

The original documents are located in Box 11, folder “1974/10/26 HR11452 Temporary Suspension of Duty on Crude Feathers and Down” of the White House Records Office: Legislation Case Files at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald R. Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

Exact duplicates within this folder were not digitized.

THE WHITE HOUSE

ACTION

WASHINGTON

Last Day - October 29

October 25, 1974

MEMORANDUM FOR:

THE PRESIDENT

FROM:

KEN COLE

SUBJECT:

Enrolled Bill H.R. 11452
Temporary Suspension of Duty
on Crude Feathers and Downs

Attached for your consideration is House bill, H.R. 11452, sponsored by Representative Carey, which provides for a suspension of the duty on certain feathers and downs until June 30, 1979; includes two riders relating to the tax treatment of life insurance company dividends and an extension of the deadline for coordinating Federal employee health coverage with Medicare.

Roy Ash recommends approval and provides you with additional background information in his enrolled bill report (Tab A).

The NSC, the Counsel's office (Chapman), and Bill Timmons all recommend approval.

RECOMMENDATION

That you sign House bill, H.R. 11452 (Tab B).

APPROVED
OCT 26 1974

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 23 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 11452 - Temporary Suspension of
Duty on Crude Feathers and Downs
Sponsor - Rep. Carey (D) New York

Last Day for Action

October 29, 1974 - Tuesday

Purpose

Provides for a suspension of the duty on certain feathers and downs until June 30, 1979; includes two riders relating to the tax treatment of life insurance company dividends and an extension of the deadline for coordinating Federal employee health coverage with Medicare.

Agency Recommendations

Office of Management and Budget

Approval

Civil Service Commission
Department of Health, Education,
and Welfare

Approval

Department of Agriculture

Approval (Informally)

Department of State

Approval (informal)

Department of the Interior

No objection

Department of Labor

No objection

No objection

(informal)

Department of the Treasury

No objection; defers

on Section 4 to

other agencies

Office of the Special Representative
for Trade Negotiations
Department of Commerce

No objection

No objection; no
recommendation on
Sections 3 and 4



Discussion

Feathers and Downs. Sections 1 and 2 of H.R. 11452 would provide for a temporary suspension of the duty on crude feathers and downs, principally those from ducks and geese, until June 30, 1979. The duty suspension would be effective beginning 180 days after the date of enactment of H.R. 11452. Feathers and downs are used primarily in the manufacture of pillows, comforters, sleeping bags, and outer-wear garments such as parkas and ski jackets. Under existing law the rates of duty applicable to these items are higher than the rates of duty imposed on imported finished articles.

Since U.S. production of feathers and downs is insufficient to meet the domestic demand, U.S. manufacturers of sleeping bags and outer-wear garments rely on imported supplies. They are, therefore, placed in the disadvantageous position of competing against foreign manufacturers of similar finished products who pay a much lower rate of duty than that imposed on imported crude feathers and downs.

Enactment of H.R. 11452 would enable U.S. producers of sleeping bags and outer-wear garments to compete more effectively with foreign suppliers of these items without adversely affecting other domestic interests.

Tax Treatment of Life Insurance Company Dividends. Section 3 of H.R. 11452 would amend the Internal Revenue Code to provide that dividends received by members of an affiliated group from a life insurance company subsidiary not be treated as personal holding company income.

Under present law, life insurance companies are (a) excluded from filing consolidated returns with their affiliates even though the requisite stock ownership exists, and (b) exempted from personal holding company status even though they receive the requisite amount of passive income. However, dividends received from a life insurance company by members of an affiliated group are treated as personal holding company income.

The effect of Section 3 would be to accord such dividends the same treatment as if a life insurance company subsidiary were permitted to file a consolidated return as an affiliated group member.

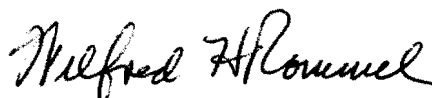
The Treasury Department indicated no objection to similar legislation (H.R. 7692 and H.R. 14016) in a report to the House Ways and Means Committee, anticipating that it would result in a negligible revenue loss.

Coordination of Medicare and Federal Employees' Health Benefits Plan. Section 4 of H.R. 11452 would postpone for one year, from January 1, 1975 to January 1, 1976, the requirement in present law that the Federal Employee Health Benefits (FEHB) program be coordinated with the Medicare program to eliminate over-lapping benefits.

Under current law Federal retirees and older employees with Medicare coverage have been required to take full coverage and pay full premiums for the FEHB program despite the fact that FEHB does not pay for any services to the extent that they are covered by Medicare. FEHB does not presently offer such employees or retirees the option of electing a lower-cost policy or one which supplements rather than duplicates Medicare benefits.

To rectify this situation, Congress wrote a provision into P.L. 92-603 (enacted October 30, 1972) prohibiting Medicare from paying for services covered under an FEHB plan after January 1, 1975 unless by that date supplementary policies are available to Federal retirees and employees. Because of the complexity of developing and implementing supplementary policies, CSC requested Congress to provide a one year extension of the January 1, 1975 deadline.

H.R. 11452 would extend the deadline as requested and would also require CSC and HEW to submit a report to Congress by March 1, 1975 on the steps being taken to accomplish coordination between the FEHB and Medicare programs. Both CSC and HEW support Section 4.



Assistant Director for
Legislative Reference

Enclosure



UNITED STATES CIVIL SERVICE COMMISSION
WASHINGTON, D.C. 20415

CHAIRMAN

October 18, 1974

Honorable Roy L. Ash
Director, Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Attention: Assistant Director for
Legislative Reference

Dear Mr. Ash:

This is in reply to your request for the Commission's views on enrolled bill, H.R. 11452, "To correct an anomaly in the rate of duty applicable to crude feathers and downs, and for other purposes."

Enactment of one section of the enrolled bill -- section 4 -- is of critical importance to the continued economic and orderly operation of the Federal Employees Health Benefits Program (5 U.S.C., ch. 89). Section 4 amends section 1862(c) of the Social Security Act. This section of the Social Security Act mandates that the method of coordinating Federal Employees Health Benefits coverage with Medicare coverage be changed in a manner requiring legislation, which has not been enacted, as a condition of Medicare's continuing to pay benefits for expenses incurred on or after January 1, 1975, for any item or service that is covered under the Federal Employees Health Benefits program. (Currently, Medicare pays hospital and medical claims first, and FEHB plans provide additional benefits up to 100% of covered expenses.)

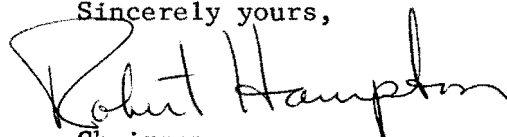
The mandated coordination has not been effected, and cannot be before January 1, 1975. As a result, if the mandate is not modified by enactment of the enrolled bill, all persons who have Medicare and low option Federal employee plans (which together now generally provide full protection) will need to change to substantially more costly high options to assure themselves maximum health insurance protection. In addition, higher premium rates entailing higher government contributions will generally be required for Federal employee plans.

Under section 4 of the enrolled bill, the January 1, 1975 effective date of the mandated coordination would be postponed until January 1, 1976, provided that the Civil Service Commission and the Secretary of the Department of Health, Education, and Welfare submit to the proper Committees of the Congress by March 1, 1975, a report on steps that have been taken and that are planned to accomplish coordination. We believe the requirement of a report by March 1, 1975 is not unreasonable.

The Commission has no official concern with the other provisions in the enrolled bill. Because of our concern with section 4 and its critical importance we recommend that the President promptly sign the enrolled enactment.

