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THE WHITE HOUSE

ACTION

WASHINGTON

Last Day - October 29

October 25, 1974

MEMORANDUM FOR:

THE PRESIDENT

FROM:

KEN COLE

SUBJECT:

Enrolled Bill H.R. 12035
Duty Suspension on Certain
Carboxymethyl Cellulose Salts

Attached for your consideration is House bill, H.R. 12035, sponsored by Representative Young, which suspends through June 1975 the duty on certain cellulose salts; contains tax riders with regard to charitable remainder trusts, education programs for members of the uniformed services, lease guaranty insurance and insurance of State and local obligations, and forfeited interest due to premature withdrawals from savings accounts or deposits.

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. 12035 (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. 12035 - Duty suspension on certain
carboxymethyl cellulose salts
Sponsor - Rep. Young (D) Georgia

*Posted
10/28
J. Archibald
10/29*

Last Day for Action

October 29, 1974 - Tuesday

Purpose

Suspends through June 1975 the duty on certain cellulose salts; contains tax riders with regard to charitable remainder trusts, education programs for members of the uniformed services, lease guaranty insurance and insurance of State and local obligations, and forfeited interest due to premature withdrawals from savings accounts or deposits.

Agency Recommendations

Office of Management and Budget	Approval
Department of the Treasury	Approval
Department of Defense	Approval (section 4)
Department of Health, Education and Welfare	Approval (section 4)
Department of Commerce	No objection (Informally)
Department of Labor	No objection (Informally)
Department of State	No objection (sections 1 and 2)
Office of the Special Representative for Trade Negotiations	No objection (sections 1 and 2)
Department of the Interior	Defers to other agencies



Discussion

The enrolled bill contains the following provisions:

Duty suspension on certain cellulose salts (sections 1 and 2)

These sections would temporarily suspend, until June 30, 1975, the existing duty on certain carboxymethyl cellulose salts which are used in the manufacture of permanent press materials. Domestic production of these salts is presently unable to meet domestic demand forcing users to rely on relatively expensive imports. Enactment of sections 1 and 2 would reduce costs for consumers of the imported salts without adversely affecting U.S. producers. It is not anticipated that increased supplies of these salts will be available from domestic sources before June 1975, when this temporary duty suspension would expire. The suspension would apply only to those countries accorded most-favored-nation tariff treatment.

Charitable remainder trusts (section 3)

This provision would amend the Internal Revenue Code to extend, from December 31, 1972 to December 31, 1975, the transitional period during which defective wills could be conformed to the requirements of the Code for charitable bequests and thus qualify for a charitable deduction.

Because of the complexity of these requirements, many nonconforming charitable remainder trusts have been unable to meet the current deadline.

The Treasury Department stated no objection to virtually identical legislation (H.R. 11785) in a report to the House Ways and Means Committee, estimating that its enactment would result in a revenue loss of under \$10 million.

Education programs for uniformed service members (section 4)

The Internal Revenue Code generally excludes from gross income amounts received as a scholarship at an educational institution or as a fellowship grant. The exclusion does not apply if the amounts received represent payment for past, present, or future employment services.

The Internal Revenue Service has notified the Department of Defense that certain educational expenses paid to students participating in the recently instituted Armed Forces Health

Professions Scholarship Program are not excludable from gross income due to the individuals' commitment to future active duty with the Armed Forces.

Section 4 of the enrolled bill would impose a moratorium on the application of the IRS ruling through 1975, thus permitting time for the Congress to consider criteria for determining when scholarship and fellowship payments are excludable from the gross income of recipients. The Treasury Department is currently developing a legislative proposal to resolve this and similar problems.

The Senate Finance Committee, in its report accompanying this provision, estimated that it would result in an annual revenue loss of under \$10 million at 1973 levels.

Lease guaranty insurance and insurance of State and local obligations (section 5)

This provision would allow insurance companies writing lease guarantee insurance and insurance guaranteeing the debt service of municipal bond issues to deduct contingency reserve additions in accordance with the present treatment of similar additions for mortgage guarantee insurance under the Internal Revenue Code. A 20-year loss carry-back would be permitted for losses resulting from the insurance of tax-exempt State and local obligations, instead of the 10-year net operating loss carry-back currently available for mortgage guaranty insurance. A 10-year net operating loss carry-back would be provided in the case of lease guaranty insurance.

The funds obtained by taxpayers from deductions for additions to contingency reserves would have to be invested in noninterest bearing Federal tax-and-loss bonds, over which the U.S. Government has unrestricted use. The bonds could not be redeemed, in the absence of net operating losses, until the contingency reserves were restored to income.

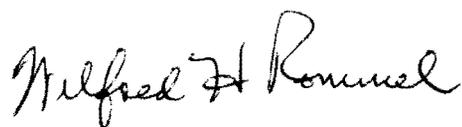
Treasury stated no objection to virtually identical legislation (H.R. 4520) in a report to the House Ways and Means Committee, estimating that its revenue impact would be negligible.

Forfeited interest due to premature withdrawals from savings accounts or deposits (section 6)

Under present law, taxpayers who prematurely withdraw their funds from financial institution accounts are required to forfeit part of the interest previously earned. Unless they

itemize their deductions in determining their taxable income, they are unable to claim a deduction for the interest forfeited -- even though the interest received or accrued had been previously included in income.

Section 6 would permit taxpayers to obtain the benefit of a deduction for interest forfeited while utilizing the standard deduction or low-income allowance in computing taxable income.

A handwritten signature in cursive script, reading "Wilfred H. Rommel".

Assistant Director for
Legislative Reference

Enclosures



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

OCT 22 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. 12035, an enrolled enactment

"To suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts, and for other purposes."

In addition to suspending the duty on imports of carboxymethyl cellulose salts until June 30, 1975, H. R. 12035 would amend the Internal Revenue Code with respect to the tax treatment of charitable trusts, the tax treatment of certain scholarships to members of the uniformed services, the tax treatment of lease guaranty insurance underwriters, and the tax treatment of penalties forfeited because of premature withdrawal of funds from time savings accounts or deposits.

The Department of Commerce would have no objection to approval by the President of H. R. 12035.

Enactment of this legislation would involve no additional expenditure of funds by this Department.

Sincerely,

Karl E. Bakke

General Counsel



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. 12035.

The first section of the enrolled enactment would amend the Appendix to the Tariff Schedules of the United States (TSUS) by adding a new item to provide for the temporary duty-free entry of certain methyl cellulose salts, which are currently classifiable under item 465.87, TSUS, and are dutiable at the column 1 rate of 8 cents per pound. The column 2 rate of duty would not be affected. The proposed item would cover merchandise entered, or withdrawn from warehouse, for consumption on or before June 30, 1975. The Department anticipates no unusual difficulties under this provision and would support its approval by the President.

Section 3 of the enrolled bill would amend section 2055(e) of the Internal Revenue Code to provide a further transitional period until December 31, 1975, during which defective wills could be conformed to the 1969 Act requirements for charitable bequests and, thus, qualify for a charitable deduction. Such conforming amendments were permitted under the 1969 Act implementing the regulations through the end of 1972. This provision is identical in substance to H.R. 11785, respecting which the Treasury Department filed a nonobjection report on March 22, 1974 (copy enclosed).

