

Public Law 88-563

AN ACT

September 2, 1964
[H. R. 8000]

To amend the Internal Revenue Code of 1954 to impose a tax on acquisitions of certain foreign securities in order to equalize costs of longer-term financing in the United States and in markets abroad, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.Interest Equal-
ization Tax Act.

(a) **SHORT TITLE.**—This Act may be cited as the “Interest Equalization Tax Act”.

(b) **AMENDMENT OF 1954 CODE.**—Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

68A Stat. 3.
26 USC 1 et seq.**SEC. 2. INTEREST EQUALIZATION TAX.**

(a) **IMPOSITION OF TAX.**—Subtitle D (relating to miscellaneous excise taxes) is amended by adding at the end thereof the following new chapter:

“CHAPTER 41—INTEREST EQUALIZATION TAX

“SUBCHAPTER A. Acquisitions of foreign stock and debt obligations.
“SUBCHAPTER B. Acquisitions by commercial banks.

“Subchapter A—Acquisitions of Foreign Stock and Debt Obligations

“Sec. 4911. Imposition of tax.

“Sec. 4912. Acquisitions.

“Sec. 4913. Limitation on tax on certain acquisitions.

“Sec. 4914. Exclusion for certain acquisitions.

“Sec. 4915. Exclusion for direct investments.

“Sec. 4916. Exclusion for investments in less developed countries.

“Sec. 4917. Exclusion for original or new issues where required for international monetary stability.

“Sec. 4918. Exemption for prior American ownership.

“Sec. 4919. Sales by underwriters and dealers to foreign persons.

“Sec. 4920. Definitions and special rules.

“SEC. 4911. IMPOSITION OF TAX.

“(a) **IN GENERAL.**—There is hereby imposed, on each acquisition by a United States person (as defined in section 4920(a)(4)) of stock of a foreign issuer, or of a debt obligation of a foreign obligor (if such obligation has a period remaining to maturity of 3 years or more), a tax determined under subsection (b).

Post, p. 837.

“(b) AMOUNT OF TAX.—

“(1) **STOCK.**—The tax imposed by subsection (a) on the acquisition of stock shall be equal to 15 percent of the actual value of the stock.

“(2) **DEBT OBLIGATIONS.**—The tax imposed by subsection (a) on the acquisition of a debt obligation shall be equal to a percentage of the actual value of the debt obligation measured by the

period remaining to its maturity and determined in accordance with the following table:

"If the period remaining to maturity is:	The tax, as a percentage of actual value, is:
"At least 3 years, but less than 3½ years.....	2.75 percent
At least 3½ years, but less than 4½ years.....	3.55 percent
At least 4½ years, but less than 5½ years.....	4.35 percent
At least 5½ years, but less than 6½ years.....	5.10 percent
At least 6½ years, but less than 7½ years.....	5.80 percent
At least 7½ years, but less than 8½ years.....	6.50 percent
At least 8½ years, but less than 9½ years.....	7.10 percent
At least 9½ years, but less than 10½ years.....	7.70 percent
At least 10½ years, but less than 11½ years.....	8.30 percent
At least 11½ years, but less than 13½ years.....	9.10 percent
At least 13½ years, but less than 16½ years.....	10.30 percent
At least 16½ years, but less than 18½ years.....	11.35 percent
At least 18½ years, but less than 21½ years.....	12.25 percent
At least 21½ years, but less than 23½ years.....	13.05 percent
At least 23½ years, but less than 26½ years.....	13.75 percent
At least 26½ years, but less than 28½ years.....	14.35 percent
28½ years or more.....	15.00 percent.

"(c) PERSONS LIABLE FOR TAX.—

"(1) IN GENERAL.—The tax imposed by subsection (a) shall be paid by the person acquiring the stock or debt obligation involved.

"(2) CROSS REFERENCE.—

"For imposition of penalty on maker of false certificate in lieu of or in addition to tax on acquisition in certain cases, see section 6681.

"(d) TERMINATION OF TAX.—The tax imposed by subsection (a) shall not apply to any acquisition made after December 31, 1965.

"SEC. 4912. ACQUISITIONS.

"(a) IN GENERAL.—For purposes of this chapter, the term 'acquisition' means any purchase, transfer, distribution, exchange, or other transaction by virtue of which ownership is obtained either directly or through a nominee, custodian, or agent. A United States person acting as a fiscal agent in connection with the redemption or purchase for retirement of stock or debt obligations (whether or not acting under a trust arrangement) shall not be considered to obtain ownership of such stock or debt obligations. The exercise of a right to convert a debt obligation (as defined in section 4920(a)(1)) into stock shall be deemed an acquisition of stock from the foreign issuer by the person exercising such right. Any extension or renewal of an existing debt obligation requiring affirmative action of the obligee shall be considered the acquisition of a new debt obligation.

"(b) SPECIAL RULES.—For purposes of this chapter—

"(1) CERTAIN TRANSFERS TO FOREIGN TRUSTS.—Any transfer (other than in a sale or exchange for full and adequate consideration) of money or other property to a foreign trust shall, if such trust acquires stock or debt obligations (of one or more foreign issuers or obligors) the direct acquisition of which by the transferor would be subject to the tax imposed by section 4911, be deemed an acquisition by the transferor (as of the time of such transfer) of stock of a foreign issuer in an amount equal to the actual value of the money or property transferred or, if less, the actual value of the stock or debt obligations so acquired by such trust. Contributions made by an employer to a foreign pension or profit-sharing trust established by such employer for the exclusive benefit of employees (who are not owner-employees as defined in section 401(c)(3)) who perform personal services for such employer on a full-time basis in a foreign country, and contributions to a foreign pension or profit-sharing

trust established by an employer, made by an employee who performs personal services for such employer on a full-time basis in a foreign country (and is not an owner-employee as defined in section 401(c)(3)), shall not be considered under the preceding sentence as transfers which may be deemed acquisitions of stock of a foreign issuer.

76 Stat. 812.
26 USC 401.

“(2) CERTAIN TRANSFERS.—

“(A) TRANSFERS TO FOREIGN CORPORATIONS AND PARTNERSHIPS.—Any transfer of money or other property to a foreign corporation or a foreign partnership—

“(i) as a contribution to the capital of such corporation or partnership, or

“(ii) in exchange for one or more debt obligations of such corporation or partnership, if it is a foreign corporation or partnership which is formed or availed of by the transferor for the principal purpose of acquiring (in the manner described in section 4915(c)(1)) an interest in stock or debt obligations the direct acquisition of which by the transferor would be subject to the tax imposed by section 4911,

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shall be deemed an acquisition by the transferor of stock of a foreign corporation or partnership in an amount equal to the actual value of the money or property transferred.

“(B) TRANSFERS TO FOREIGN BRANCHES.—If a domestic corporation or partnership transfers money or other property to, or applies money or other property for the benefit of, a branch office of such corporation or partnership with respect to which there is in effect an election under section 4920(a)(5)(E), or if funds are borrowed by such branch office from a bank (as defined in section 581), other than from a branch of such a bank located outside the United States lending such funds in the ordinary course of its business, such domestic corporation or partnership shall be deemed to have acquired stock of a foreign corporation or partnership in an amount equal to the actual value of the money or property transferred or applied, or the funds borrowed.

26 USC 581.

“(3) ACQUISITIONS FROM DOMESTIC CORPORATION OR PARTNERSHIP FORMED OR AVAILED OF TO OBTAIN FUNDS FOR FOREIGN ISSUER OR OBLIGOR.—The acquisition of stock or a debt obligation of a domestic corporation (other than a domestic corporation described in section 4920(a)(3)(B)), or a domestic partnership, formed or availed of for the principal purpose of obtaining funds (directly or indirectly) for a foreign issuer or obligor, shall be deemed an acquisition (from such foreign issuer or obligor) of stock or a debt obligation of such foreign issuer or obligor.