By direction of the Commission:

Sincerely yours,


Chairman



DEPARTMENT OF STATE

Washington, D.C. 20520

OCT 18 1974

Honorable Roy L. Ash
Director, Office of
Management and Budget
Washington, D. C. 20503

Dear Mr. Ash:

The Secretary has asked me to reply to your communication (Office of Management and Budget Memorandum, dated October 17, signed by Mr. Rommel) requesting our views on H.R. 11452, an enrolled bill correcting an anomaly in the rate of duty applicable to crude feathers and downs.

The Department of State has no objection, from the standpoint of the foreign relations of the United States, to the enactment of the proposed legislation. In so concluding, we note that the text of the bill also includes provisions amending Section 542 of the Internal Revenue Code and Section 1862 of the Social Security Act and defer to other executive agencies on the effects of the proposed amendments on our tax and social security policies.

Cordially,

A handwritten signature in black ink, reading "Linwood Holton".

Linwood Holton
Assistant Secretary for
Congressional Relations



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

OCT 1974

Dear Mr. Ash:

This responds to your request for our views on the enrolled bill H.R. 11452, "To correct an anomaly in the rate of duty applicable to crude feathers and downs, and for other purposes."

We would have no objection to the President's approval of the bill.

H.R. 11452, as enrolled, amends the Tariff Schedules of the United States by suspending, from 180 days after enactment of the bill until December 31, 1979, duties on certain feathers and downs; it amends the Internal Revenue Code as to the treatment of certain dividends received from life insurance companies; and it amends the Social Security Act by requiring reports on certain matters from the Civil Service Commission and the Secretary of Health, Education and Welfare.

The amendments to the Internal Revenue Code and the Social Security Act do not affect the tariff schedules for imported feathers and downs, the original purpose of H.R. 11452, nor do they affect the policies of this Department. We therefore have no comment on their inclusion in the bill.

The amendment to the Tariff Schedules for feathers and downs will, at least temporarily, correct an anomaly that exists because of the 15% duty on the importation of crude feathers and downs and the 7% duty on the importation of manufactured products using feathers and downs. These tariff rates give foreign manufacturers of pillows, parkas, sleeping bags, etc., a competitive edge in the United States over domestic manufactures of those products who must import crude feathers and down, because the domestic manufacturers are subject to the higher duty rates for the raw materials.

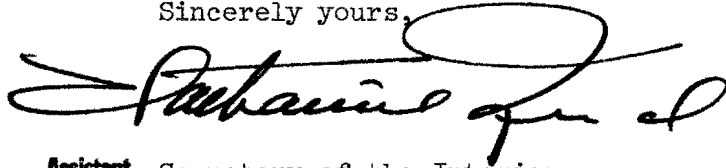
This Department's only concern with the amendments to the Tariff Schedules for feathers and downs is any effect they may have on our responsibility for protecting endangered species. They would have no



Save Energy and You Serve America!

effect because the change in duty rates would not change the provisions of the United States' prohibition on imports of bird skins and feathers.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Stephen J. L. Ash".

Assistant Secretary of the Interior

Honorable Roy L. Ash
Director
Office of Management and Budget
Washington, D. C. 20503

U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

OCT 25 1974

Honorable Roy Ash
Director, Office of Management
and Budget
Executive Office of the President
Washington, D. C. 20503

Dear Mr. Ash:

This is in response to the request of your Office for our views on the enrolled enactment of H.R. 11452, "To correct an anomaly in the rate of duty applicable to crude feathers and downs and for other purposes." This Department would have no objection to the President's approval of this measure insofar as it pertains to the rate of duty imposed on the items referred to above.

The Department defers to the Department of the Treasury regarding views on section 3 of the enrolled enactment which would amend section 542(b) of the Internal Revenue Code of 1954 (relating to corporations filing consolidated returns).

The Department defers to the Department of Health, Education, and Welfare on provisions of section 4 of H.R. 11452 which would amend section 1862(c) of the Social Security Act. We also defer to the views of the Civil Service Commission and the Department of HEW regarding other provisions of section 4 pertaining to the implementation of section 1862(c).

Sincerely,



Secretary of Labor



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

OCT 18 1974

Dear Sir:

This is in response to your request for the views of the Treasury Department on the enrolled bill H. R. 11452.

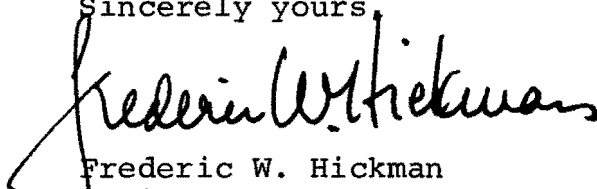
The first section of the enrolled bill would amend the Appendix to the Tariff Schedules of the United States, by adding two new items, 903.70 and 903.80, to provide for the temporary duty-free entry, under column 1 rates of duty, of feathers and downs, whether or not on the skin, crude, sorted (including feathers simply strung for convenience in handling or transportation), treated, or both sorted and treated, but not otherwise processed, as provided in item 186.15. Proposed item 903.80 would also provide for temporary duty-free entry under column 2 rates of duty.

Proposed item 903.70 would provide for feathers and downs "meeting both test methods 4 and 10.1 of Federal Standard 148a promulgated by the General Services Administration." Proposed item 903.80 would cover other feathers and downs. The proposed new items would cover merchandise entered or withdrawn from warehouse, for consumption on or after the 180th day after the date of enactment through June 30, 1979.

Section two of the enrolled bill is similar to H. R. 7692 and would amend the provisions for computing personal holding company income of a member of an affiliated group receiving dividends from a subsidiary life insurance company. In our January 24, 1974, report on H. R. 7692 (a copy of which is enclosed) we indicated that, if certain technical corrections were made, we would not object to the adoption of H. R. 7692. The requested technical corrections have been incorporated in section two of the enrolled bill.

As respects sections one and two of the enrolled bill, the Treasury Department would have no objection to a recommendation that these provisions be approved by the President. As respects section three, which concerns the coordination of federal employee health programs with Medicare, this Department defers to the views of other interested agencies and Departments.

Sincerely yours,



Frederic W. Hickman
Assistant Secretary

Director, Office of Management and Budget
Attention: Assistant Director for
Legislative Reference, Legislative
Reference Division
Washington, D. C. 20503

Enclosure

JAN 24 1974

Dear Mr. Chairman:

This is in response to your request for the views of the Treasury Department on H.R. 7692 (93rd Cong.), entitled "A BILL To amend the Internal Revenue Code of 1954 to provide for the treatment of dividends received by a member of an affiliated group from a subsidiary that is excluded from the group solely because such subsidiary is a life insurance company."

Section 1501 of the Code provides that an "affiliated group of corporations" (connected by 80 percent stock ownership) may elect to file a consolidated return in lieu of separate returns. The basic principle of the consolidated return is that the affiliated group is taxed upon its consolidated taxable income, representing principally the result of its dealings with the outside world after the elimination of intercompany profit and loss.

Section 541 imposes a special tax on undistributed income of a "personal holding company." To constitute a personal holding company, at least 60 percent of a corporation's adjusted ordinary gross income must be personal holding company income and more than 50 percent of its stock must be owned by five or fewer individuals. Dividends are included within the definition of personal holding company income. An "affiliated group of corporations" is, in general, eligible to determine its personal holding company tax liability upon a consolidated basis. Dividends distributed by one member of an affiliated group to another member are eliminated for purposes of determining the personal holding company income of the affiliated group. This treatment is consistent with the theory that the group is a single taxable enterprise.

Certain corporations are, however, expressly excluded from filing a consolidated return with their affiliates even though the requisite stock ownership exists. Also, some corporations are expressly exempted from personal holding company status even though they receive the requisite amount of passive income such as dividends or interest.