Section 4 provides that amounts received under the Armed Forces Health Professions Scholarship Program (or similar programs) will qualify as scholarships under section 117 of the Internal Revenue Code, without regard to whether a period of active duty is required of the recipient as a condition of the award. This provision would apply through 1975 and is intended as a moratorium on the application of

recent Internal Revenue Service rulings that such amounts do not qualify as scholarships in view of the active duty requirement. The Treasury Department presently has under development a legislative proposal to resolve this and similar problems. We believe enactment of this provision would be appropriate to provide time for Congress to give full and adequate consideration to the complex area of the tax treatment of scholarships and fellowships and to provide clear guidelines for determining when such payments are excludable from the gross income of recipients.

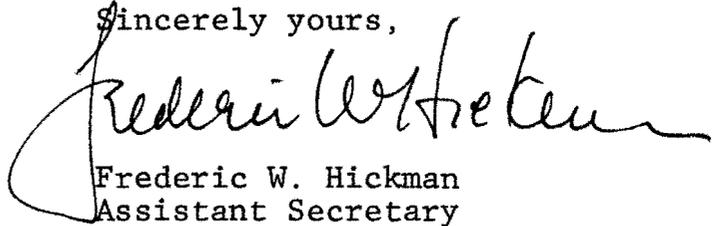
Section 5 would allow those insurance companies which are writing lease guarantee insurance and insurance guaranteeing the debt service of tax-exempt municipal bond issues to deduct additions to contingency reserves in accordance with the current treatment of such additions for mortgage guaranty insurance under section 832(e) of the Internal Revenue Code. The reserves in question are required by state law, are unrelated to the company's loss experience, and are required to be held as reserves for substantial periods of time (e.g., 10 years). Section 832(e) permits a deduction for such unusual reserves on condition that the company purchase special 10-year "tax-and-loss" bonds equal to the tax benefit of the deduction. This ensures that the company will not reap any advantage from the tax deferral while avoiding the cash flow difficulties that would be created for the company if its tax was computed without any allowance for the reserve (which is unavailable to pay tax). This provision is identical in substance to H.R. 4520, respecting which our nonobjection report was filed on March 25, 1974 (copy enclosed).

Section 6 would amend the Internal Revenue Code to provide that the amount of interest that must be forfeited upon premature surrender of a certificate of deposit may be deducted in computing a taxpayer's adjusted gross income. Under present law, such forfeitures may not be offset against interest previously earned but must be deducted as a loss. As a result, taxpayers who do not itemize their deductions must report their interest income in full but get no deduction for the amount forfeited. The Treasury Department

supports this provision as adding to the equity of our tax system and correcting an unintended consequence of the technical provisions of the tax law.

Accordingly, the Treasury Department recommends that the President approve this legislation.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Frederic W. Hickman". The signature is written in dark ink and is positioned above the typed name and title.

Frederic W. Hickman
Assistant Secretary

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

Enclosures

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. 12035, "To suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts, and for other purposes." This Department would have no objection to the President's approval of this measure from the standpoint of its suspension of the duty referred to above.

The Department defers to the Department of the Treasury regarding views on the following sections of this measure: section 3 which would amend section 2055(e) of the Internal Revenue Code of 1954 (relating to the disallowance of deductions in certain cases); section 4 concerning the application of section 117 of the IRC to certain education programs for members of the uniformed services; section 5 which amends section 832(e) of the IRC (relating to special deduction and income account in the case of certain insurance companies), and section 6 which amends section 62 of the IRC by adding a new paragraph (11) entitled "Penalties Forfeited Because of Premature Withdrawal of Funds From Time Savings Accounts or Deposits."

Sincerely,



Secretary of Labor



THE DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

MAR 22 1974

Dear Mr. Chairman:

This is in response to your request for the views of the Treasury Department on H.R. 11785, "A BILL to amend the Internal Revenue Code of 1954 to extend certain transitional rules for allowing a charitable contribution deduction for purposes of the estate tax in the case of bequests or transfers of certain charitable remainders." H.R. 11785 represents the latest refinement of a basic proposal contained in H.R. 3227, H.R. 4606, and H.R. 4743, and our comments are equally applicable to those predecessor bills.

Under present law, no estate tax deduction is allowed for the transfer of a remainder interest in property to or for the use of a charitable organization unless the interest is in the form of a qualified charitable remainder unitrust, charitable remainder annuity trust, or pooled income fund. The transition rules under the Tax Reform Act of 1969, which added this limitation respecting the form of charitable remainder gifts, generally allowed an estate tax charitable contribution deduction to be claimed under the provisions of prior law in the case of amounts transferred by certain wills executed on or before October 9, 1969, and certain trusts created before that date, if the donor died before October 9, 1972, without having changed such will or trust. This transition rule was intended to provide a reasonable time for amendment of wills and trust instruments to conform with the new requirements. In recognition that the complexity of the charitable remainder trust provisions and the absence of definitive regulations was creating certain practical problems in complying with the new requirements, the Income Tax Regulations in effect permit a charitable deduction if a nonconforming instrument is amended (or the procedure for amendment is commenced) before January 1, 1973. These regulations were published in the Federal Register on August 22, 1972.

H.R. 11785 would extend until December 31, 1975, the period during which nonconforming instruments may be amended or conformed to comply with the charitable remainder annuity trust or unitrust rules and would make this transitional procedure more broadly available. Specifically, the bill would make the procedure applicable to any transfer of a remainder interest to a charitable organization, not just transfers under wills and trusts; and the bill would eliminate the necessity of formal compliance with the charitable remainder trust rules where the intervening noncharitable interests actually expire prior to the filing of the decedent's estate tax return.

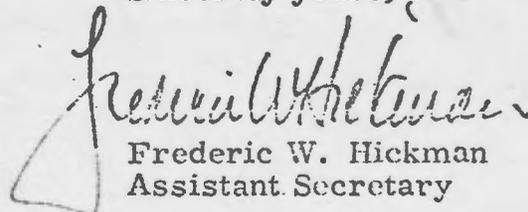
Proponents of the bill have argued that the present transition rules did not allow sufficient time for the public to comprehend the statutory and regulatory requirements and to amend their will and trust instruments so as to bring them into conformity with those requirements. It is argued also that the increase in tax resulting from a disallowance of the charitable contribution deduction is normally borne by the charitable remainderman and that the primary effect of the loss of the deduction is simply to transfer from the charity's interest to the Federal treasury the amount of such additional estate tax.

The determination of the appropriate length of a transition period is fundamentally a matter of legislative judgment. Among the factors to be considered are the complexity of the provisions involved and the consequent practical problems entailed in compliance with changes in the law, as well as any administrative difficulties that may be created by the transition rules. We are advised that no significant administrative problems are foreseen if the proposed legislation is adopted. Moreover, it appears that taxpayers are still experiencing problems in conforming to the 1969 requirements. Under these circumstances, the Treasury Department is not opposed to H. R. 11785.