“(4) REORGANIZATION EXCHANGES.—Any acquisition of stock or debt obligations of a foreign issuer or obligor in an exchange to which section 354, 355, or 356 applies (or would, but for section 367, apply) shall be deemed an acquisition from the foreign issuer or obligor in exchange for its stock or for its debt obligations. For purposes of this paragraph, in determining whether section 354, 355, or 356 applies, or would apply, to any transaction—

26 USC 354-
356, 367.

“(A) such transaction shall, if it took place before the date of the enactment of this chapter, be treated as taking place on such date, and

“(B) section 368(a)(1)(B) shall be treated as permitting the receipt by a United States person of money or other property in addition to voting stock.

26 USC 368.

"SEC. 4913. LIMITATION ON TAX ON CERTAIN ACQUISITIONS.

"(a) CERTAIN SURRENDERS, EXTENSIONS, RENEWALS, AND EXERCISES.—

"(1) GENERAL RULE.—If stock or a debt obligation of a foreign issuer or obligor is acquired by a United States person as the result of—

"(A) the surrender to the foreign obligor, for cancellation, of a debt obligation of such obligor;

"(B) the extension or renewal of an existing debt obligation requiring affirmative action of the obligee; or

"(C) the exercise of an option or similar right to acquire such stock or debt obligation (or of a right to convert a debt obligation into stock),

then the tax imposed on such acquisition shall not exceed the amount determined under paragraph (2) or (3).

"(2) GENERAL LIMITATION.—Except in cases to which paragraph (3) applies, the tax imposed upon an acquisition described in paragraph (1) shall be limited to—

"(A) the amount of tax imposed by section 4911, less

"(B) the amount of tax which would have been imposed under section 4911 if the debt obligation which was surrendered, extended, or renewed, or the option or right which was exercised, had been acquired in a transaction subject to such tax immediately before such surrender, extension, renewal, or exercise.

For purposes of this paragraph, a defaulted debt obligation of the government of a foreign country or a political subdivision thereof (or an agency or instrumentality of such a government) which has been in default as to principal for at least 10 years and which is surrendered in exchange for another debt obligation of that government (or agency or instrumentality) shall be deemed to have an actual value and period remaining to maturity equal to that of the debt obligation acquired.

"(3) SPECIAL LIMITATIONS.—

"(A) CONVERSIONS OF DEBT OBLIGATIONS INTO STOCK.—The tax imposed upon an acquisition of stock pursuant to the exercise of a right to convert a debt obligation (as defined in section 4920(a)(1)) into stock shall be limited to—

"(i) the amount of tax which would have been imposed by section 4911 if the debt obligation had been treated as stock at the time of its acquisition by the person exercising the right (or by a decedent from whom such person acquired the right by bequest or inheritance or by reason of such decedent's death), less

"(ii) the amount of tax paid by the person exercising the right (or by such decedent) as a result of the acquisition of the convertible debt obligation or, if such acquisition was not subject to the tax imposed by section 4911 the amount of tax which would have been imposed as a result of such acquisition if such acquisition had been subject to such tax.

"(B) EXERCISE OF CERTAIN SHAREHOLDERS' RIGHTS.—The tax imposed upon an acquisition of stock or a debt obligation of a foreign corporation by a United States person, where—

"(i) the stock or debt obligation is acquired pursuant to the exercise of an option or similar right to acquire such stock or debt obligation which was acquired by a

shareholder of such corporation in a distribution with respect to its stock, and

“(ii) such option or right is exercised within 90 days from the date of its distribution by such corporation, shall be limited to the amount of tax which would have been imposed by section 4911 if the price paid under such option or right were the actual value of the stock or debt obligation acquired.

“(C) CERTAIN EMPLOYEE STOCK OPTIONS.—The tax imposed upon an acquisition of stock of a foreign issuer by a United States person pursuant to the exercise of an option or similar right described in section 4914(a)(8) shall be limited to the amount of tax which would have been imposed under section 4911 if the price paid under such option or right were the actual value of the stock acquired.

“(b) CERTAIN TRANSFERS WHICH ARE DEEMED ACQUISITIONS.—The tax imposed upon an acquisition which is deemed to have been made by reason of a transfer of money or other property to a foreign trust, or a foreign corporation or partnership, as described in section 4912(b)(1) or (2)(A), shall be limited to—

“(1) the amount of tax imposed by section 4911, less

“(2) the amount of tax paid by the transferor as the result of the transfer being otherwise taxable as an acquisition under this chapter.

“(c) ACQUISITIONS BY CERTAIN DOMESTIC CORPORATIONS AND PARTNERSHIPS.—If stock or a debt obligation of a foreign issuer or obligor is acquired by a domestic corporation or a domestic partnership with funds obtained as the result of an acquisition by a United States person of stock or a debt obligation of such corporation or partnership which under section 4912(b)(3) is deemed an acquisition by such person of stock or a debt obligation of a foreign issuer or obligor, the tax imposed upon the acquisition by the domestic corporation or the domestic partnership shall be limited to—

“(1) the amount of tax imposed by section 4911, less

“(2) the amount of tax paid by the United States person from whom the funds were obtained on the acquisition by such person which under section 4912(b)(3) is deemed an acquisition of stock or a debt obligation of a foreign issuer or obligor.

“SEC. 4914. EXCLUSION FOR CERTAIN ACQUISITIONS.

“(a) TRANSACTIONS NOT CONSIDERED ACQUISITIONS.—The term ‘acquisition’ shall not include—

“(1) any transfer between a person and his nominee, custodian, or agent;

“(2) any transfer described in section 4343(a) (relating to certain transfers by operation of law from decedents, minors, incompetents, financial institutions, bankrupts, successors, foreign governments and aliens, trustees, and survivors);

“(3) any transfer by legacy, bequest, or inheritance to a United States person, or by gift to a United States person who is an individual;

“(4) any distribution by a corporation of its stock or debt obligations to a shareholder with respect to or in exchange for its stock;

“(5) any distribution to a shareholder by a corporation of stock or debt obligations owned by such corporation on July 18, 1963, in complete or partial liquidation of such corporation, to the extent such shareholder acquired his stock ownership in such corporation in a transaction other than in an acquisition excluded

from tax under subsection (b) of this section, or under section 4915, 4916, or 4917;

"(6) any exchange to which section 361 applies (or would, but for section 367, apply), where the transferor corporation was a domestic corporation and was engaged in the active conduct of a trade or business, other than as a dealer in securities, immediately before the date on which the assets involved are transferred to the acquiring corporation;

"(7) any exercise of a right to convert indebtedness, pursuant to its terms, into stock, if such indebtedness is treated as stock pursuant to section 4920(a)(2)(D); or

"(8) the grant of a stock option or similar right to a United States person who is an individual, for any reason connected with his employment by a corporation, if such option or right (A) is granted by the employer corporation, or its parent or subsidiary corporation, to purchase stock of any such corporations, and (B) by its terms is not transferable by such United States person otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him.

"(b) EXCLUDED ACQUISITIONS.—The tax imposed by section 4911 shall not apply to the acquisition—

"(1) THE UNITED STATES.—Of stock or debt obligations by an agency or wholly owned instrumentality of the United States.

"(2) COMMERCIAL BANK LOANS.—

"(A) Of debt obligations by a commercial bank in making loans in the ordinary course of its commercial banking business.

"(B) Of stock or debt obligations by a commercial bank through foreclosure, where such stock or debt obligations were held as security for loans made in the ordinary course of its commercial banking business.

"(3) ACQUISITIONS REQUIRED UNDER FOREIGN LAW.—Of stock or debt obligations by a United States person doing business in a foreign country to the extent that such acquisitions are reasonably necessary to satisfy minimum requirements relating to holdings of stock or debt obligations of foreign issuers or obligors imposed by the laws of such foreign country; except that if any of such requirements relate to the holding of insurance reserves, the exclusion otherwise allowable under this paragraph with respect to acquisitions made by such United States person during any calendar year shall be reduced by the maximum amount of the exclusion which could be allowed under subsection (e) with respect to acquisitions made by such person during that year, or by the amount of the insurance reserves which must be held in order to satisfy such requirements, whichever is less.