1. Banks, for example, are excluded from personal holding company status, but are eligible to file a consolidated return.

2. Life insurance companies are, on the other hand, excluded both from personal holding company status and from filing a consolidated return. Extension of the present method of taxing life insurance companies, it would be a difficult accounting matter to consolidate their income with affiliates which are not life insurance companies.

H. R. 7692 is concerned with the combination of the consolidated return and personal holding company provisions as applied to life insurance companies which are connected to other corporations by the requisite stock ownership to be an affiliate and which could file a consolidated return were it not for the express exclusion of life insurance companies. In particular, in calculating personal holding company income of the parent corporation of a life insurance company, H. R. 7692 is intended to permit the parent to exclude dividends received from the life insurance company just as it could if a life insurance company were permitted to file a consolidated return.

It is also understood that H. R. 7692 is intended in this respect to accord the same treatment for dividends from a life insurance company as present law interpreted by Revenue Ruling 71-531 provides for dividends from a bank. A bank like an insurance company is excluded from personal holding company status, but unlike an insurance company a bank is permitted to file a consolidated return with its affiliates. However, where a bank is a member of a consolidated group with other corporations which are not exempted from personal holding company status, section 542 requires that each affiliate compute its personal holding company income separately rather than on a consolidated basis. Revenue Ruling 71-531 provides that even where this separate computation of personal holding company income is made, inter-company dividends (e. g., from the bank to its parent) are eliminated in order not to frustrate the purpose of the provisions for consolidated returns and consolidated personal holding company income.

H. R. 7692 would provide also that in the case of a dividend from a life insurance company to its parent corporation, the dividend is excluded from the parent's personal holding company income.

The Treasury Department is opposed to H. R. 7692 in its present form. H. R. 7692 would go beyond the treatment accorded to banks under present law. As discussed below, there may be some grounds for extending to life insurance companies the same treatment accorded banks. However, under Revenue Ruling 71-531 in the case of a dividend paid by a bank to its parent the dividend is totally eliminated for personal holding company purposes, i. e., the dividend is excluded

both from the parent's (i) "adjusted ordinary gross income" and (ii) "personal holding company income." Under H. R. 7692, in its present form, the dividend from the life insurance company is excluded only from the parent's "personal holding company income," but is included in the parent's "adjusted ordinary gross income." Since under the Code, a corporation would be a personal holding company only if the "personal holding company income" is at least 60 percent of "adjusted ordinary gross income," if the dividend is excluded only from the former and not the latter, the result is to permit the parent corporation to receive an even greater amount of personal holding company income from other sources without meeting the 60 percent test and being classed as a personal holding company. This extension beyond the treatment of banks is unjustified and the Treasury Department opposes enactment of H. R. 7692 on that basis alone.

If H. R. 7692 were modified to exclude the dividend both from "personal holding company income" and "adjusted ordinary gross income," then the question would be solely whether the same treatment accorded banks should be extended to life insurance companies. In that regard, we would point out that we think there are grounds for reservation on that point of which you should be aware. First, as already indicated, banks are eligible to file a consolidated return and life insurance companies are not. Revenue Ruling 71-531 primarily is intended not to frustrate this expression of Congressional purpose in the case of banks. That purpose has not been expressed in the case of life insurance companies. Also, in both cases, from a policy standpoint, there are grounds for saying that even though the bank or the insurance company is itself exempt from personal holding company status, once the income has been paid out as a dividend to a parent corporation, and thus withdrawn from use in the banking or insurance business, that dividend is just as much passive income as any other dividend. From that point of view, neither dividends from banks nor dividends from life insurance companies would be excluded from the personal holding company income of the parent. However, that is not the present law with respect to dividends from banks which are under Revenue Ruling 71-531 excluded. Also, it can be argued that life insurance companies should be treated the same as banks for this purpose if the only reason life insurance companies are excluded from consolidated return status is not that the requisite stock ownership does not exist, but is simply the difficulty in accounting for life insurance company income on a consolidated basis with other income.

In addition, H. R. 7692 would be effective for taxable years beginning after December 31, 1972. As a matter of general policy the Treasury Department is opposed to such retroactive measures. Thus, we suggest the effective date provision be modified to apply to taxable years beginning after December 31, 1973.

Although there are the reservations discussed above, the question is not clear-cut and is one in which there is reasonable latitude for legislative judgment. If the Congress should determine in its judgment that the life insurance companies should be treated the same as banks for this purpose, and if the technical modifications we suggest were made (eliminating the dividend both from "personal holding company income" and from "adjusted ordinary gross income," and changing the effective date) we would not feel it appropriate to object to H. R. 7692 as so modified.

Reliable estimates with respect to revenue losses are unavailable. However, we believe that the revenue loss under H. R. 7692 for a one-year period would be negligible.

The Office of Management and Budget has advised the Treasury Department that there is no objection from the standpoint of the Administration's program to the presentation of this report.

Sincerely yours,

s/ Frederic W. Hickman

Frederic W. Hickman
Assistant Secretary

The Honorable
Wilbur D. Mills
Chairman, House Ways and Means
Committee
House of Representatives
Washington, D. C. 20515

OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS

EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

October 21, 1974

W. L. Rommel, Esquire
Assistant Director for
Legislative Reference
Office of Management and Budget
Washington, D. C. 20503

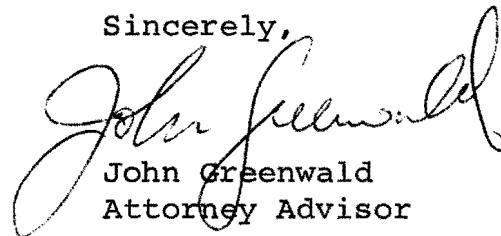
Attention: Mrs. Garziglia

Dear Mr. Rommel:

Reference is made to your request of October 17, concerning enrolled bills, H.R. 11452, H.R. 11251, H.R. 13631, H.R. 12035, H.R. 7780, H.R. 6191, H.R. 6642, H.R. 11830, and your request of October 21 concerning H.R. 12281.

This Office considers that the import duty suspensions provided by these bills provide no reason for withholding Presidential signature. We would, however, yield to the Treasury Department as to the advisability of the Administration's concurrence with the tax riders to each of these duty suspension bills.

Sincerely,



John Greenwald
Attorney Advisor



**GENERAL COUNSEL OF THE
DEPARTMENT OF COMMERCE**
Washington, D.C. 20230

OCT 21 1974

Honorable Roy L. Ash
Director, Office of Management
and Budget
Washington, D. C. 20503

Attention: Assistant Director for Legislative Reference

Dear Mr. Ash:

This is in reply to your request for the views of this Department concerning H.R. 11452, an enrolled enactment

"To correct an anomaly in the rate of duty applicable to crude feathers and downs, and for other purposes."

The Department of Commerce would have no objection to approval by the President of the provisions in sections 1 and 2 of H.R. 11452 relating to the temporary suspension of import duties on certain feathers and downs.

We have no recommendations to make concerning section 3, which amends the Internal Revenue Code of 1954 and, section 4, which amends the Social Security Act.

Enactment of this legislation will not involve the expenditure of any funds by this Department.

Sincerely,

Karl E. Bakke

General Counsel



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Honorable Roy L. Ash
Director, Office of Management
and Budget
Washington, D. C. 20503

OCT 22 1974

Dear Mr. Ash:

This is in response to Mr. Rommel's request of October 17, 1974, for a report on H.R. 11452, an enrolled bill "To correct an anomaly in the rate of duty applicable to crude feathers and downs, and for other purposes."

