yields in the fiscal year 1966. This is not the full yield expected from all excise taxes in 1966 because it does not include the expected yield of those taxes scheduled for elimination by the fiscal year 1969.

[2] For those passenger cars not meeting the safety standards specified by the General Services Administration, the tax rate is 5 percent. Under the House bill this tax is repealed.

[3] In the House bill, the tax on lubricating oil was retained only on oil for highway use.

[4] Less than $500,000.

[5] In the House bill the tax on chewing and smoking tobacco and snuff was retained.

[6] This total can be reconciled with excise tax collections of $15,356,000,000 shown in table 1 by subtracting total effect of reductions under H.R. 8371 of $4,648,000,000 plus $85,000,000 representing undistributed depository receipts and unapplied collections which were included in the total shown in table 1.

CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

APPENDIX A

Telegrams Received From Automotive Manufacturers Pledging the Passing on of Tax Reductions

Dearborn, Mich., *June 9, 1965.*

Senator Harry F. Byrd,
Chairman, Senate Finance Committee,
Old Senate Office Building,
Washington, D.C.

In response to Senator Douglas' request at the Finance Committee's hearings on June 8, I hereby reaffirm the assurance previously given that Ford Motor Co. will pass on to its dealers any reduction in the Federal excise tax on automobiles, including both the first and subsequent phases of the reduction, and that any such reduction will be reflected in our new suggested retail prices and pricing labels which must by law be affixed to all new automobiles.

Since this issue has been raised before your committee, I am taking the liberty of sending a copy of this wire to each member of the committee. In addition, I request that it be made part of the record of hearings.

Henry Ford II.

Detroit, Mich., *June 8, 1965.*

Hon. Harry F. Byrd,
Senate Office Building,
Washington, D.C.:

In response to a query which I understand was raised by Senator Paul Douglas I am happy to reconfirm our previous commitment that Chrysler Corp. will reduce prices by the net amount of the Federal excise tax reduction on passenger cars. Provision has already been made for immediate reduction of prices for the proposed July 1, 1965, reduction, and we give our assurance that similar action will be taken with all scheduled future reductions of Federal excise taxes on passenger cars. Arrangements have also been undertaken to expedite direct refunds to the ultimate purchaser retroactively on the basis of the provisions contained in the bill as it passed the House of Representatives.

L. A. Townsend,
Chrysler Corp.

June 9, 1965.

Hon. Harry F. Byrd,
Chairman, Senate Finance Committee,
Old Senate Office Building, Washington, D.C.:

This is in response to the request of Senator Douglas for additional assurances concerning the intention of passenger car manufacturers to pass through the reductions in the new car excise tax. In line with

its previous statement, General Motors will reflect all scheduled reductions in the excise tax fully and promptly in the manufacturers suggested retail selling price on the sticker affixed by law to every new car as the reductions take effect. The cost of the new car to the dealer will correspondingly be reduced. A copy of this wire is being sent to each member of your committee. A duplicate of this wire will be delivered to you personally by Western Union today.

FREDERIC G. DONNER,
Chairman, General Motors Corp.

DETROIT, MICH., *June 8, 1965.*

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.:

We want to reiterate our public commitment that any and all reductions in automobile excise taxes will be reflected completely in reduced automobile prices on all vehicles sold by this company as of whatever date(s) the law makes such reductions effective.

ROY ABERNETHY,
President, American Motors Corp.

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