"(4) ACQUISITIONS IN LIEU OF PAYMENT OF FOREIGN TAX.—Of stock or debt obligations by a United States person doing business in a foreign country, to the extent such acquisition is made, in conformity with the laws of such foreign country, as a substitute for the payment of tax to such foreign country.

"(5) ACQUISITIONS OF STOCK IN COOPERATIVE HOUSING CORPORATIONS.—Of stock of a foreign corporation which entitles the holder, solely by reason of his ownership of such stock, to occupy for dwelling purposes a house, or an apartment in a building, owned or leased by such corporation.

"(6) EXPORT CREDIT, ETC., TRANSACTIONS.—Of stock or debt obligations arising from the sale of property or services by United States persons, to the extent provided in subsection (c).

26 USC 361,
367.

Post, p. 836.

"(7) LOANS TO ASSURE RAW MATERIALS SOURCES.—Of debt obligations by United States persons in connection with loans made to foreign corporations to assure raw materials sources, to the extent provided in subsection (d).

"(8) ACQUISITIONS BY INSURANCE COMPANIES DOING BUSINESS IN FOREIGN COUNTRIES.—Of stock or debt obligations by insurance companies doing business in foreign countries, to the extent provided in subsection (e).

"(9) ACQUISITIONS BY CERTAIN TAX-EXEMPT LABOR, FRATERNAL, AND SIMILAR ORGANIZATIONS HAVING FOREIGN BRANCHES OR CHAPTERS.—Of stock or debt obligations by certain tax-exempt United States persons operating in foreign countries through local organizations, to the extent provided in subsection (f).

"(10) ACQUISITIONS OF DEBT OBLIGATIONS ON SALE OR LIQUIDATION OF WHOLLY OWNED FOREIGN SUBSIDIARIES.—Of debt obligations acquired in connection with the sales or liquidation of a wholly owned foreign corporation, to the extent provided in subsection (g).

"(11) ACQUISITIONS OF DEBT OBLIGATIONS ARISING OUT OF PURCHASE OF REAL PROPERTY LOCATED IN THE UNITED STATES.—Of debt obligations secured by real property located in the United States and arising out of the purchase of such property from United States persons, to the extent provided in subsection (h).

"(12) ACQUISITIONS BY UNITED STATES PERSONS RESIDING IN FOREIGN COUNTRIES OF STOCK OF CERTAIN FOREIGN ISSUERS INVESTING EXCLUSIVELY IN THE UNITED STATES.—Of stock of foreign issuers investing exclusively in the United States by United States persons residing in foreign countries, to the extent provided in subsection (i).

"(c) EXPORT CREDIT, ETC., TRANSACTIONS.—

"(1) IN GENERAL.—The tax imposed by section 4911 shall not apply to the acquisition from a foreign obligor of a debt obligation arising out of the sale of tangible personal property or services (or both) to such obligor by any United States person, if—

"(A) payment of such debt obligation (or of any related debt obligation arising out of such sale) is guaranteed or insured, in whole or in part, by an agency or wholly owned instrumentality of the United States; or

"(B) the United States person acquiring such debt obligation makes the sale in the ordinary course of his trade or business and not less than 85 percent of the purchase price is attributable to the sale of property manufactured, produced, grown, or extracted in the United States, or to the performance of services by such United States person (or by one or more includible corporations in an affiliated group, as defined in section 1504, of which such person is a member), or to both.

26 USC 1504.

The term 'services', as used in this paragraph and paragraph (2), shall not be construed to include functions performed as an underwriter.

"(2) ALTERNATE RULE FOR PRODUCING EXPORTERS.—The tax imposed by section 4911 shall not apply to the acquisition by a United States person from a foreign issuer or obligor of its stock in payment for, or of a debt obligation arising out of, the sale of tangible personal property or services (or both) to such issuer or obligor, if

"(A) at least 30 percent of the purchase price, or 60 percent of the actual value of the stock or debt obligation acquired, is attributable to the sale of property manufactured, pro-

26 USC 1504.

duced, grown, or extracted in the United States by such United States person (or by one or more includible corporations in an affiliated group, as defined in section 1504, of which such person is a member), or to the performance of services by such United States person (or by one or more such corporations), or to both, and

“(B) at least 50 percent of the purchase price, or 100 percent of the actual value of the stock or debt obligation acquired, is attributable to the sale of property manufactured, produced, grown, or extracted in the United States, or to the performance of services by United States persons, or to both.

“(3) CERTAIN INTERESTS IN INTANGIBLE PERSONAL PROPERTY.—The tax imposed by section 4911 shall not apply to the acquisition by a United States person from a foreign issuer or obligor of its stock in payment for, or of a debt obligation arising out of, the sale or license to such issuer or obligor of—

“(A) any interest in patents, inventions, models or designs (whether or not patented), copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises, or other like property (or any combination thereof), or

“(B) any such interest together with services to be performed in connection with any such interest sold or licensed by such United States person (or by one or more includible corporations in an affiliated group, as defined in section 1504, of which such person is a member),

if not less than 85 percent of the purchase price, or license fee, is attributable to the sale or license of any interest in property described in subparagraph (A) which was produced, created, or developed in the United States by such United States person (or by one or more such includible corporations), or is attributable to the sale or license of any interest in such property so produced, created, or developed and to the performance of services described in subparagraph (B).

“(4) EXPORT-RELATED LOANS.—The tax imposed by section 4911 shall not apply to the acquisition from a foreign obligor by a United States person of a debt obligation arising out of a loan made to the obligor to increase or maintain sales of tangible personal property produced, grown, or extracted in the United States by such United States person (or by one or more includible corporations in an affiliated group, as defined in section 1504, of which such person is a member), but only if the proceeds of the loan will be used by the obligor for the installation, maintenance, or improvement of facilities outside the United States which (during the period the loan is outstanding) will be used for the storage, handling, transportation, processing, packaging, or servicing of property a substantial portion of which is tangible personal property produced, grown, or extracted in the United States by such person (or one or more such corporations).

“(5) OTHER LOANS RELATED TO CERTAIN SALES BY UNITED STATES PERSONS.—The tax imposed by section 4911 shall not apply to the acquisition from a foreign obligor by a United States person of a debt obligation of such obligor if such debt obligation—

“(A) was received by such United States person as all or part of the purchase price provided in a contract under which the foreign obligor agrees to purchase for a period of 3 years or more ores or minerals (or derivatives thereof)—

“(i) extracted outside the United States by such United States person or by one or more includible corpo-

rations in an affiliated group (as defined in section 48(c)(3)(C)) of which such United States person is a member,

76 Stat. 969.
26 USC 48.

“(ii) extracted outside the United States by a corporation at least 10 percent of the total combined voting power of all classes of stock of which is owned, directly or indirectly, by such United States person, by one or more such includible corporations, or by domestic corporations which own, directly or indirectly, at least 50 percent of the total combined voting power of all classes of stock of such United States person,

“(iii) obtained under a contract entered into on or before July 18, 1963, by such United States person, by one or more such includible corporations, or by such domestic corporations, or

“(iv) extracted outside the United States and obtained by such United States person, by one or more such includible corporations, or by such domestic corporations in exchange for similar ores or minerals (or derivatives thereof) described in clause (i), (ii), or (iii); or

“(B) arises out of a loan (made by such United States person to such foreign obligor) the proceeds of which will be used by such obligor (or by a person controlled by, or controlling, such obligor) for the installation, maintenance, or improvement of facilities outside the United States which (during the period the loan is outstanding) will be used for the storage, handling, transportation, processing, or servicing of ores or minerals (or derivatives thereof) a substantial portion of which is extracted outside the United States by such United States person or by a corporation referred to in clause (i) or (ii) of subparagraph (A), is obtained under a contract described in clause (iii) of subparagraph (A), or is obtained in an exchange described in clause (iv) of subparagraph (A).