Section 5 of the bill, the only section of direct concern to this Department, would amend section 1862(c) of the Social Security Act to delay from January 1, 1975, to January 1, 1976, the deadline for coordination of the Medicare and Federal Employees Health Benefits programs. The Civil Service Commission and the Department would be required to submit to the Congress, by March 1, 1975, a report on the progress made in arranging for such coordination.

Coordination of Medicare and FEHB cannot be achieved by the January 1, 1975, deadline currently imposed by section 1862. Failure to enact section 5 of the bill would therefore result in termination of Medicare coverage for services covered under FEHB plans at the beginning of next year. Medicare beneficiaries covered under FEHB would be denied Medicare benefits to which they have become entitled through their contributions to the social security system, and they would be required to pay for this loss of Medicare benefits through increased FEHB premiums. Such a result is, in our view, indefensible as a matter of public policy.

The Department therefore supports enactment of H.R. 11452, subject to consideration of the views of affected agencies on the desirability of enactment of the other provisions of the bill.

Sincerely,


Secretary



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

October 22, 1974

Honorable Roy L. Ash
Director
Office of Management and Budget

Dear Mr. Ash:

In reply to your request of October 17, the following report is submitted on the enrolled enactment of H.R. 11452, a bill "To correct an anomaly in the rate of duty applicable to crude feathers and downs, and for other purposes."

The Department recommends that the President approve those sections of the bill relating to feathers and downs, sections 1 and 2. We defer to the agencies concerned regarding the acceptability of section 3, amending the Internal Revenue Code, and section 4, amending the Social Security Act.

The bill would add items 903.70 and 903.80 to Subpart B of Part 1 of the Appendix to the Tariff Schedules of the United States (TSUS) making temporary changes in the duty applicable to feathers and downs, other than ostrich, whether or not on the skin, crude, sorted, treated, or both sorted and treated, but not otherwise processed, provided for in item 186.15 of subpart D of Part 15 of Schedule 1 of the TSUS. These items would provide duty free entry, on or before June 30, 1979, under both Column 1 and 2 for such articles not cleaned for manufacture and under Column 1 for such articles cleaned for manufacture, while the Column 2 rate for such articles cleaned for manufacture would be 20 percent ad valorem.

Currently, feathers and downs, except ostrich feathers, are dutiable at 15 percent ad valorem (Column 1 rate) and 20 percent ad valorem (Column 2 rate). However, the Column 1 rate under TSUS item 748.40 for articles in chief value of feathers, such as sleeping bags, is 7 percent ad valorem. The current duty structure, therefore, encourages U.S. imports of manufactured articles of feathers rather than the importation of crude feathers and downs for further processing. Thus, there currently is a built-in incentive for U.S. manufacturers of feather products to establish facilities abroad, and there is some evidence that this trend has already begun. In addition, it should be noted that the proposed bill would set up a duty-free rate on imports of crude feathers and downs, not cleaned for manufacture, from non-MFN suppliers--including the Peoples Republic of China, the world's largest producer of feathers and downs and a trading partner with which we currently have a significant trade surplus.

The temporary reduction provided for by H.R. 11452 will permit U.S. representatives in the multilateral trade negotiations to negotiate and receive credit for a permanent reduction in duty for articles provided for in item 186.15. H.R. 11452 does not alter the duty for ostrich feathers (TSUS item 186.10), which was bound by the United States in GATT to South Africa at a Column 1 rate of 5 percent ad valorem.

Sincerely,

A handwritten signature in cursive script, reading "J. Phil Campbell". The signature is written in dark ink and is positioned above the typed name and title.

J. Phil Campbell
Acting Secretary

Last Day - October 29

October 25, 1974

MEMORANDUM FOR:

THE PRESIDENT

FROM:

KEN COLE

SUBJECT:

Enrolled Bill H.R. 11452

Temporary Suspension of Duty
on Crude Feathers and Downs

Attached for your consideration is House bill, H.R. 11452, sponsored by Representative Carey, which provides for a suspension of the duty on certain feathers and downs until June 30, 1979; includes two riders relating to the tax treatment of life insurance company dividends and an extension of the deadline for coordinating Federal employee health coverage with Medicare.

Roy Ash recommends approval and provides you with additional background information in his enrolled bill report (Tab A).

The NSC, the Counsel's office (Chapman), and Bill Timmons all recommend approval.

RECOMMENDATION

That you sign House bill, H.R. 11452 (Tab B).

Last Day - October 29

October 25, 1974

MEMORANDUM FOR:

THE PRESIDENT

FROM:

KEN COLE

SUBJECT:

Enrolled Bill H.R. 11452

Temporary Suspension of Duty
on Crude Feathers and Downs

Attached for your consideration is House bill, H.R. 11452, sponsored by Representative Carey, which provides for a suspension of the duty on certain feathers and downs until June 30, 1979; includes two riders relating to the tax treatment of life insurance company dividends and an extension of the deadline for coordinating Federal employee health coverage with Medicare.

Roy Ash recommends approval and provides you with additional background information in his enrolled bill report (Tab A).

The NSC, the Counsel's office (Chapman), and Bill Timmons all recommend approval.

RECOMMENDATION

That you sign House bill, H.R. 11452 (Tab B).

Last Day - October 29

October 23, 1974

MEMORANDUM FOR:

THE PRESIDENT

FROM:

KEN COLE

SUBJECT:

Enrolled Bill H.R. 11452
Temporary Suspension of Duty
on Crude Feathers and Downs

Attached for your consideration is House bill, H.R. 11452, sponsored by Representative Carey, which provides for a suspension of the duty on certain feathers and downs until June 30, 1979; includes two riders relating to the tax treatment of life insurance company dividends and an extension of the deadline for coordinating Federal employee health coverage with Medicare.

Roy Ash recommends approval and provides you with additional background information in his enrolled bill report (Tab A).

The NSC, the Counsel's office (Chapman), and Bill Timmons all recommend approval.

RECOMMENDATION

That you sign House bill, H.R. 11452 (Tab B).

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 693

Date: October 23, 1974

Time: 12:00 Noon

FOR ACTION: Geoff Shepard
NSC/S
Phil Buchen
✓ Bill Timmons

cc (for information): Warren K. Hendriks
Jerry Jones
Paul Theis

FROM THE STAFF SECRETARY

DUE: Date: Friday, October 25, 1974 Time: 2:00 p.m.

SUBJECT: Enrolled Bill H.R. 11452 - Temporary Suspension
of Duty on Crude Feathers and Downs

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☐ For Your Comments☐ Draft Remarks

REMARKS:

Please return to Kathy Tindle - West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Warren K. Hendriks
For the President

ACTION MEMORANDUM

THE WHITE HOUSE

WASHINGTON

LOG NO.: 693

Date: October 23, 1974

Time: 12:00 Noon

FOR ACTION: Geoff Shepard
NSC/S
✓ Phil Buchen
Bill Timmons

cc (for information): Warren K. Hendriks
Jerry Jones
Paul Theis

FROM THE STAFF SECRETARY

DUE: Date: Friday, October 25, 1974 Time: 2:00 p.m.

SUBJECT: Enrolled Bill H.R. 11452 - Temporary Suspension
of Duty on Crude Feathers and Downs

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☐ For Your Comments☐ Draft Remarks

REMARKS:

Please return to Kathy Tindle - West Wing

No objection
L.C.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Warren K. Hendriks
For the President

THE WHITE HOUSE
WASHINGTON

October 24, 1974

MEMORANDUM FOR: MR. WARREN HENDRIKS
FROM: WILLIAM E. TIMMONS *P. A. M. Hendricks*
SUBJECT: Action Memorandum - Log No. 693
Enrolled Bill H. R. 11452 - Temporary
Suspension of Duty on Crude Feathers
and Downs

The Office of Legislative Affairs concurs in the attached proposal and has no additional recommendations.