We estimate that H. R. 11785, if enacted, would result in an estimated loss of less than \$10 million.

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,



Frederic W. Hickman
Assistant Secretary

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

MAR 25 1974

Dear Mr. Chairman:

This is in response to your request for the views and recommendations of the Treasury Department with respect to H. R. 4520 (93d Cong. 1st Sess.), entitled "A BILL To amend section 832(e) of the Internal Revenue Code of 1954".

This bill would allow those insurance companies which are writing lease guarantee insurance and insurance guaranteeing the debt service of municipal bond issues (i. e., obligations the interest on which is excludable from gross income under Section 103 of the Code) to deduct additions to contingency reserves in accordance with the current treatment of such additions for mortgage guaranty insurance under Section 832(e).

Mortgage guaranty insurance companies guarantee the holder of a real estate mortgage against loss on a mortgage loan. State insurance commissions regulate these insurers by requiring the establishment of a contingency loss reserve of up to 50 percent of earned premiums in order to protect against extraordinary losses resulting from adverse economic cycles. These reserve additions are not related to loss experience and remain in the reserve for 15 years, in the absence of authorization from the State commission for prior restoration of income. Normal losses are charged to income currently, rather than to the reserve. Prior to enactment of Section 832(e), the deductibility of additions to a contingency loss reserve was in dispute. Where state law requires 50 percent of earned premiums to be placed in a reserve for extraordinary losses, it would be extremely difficult, if no deduction were allowed for such reserve additions, for a company to operate without continuing additions to working capital, since current losses and other expenses amount to more than 50 percent of their earned premiums.

Section 832(e) was intended to deal with these unusual State law requirements and to afford uniform treatment to all companies engaged in writing mortgage guaranty insurance. A deduction is permitted for additions to a contingency loss reserve maintained by a mortgage guarantee insurance company pursuant to state insurance commission requirements. However, in order to obtain the deduction, the company must purchase special 10-year "tax-and-loss" bonds equal to the tax benefit of the deduction (i. e., the marginal tax rate times the deduction). These bonds are noninterest bearing, nontransferable, and redeemable only when the amount added to the reserve must be restored to income which must occur, at the latest, at the end of 10 years. At the time the reserve is restored to income, the bonds purchased when the reserve was created may be utilized to pay the resulting tax.

The net tax effect to a mortgage guarantee insurance company under Section 832(e) is the ability to carry back for as much as 10 years extraordinary losses from such insurance against taxable income. The deduction for additions to the special contingency reserve gives no immediate tax benefit, since that "benefit" must be invested in tax-and-loss bonds. A non-tax benefit is gained, however, since the bonds are recognized by both accountants and state insurance commissions as assets for financial statement purposes and may thus be used for the special contingency reserve.

Similarly, from the Treasury's standpoint, the deduction for additions to the special contingency reserve is only temporary, and the noninterest bearing bonds give the Treasury at all times the unrestricted use of the deferred tax dollars as if there were no deduction and as if taxes were in fact paid currently. Although the insurance companies obtain a deduction for additions to the special reserves over the approximate average life of the mortgages guaranteed (10 years), at the same time the companies are denied the earnings on the portion of such reserves representing deferred taxes during the time that portion is held for special contingencies.

Lease guarantee insurance and insurance on tax-exempt obligations have generally been subject to the same contingency reserve requirements as mortgage guarantee insurance. Accordingly, the reasons for enactment of Section 832(e) for mortgage guarantee insurance companies are equally applicable to those companies writing lease guarantee insurance and/or insurance on tax-exempt obligations.

The Treasury Department does not object to the enactment of H. R. 4520, but calls the Committee's attention to the fact that the legislation would be generally effective with respect to all taxable years beginning after December 31, 1970. In addition, because of the provisions of Section 832(e)(1)(B), a deduction would be allowed in the current taxable year for additions to a contingency reserve for taxable years beginning after January 1, 1967, but before January 1, 1971. While the Treasury Department normally opposes retroactive legislation, it recognizes that there are unusual circumstances in this case which the Committee may wish to consider.

Specifically, because information supplied to the Treasury indicates that lease guarantee insurance was first written in 1968 and insurance on tax-exempt obligations was first written in late 1971, additions to contingency reserves prior to 1970 would involve minor amounts, and thus retroactivity would have minimal effect in this case. In addition, we understand that tax-and-loss bonds have been purchased with respect to some of the amounts which would be allowed as deductions if the legislation is retroactive; the Treasury has, of course, had the use of these

deferred tax amounts just as if no deductions were allowed and a tax had been paid. The only result of making the legislation retroactive is to afford a carryback to the years 1967 through 1973 in the event of extraordinary losses; and we understand that additions to reserves with respect to lease guaranty obligations have been increasing to an extent that it would appear unlikely that a taxpayer would need to utilize amounts in his reserve arising in prior years in order to absorb any current extraordinary losses. While there have been only slight increases in reserves for insurance on tax exempt obligations, this business activity has been conducted only over a two year period. Another factor to consider is that the administration of this provision would be significantly more complex if no provision for retroactivity were included.

This bill would also permit a 20 year loss carryback in the case of tax exempt state and local obligations rather than the 10 year net operating loss carryback which is currently available for mortgage guaranty insurance and which would be applicable under this bill for lease guaranty insurance. The net operating loss carryback for mortgage guaranty insurance was permitted over the approximate average life of the mortgages guaranteed -- 10 years. However, the average long-term risks associated with these insured tax-exempt obligations is estimated to be approximately 22 years. We understand that States are awaiting federal action which would permit a 20 year loss carryback before state regulatory contingency reserve requirements are correspondingly extended. Accordingly, the Treasury Department does not object to this extension if as a precondition State reserve requirements are appropriately extended.

It is not possible to quantify the revenue effect of this bill, but its effect is thought to be negligible.

The Office of Management and Budget has indicated that it has no objection from the standpoint of the Administration's program to the submission of this report.

Sincerely yours,

s/ Frederic W. Hickman

Frederic W. Hickman
Assistant Secretary

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



GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE

WASHINGTON, D. C. 20301

22 October 1974

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

Dear Mr. Ash:

Reference is made to your request for the views of the Department of Defense with respect to the enrolled enactment H. R. 12035, 93d Congress, an act "To amend the Internal Revenue Code of 1954."

The interest of the Department of Defense in this bill is limited to section 4 which will provide tax relief for participants in the armed forces health professions scholarship program (or any other program determined by the Secretary of the Treasury or his delegate to have substantially similar objectives).

Section 4 of the bill would extend the provisions of section 117 of the Internal Revenue Code of 1954 to cover members of a uniformed service who are receiving training from an educational institution under the armed forces health professions scholarship program. The net effect of section 4 of the bill would be to grant tax relief for amounts that participants receive from appropriated funds as a scholarship, including the value of contributed services and accommodations. Participants presently receive a stipend of \$400.00 per month. Additionally, normal educational expenses incurred by the participant, including tuition, fees, books, laboratory expenses, and payments for educational services, excluding room and board, are paid by the Department of Defense. Enactment of this bill would make the \$400.00 stipend and the payment of educational expenses tax exempt. The provisions of the bill would be retroactive to January 1, 1973.