“(6) CROSS REFERENCE.—

“For loss of exclusion otherwise allowable under this subsection in case of certain subsequent transfers, see subsection (j).

“(d) LOANS TO ASSURE RAW MATERIALS SOURCES.—

“(1) GENERAL RULE.—The tax imposed by section 4911 shall not apply to the acquisition by a United States person of a debt obligation arising out of a loan made by such person to a foreign corporation, if—

“(A) such foreign corporation extracts or processes ores or minerals the available deposits of which in the United States are inadequate to satisfy the needs of domestic producers;

“(B) United States persons own at the time of such acquisition at least 50 percent of the total combined voting power of all classes of stock of such foreign corporation; and

“(C) such loan will be amortized under a contract or contracts in which persons owning stock of such corporation (including at least one of the United States persons referred to in subparagraph (B)) agree to pay during the period remaining to maturity of such obligation, by purchasing a part of the production of such corporation or otherwise, a portion of such corporation's costs of operation and costs of amortizing outstanding loans.

"(2) LIMITATION.—The exclusion from tax provided by paragraph (1) shall apply to the acquisition of any debt obligation of a foreign corporation only to the extent that—

"(A) the applicable percentage of (i) the actual value of the debt obligation acquired, plus (ii) the actual value (determined as of the time of such acquisition) of all other debt obligations representing loans which were theretofore made to the foreign corporation during the same calendar year and which are amortizable under contracts of the type described in paragraph (1) (C), exceeds

"(B) the actual value of the debt obligations described in subparagraph (A) (ii) representing loans made by United States persons, to the extent that the acquisition of such obligations was excluded from tax under this subsection.

As used in this paragraph with respect to the acquisition of a debt obligation, the term 'applicable percentage' means the lesser of (i) the percentage of the total combined voting power of all classes of stock of the foreign corporation which is owned by United States persons at the time of such acquisition, or (ii) the percentage of the corporation's operating and amortization costs for the calendar year which all such United States persons have agreed to pay (as of the time of such acquisition) under contracts of the type described in paragraph (1) (C).

"(e) ACQUISITIONS BY INSURANCE COMPANIES DOING BUSINESS IN FOREIGN COUNTRIES.—

"(1) IN GENERAL.—The tax imposed by section 4911 shall not apply to the acquisition of stock or a debt obligation by a United States person which is an insurance company subject to taxation under section 802, 821, or 831, if such stock or debt obligation is designated (in accordance with paragraph (3)) as part of a fund of assets established and maintained by such insurance company (in accordance with paragraph (2)) with respect to foreign risks insured or reinsured by such company under contracts (including annuity contracts) the proceeds of which are payable only in the currency of a foreign country. As used in this subsection, the term 'foreign risks' means risks in connection with property outside, or liability arising out of activity outside, or in connection with the lives or health of residents of countries other than, the United States.

"(2) ESTABLISHMENT AND MAINTENANCE OF FUND OF ASSETS.—Each insurance company which desires to obtain the benefit of exclusions under this subsection shall (as a condition of entitlement to any such exclusion) establish and maintain a fund (or funds) of assets in accordance with this paragraph and paragraph (3). A life insurance company (as defined in section 801(a)) shall establish such a fund of assets separately for each foreign currency (other than the currency of a country which qualifies as a less developed country) in which the proceeds of its insurance contracts are payable and for which insurance reserves are maintained by such company, and with respect to which it desires to obtain the benefits of exclusions under this subsection; and the preceding sentence shall be applied separately to each such fund in determining the company's entitlement to exclude acquisitions of stock and debt obligations designated as a part thereof. An insurance company other than a life insurance company (as so defined) shall establish a single fund of assets for all foreign currencies (other than currencies of countries which qualify as less developed countries at the time of the initial designation) in which the proceeds of its insurance contracts are

73 Stat. 115;
76 Stat. 989, 997.
26 USC 802,
821, 831.

73 Stat. 112.
26 USC 801.

payable and for which insurance reserves are maintained by such company.

“(3) DESIGNATION OF ASSETS.—

“(A) INITIAL DESIGNATION.—

“(i) REQUIREMENT OF INITIAL DESIGNATION.—An insurance company desiring to establish a fund (or funds) of assets under paragraph (2) shall initially designate, as part or all of such fund (or funds), stock and debt obligations owned by it on July 18, 1963, as follows: First, stock of foreign issuers, and debt obligations of foreign obligors having a period remaining to maturity (on July 18, 1963) of 3 years or more and payable in foreign currency; second, if the company so elects, debt obligations of foreign obligors having a period remaining to maturity (on July 18, 1963) of less than 3 years and payable in foreign currency; and third, debt obligations of foreign obligors having a period remaining to maturity (on July 18, 1963) of 3 years or more and payable solely in United States currency. The designation under the preceding sentence with respect to any fund shall be made, in the order set forth, to the extent that the adjusted basis (within the meaning of section 1011) of the designated stock and debt obligations was (on July 18, 1963) not in excess of 110 percent of the allowable reserve applicable to such fund (determined in accordance with paragraph (4) (B) (ii)), and shall in no case include any stock or debt obligation described in section 4916(a).

26 USC 1011.

Post, p. 827.

“(ii) TIME AND MANNER OF INITIAL DESIGNATION.—

Any initial designation which an insurance company is required to make under this subparagraph shall be made on or before the 30th day after the date of the enactment of this chapter (or at such later time as the Secretary or his delegate may by regulations prescribe) by the segregation on the books of such company of the stock or debt obligations (or both) designated.

“(B) CURRENT DESIGNATIONS TO MAINTAIN FUND.—To the extent permitted by subparagraph (E), stock of a foreign issuer or a debt obligation of a foreign obligor acquired by an insurance company after July 18, 1963, may be designated as part of a fund of assets described in paragraph (2), if such designation is made before the expiration of 30 days after the date of such acquisition and the company continues to own the stock or debt obligation until the time the designation is made; except that any such stock or debt obligation acquired before the initial designation of assets to the fund is actually made as provided in subparagraph (A) (ii) may be designated under this subparagraph at the time of such initial designation without regard to such 30-day and continued ownership requirements.

“(C) ADDITIONAL DESIGNATIONS AFTER CLOSE OF YEAR.—If the adjusted basis of the assets held in a fund of assets described in paragraph (2) at the close of a calendar year after 1963 is less than 110 percent of the allowable reserve applicable to such fund at the close of such year, the insurance company may, to the extent permitted by subparagraph (E), designate additional stock or debt obligations (or both) which were acquired during such calendar year as part of such fund, so long as the company still owns such stock or debt obliga-

tions at the time of designation. Any designation under this subparagraph shall be made on or before January 31 following the close of the calendar year. Any tax paid by such company under section 4911 on the acquisition of the additional stock or debt obligations so designated shall constitute an overpayment of tax; and, under regulations prescribed by the Secretary or his delegate, credit or refund (without interest) shall be allowed or made with respect to such overpayment.

“(D) SUPPLEMENTAL REQUIRED DESIGNATIONS AFTER CLOSE OF YEAR.—If during any calendar year an insurance company acquires stock or debt obligations which are excluded from the tax imposed by section 4911 under an Executive order described in section 4917, and if at the close of the calendar year (and after the designation of additional assets under subparagraph (C)) the adjusted basis of all assets in a fund described in paragraph (2) is less than 110 percent of the allowable reserve applicable to such fund, such company shall, to the extent permitted by subparagraph (E), designate as part of such fund stock and debt obligations acquired by it during the calendar year and owned by it at the close of the calendar year, as follows: First, stock, and debt obligations having a period remaining to maturity (on the date of acquisition) of 3 years or more and payable in foreign currency, which were excluded from the tax imposed by section 4911 under such Executive order; second, if the company so elects, debt obligations of foreign obligors having a period remaining to maturity (on the date of acquisition) of less than 3 years and payable in foreign currency; and third, debt obligations having a period remaining to maturity (on the date of acquisition) of 3 years or more and payable solely in United States currency, which were excluded from the tax imposed by section 4911 under such Executive order. The designations under this subparagraph shall be made on or before January 31 following the close of the calendar year.