Attachment

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 700

Date: October 23, 1974

Time: 6:00 p.m.

FOR ACTION: Geoff Shepard
NSC/S
Phil Buchen
Bill Timmons

cc (for information): Warren K. Hendriks
Jerry Jones
Paul Theis

FROM THE STAFF SECRETARY

DUE: Date: Friday, October 25, 1974 Time: 2:00 p.m.

SUBJECT: Enrolled Bill H.R. 11830 - Temporary duty-free
treatment of synthetic rutile

ACTION REQUESTED:

___ For Necessary Action

XX For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

___ For Your Comments

___ Draft Remarks

REMARKS:

Please return to Kathy Tindle - West Wing



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Warren K. Hendriks
For the President

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

ACTION

Last Day - October 29

MEMORANDUM FOR:

THE PRESIDENT

FROM:

KEN COLE

SUBJECT:

Enrolled Bill H.R. 11452
Temporary Suspension of Duty
on Crude Feathers and Downs

Attached for your consideration is House bill, H.R. 11452, sponsored by Representative Carey, which provides for a suspension of the duty on certain feathers and downs until June 30, 1979; includes two riders relating to the tax treatment of life insurance company dividends and an extension of the deadline for coordinating Federal employee health coverage with Medicare.

Roy Ash recommends approval etc.

~~We have checked with~~ the NSC, the Counsel's office (Chapman), and Bill Timmons ~~who~~ recommend approval.

all

RECOMMENDATION

That you sign House bill, H.R. 11452 (Tab B).

THE WHITE HOUSE
WASHINGTON

10/23/74

TO: WARREN HENDRIKS

RDL

Robert D. Linder

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 693

Date: October 23, 1974

Time: 12:00 Noon

FOR ACTION: ~~✓~~ Geoff Shepard
~~✓~~ SC/S
~~✓~~ Phil Buchen
Bill Timmons

cc (for information): Warren K. Hendriks
Jerry Jones
Paul Theis

FROM THE STAFF SECRETARY

DUE: Date: Friday, October 23, 1974 Time: 2:00 p.m.

SUBJECT: Enrolled Bill H.R. 11452 - Temporary Suspension
of Duty on Crude Feathers and Downs

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☐ For Your Comments☐ Draft Remarks

REMARKS:

Please return to Kathy Tindle - West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

To
Harris Handrick
10-23-74
11:20 a.m.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 23 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 11452 - Temporary Suspension of
Duty on Crude Feathers and Downs
Sponsor - Rep. Carey (D) New York

Last Day for Action

October 29, 1974 - Tuesday

Purpose

Provides for a suspension of the duty on certain feathers and downs until June 30, 1979; includes two riders relating to the tax treatment of life insurance company dividends and an extension of the deadline for coordinating Federal employee health coverage with Medicare.

Agency Recommendations

Office of Management and Budget

Approval

Civil Service Commission

Approval

Department of Health, Education,
and Welfare

Approval (Informally)

Department of Agriculture

Approval (informal)

Department of State

No objection

Department of the Interior

No objection

Department of Labor

No objection
(informal)

Department of the Treasury

No objection; defers
on Section 4 to
other agencies

Office of the Special Representative
for Trade Negotiations

No objection

Department of Commerce

No objection; no
recommendation on
Sections 3 and 4

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 693

Date: October 23, 1974

Time: 12:00 Noon

FOR ACTION: ✓ Geoff Shepard
NSC/S
Phil Buchen
Bill Timmons

cc (for information): Warren K. Hendriks
Jerry Jones
Paul Theis

FROM THE STAFF SECRETARY

DUE: Date: Friday, October 25, 1974 Time: 2:00 p.m.

SUBJECT: Enrolled Bill H.R. 11452 - Temporary Suspension
of Duty on Crude Feathers and Downs

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☐ For Your Comments☐ Draft Remarks

REMARKS:

Please return to Kathy Tindle - West Wing

No dy

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Warren K. Hendriks
For the President

TEMPORARY SUSPENSION OF DUTY ON CRUDE FEATHERS AND DOWNS

APRIL]11, 1974.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. CAREY of New York, from the Committee on Ways and Means,
submitted the following

REPORT

[To accompany H.R. 11452]

The Committee on Ways and Means, to whom was referred the bill
(H.R. 11452) to correct an anomaly in the rate of duty applicable to
crude feathers and downs, and for other purposes, having considered
the same, report favorably thereon with amendments and recommend
that the bill as amended do pass.

The amendments are as follows:

Page 1, strike out the matter appearing immediately after line 6 and
insert the following:

903.70	Feathers and downs, whether or not on the skin, crude, sorted (including feathers simply strung for convenience in handling or transportation), treated, or both sorted and treated, but not otherwise processed (provided for in item 186.15, part 15D, schedule I):			
	Meeting both test methods 4 and 10.1 of Federal Standard 148a promulgated by the General Services Administration-----	Free-----	No change--	On or before 12/31/79.
903.80	Other-----	Free-----	Free-----	On or before 12/31/79. "

Page 2, line 4, immediately before "date" insert "180th day after the".

PURPOSE

The purpose of H.R. 11452, as reported, is to suspend for a temporary period, from the 180th day after the date of enactment to the close of December 31, 1979, the duty on certain feathers and downs.

GENERAL STATEMENT

H.R. 11452 would suspend for the temporary period stated above the duty on certain water fowl feathers and downs, principally those from ducks and geese, imports of which are presently classified under item 186.15 of the Tariff Schedules of the United States (TSUS). These feathers and downs are used primarily in the manufacture of pillows, comforters, sleeping bats, and outer-wear garments such as parkas and ski jackets.

Imports of feathers and downs under item 186.15 amounted to 9 million pounds valued at \$15.7 million in 1973. Major sources of imports include Taiwan, France, Mainland China, and West Germany. Imports under item 186.15 are dutiable at a rate column numbered 1 duty (applicable to countries accorded most-favored-nation treatment) of 15 percent ad valorem, and a rate column numbered 2 duty (applicable to Communist countries, except Poland and Yugoslavia) of 20 percent ad valorem.

In contrast with the duty of 15 percent on feathers and downs under item 186.15, there is a 7 percent ad valorem duty imposed on certain finished articles under item 748.40 of the TSUS in which feathers and downs are used as the raw material components. The Customs Service has ruled that such finished articles as sleeping bags and outer-wear garments are dutiable at the 7 percent rate under item 748.40.

Domestic manufacturers of sleeping bags and outer-wear garments, therefore, are placed in the position of competing against foreign suppliers of such finished products who pay less than one-half the duty rate imposed on feathers and downs. As was recognized by the Department of Agriculture in its favorable report to your committee on this bill:

The current duty structure, therefore, encourages U.S. imports of manufactured articles of feathers and downs for further processing. Thus, there currently is a built-in incentive for U.S. manufacturers of feather products to establish facilities abroad, and there is some evidence that the trend has already begun.

The Department of Labor, in its report to your committee of January 14, 1974, on H.R. 11452, likewise recommended suspension of the duties as provided for in the bill as follows:

The Department of Labor would support the enactment of H.R. 11452. Consumer demand for sleeping bags and outer-wear garments made from feathers and downs has more than doubled since 1969 and domestic suppliers (growers and processors) have been unable to meet the demand for feathers and downs. Increased imports have not adversely affected domestic employment and further imports may lead to increased employment in the finished product industries.