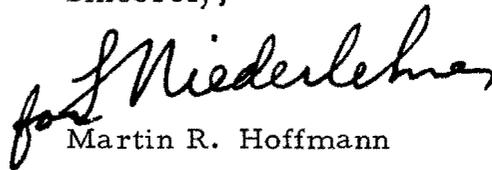
Recruitment and retention of health care professionals is of paramount concern in an all-volunteer force environment. The participants in the armed forces health professions scholarship program, in our opinion, deserve treatment equal to that given the recipients of other educational scholarships. To deny participants this equality of treatment under the law, would be detrimental to the future viability of the armed forces health professions scholarship program.

Cost and Budgetary Data

This bill would not result in any increased cost to the Department of Defense. The number of scholarships that would be affected under this tax relief would be approximately 4,500, increasing to 5,000 by FY 1976.

The Department of Defense strongly supports the enactment of section 4 of H. R. 12035. As to the remaining portions of the bill, the Department of Defense defers to the views of other interested agencies.

Sincerely,

A handwritten signature in cursive script, appearing to read "for J. Niederlehner".

Martin R. Hoffmann



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OCT 22 1974

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

Dear Mr. Ash:

This is in response to Mr. Rommel's request of October 17, 1974, for a report on H.R. 12035, an enrolled bill "To suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts, and for other purposes."

Our interest is limited to section 4 of the enrolled bill which would provide that any amount received as a scholarship by a member of the uniformed services who is receiving training under the Armed Forces Health Professions Scholarship Program or any program having similar objectives (as determined by the Secretary of the Treasury) shall be treated as a scholarship under section 117 of the Internal Revenue Code.

Under section 225 of the Public Health Service Act, commissioned officers of the Public Health Service are eligible to receive scholarships for training as physicians, dentists, nurses, and other health-related specialists. This program would appear to have objectives similar to those of the Armed Forces Health Professions Scholarship Program in that a recipient of a Public Health Service scholarship is obligated to serve on active duty as a commissioned officer in the Service or as a civilian member of the National Health Service Corps following completion of his academic training. If this bill is enacted, we expect to request the Secretary of the Treasury to accord uniformed members of the Public Health Service similar tax treatment to that provided to participants in the Armed Forces Health Professions Scholarship Program.

Honorable Roy L. Ash

2

We favor the provisions of the enrolled bill relating to the tax treatment of health professions scholarships for members of the uniformed services. Such treatment recognizes the substantial public benefit received from the service of individuals participating in such programs. However, because of the other provisions of the enrolled bill which relate mainly to operations of the Internal Revenue Service, we defer to the Department of the Treasury as to the desirability of the enactment of the bill.

Sincerely,

A handwritten signature in black ink, appearing to read "Sargent Shriver". The signature is written in a cursive, flowing style with a large initial "S".

Secretary



DEPARTMENT OF STATE

Washington, D.C. 20520

OCT 13 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. 12035, an enrolled bill temporarily suspending the import duty on carboxymethyl cellulose salts.

The Department of State has no objection from the standpoint of United States foreign economic relations to the enactment of the proposed legislation. In so concluding, we note that the text of the bill also includes provisions amending the Internal Revenue Code and defer to other agencies on the effects of the proposed amendments on our tax policy.

Cordially,

A handwritten signature in black ink, appearing to read "Linwood Holton".

Linwood Holton
Assistant Secretary for
Congressional Relations

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

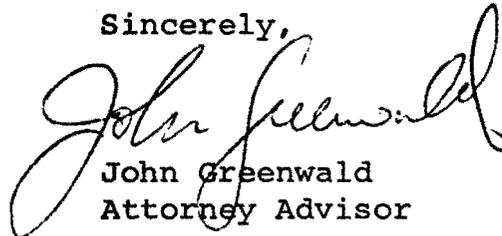
Attention: Mrs. Garziglia

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



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

OCT 22 1974

Dear Mr. Ash:

This responds to your request for our views on the enrolled bill H.R. 12035, "To suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts, and for other purposes."

While we have no objection to the President's approval of the enrolled bill, we defer to the views of other interested agencies as to the advisability of approval.

Sections 1 and 2 of enrolled bill H.R. 12035 would amend the Tariff Schedules of the United States (19 U.S.C. 1202) to authorize a temporary suspension of the duty on certain carboxymethyl cellulose salts. Sections 3 through 6 concern changes in the Federal tax laws, and have no direct impact upon programs administered by this Department.

Section 3 provides for an extension of time to allow charitable remainder trusts to conform to the requirements in the Tax Reform Act of 1969 for purposes of an estate tax deduction.

Section 4 provides that the exclusion for scholarship and fellowship grants from gross income under Section 117 of the Internal Revenue Code of 1954 apply to payments made by the Government for the tuition and certain other educational expenses of a member of the uniformed services attending an educational institution under the Armed Forces Health Professions Scholarship Program until January 1, 1976.

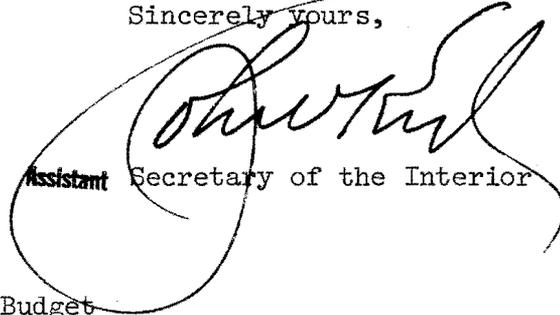
Section 5 provides permission for insurance companies which write lease guarantee insurance and insurance guaranteeing the debt service of municipal bond issues to deduct additions to contingency reserves in accordance with the current treatment of similar additions for mortgage guarantee insurance under section 832(e) of the Internal Revenue Code of 1954.



Save Energy and You Serve America!

Section 6 contains an amendment to Section 62 of the Internal Revenue Code of 1954 which would permit a taxpayer to obtain the benefit of a deduction for interest forfeited on savings accounts while using the standard deduction or low income allowance in computing taxable income.

Sincerely yours,



Assistant Secretary of the Interior

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

ACTION

Last Day - October 29

October 25, 1974

MEMORANDUM FOR: THE PRESIDENT
FROM: KEN COLE
SUBJECT: Enrolled Bill H.R. 12035
Duty Suspension on Certain
Carboxymethyl Cellulose Salts

Attached for your consideration is House bill, H.R. 12035, sponsored by Representative Young, which suspends through June 1975 the duty on certain cellulose salts; contains tax riders with regard to charitable remainder trusts, education programs for members of the uniformed services, lease guaranty insurance and insurance of State and local obligations, and forfeited interest due to premature withdrawals from savings accounts or deposits.

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. 12035 (Tab B).