“(E) LIMITATIONS.—

“(i) IN GENERAL.—Stock or a debt obligation may be designated under subparagraph (B), (C), or (D) as part of a fund of assets described in paragraph (2) only to the extent that, immediately after such designation, the adjusted basis of all the assets held in such fund does not exceed 110 percent of the applicable allowable reserve (determined in accordance with paragraph (4) (B)(i)). To the extent any designation of stock or a debt obligation exceeds the amount permitted by the preceding sentence, such designation shall be ineffective and the provisions of this chapter shall apply with respect to the acquisition of such stock or debt obligation as if such designation had not been made.

“(ii) SHORT-TERM OBLIGATIONS.—No designation may be made under subparagraph (B) or (C) of any debt obligation which has a period remaining to maturity (on the date of acquisition) of less than 3 years.

“(4) DETERMINATION OF RESERVES.—

“(A) GENERAL RULE.—For purposes of this subsection, the term ‘allowable reserve’ means—

“(i) in the case of a life insurance company (as defined in section 801(a)), the items taken into account under section 810(c) arising out of contracts of insurance

Post, p. 830.

and reinsurance (including annuity contracts) which relate to foreign risks and the proceeds of which are payable in a single foreign currency (other than the currency of a less developed country); and

“(ii) in the case of an insurance company other than a life insurance company (as so defined), the amount of its unearned premiums (under section 832(b)(4)) and unpaid losses (under section 832(b)(5)) which relate to foreign risks insured or reinsured under contracts providing for payment in foreign currencies (other than currencies of less developed countries) and which are taken into account in computing taxable income under section 832 (for such purpose treating underwriting income of an insurance company subject to taxation under section 821 as taxable income under section 832).

26 USC 832.

76 Stat. 989.
26 USC 821.

“(B) TIME OF DETERMINATION.—

“(i) IN GENERAL.—For purposes of paragraph (3) (other than subparagraph (A) of such paragraph), the determination of an allowable reserve for any calendar year shall be made as of the close of such year.

“(ii) INITIAL DESIGNATION.—For purposes of paragraph (3)(A), the determination of an allowable reserve shall be made as of July 18, 1963. If the insurance company so elects, the determination under this clause may be made by computing the mean of the allowable reserve at the beginning and at the close of the calendar year 1963.

“(5) NONRECOGNITION OF ARTIFICIAL INCREASES IN ALLOWABLE RESERVE.—An insurance or reinsurance contract which is entered into or acquired by an insurance company for the principal purpose of artificially increasing the amount determined as an allowable reserve as provided in paragraph (4) shall not be recognized in computing whether an acquisition of stock or a debt obligation of a foreign issuer or obligor can be excluded under this subsection.

“(f) ACQUISITIONS BY CERTAIN TAX-EXEMPT LABOR, FRATERNAL, AND SIMILAR ORGANIZATIONS HAVING FOREIGN BRANCHES OR CHAPTERS.—The tax imposed by section 4911 shall not apply to the acquisition of stock or debt obligations by a United States person which is described in section 501(c) and exempt from taxation under subtitle A, and which operates in a foreign country through a local organization or organizations, to the extent that—

26 USC 501.

“(1) such acquisition results from the investment or reinvestment of contributions or membership fees paid in the currency of such country by individuals who are members of the local organization or organizations, and

“(2) the stock or debt obligations acquired are held exclusively for the benefit of the members of any of such local organizations.

“(g) SALE OR LIQUIDATION OF WHOLLY OWNED FOREIGN SUBSIDIARY.—

“(1) IN GENERAL.—The tax imposed by section 4911 shall not apply to the acquisition by a United States person of a debt obligation of a foreign obligor if the debt obligation is acquired—

“(A) in connection with the sale by such United States person (or by one or more includible corporations in an affiliated group, as defined in section 48(c)(3)(C), of which such United States person is a member) of all of the outstanding stock, except for qualifying shares, of a foreign corporation; or

76 Stat. 969.
26 USC 48.

“(B) in connection with the liquidation by such United States person (or by one or more such includible corporations) of a foreign corporation all of the outstanding stock of which, except for qualifying shares, is owned by such United States person (or by one or more such includible corporations), but only if such debt obligation had been received by such foreign corporation as part or all of the purchase price in a sale of substantially all of its assets.

“(2) LIMITATION.—Paragraph (1) shall not apply to the acquisition of a debt obligation if any of the stock sold or surrendered in connection with its acquisition was originally acquired with the intent to sell or surrender.

“(h) CERTAIN DEBT OBLIGATIONS SECURED BY UNITED STATES MORTGAGES, ETC.—

“(1) IN GENERAL.—The tax imposed by section 4911 shall not apply to the acquisition from a foreign obligor by a United States person of a debt obligation of such foreign obligor which is secured by real property located in the United States, to the extent that—

“(A) the debt obligation is a part of the purchase price of such real property (or of such real property and related personal property); or

“(B) the debt obligation arises out of a loan made by such United States person to the foreign obligor the proceeds of which are concurrently used as part of the purchase price of such real property (or of such real property and related personal property).

“(2) LIMITATION.—Paragraph (1) shall apply to the acquisition of a debt obligation only if—

“(A) the owner of the property sold is a United States person; and

“(B) at least 25 percent of the purchase price of the property sold is, at the time of such sale, paid in United States currency to such United States person by the foreign obligor from funds not obtained from United States persons for the purpose of purchasing such property.

“(3) RELATED PERSONAL PROPERTY.—For purposes of paragraph (1), the term ‘related personal property’ means personal property which is sold in connection with the sale of real property for use in the operation of such real property.

“(i) ACQUISITIONS OF STOCK OF FOREIGN ISSUERS INVESTING EXCLUSIVELY IN THE UNITED STATES.—

“(1) IN GENERAL.—The tax imposed by section 4911 shall not apply to the acquisition from a foreign issuer of its stock by a United States person who is a bona fide resident of a foreign country within the meaning of section 911(a)(1), or who at the time of such acquisition is regularly performing personal services on a full-time basis in a foreign country, if at the close of each calendar quarter ending on or after June 30, 1963, preceding such acquisition, during any part of which such foreign issuer is in existence—

“(A) the assets of such foreign issuer, exclusive of money or deposits with persons carrying on the banking business, consist solely of:

“(i) stock or debt obligations of domestic corporations (other than a corporation which has elected under section 4920(a)(3)(B) to be treated as a foreign issuer or obligor for purposes of this chapter);

“(ii) debt obligations of the United States, or of any State or possession of the United States, or any political subdivision of any State or possession; or

“(iii) debt obligations of citizens or residents of the United States;

“(B) money and deposits with persons carrying on the banking business (other than banks as defined in section 581) constitute less than 5 percent of the value of the assets of such foreign issuer; and

26 USC 581.

“(C) less than 25 percent of each class of issued and outstanding stock of such foreign issuer is held of record by United States persons.

“(2) ACQUISITIONS THROUGH UNIT INVESTMENT TRUSTS.—For purposes of paragraph (1), an acquisition of an interest in a unit investment trust (within the meaning of section 4(2) of the Investment Company Act of 1940), or in an entity performing similar custodial functions, shall be deemed a direct acquisition from the foreign issuer of the stock held by such trust or entity with respect to such interest and shall not be treated as an acquisition of stock issued by such trust or entity.

54 Stat. 799.
15 USC 80a-4.

“(3) LIMITATIONS.—

“(A) Paragraph (1) shall apply only to that portion of the total acquisitions of stock of foreign issuers described in such paragraph (determined in the order acquired) by a United States person in any one calendar year that does not exceed \$5,000.