Temporary suspension of the duty on feathers and downs, which would eliminate the anomaly between crude feathers and downs and finished products, would further eliminate one incentive for U.S. manufacturers to move production abroad.

Your committee believes that this present advantage for foreign manufacturers and the correlative disadvantage to domestic manufacturers of finished articles of feathers and downs must be eliminated from the Tariff Schedules. Your committee is convinced that enactment of H.R. 11452 is necessary to accomplish this objective.

As reported by your committee, the bill would do so by adding to Subpart B of Part 1 of the Appendix to the Tariff Schedules two new items, 903.70 and 903.80. The first of these new items would provide duty-free entry for a temporary period (from the 180th day after the date of enactment of this bill until the close of December 31, 1979) for feathers and downs presently dutiable under rate column numbered 1 of item 186.15, provided that such feathers and downs meet both test methods 4 and 10.1 of Federal Standard 148(a) promulgated by the General Services Administration. There would be no change in the rate column numbered 2 duty applicable under new item 903.70.

The other new item that would be added to the TSUS by your committee's bill, item 903.80, would provide duty-free treatment for a like temporary period of time for all other feathers and downs presently dutiable under item 186.15. The duty-free treatment would apply under new item 903.80 to both column 1 and column 2 rates.

The provisions of section 2(b) would permit the President, in the exercise of his trade agreements authority, to grant a concession on the duty-free status for feathers provided for in the bill if such concession were granted during the statutory suspension of the duty. Thus, the permanent rate for feathers in rate of duty column numbered 1 of 15 percent ad valorem (item 186.15) could be reduced to free by virtue of this special delegation to the President, even if the general trade agreements authority does not so provide. The purpose of this section is to provide the President with the opportunity to seek reciprocal concessions from other countries for the tariff reductions provided by the bill.

No unfavorable comment was received by your committee in response to its press release and announcement of December 21, 1973, issuing an invitation for submission of written statements by the general public on H.R. 11452. No objection to the bill has been received from the executive departments or from any other source. In addition to the favorable reports on this legislation received from the Departments of Agriculture and Labor, referred to above, favorable reports have also been received from the Department of State, the Department of the Treasury, the Department of Commerce, the Department of the Interior, and the Special Representative for Trade Negotiations.

EFFECT OF THE BILL ON THE REVENUES AND VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with clause 7 of rule XIII of the Rules of the House of Representatives, the following statement is made relative to the effect on the revenues of this bill. Your committee estimates that the revenue loss resulting from enactment of H.R. 11452, based upon imports in calendar year 1973, would be, in the first full year of its effectiveness, \$2,500,000.

In compliance with clause 27(b) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote by your committee on reporting the bill. This bill was unanimously ordered favorably reported by your committee.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):

TARIFF SCHEDULES OF THE UNITED STATES

APPENDIX TO THE TARIFF SCHEDULES

PART 1.—TEMPORARY LEGISLATION

Item	Articles	Rates of Duty		Effective Period
		1	2	
.	Subpart B.—Temporary Provisions Amending the Tariff Schedules	.	.	.
.
903.70	<i>Feathers and downs, whether or not on the skin, crude, sorted (including feathers simply strung for convenience in handling or transportation), treated, or both sorted and treated, but not otherwise processed (provided for in item 183.15, part 15D, schedule 1); Meeting both test methods 4 and 10.1 of Federal Standard 148a promulgated by the General Services Administration.</i>	<i>Free.</i>	<i>No change.</i>	<i>On or before 12/31/79.</i>
903.80	<i>Other.</i>	<i>Free.</i>	<i>Free.</i>	<i>On or before 12/31/79.</i>

○

8/8 Senate

8/21 "

10/11 H. Conf

J "

TEMPORARY SUSPENSION OF DUTY ON CRUDE
FEATHERS AND DOWNS

AUGUST 1, 1974.—Ordered to be printed

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

REPORT

[To accompany H.R. 11452]

The Committee on Finance, to which was referred the bill (H.R. 11452) to correct an anomaly in the rate of duty applicable to crude feathers and downs, and for other purposes, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

I. SUMMARY

House bill.—The House bill would provide for a temporary suspension of duty on certain feathers and downs.

Committee bill.—One committee amendment would limit the period of suspension until January 1977 (instead of the January 1980 date in the House bill). The second committee amendment would delete the provision of the House bill which would have permitted the President, in the exercise of his trade agreements authority, to grant a concession on the duty-free status for feathers provided for in the bill if such concession were granted during the statutory suspension of the duty.

The third committee amendment does not relate to the subject matter of the House bill. This committee provision deals with the treatment of dividends received by a member of an affiliated group from a subsidiary that is excluded from the group because it is a life insurance company. Under present law life insurance companies are excluded from filing a consolidated return with their affiliates even though the requisite stock ownership exists, because the unique method of taxing such companies would make it difficult from an accounting standpoint to consolidate their income with their affiliates which are not life insurance companies. Life insurance companies, as well as other corpora-

tions (such as banks) are expressly exempted from personal holding company status even though they receive the requisite amount of passive income because of the nature of their business activities. Certain problems exist in the case of life insurance companies where dividends which are received by members of an affiliated group from a life insurance subsidiary are treated as personal holding company income but would not be so treated if the life insurance company were permitted to file a consolidated return with the group. The committee believes it is appropriate to treat the dividends received by members of an affiliated group from a life insurance subsidiary in the same manner as they would be treated if the life insurance company were permitted to file a consolidated return. Accordingly, the committee's amendment provides that the dividends received by members of an affiliated group from a life insurance subsidiary will not be treated as personal holding company income. This is consistent with the treatment provided for banks under present law.

II. GENERAL STATEMENT

A. DUTY SUSPENSION ON CERTAIN FEATHERS AND DOWNS

H.R. 11452 would suspend for the temporary period stated above the duty on certain water fowl feathers and downs, principally those from ducks and geese, imports of which are presently classified under item 186.15 of the Tariff Schedules of the United States (TSUS). These feathers and downs are used primarily in the manufacture of pillows, comforters, sleeping bags, and outer-wear garments such as parkas and ski jackets.

Imports of feathers and downs under item 186.15 amounted to 9 million pounds valued at \$15.7 million in 1973. Major sources of imports include Taiwan, France, Mainland China, and West Germany. Imports under item 186.15 are dutiable at a rate column numbered 1 duty (applicable to countries accorded most-favored-nation treatment) of 15 percent ad valorem, and a rate column numbered 2 duty (applicable to Communist countries, except Poland and Yugoslavia) of 20 percent ad valorem.

In contrast with the duty of 15 percent on feathers and downs under item 186.15, there is a 7 percent ad valorem duty imposed on certain finished articles under item 748.40 of the TSUS in which feathers and downs are used as the raw material components. The Customs Service has ruled that such finished articles as sleeping bags and outer-wear garments are dutiable at the 7 percent rate under item 748.40.

Domestic manufacturers of sleeping bags and outer-wear garments, therefore, are placed in the position of competing against foreign suppliers of such finished products who pay less than one-half the duty rate imposed on feathers and downs.

The committee believes that this present advantage for foreign manufacturers and the correlative disadvantage to domestic manufacturers of finished articles of feathers and downs must be eliminated from the Tariff Schedules. The committee is convinced that enactment of H.R. 11452 is necessary to accomplish this objective.

The House bill would add to Subpart B of Part 1 of the Appendix to the Tariff Schedules two new items, 903.70 and 903.80. The first of these new items would provide duty-free entry for a temporary period (from the 180th day after the date of enactment of this bill until the close of December 31, 1979) for feathers and downs presently dutiable under rate column numbered 1 of item 186.15, provided that such feathers and downs meet both test methods 4 and 10.1 of Federal Standard 148(a) promulgated by the General Services Administration. There would be no change in the rate column numbered 2 duty applicable under new item 903.70.