Last Day - October 29

October 25, 1974

MEMORANDUM FOR:

THE PRESIDENT

FROM:

KEN COLE

SUBJECT:

Enrolled Bill H.R. 12035

Duty Suspension on Certain
Carboxymethyl Cellulose Salts

Attached for your consideration is House bill, H.R. 12035, sponsored by Representative Young, which suspends through June 1975 the duty on certain cellulose salts; contains tax riders with regard to charitable remainder trusts, education programs for members of the uniformed services, lease guaranty insurance and insurance of State and local obligations, and forfeited interest due to premature withdrawals from savings accounts or deposits.

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. 12035 (Tab B).

Last Day - October 29

October 25, 1974

MEMORANDUM FOR: THE PRESIDENT
FROM: KEN COLE
SUBJECT: Enrolled Bill H.R. 12035
Duty Suspension on Certain
Carboxymethyl Cellulose Salts

Attached for your consideration is House bill, H.R. 12035, sponsored by Representative Young, which suspends through June 1975 the duty on certain cellulose salts; contains tax riders with regard to charitable remainder trusts, education programs for members of the uniformed services, lease guaranty insurance and insurance of State and local obligations, and forfeited interest due to premature withdrawals from savings accounts or deposits.

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. 12035 (Tab B).

THE WHITE HOUSE

WASHINGTON

October 24, 1974

MEMORANDUM FOR: MR. WARREN HENDRIKS
FROM: WILLIAM E. TIMMONS *W. E. Timmons*
SUBJECT: Action Memorandum - Log No. 694
Enrolled Bill H. R. 12035 - Duty suspension
on certain carboxymethyl cellulose salts

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

Attachment

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 694

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. 12035 - Duty suspension on certain carboxymethyl cellulose salts

ACTION REQUESTED:

- | | |
|---|--|
| <input type="checkbox"/> For Necessary Action | <input checked="" type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief | <input type="checkbox"/> Draft Reply |
| <input type="checkbox"/> For Your Comments | <input type="checkbox"/> 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

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 694

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. 12035 - Duty suspension on certain carboxymethyl cellulose salts

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
D.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

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 694

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. 12035 - Duty suspension on certain carboxymethyl cellulose salts

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

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

ACTION

Last Day - October 29

MEMORANDUM FOR: THE PRESIDENT

FROM: KEN COLE

SUBJECT: Enrolled Bill H.R. 12035
Duty suspension on certain
carboxymethyl cellulose salts

Attached for your consideration is House bill, H.R. 12035, sponsored by Representative Young, which suspends through June 1975 the duty on certain cellulose salts; contains tax riders with regard to charitable remainder trusts, education programs for members of the uniformed services, lease guaranty insurance and insurance of State and local obligations, and forfeited interest due to premature withdrawals from savings accounts or deposits.

Roy Ash recommends approval etc.

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

RECOMMENDATION

That you sign House bill, H.R. 12035 (Tab B).

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 694

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. 12035 - Duty suspension on certain carboxymethyl cellulose salts

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: Hassan Nurdin
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. 12035 - Duty suspension on certain
carboxymethyl cellulose salts
Sponsor - Rep. Young (D) Georgia

Last Day for Action

October 29, 1974 - Tuesday

Purpose

Suspends through June 1975 the duty on certain cellulose salts; contains tax riders with regard to charitable remainder trusts, education programs for members of the uniformed services, lease guaranty insurance and insurance of State and local obligations, and forfeited interest due to premature withdrawals from savings accounts or deposits.

Agency Recommendations

Office of Management and Budget	Approval
Department of the Treasury	Approval
Department of Defense	Approval (section 4)
Department of Health, Education and Welfare	Approval (section 4)
Department of Commerce	No objection (Informally)
Department of Labor	No objection (Informally)
Department of State	No objection (sections 1 and 2)
Office of the Special Representative for Trade Negotiations	No objection (sections 1 and 2)
Department of the Interior	Defers to other agencies

TEMPORARY SUSPENSION OF DUTY ON CERTAIN
CARBOXYMETHYL CELLULOSE SALTS

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

Mr. LANDRUM, from the Committee on Ways and Means,
submitted the following

REPORT

[To accompany H.R. 12035]

The Committee on Ways and Means, to whom was referred the bill (H.R. 12035) to suspend for a one-year period the duty on certain carboxymethyl cellulose salts, having considered the same, reports favorably thereon with amendments and recommends 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:

907.60	Carboxymethyl cellulose sodium salts of a purity not exceeding 98 percent nor less than 95 percent by weight on a dry weight basis (provided for in Item 465.87, part 8A, schedule 4).	Free.	No change..	On or before 6/30/75,	".
--------	--	------------	-------------	--------------------------	----

Page 2, line 4, strike out "January 1, 1974" and insert "the day after the date of the enactment of this Act".

Amend the title so as to read:

A bill to suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts.

PURPOSE

The purpose of H.R. 12035, as reported, is to suspend for a temporary period, until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts.

GENERAL STATEMENT

The subject of this bill, sodium carboxymethyl cellulose salts of a purity range between 95 and 98 percent, is a product used principally by the domestic textile industry as a synthetic sizing agent, primarily in the making of permanent press materials. Such chemical of less than 95 percent purity is the so-called detergent grade, and exceeding 98 percent purity is the so-called food grade. All grades of this chemical along with other salts are currently classified under items 465.87 of the Tariff Schedules of the United States (TSUS) at a duty of 8 cents per pound (rate column numbered 1, applicable to countries receiving most-favored-nation treatment) and 45 cents per pound (rate column numbered 2, applicable to Communist countries except Poland and Yugoslavia).

Judging from import unit values for carboxymethyl cellulose salts in 1972 and 1973, the bulk of the imports appear to be sodium carboxymethyl cellulose of a purity range between 95 and 98 percent. The import unit values correspond closely to the domestic selling price for this product. In 1972, total imports of carboxymethyl cellulose salts amounted to 254,914 pounds and in the first nine months of 1973, approximately 200,000 pounds. The Netherlands supplies about 80 percent of U.S. imports of this product.

There is only one producer of the type of sodium carboxymethyl cellulose salt considered here. Domestic shipments amounted to between 40 and 50 million pounds in 1972. This single producer has been unable to meet domestic demand and has had to limit shipments to its customers, particularly compounders, the chemical firms which blend carboxymethyl cellulose salts with other chemicals for sale to the textile industry. While the single domestic producer has scheduled an expansion in production, the increase is not expected to affect the current severely short domestic supply situation. In this regard, the Department of the Treasury, in its favorable report on this legislation to your committee, states as follows:

The Department supports the enactment of [a predecessor bill to H.R. 12035]. The salts covered by the bill are used in providing a chemical permanent press finish on wearing apparel. There is presently one manufacturer of these salts in the United States. It is unable to produce sufficient quantities of these salts to satisfy the needs of its customers. A temporary suspension of the duty would enable it to use imported salts to help supply its customers until it can increase production sufficiently to provide for all of its customer demand.