“(B) If, after July 30, 1964, a United States person sells or otherwise disposes of stock the acquisition of which was excluded under paragraph (1) from the tax imposed by section 4911, such person shall not, with respect to such stock, be considered a United States person.

“(j) LOSS OF ENTITLEMENT TO EXCLUSION IN CASE OF CERTAIN SUBSEQUENT TRANSFERS.—

“(1) IN GENERAL.—

“(A) Where an exclusion provided by paragraph (1) (B), (2), (3), (4), or (5) of subsection (c), or the exclusion provided by subsection (d), has applied with respect to the acquisition of a debt obligation by any person, but such debt obligation is subsequently transferred by such person (before the termination date specified in section 4911(d)) to a United States person otherwise than—

“(i) to any agency or wholly-owned instrumentality of the United States;

“(ii) to a commercial bank acquiring the obligation in the ordinary course of its commercial banking business;

“(iii) in the case of an exclusion provided by paragraph (1) (B), (2), or (3) of subsection (c), to any transferee where the extension of credit by such person and the acquisition of the debt obligation related thereto were reasonably necessary to accomplish the sale of property or services out of which the debt obligation arose, and the terms of the debt obligation are not unreasonable in light of credit practices in the business in which such person is engaged; or

“(iv) in a transaction described in subsection (a) (1) or (2), or a transaction (other than a transfer by gift) described in subsection (a) (3).

then liability for the tax imposed by section 4911 (in an amount determined under subparagraph (D) of this paragraph) shall be incurred by the transferor (with respect to such debt obligation) at the time of such subsequent transfer.

“(B) Where the exclusion provided by paragraph (2) or (3) of subsection (c) has applied with respect to the acquisition of stock by any person, but such stock is subsequently transferred by such person (before the termination date specified in section 4911(d)) to a United States person otherwise than in a transaction described in subsection (a) (1) or (2), or a transaction (other than a transfer by gift) described in subsection (a) (3), then liability for the tax imposed by section 4911 (in an amount determined under subparagraph (D) of this paragraph) shall be incurred by the transferor (with respect to such stock) at the time of such subsequent transfer.

“(C) Where the exclusion provided by subsection (f) has applied with respect to the acquisition of stock or a debt obligation by any person, but such stock or debt obligation is subsequently transferred by such person (before the termination date specified in section 4911(d)) to any United States person, then liability for the tax imposed by section 4911 (in an amount determined under subparagraph (D) of this paragraph) shall be incurred by the transferor (with respect to such stock or debt obligation) at the time of such subsequent transfer.

“(D) In any case where an exclusion provided by paragraph (1) (B), (2), (3), (4), or (5) of subsection (c) or by subsection (d) or (f) has applied, but a subsequent transfer described in subparagraph (A), (B), or (C) of this paragraph occurs and liability for the tax imposed by section 4911 is incurred by the transferor as a result thereof, the amount of such tax shall be equal to the amount of tax for which the transferor would have been liable under such section upon his acquisition of the stock or debt obligation involved if such exclusion had not applied with respect to such acquisition.

“(2) UNITED STATES PERSON TREATED AS FOREIGN PERSON ON DISPOSITION OF CERTAIN SECURITIES.—For purposes of this chapter, if, after December 10, 1963, a United States person sells or otherwise disposes of stock or a debt obligation which it—

“(A) acquired to satisfy minimum requirements imposed by foreign law and with respect to which it claimed an exclusion under subsection (b) (3), or

“(B) designated (or was required to designate) as part of a fund of assets under subsection (e), such person shall not, with respect to that stock or debt obligation, be considered a United States person.

“SEC. 4915. EXCLUSION FOR DIRECT INVESTMENTS.

“(a) IN GENERAL.—

“(1) EXCLUDED ACQUISITIONS.—Except as provided in subsections (c) and (d) of this section, the tax imposed by section 4911 shall not apply to the acquisition by a United States person (A) of stock or a debt obligation of a foreign corporation, or of a debt obligation from a foreign corporation which received such obligation in the ordinary course of its trade or business as a result of the sale or rental of products manufactured or assembled by it or of the performance of services by it, if immediately after the acquisition such person (or one or more

includible corporations in an affiliated group, as defined in section 1504, of which such person is a member) owns (directly or indirectly) 10 percent or more of the total combined voting power of all classes of stock of such foreign corporation, or (B) of stock or a debt obligation of a foreign partnership if immediately after the acquisition such person owns (directly or indirectly) 10 percent or more of the profits interest in such foreign partnership. For purposes of the preceding sentence, stock owned (directly or indirectly) by or for a foreign corporation shall be considered as being owned proportionately by its shareholders, and stock owned (directly or indirectly) by or for a foreign partnership shall be considered as being owned proportionately by its partners.

26 USC 1504.

"(2) OVERPAYMENT WITH RESPECT TO CERTAIN TAXABLE ACQUISITIONS.—The tax paid under section 4911 on the acquisition by a United States person of stock or a debt obligation of a foreign corporation or foreign partnership, or a debt obligation from a foreign corporation which received such obligation in the ordinary course of its trade or business as a result of the sale or rental of products manufactured or assembled by it or the performance of services by it, shall (unless this subsection is inapplicable by reason of subsection (c) or (d)) constitute an overpayment of tax if such person—

"(A) meets the ownership requirement of paragraph (1) with respect to such corporation or partnership at any time within 12 months after the date of such acquisition, and

"(B) holds the stock or debt obligation continuously from the date of such acquisition to the last day of the calendar year in which such ownership requirement is first met.

Under regulations prescribed by the Secretary or his delegate, credit or refund (without interest) shall be allowed or made with respect to such overpayment.

"(b) SPECIAL RULE FOR GOVERNMENT-CONTROLLED ENTERPRISES.—A. United States person shall be considered to meet the ownership requirement of subsection (a)(1) with respect to a foreign corporation or a foreign partnership if—

"(1) the government of a foreign country or any political subdivision thereof, or an agency or instrumentality of such a government, directly or indirectly through such corporation or partnership or otherwise, restricts to less than 10 percent the percentage of the total combined voting power of all classes of stock of such corporation, or the percentage of the profits interest in such partnership, which may be owned by such United States person;

"(2) such person owns at least 5 percent of the total combined voting power of so much of such stock, or at least 5 percent of so much of such profits interest, as is not owned by any such government, agency, or instrumentality;

"(3) a trade or business actively conducted in one or more foreign countries by such United States person (or by one or more corporations in an affiliated group, as defined in section 48(c)(3)(C), of which such person is a member) is directly related to the business carried on by such foreign corporation or foreign partnership; and

"(4) such person, and one or more other United States persons each of which satisfies the conditions set forth in paragraphs (2) and (3), together meet the ownership requirement of subsection (a)(1).

76 Stat. 969.
26 USC 48.

“(c) EXCEPTION FOR FOREIGN CORPORATIONS OR PARTNERSHIPS FORMED OR AVOIDED OF FOR TAX AVOIDANCE.—

“(1) IN GENERAL.—The provisions of subsections (a) and (b) shall be inapplicable in any case where the foreign corporation or foreign partnership is formed or availed of by the United States person for the principal purpose of acquiring, through such corporation or partnership, an interest in stock or debt obligations (of one or more other foreign issuers or obligors) the direct acquisition of which by the United States person would be subject to the tax imposed by section 4911.

“(2) COMMERCIAL BANKS, UNDERWRITERS, AND REQUIRED HOLDINGS.—For purposes of this subsection, the acquisition by a United States person of stock or debt obligations of a foreign corporation or foreign partnership which acquires stock or debt obligations of foreign issuers or obligors—

“(A) in making loans in the ordinary course of its business as a commercial bank,

“(B) in the ordinary course of its business of underwriting and distributing securities issued by other persons, or

“(C) to satisfy minimum requirements relating to holdings of stock or debt obligations of foreign issuers or obligors imposed by the laws of foreign countries where such foreign corporation or foreign partnership is doing business,

shall not, by reason of such acquisitions by the foreign corporation or foreign partnership, be considered an acquisition by the United States person of an interest in stock or debt obligations of foreign issuers or obligors. For purposes of subparagraph (A), any foreign corporation or foreign partnership which is regularly engaged in the business of accepting deposits from customers and receiving other borrowed funds in foreign currencies and making loans in such currencies shall be treated as a commercial bank.