Upon the recommendation of the domestic industry, it is the intention of your Committee that "meeting both test methods 4 and 10.1 of Federal Standard 148a" means the following. Feathers and downs meet method 4—Determination of Oxygen Number (Titration Method)—when their oxygen number does not exceed 20 grams of oxygen per 100,000 grams of sample when tested by method 4. Feathers and downs meet method 10.1—Determination of Turbidity (Turbidimeter Method)—when they have a turbidity of not less than 75 centimeters when tested by method 10.1. It is our understanding that these test methods and specifications are acceptable to the U.S. Customs Service.

The other new item that would be added to the TSUS by the House bill, item 903.80, would provide duty-free treatment for a like temporary period of time for all other feathers and downs presently dutiable under item 186.15. The duty-free treatment would apply under new item 903.80 to both column 1 and column 2 rates.

The committee amended the House bill by limiting the period of duty suspension until the close of December 31, 1976, as opposed to December 31, 1979, under the House bill. In addition, the committee deleted the section in the House bill which would have authorized the President, in the exercise of his trade agreements authority, to grant a concession on the duty-free status for feathers provided for in the bill if such concession were granted during the statutory suspension of the duty. This authority in the House bill was deleted, given the unlikelihood of the conclusion of a successful multilateral tariff negotiation by December 31, 1976.

B. TREATMENT OF LIFE INSURANCE COMPANY DIVIDENDS FOR PERSONAL HOLDING COMPANY CONSOLIDATED RETURN PURPOSES

Present law provides in general for a 70-percent tax on the undistributed income of a personal holding company (secs. 541-547). A personal holding company is defined as a corporation 60 percent of whose adjusted ordinary gross income is personal holding company income (generally passive investment income), and 50 percent of whose stock is owned by 5 or fewer shareholders. Certain types of companies (including banks and life insurance companies), whose active businesses involve the investment of funds and the earning of interest and dividends, are excluded from the personal holding company provisions (sec. 542(c)). However, dividends received from such a company are generally included in personal holding company income to the shareholder receiving the dividend.

In addition to the exceptions from the personal holding company provisions for certain types of companies (such as banks and life insurance companies), an exception is provided for a group of affiliated companies filing a consolidated return.¹

In such cases the personal holding company provisions are applied on a consolidated basis; only earnings of affiliated members from investments outside the consolidated group are considered to be personal holding company income. Thus, intercorporate dividends paid among members of the consolidated group are not personal holding company income or adjusted ordinary gross income attributable to the consolidated group (sec. 542(b)).

Life insurance companies generally are not eligible to participate as a member of a consolidated group which includes other non-insurance companies even though the requisite common ownership exists between such companies (sec. 1504(b)(2)), because the unique accounting methods by which life insurance companies are taxed make it difficult to consolidate their returns with other non-insurance companies. Consequently, under present law dividends from a life insurance company paid to another company constitute personal holding company income to that company even though sufficient common ownership exists to meet the requirements for filing consolidated returns.

Until recently, similar treatment was applied in the case of banks with respect to their personal holding company income. Although banks are permitted to file consolidated returns with other corporations (unlike life insurance companies), the personal holding company provisions (sec. 542(b)(3)) require that the personal holding company income of other members of the consolidated group in which a bank is a member be separately calculated rather than calculated on a consolidated basis because banks (like life insurance companies) are excluded from the personal holding company provisions. As a result, dividends from banks to other members of a consolidated group were treated as personal holding company income to the recipient of the dividend. However, the Internal Revenue Service in Revenue Ruling 71-531 reversed this treatment because of what it believed was Congress' expressed intent in excluding intercorporate dividends of members of a consolidated group generally. Thus, the Revenue Ruling held that dividends from banks to other members of a consolidated group are to be excluded from personal holding company income and adjusted ordinary gross income of the company receiving the dividend. However, in the case of life insurance companies, dividends received by a member of an affiliated group from a subsidiary which is a life insurance company (and thus excluded from filing a consolidated return with the group) are still treated as personal holding company income.

The committee believes that the present treatment of a life insurance company, which would be a member of a consolidated group but

¹ Section 1501 of the Code provides that an "affiliated group of corporations" (connected by 80 percent stock ownership) may elect to file a consolidated return in lieu of separate returns. The basic principle of the consolidated return is that the affiliated group is taxed upon its consolidated taxable income, representing principally the result of its dealings with the outside world after the elimination of intercompany profit and loss.

for the requirement prohibiting their inclusion, discriminates against such companies in contrast to banks and other companies generally. Furthermore, the present treatment is inconsistent with the expressed general policy of Congress to exclude intercorporate dividends of members of a consolidated group from the personal holding company provisions. For these reasons, the committee's provision specifies that dividends to any member of a consolidated group of corporations from a life insurance company are not to be included either as consolidated personal holding company income or as consolidated adjusted ordinary gross income if the life insurance company is not a member of the affiliated group because of the provision prohibiting insurance companies from participating in a consolidated group. Thus, the committee provision permits the parent or other corporations related to a life insurance company to exclude any dividends received from a life insurance company from any determination of whether 60 percent of the recipient corporation's income is personal holding company income.

This amendment is to apply to taxable years beginning after December 31, 1973.

It is estimated that there will be a revenue loss from this committee provision for a one-year period but that it will be negligible.

III. COSTS OF CARRYING OUT THE BILL AND EFFECT ON THE REVENUES OF THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs to be incurred in carrying out this bill and the effect on the revenues of the bill. The committee estimates that the temporary suspension of duties on crude feathers and downs, provided by the bill will result in a revenue loss, based on imports during calendar year 1973, of \$2.5 million in the first full year for which it is effective. The change approved regarding the tax treatment of life insurance company dividends under certain circumstances will result in a revenue loss for a one year period. The committee estimates this revenue loss will be negligible.

IV. VOTE OF COMMITTEE ON REPORTING THE BILL

In compliance with section 133 of the Legislative Reorganization Act, as amended, the following statement is made relative to the vote of the committee on reporting the bill. This bill was ordered favorably reported by the committee without a roll call vote and without objection.

V. 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).

RATE OF DUTY APPLICABLE TO CRUDE FEATHERS AND DOWNS

OCTOBER 1, 1974.—Ordered to be printed

Mr. MILLS, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 11452]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 11452) to correct an anomaly in the rate of duty applicable to crude feathers and downs, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendment numbered 6.

That the House recede from its disagreement to the amendments of the Senate numbered 3 and 4, and agree to the same.

Amendment numbered 1:

That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 6/30/79; and the Senate agree to the same.

Amendment numbered 2:

That the House recede from its disagreement to the amendment of the Senate numbered 2, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 6/30/79; and the Senate agree to the same.

The committee of conference report in disagreement the amendments of the Senate numbered 5 and 7.

W. D. MILLS,
AL ULLMAN,
JAMES A. BURKE,
H. T. SCHNEEBELI,
HAROLD R. COLLIER,

Managers on the Part of the House.

RUSSELL LONG,
HERMAN E. TALMADGE,
WALLACE F. BENNETT,

Managers on the Part of the Senate.