Likewise, the Department of Commerce, as a result of its investigation and in its favorable report of January 7, 1974, advised your committee:

The temporary suspension of duty on CMC salts would reduce the cost to the compounders during a period in which conditions make it necessary to rely on imports having a relatively high AVE duty. The sole domestic producer of CMC salts does not oppose the proposed temporary duty suspension and this Department believes that suspension would not have an adverse effect on U.S. industry.

For these reasons, the Department of Commerce believes that under the present circumstances, the proposed temporary suspension of duty on carboxymethyl cellulose salts of textile-sizing grade is warranted . . .

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 legislation to temporarily suspend the duty on carboxymethyl cellulose salts. No objection to H.R. 12035 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 Commerce and Treasury, referred to above, favorable reports have also been received from the Department of State, the Department of Labor, 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. 12035 in the first full year of its effectiveness would be approximately \$20,000, based on imports in 1972 and part of 1973.

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):

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			
*	*	*	*	*
907.60	Carboxymethyl cellulose sodium salts of a purity not exceeding 98 percent nor less than 95 percent by weight on a dry weight basis (provided for in item 465.87, part 8A, schedule 4)-----	Free	No change	On or before 6/30/75
*	*	*	*	*

TEMPORARY SUSPENSION OF DUTY ON CERTAIN
CARBOXYMETHYL CELLULOSE SALTS

AUGUST 1, 1974.—Ordered to be printed

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

REPORT

[To accompany H.R. 12035]

The Committee on Finance, to which was referred the bill (H.R. 12035) to suspend for a one-year period the duty on certain carboxymethyl cellulose salts, 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 the temporary suspension of duty until July 1975 on certain cellulose salts used in making permanent press clothing materials. The committee bill does not modify the House bill, but includes an amendment unrelated to the subject matter of the House bill.

Committee amendment.—The committee amendment would provide for an extension of time to allow charitable remainder trusts to conform to the requirements provided in the Tax Reform Act for purposes of an estate tax deduction. As a result of the 1969 Act, charitable remainder trusts must meet certain requirements in order for an estate tax deduction to be allowed for the transfer of a remainder interest to charity. In general, these requirements must be met in the case of a decedent dying after December 31, 1969. Present transitional rules have been provided to allow a trust created after July 31, 1969, to qualify if the governing instrument of the trust is amended to meet these new requirements by December 31, 1972. However, because of the complexity of these rules, many nonconforming charitable remainder trusts have been unable to meet this deadline. Accordingly, the committee provision extends these transitional rules to December 31, 1975.

II. GENERAL STATEMENT

A. TEMPORARY SUSPENSION OF DUTY ON CERTAIN CARBOXYMETHYL CELLULOSE SALTS

The subject of this bill, sodium carboxymethyl cellulose salts of a purity range between 95 and 98 percent, is a product used principally by the domestic textile industry as a synthetic sizing agent, primarily in the making of permanent press materials. Such chemical of less than 95 percent purity is the so-called detergent grade, and exceeding 98 percent purity is the so-called food grade. All grades of this chemical along with other salts are currently classified under items 465.87 of the Tariff Schedules of the United States (TSUS) at a duty of 8 cents per pound (rate column numbered 1, applicable to countries receiving most-favored-nation treatment) and 45 cents per pound (rate column numbered 2, applicable to Communist countries except Poland and Yugoslavia).

Judging from import unit values for carboxymethyl cellulose salts in 1972 and 1973, the bulk of the imports appear to be sodium carboxymethyl cellulose of a purity range between 95 and 98 percent. The import unit values correspond closely to the domestic selling price for this product. In 1972, total imports of carboxymethyl cellulose salts amounted to 254,914 pounds and in the first nine months of 1973, approximately 200,000 pounds. The Netherlands supplies about 80 percent of U.S. imports of this product.

There is only one producer of the type of sodium carboxymethyl cellulose salt considered here. Domestic shipments amounted to between 40 and 50 million pounds in 1972. This single producer has been unable to meet domestic demand and has had to limit shipments to its customers, particularly compounders, the chemical firms which blend carboxymethyl cellulose salts with other chemicals for sale to the textile industry. While the single domestic producer has scheduled an expansion in production, the increase is not expected to affect the current severely short domestic supply situation. In this regard, the Department of the Treasury, in its favorable report on this legislation to your committee, states as follows:

The Department supports the enactment of H.R. 12035. The salts covered by the bill are used in providing a chemical permanent press finish on wearing apparel. There is presently one manufacturer of these salts in the United States. It is unable to produce sufficient quantities of these salts to satisfy the needs of its customers. A temporary suspension of the duty would enable it to use imported salts to help supply its customers until it can increase production sufficiently to provide for all of its customer demand.

Likewise, the Department of Commerce in its favorable report of June 28, 1974, advised the committee:

The temporary suspension of duty on CMC salts would reduce the cost to the compounders during a period in which conditions make it necessary to rely on imports having a relatively high AVE duty. The sole domestic producer of CMC salts does not oppose the proposed temporary duty suspension and this Department believes that suspension would not have an adverse effect on U.S. industry.

No unfavorable comment was received by the committee from the general public on this legislation to temporarily suspend the duty on carboxymethyl cellulose salts. No objection to H.R. 12035 has been received from the executive departments or from any other source.

B. EXTENSION OF TIME TO CONFORM CHARITABLE REMAINDER TRUSTS FOR ESTATE TAX PURPOSES

The Tax Reform Act of 1969 imposed new requirements which must be satisfied by a charitable remainder trust¹ for an estate tax deduction to be allowed for the transfer of a remainder interest to a charity. Under these new requirements, no estate tax deduction is allowable for a remainder interest in property passing at the time of a decedent's death in trust unless the trust is in the form of a charitable remainder annuity trust or unitrust. These rules generally apply in the case of decedents dying after December 31, 1969. However, certain exceptions were provided in the case of wills executed or property transferred in trust on or before October 9, 1969. In order to allow a reasonable period of time to take the new rules into account, in these cases the new rules did not apply to these wills until October 9, 1972 (unless the will was modified in the meantime).

While the new requirements were provided so that the amount received would be consistent with the charitable deduction allowed to the donor on the creation of the trust, they have resulted during this transitional period in the prospect of many charities actually losing funds. Many charities today are beneficiaries of charitable remainder trusts created after October 9, 1969, which neither qualify as a charitable remainder annuity trust or unitrust nor are covered by the exception indicated above. By failing to qualify, an estate tax deduction will not be allowed to the estate for the transfer of the remainder interest in trust. As a result, the value of the trust remainder going to charity in these cases will be substantially decreased.

To help alleviate this problem, the Treasury Department issued regulations which provide additional transitional rules allowing a trust to qualify if the governing instrument is amended by December 31, 1972. However, because of the complicated nature of the statutory and regulatory requirements, many trusts were unable to make the necessary conforming amendments by December 31, 1972. As a result, the committee believes that the period allowed to make the required changes should be extended, thereby increasing the funds that will be available to many charities.