“(3) LOSS OF ENTITLEMENT TO EXCLUSION OR REFUND WHERE FOREIGN CORPORATION OR PARTNERSHIP IS AVOIDED OF FOR TAX AVOIDANCE.—In any case where—

“(A) the exclusion provided by subsection (a) (1) has applied with respect to the acquisition of stock or a debt obligation by a United States person, or

“(B) a credit or refund of tax under subsection (a) (2) has been received by a United States person with respect to acquisitions of stock made during a calendar year,

but the foreign corporation or partnership is availed of by such person (after the acquisition described in subparagraph (A) is made or the calendar year described in subparagraph (B) has ended, but before the termination date specified in section 4911 (d)) for the principal purpose described in paragraph (1) of this subsection, then liability for the tax imposed by section 4911 shall be incurred by such person (with respect to such stock or debt obligation) at the time the foreign corporation or partnership is so availed of; and the amount of such tax shall be equal (in a case described in subparagraph (A)) to the amount of tax for which such person would have been liable under such section upon his acquisition of the stock or debt obligations involved if such exclusion had not applied to such acquisition, or (in a case described in subparagraph (B)) to the aggregate amount of tax for which such person was liable under such section upon his acquisitions of the stock involved.

“(d) EXCEPTION FOR ACQUISITIONS MADE WITH INTENT TO SELL TO UNITED STATES PERSONS.—The provisions of subsections (a) and (b)

shall be inapplicable in any case where the acquisition of stock or debt obligations of the foreign corporation or foreign partnership is made with an intent to sell, or to offer to sell, any part of the stock or debt obligations acquired to United States persons.

"SEC. 4916. EXCLUSION FOR INVESTMENTS IN LESS DEVELOPED COUNTRIES.

"(a) GENERAL RULE.—The tax imposed by section 4911 shall not apply to the acquisition by a United States person of—

"(1) a debt obligation issued or guaranteed by the government of a less developed country or a political subdivision thereof, or by an agency or instrumentality of such a government;

"(2) stock or a debt obligation of a less developed country corporation;

"(3) a debt obligation issued by an individual or partnership resident in a less developed country in return for money or other property which is used, consumed, or disposed of wholly within one or more less developed countries; or

"(4) stock or a debt obligation of a foreign issuer or obligor, to the extent that such acquisition is required as a reinvestment within a less developed country by the terms of a contract of sale to, or of a contract of indemnification with respect to the nationalization, expropriation, or seizure by, the government of such less developed country or a political subdivision thereof, or an agency or instrumentality of such government, of property owned within such less developed country or such political subdivision by such United States person, or by a controlled foreign corporation (as defined in section 957) more than 50 percent of the total combined voting power of all classes of stock entitled to vote of which is owned (within the meaning of section 958) by such United States person, but only if such contract was entered into because the government of such less developed country or political subdivision, or such agency or instrumentality—

76 Stat. 1017.
26 USC 957.

26 USC 958.

"(A) has nationalized or has expropriated or seized, or has threatened to nationalize or to expropriate or seize, a substantial portion of the property owned within such less developed country or such political subdivision by such United States person or such controlled foreign corporation; or

"(B) has taken action which has the effect of nationalizing or of expropriating or seizing, or of threatening to nationalize or to expropriate or seize, a substantial portion of the property so owned.

For purposes of this subsection, an instrumentality of the government of a less developed country or a political subdivision thereof includes a corporation or other entity with respect to which such government, or any agency of such government, owns more than 50 percent of the total combined voting power of all classes of stock entitled to vote or, in the case of a corporation or other entity not issuing shares of stock, has the authority to elect or appoint a majority of the board of directors or equivalent body of such corporation or other entity.

"(b) LESS DEVELOPED COUNTRY DEFINED.—For purposes of this section, the term 'less developed country' means any foreign country (other than an area within the Sino-Soviet bloc) or any possession of the United States with respect to which, as of the date of an acquisition referred to in subsection (a), there is in effect an Executive order by the President of the United States designating such country as an economically less developed country for purposes of the tax imposed by section 4911. For purposes of the preceding sentence, Executive Order Numbered 11071, dated December 27, 1962 (designating certain areas as economically less developed countries for

26 USC 955
note.

26 USC 901-905,
951-964.
26 USC 1248.

purposes of subparts A and F of part III of subchapter N, and section 1248 of part IV of subchapter P, of chapter 1), shall be deemed to have been issued and in effect, for purposes of the tax imposed by section 4911, on July 18, 1963, and continuously thereafter until there is in effect the Executive order referred to in the preceding sentence. An overseas territory, department, province, or possession of any foreign country may be designated as a separate country. No designation shall be made under this subsection with respect to any of the following:

Australia	Luxembourg
Austria	Monaco
Belgium	Netherlands
Canada	New Zealand
Denmark	Norway
France	Republic of South Africa
Germany (Federal Republic)	San Marino
Hong Kong	Spain
Italy	Sweden
Japan	Switzerland
Liechtenstein	United Kingdom.

Notification to
Congress.

After the President (under the first sentence of this subsection) has designated any foreign country as an economically less developed country for purposes of the tax imposed by section 4911, he shall not terminate such designation (either by issuing an Executive order for that purpose or by issuing an Executive order which has the effect of terminating such designation) unless, at least 30 days before such termination, he has notified the Senate and the House of Representatives of his intention to terminate such designation.

“(c) LESS DEVELOPED COUNTRY CORPORATION DEFINED.—

“(1) IN GENERAL.—For purposes of this section, the term ‘less developed country corporation’ means a foreign corporation which for the applicable periods set forth in paragraph (3)—

“(A) meets the requirements of section 955(c) (1) or (2); or

“(B) derives 80 percent or more of its gross income, if any, from sources within less developed countries, or from deposits in the United States with persons carrying on the banking business, or both, and has assets 80 percent or more in value of which consists of—

“(i) money, and deposits in the United States with persons carrying on the banking business,

“(ii) stock or debt obligations of any other less developed country corporation,

“(iii) debt obligations of a less developed country,

“(iv) investments which are required because of restrictions imposed by a less developed country,

“(v) debt obligations described in paragraph (3) of subsection (a) of this section, and

“(vi) obligations of the United States.

In applying this paragraph the determination of whether a foreign country is a less developed country shall be made in accordance with subsection (b) of this section.

“(2) SPECIAL RULES.—

“(A) For purposes of subparagraphs (A) and (B) of paragraph (1), property described in section 956(b)(1) (regardless of when acquired), other than deposits with persons carrying on the banking business, and income derived from such property, shall not be taken into account.

76 Stat. 1013.
26 USC 955.

26 USC 956.

“(B) For purposes of subparagraph (A) of paragraph (1), obligations of any other less developed country corporation shall be taken into account under section 955(c)(1)(B)(iii) without regard to the period remaining to maturity at the time of their acquisition.

76 Stat. 1013.
26 USC 955.

“(C) For purposes of subparagraph (B) of paragraph (1), deposits outside the United States (other than deposits in a less developed country) with persons carrying on the banking business, and income from such deposits, shall not be taken into account.

“(3) APPLICABLE PERIODS.—The determinations required by subparagraphs (A) and (B) of paragraph (1) shall be made (A) for the annual accounting period (if any) of the foreign corporation immediately preceding its accounting period in which the acquisition involved is made, (B) for the annual accounting period of the foreign corporation in which such acquisition is made, and (C) for the next succeeding annual accounting period of the foreign corporation.