JOINT EXPLANATORY STATEMENT OF THE COMMITTEE OF CONFERENCE

The managers on the part of the House and the Senate at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 11452) to correct an anomaly in the rate of duty applicable to crude feathers and downs, and for other purposes, submit the following joint statement to the House and the Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report:

Amendment Nos. 1 and 2: The House bill provides for a suspension of the duty on certain feathers and downs until the close of December 31, 1979. Senate amendments numbered 1 and 2 shorten the period of duty suspension by two years until the close of December 31, 1977. Under the conference agreement, the period of suspension proposed by the House is adopted but reduced by six months (until the close of June 30, 1979) in order to prevent the suspension period from expiring at a time when Congress is normally not in session.

Amendment Nos. 3 and 4: Senate amendments numbered 3 and 4 would delete the authority contained in the House bill under which the President, in the exercise of his trade agreements authority, could grant a concession on the duty-free status for feathers and downs provided for in the bill if such concession were granted during the statutory suspension of the duty. In view of the continued absence of any trade agreements authority, the House recedes.

Amendment No. 5: Under the Internal Revenue Code of 1954, life insurance companies are excluded from filing a consolidated return with their affiliates even though the requisite stock ownership exists. Present law also exempts life insurance companies, as well as other corporations (such as banks), from personal holding company status, even though they receive the requisite amount of passive income, because of the nature of their business activities. However, dividends received from a life insurance company by members of an affiliated group are treated as personal holding company income (such dividends would not be so treated if the life insurance company were permitted to file a consolidated return with the group).

Senate amendment numbered 5 provides that dividends received by members of an affiliated group from a life insurance company subsidiary will not be treated as personal holding company income. Thus, the Senate amendment treats dividends so received in the same manner they would be treated if a life insurance company subsidiary was permitted to file a consolidated return as a member of an affiliated group.

This amendment is reported in technical disagreement. The managers on the part of the House will offer a motion that the House recede from its disagreement to Senate amendment numbered 5, and agree to the same.

Amendment No. 6: Senate amendment numbered 6 would permit, subject to certain conditions and limitations, a deduction for estate tax purposes of up to \$200,000 of the value of a decedent's interest in a family farming operation.

The Senate recedes.

Amendment No. 7: Senate amendment numbered 7 adds a new section to the bill which postpones from January 1, 1975, to January 1, 1976, the requirement that Federal employee health coverage be coordinated with Medicare as a condition of Medicare reimbursement for services provided persons eligible under both programs. In the absence of substantial progress thus far toward coordination of the two programs, the Civil Service Commission and the individual Federal employee plans would have great difficulty in meeting the January 1, 1975, deadline for coordination. The Civil Service Commission and the Secretary of HEW would be required to submit to the proper Committees of the Congress by March 1, 1975, a report on steps that have been taken and are planned to accomplish the coordination; if the report is not submitted by March 1, 1975, Medicare would stop paying for services that are covered by a Federal employee plan as of July 1, 1975, rather than as of January 1, 1976.

This amendment is reported in technical disagreement. The managers on the part of the House will offer the following motion:

That the House recede from its disagreement to Senate amendment numbered 7, and agree to the same with an amendment as follows:

On page 4, line 18, of the Senate engrossed amendments, strike out "Sec. 5" and insert "Sec. 4".

The effect of the proposed motion is that the House recede from its disagreement to Senate amendment numbered 7 and agree to the same, except for a correction of the section number of the new section added by the Senate amendment.

The managers on the part of the Senate will move to agree to the amendment of the House to Senate amendment numbered 7.

W. D. MILLS,
AL ULLMAN,
JAMES A. BURKE,
H. T. SCHNEEBELL,
HAROLD R. COLLIER,

Managers on the Part of the House.

RUSSELL LONG,
HERMAN E. TALMADGE,
WALLACE F. BENNETT,

Managers on the Part of the Senate.

Ninety-third Congress of the United States of America

AT THE SECOND SESSION

*Begun and held at the City of Washington on Monday, the twenty-first day of January,
one thousand nine hundred and seventy-four*

An Act

To correct an anomaly in the rate of duty applicable to crude feathers and downs,
and for other purposes.

*Be it enacted by the Senate and House of Representatives of the
United States of America in Congress assembled,* That subpart B of
part 1 of the Appendix to the Tariff Schedules of the United States
(19 U.S.C. 1202) is amended by inserting immediately before item
903.90 the following new items:

“		Feathers and downs, whether or not on the skin, crude, sorted (including feathers simply strung for convenience in handling or transportation), treated, or both sorted and treated, but not otherwise processed (provided for in item 186.15, part 15D, schedule 1):				
	903.70	Meeting both test methods 4 and 10.1 of Federal Standard 148a promulgated by the General Services Administration..	Free	No change	On or before 6/30/79	
	903.80	Other.....	Free	Free	On or before 6/30/79	”.

SEC. 2. The amendment made by the first section of this Act shall
apply with respect to articles entered, or withdrawn from warehouse,
for consumption on or after the 180th day after the date of the
enactment of this Act.

SEC. 3. (a) Section 542(b) of the Internal Revenue Code of 1954
(relating to corporations filing consolidated returns) is amended by
adding at the end thereof the following new paragraph:

“(5) CERTAIN DIVIDEND INCOME RECEIVED FROM A NONINCLUDIBLE LIFE
INSURANCE COMPANY.—In the case of an affiliated group of corpora-
tions filing or required to file a consolidated return under section 1501
for any taxable year, there shall be excluded from consolidated per-
sonal holding company income and consolidated adjusted ordinary
gross income for purposes of this part dividends received by a member
of the affiliated group from a life insurance company taxable under
section 802 that is not a member of the affiliated group solely by reason
of the application of paragraph (2) of subsection (b) of section 1504.”.

(b) The amendment made by this section shall apply to taxable
years beginning after December 31, 1973.

SEC. 4. (a) Section 1862(c) of the Social Security Act is amended
by striking out “January 1, 1975” and inserting in lieu thereof
“January 1, 1976”.

(b) The Civil Service Commission and the Secretary of Health,
Education, and Welfare shall submit to the Committee on Post Office
and Civil Service and the Committee on Ways and Means of the House
of Representatives, and to the Committee on Post Office and Civil
Service and the Committee on Finance of the Senate, on or before
March 1, 1975, a report on the steps which have been taken, and the

H.R. 11452—2

steps which are planned, to enable the Secretary of Health, Education, and Welfare to make the determination and certification referred to in section 1862(c) of the Social Security Act. If such report is not submitted to such committees on or before March 1, 1975, the date specified in such section (as amended by this section) shall be deemed to be July 1, 1975, rather than January 1, 1976.

Speaker of the House of Representatives.

*Vice President of the United States and
President of the Senate.*

HHH
HHH
HHH
HHH

October 17, 1974

Dear Mr. Director:

The following bills were received at the White House on October 17th:

S.J. Res. 236✓	S. 2840✓	H.R. 7768	H.R. 14225
S.J. Res. 250✓	S. 3007✓	H.R. 7780	H.R. 14597✓
S.J. Res. 251✓	S. 3234✓	H.R. 11221	H.R. 15148✓
S. 355✓	S. 3473✓	H.R. 11251✓	H.R. 15427✓
S. 605✓	S. 3698✓	H.R. 11452✓	H.R. 15540✓
S. 628✓	S. 3792✓	H.R. 11830✓	H.R. 15643✓
S. 1411✓	S. 3838✓	H.R. 12035✓	H.R. 16857✓
S. 1412✓	S. 3979✓	H.R. 12281	H.R. 17027✓
S. 1769✓	H.R. 6624✓	H.R. 13561✓	
S. 2348✓	H.R. 6642✓	H.R. 13631✓	

Please let the President have reports and recommendations as to the approval of these bills as soon as possible.

Sincerely,

Robert D. Linder
Chief Executive Clerk

The Honorable Roy L. Ash
Director
Office of Management and Budget
Washington, D. C.