For this reason the committee has extended the date by which the governing instrument of a charitable remainder trust must be amended in order to qualify as a charitable remainder annuity trust or unitrust (under sec. 664). Under the amendment, if by December 31, 1975 the governing instrument of the trust is amended so that it meets the requirements of a charitable remainder annuity trust or unitrust, an estate tax deduction will be allowed for the charitable interest which passed in trust from the decedent (even though a deduction was not allowable for this interest because the trust failed to qualify at the time of the decedent's death). Where a judicial proceeding is required

¹ In general, a charitable remainder trust is a trust which provides for a specified distribution at least annually for life or a term of years, to one or more beneficiaries, at least one of which is not a charity, with an irrevocable remainder interest to be held for the benefit of, or paid over to, charity. The amount received each year by the income beneficiary, generally, will be either a stated dollar amount or a fixed percentage of the value of the trust property.

to amend the governing instrument, the judicial proceeding must begin before December 31, 1975, and the governing instrument must be amended to conform to these requirements by the 30th day after judgment becomes final.

In addition, in any case where the trust has become a wholly charitable trust before the due date for filing the estate tax return, no actual amendment of the governing instrument is to be necessary. Thus, if the noncharitable interest in the trust is terminated by the decedent's death and there are no remaining noncharitable interests, a deduction is to be allowed as if the governing instrument had been amended to conform to the charitable remainder trust requirements.

In any case where the governing instrument is amended (or is treated as being amended) after the due date for filing the estate tax return, the provision specifies that the deduction will be allowed upon the filing of a timely claim for credit or refund (sec. 6511) of an overpayment. However, no interest will be allowed for the period prior to the end of 180 days after the claim for credit or refund is filed.

This provision applies with respect to decedents dying after December 31, 1969.

It is estimated that this provision will decrease estate tax liability by less than \$10 million during the four-year period 1973-1976.

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 certain carboxymethyl cellulose salts provided by the bill will result in a revenue loss of approximately \$20,000 during the first full year in which this provision is effective. The Committee also estimates that the amendment providing for an extension of time to conform certain charitable remainder trusts for estate tax purposes will decrease estate tax liability by less than \$10 million during the four-year period 1973-1976.

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).



EXTENDING UNTIL JULY 1, 1975, THE SUSPENSION OF
DUTY ON CERTAIN CARBOXYMETHYL CELLULOSE
SALTS

OCTOBER 1, 1974.—Ordered to be printed

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

CONFERENCE REPORT

[To accompany H.R. 12035]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 12035) to suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

The committee of conference report in disagreement the amendments of the Senate numbered 1, 2, 3, and 4, and the amendment of the Senate to the title of the bill.

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.

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. 12035) to suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts, 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 No. 1: The Senate amendment provides for an extension of time to allow charitable remainder trusts to conform to the requirements provided in the Tax Reform Act of 1969 for purposes of an estate tax deduction. As a result of the 1969 Act, charitable remainder trusts must meet certain requirements in order for an estate tax deduction to be allowed for the transfer of a remainder interest to charity. In general, these requirements apply in the case of a decedent dying after December 31, 1969. Present transitional rules allow a trust created after July 31, 1969, to qualify if the governing instrument of the trust is amended to meet these new requirements by December 31, 1972. The Senate amendment extends the application of these transitional rules to December 31, 1975.

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 1, and agree to the same with the following amendments:

On page 1 of the Senate engrossed amendments, in the seventh line from the bottom, strike out "(3) If" and insert "(3) In the case of a will executed before September 21, 1974, or a trust created before such date, if".

On page 2, line 6, strike out "or" and insert a comma.

On page 2, line 7, after the comma insert the following: "or a pooled income fund (described in section 642 (c) (5)),".

On page 2, line 15, of the Senate engrossed amendments, strike out "and" and insert a comma.

On page 2, line 16, of the Senate engrossed amendments, after "decedents)" insert ", and chapter 42 (relating to private foundations)".

The House amendments to Senate amendment numbered 1 limit the extension of the transitional rules to wills executed before September 21, 1974, and trusts created before such date, and make minor and technical changes in the Senate amendment.

The managers on the part of the Senate will move to agree to the amendments of the House to Senate amendment numbered 1.

Amendment No. 2: The exclusion from gross income for certain amounts received as a scholarship at an educational institution or as a

fellowship grant generally does not apply if the amounts received represent compensation for past, present, or future employment services. The Internal Revenue Service has notified the Department of Defense in response to its request for a ruling that certain amounts received by students toward their educational expenses while participating in the recently instituted Armed Forces Health Professions Scholarship Program are not excludable from their gross income because of the individual's commitment to future service with the Armed Forces. Thus, under this position the individuals are subject to tax on the amounts received. The Senate amendment provides that the exclusion for scholarship and fellowship grants is to apply to payments made by the Government for the tuition and certain other educational expenses of a member of the uniformed services attending an educational institution under the Armed Forces Health Professions Scholarship Program (or substantially similar programs) until January 1, 1976, pending a review by the staff of the effect of application of this provision.

The Senate amendment also includes a section providing similar treatment for certain student loans, all or a portion of which may be cancelled if the recipient performs certain specified work. This provision was inadvertently included in the Senate engrossed amendments.

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 2, and agree to the same with an amendment as follows:

On page 4 of the Senate engrossed amendments, line 8, strike out "Definitions" and insert "Definition of Uniformed Services".

On page 4 of the Senate engrossed amendments, beginning with line 14, strike out all through line 18 on page 5.

The House amendment to Senate amendment numbered 2 deletes the provision relating to student loans, and corrects a clerical error.

The managers on the part of the Senate will move to agree to the amendments of the House to Senate amendment numbered 2.

Amendment No. 3: The Senate amendment added a new section 3 to the bill. This amendment permits insurance companies writing lease guarantee insurance and insurance guaranteeing the debt service of municipal bond issues to deduct additions to contingency reserves in accordance with the current treatment of similar additions for mortgage guarantee insurance under sec. 832(e) of the Internal Revenue Code of 1954. The amendment allows a 20-year loss carryback in the case of losses arising from the insurance of tax exempt State and local obligations rather than the 10-year net operating loss carryback presently available for mortgage guaranty insurance. In the case of lease guaranty insurance, a 10-year net operating loss carryback is provided. The deduction for additions to the special contingency reserve permitted under this amendment produces a "tax benefit". However, the taxpayer is required to invest the funds so obtained in noninterest bearing Federal tax-and-loss bonds. The United States has unrestricted use of these funds. The tax-and-loss

bonds acquired by the taxpayer cannot be redeemed, unless net operating losses are incurred, until the contingency reserves are restored to income, which must occur, at the latest, within 10 years.

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 3, and agree to the same with an amendment as follows:

On page 5, line 20, of the Senate engrossed amendments, strike out "Sec. 6" and insert "Sec. 5".

The effect of this motion is that the House recedes from its disagreement to the Senate amendment and agrees to the same with a clerical amendment correcting the section number.

The managers on the part of the Senate will move to agree to the amendment of the House to Senate amendment numbered 3.

Amendment No. 4: The Senate amendment added a new section 7 to the bill. Under present law (Rev. Rul. 73-511; 1973-2CB 402) banks, savings and loan associations, and other financial institutions are required to report annually the gross amount of interest paid or accrued with respect to each time savings account or deposit. Individual taxpayers must include such payments or accruals in determining their gross income annually. If an individual prematurely withdraws his funds which are on deposit in such accounts, a substantial penalty is generally imposed and that individual is required to forfeit part of the interest previously earned. Where an individual does not itemize his deductions in determining his taxable income, under present law he is unable to claim a deduction for the interest forfeited even though the interest received or accrued has been previously included in income. The amendment authorizes a deduction for such interest forfeitures from gross income in calculating adjusted gross income. Accordingly, this change permits a taxpayer to obtain the benefit of a deduction for interest forfeited while utilizing the standard deduction or low-income allowance in computing taxable income.

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 4, and agree to the same with amendments, as follows:

On page 6, line 21, of the Senate engrossed amendments, strike out "Sec. 7" and insert "Sec. 6".

On page 6, line 22, of the Senate engrossed amendments, strike out "(9)" and insert "(10)".

On page 6, line 24, of the Senate engrossed amendments, strike out "(10)" and insert "(11)".

The effect of this motion is that the House recedes from its disagreement to the Senate amendment and agrees to the same with a clerical amendment correcting the section number, and technical amendments correcting paragraph designations in the Internal Revenue Code of 1954.

The managers on the part of the Senate will move to agree to the amendment of the House to Senate amendment numbered 4.

Amendment to title: The managers on the part of the House will offer a motion that the House recede from its disagreement to the amendment of the Senate to the title of the bill, and agree to the same.

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.

○

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 suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts, 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 after item 905.31 the following new item :

907.60	Carboxymethyl cellulose sodium salts of a purity not exceeding 98 percent nor less than 95 percent by weight on a dry weight basis (provided for in item 465.87, part 8A, schedule 4)	Free	No change	On or before 6/30/75.
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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 day after the date of the enactment of this Act.

SEC. 3. (a) Section 2055(e) of the Internal Revenue Code of 1954 (relating to the disallowance of deductions in certain cases) is amended by adding at the end thereof the following new paragraph :

“(3) In the case of a will executed before September 21, 1974, or a trust created before such date, if a deduction is not allowable at the time of the decedent’s death because of the failure of an interest in property which passes from the decedent to a person, or for a use, described in subsection (a), to meet the requirements of subparagraph (A) of paragraph (2) of this subsection, and if the governing instrument is amended or conformed on or before December 31, 1975, or, if later, on or before the 30th day after the date on which judicial proceedings begun on or before December 31, 1975 (which are required to amend or conform the governing instrument), become final, so that the interest is in a trust which is a charitable remainder annuity trust, a charitable remainder unitrust (described in section 664), or a pooled income fund (described in section 642(c)(5)), a deduction shall nevertheless be allowed. The Secretary or his delegate may, by regulation, provide for the application of the provisions of this paragraph to trusts whose governing instruments are amended or conformed in accordance with this paragraph, and such regulations may provide for any adjustments in the application of the provisions of section 508 (relating to special rules with respect to section 501(c)(3) organizations), subchapter J (relating to estates, trusts, beneficiaries, and decedents), and chapter 42 (relating to private foundations), to such trusts made necessary by the application of this paragraph. If, by the due date for the filing of an estate tax return (including any extension thereof), the interest is in a charitable trust which, upon allowance of a deduction, would be described in section 4947(a)(1), or the interest passes directly to a person or for a use described in subsection (a), a deduction shall be allowed as if the governing instrument was amended or conformed under this paragraph. If the amendment or conformation of the governing instrument is made after the due date for the filing of the estate tax return (including any extension thereof), the deduction shall be allowed upon the filing of a timely claim for credit or refund (as provided for in section 6511) of an overpayment resulting from the application of this paragraph. In the case of a credit or refund as a result

of an amendment or conformation made pursuant to this paragraph, no interest shall be allowed for the period prior to the expiration of the 180th day after the date on which the claim for credit or refund is filed.”

(b) The amendment made by subsection (a) shall apply with respect to estates of decedents dying after December 31, 1969.

SEC. 4. APPLICATION OF SECTION 117 TO CERTAIN EDUCATION PROGRAMS FOR MEMBERS OF THE UNIFORMED SERVICES.

(a) **IN GENERAL.**—Any amount received from appropriated funds as a scholarship, including the value of contributed services and accommodations, by a member of a uniformed service who is receiving training under the Armed Forces Health Professions Scholarship Program (or any other program determined by the Secretary of the Treasury or his delegate to have substantially similar objectives) from an educational institution (as defined in section 151(e)(4) of the Internal Revenue Code of 1954) shall be treated as a scholarship under section 117 of such Code, whether that member is receiving training while on active duty or in an off-duty or inactive status, and without regard to whether a period of active duty is required of the member as a condition of receiving those payments.

(b) **DEFINITION OF UNIFORMED SERVICES.**—For purposes of this section, the term “uniformed service” has the meaning given it by section 101(3) of title 37, United States Code.

(c) **EFFECTIVE DATE.**—The provisions of this section shall apply with respect to amounts received during calendar years 1973, 1974, and 1975.

SEC. 5. Section 832(e) of the Internal Revenue Code of 1954 (relating to special deduction and income account in the case of certain insurance companies) is amended by inserting after paragraph (5) the following new paragraph:

“(6) **LEASE GUARANTY INSURANCE; INSURANCE OF STATE AND LOCAL OBLIGATIONS.**—In the case of any taxable year beginning after December 31, 1970, the provisions of this subsection shall also apply in all respects to a company which writes lease guaranty insurance or insurance on obligations the interest on which is excludable from gross income under section 103. In applying this subsection to such a company, any reference to mortgage guaranty insurance contained in this section shall be deemed to be a reference also to lease guaranty insurance and to insurance on obligations the interest on which is excludable from gross income under section 103; and in the case of insurance on obligations the interest on which is excludable from gross income under section 103, the references in paragraph (1) to ‘losses resulting from adverse economic cycles’ include losses from declining revenues related to such obligations (as well as losses resulting from adverse economic cycles), and the time specified in subparagraph (A) of paragraph (5) shall be the twentieth preceding taxable year.”.

SEC. 6. (a) Section 62 of the Internal Revenue Code of 1954 is amended by inserting after paragraph (10) the following new paragraph:

“(11) **PENALTIES FORFEITED BECAUSE OF PREMATURE WITHDRAWAL OF FUNDS FROM TIME SAVINGS ACCOUNTS OR DEPOSITS.**—The deductions allowed by section 165 for losses incurred in any transaction entered into for profit, though not connected with a trade or business to the extent that such losses include amounts forfeited to a

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bank, mutual savings bank, savings and loan association, building and loan association, cooperative bank or homestead association as a penalty for premature withdrawal of funds from a time savings account, certificate of deposit, or similar class of deposit.”
(b) The amendment made by this section applies to taxable years beginning after December 31, 1972.

Speaker of the House of Representatives.

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

HHH
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HHH
III

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.