“(4) SPECIAL RULES FOR TREATMENT OF CORPORATIONS AS LESS DEVELOPED COUNTRY CORPORATIONS.—A foreign corporation shall be treated as satisfying the definition in paragraph (1) with respect to the acquisition by a United States person of stock or a debt obligation if—

“(A) before the acquisition occurs (or, in the case of an acquisition occurring before or within 60 days after the date of the enactment of this chapter, pursuant to application made within such period following such date as may be prescribed by the Secretary or his delegate in regulations), it is established to the satisfaction of the Secretary or his delegate that such foreign corporation—

“(i) has met the applicable requirements of paragraph (1) for the period (if any) referred to in paragraph (3)(A), and

“(ii) may reasonably be expected to satisfy such requirements for the periods referred to in paragraphs (3)(B) and (C); or

“(B) in the case of an acquisition occurring on or before December 10, 1963, the applicable requirements of paragraph (1) are met for the annual accounting period of the foreign corporation immediately preceding its accounting period in which the acquisition occurred.

“(5) TREATMENT OF CORPORATIONS AS LESS DEVELOPED COUNTRY CORPORATIONS IN OTHER CASES.—A foreign corporation may also be treated as satisfying the definition in paragraph (1) with respect to the acquisition by a United States person of stock or a debt obligation (but subject to possible subsequent liability for tax under subsection (d)(1)), if—

“(A) such corporation has met the applicable requirements of paragraph (1) for the period (if any) referred to in paragraph (3)(A), and

“(B) such person reasonably believes that such corporation will satisfy such requirements for the periods referred to in paragraphs (3)(B) and (C).

“(d) SUBSEQUENT LIABILITY FOR TAX IN CERTAIN CASES.—

“(1) STOCK AND DEBT OBLIGATIONS OF CERTAIN CORPORATIONS.—

Where a foreign corporation is treated under subsection (c)(5) as satisfying the definition in subsection (c)(1) and the exclusion provided by subsection (a)(2) has applied with respect to the acquisition of stock or a debt obligation of such corporation by

any person, but such corporation fails to satisfy the definition contained in subsection (c) (1) for either of the applicable accounting periods referred to in clauses (B) and (C) of subsection (c) (3) (and it is not treated under subsection (c) (4) as satisfying such definition), then liability for the tax imposed by section 4911 shall be incurred by such person (with respect to such stock or debt obligation) as of the close of the earliest such applicable accounting period (ending on or before the termination date specified in section 4911(d)) with respect to which the corporation fails to satisfy such definition; and the amount of such tax shall be equal to the amount of tax for which such person would have been liable under such section upon the acquisition of the stock or debt obligation involved if such exclusion had not applied with respect to such acquisition.

“(2) **DEBT OBLIGATIONS ISSUED IN RETURN FOR CERTAIN PROPERTY.**—Where the exclusion provided by subsection (a) (3) has applied with respect to the acquisition by a United States person of a debt obligation issued in return for money or other property as provided in such subsection, but part or all of such money or property is used, consumed, or disposed of (before the termination date specified in section 4911(d)) otherwise than wholly within one or more less developed countries, then liability for the tax imposed by section 4911 shall be incurred by such person (with respect to such debt obligation) as of the time such money or property is first so used, consumed, or disposed of; and the amount of such tax shall be equal to the amount of tax for which such person would have been liable under such section upon the acquisition of the debt obligation involved if such exclusion had not applied with respect to such acquisition.

“SEC. 4917. EXCLUSION FOR ORIGINAL OR NEW ISSUES WHERE REQUIRED FOR INTERNATIONAL MONETARY STABILITY.

“(a) **IN GENERAL.**—If the President of the United States shall at any time determine that the application of the tax imposed by section 4911 will have such consequences for a foreign country as to imperil or threaten to imperil the stability of the international monetary system, he may by Executive order specify that such tax shall not apply to the acquisition by a United States person of stock or a debt obligation of the government of such foreign country or a political subdivision thereof, any agency or instrumentality of any such government, any corporation, partnership, or trust (other than a company registered under the Investment Company Act of 1940) organized under the laws of such country or any such subdivision, or any individual resident therein, to the extent that such stock or debt obligation is acquired as all or part of an original or new issue as to which there is filed such notice of acquisition as the Secretary or his delegate may prescribe by regulations. In the case of acquisitions made during the period beginning July 19, 1963, and ending with the date of the enactment of this chapter, the notice of acquisition may be filed within such period following the date of such enactment as the Secretary or his delegate may prescribe by regulations.

“(b) **APPLICABILITY OF EXECUTIVE ORDER.**—An Executive order described in subsection (a) may be applicable to all such original or new issues or to any aggregate amount or classification thereof which shall be stated in such order and shall apply to acquisitions occurring during such period of time as shall be stated therein. If the order is applicable to a limited aggregate amount of such issues it shall apply (under regulations prescribed by the Secretary or his delegate) to those acquisitions as to which notice of acquisition was first filed, provided that in the case of any such notice the acquisition described

in the notice is made before or within 90 days after the date of filing or within such longer period after such date as may be specified in such order.

“(c) ORIGINAL OR NEW ISSUE.—For purposes of this section—

“(1) stock shall be treated as part of an original or new issue only when it is acquired from the issuer by the United States person claiming the exclusion; and

“(2) a debt obligation shall be treated as part of an original or new issue only if acquired not later than 90 days after the date on which interest begins to accrue on such obligation, except that a debt obligation secured by a lien on improvements on real property which are under construction or are to be constructed at the time such obligation is issued (or if such obligation is one of a series, at the time the first obligation in such series is issued) shall be treated as part of an original or new issue if—

“(A) such obligation is acquired not later than 90 days after the date on which interest begins to accrue on the total amount of such obligation (or if such obligation is one of a series, on the last issued of the obligations in such series); and

“(B) the United States person claiming the exclusion became committed to the acquisition of such obligation not later than 90 days after the date on which interest began to accrue on any part of such obligation (or, if such obligation is one of a series, on the first obligation issued in such series).

“SEC. 4918. EXEMPTION FOR PRIOR AMERICAN OWNERSHIP.

“(a) GENERAL RULE.—The tax imposed by section 4911 shall not apply to an acquisition of stock or a debt obligation of a foreign issuer or obligor if it is established in the manner provided in this section that the person from whom such stock or debt obligation was acquired was a United States person throughout the period of his ownership or continuously since July 18, 1963, and was a United States person eligible to execute a certificate of American ownership with respect to such acquisition.

“(b) CERTIFICATE OF AMERICAN OWNERSHIP.—For purposes of subsection (a), a certificate of American ownership received in connection with an acquisition shall be conclusive proof for purposes of this exemption of prior American ownership unless the person making such acquisition has actual knowledge that the certificate is false in any material respect.

“(c) TRADING ON CERTAIN NATIONAL SECURITIES EXCHANGES.—For purposes of subsection (a), a written confirmation received from a member or member organization of a national securities exchange registered with the Securities and Exchange Commission in connection with an acquisition on such exchange, which does not state that such acquisition was made subject to a special contract, shall be conclusive proof for purposes of this exemption of prior American ownership (unless the person making such acquisition has actual knowledge that the confirmation is false in any material respect), if such exchange has in effect at the time of the acquisition rules providing that—

“(1) any stock or debt obligation, the acquisition of which by any United States person would be subject to the tax imposed by section 4911 but for the provisions of this section, shall be sold in the regular market on such exchange (and not subject to a special contract) only if the member or member organization of such exchange who effects the sale of such stock or debt obligation as broker has in his possession (A) a certificate of American ownership with respect to the stock or debt obligation sold, or (B) a blanket certificate of American ownership with respect to the account for which such stock or debt obligation is sold; and

"(2) any member or member organization of such exchange effecting as broker a purchase of any such stock or debt obligation subject to a special contract (and not in the regular market) shall furnish the person making such an acquisition a written confirmation stating that the acquisition was made subject to such special contract.

"(d) **TRADING IN THE OVER-THE-COUNTER MARKET.**—For purposes of subsection (a), a written confirmation from a member or member organization of a national securities association registered with the Securities and Exchange Commission received in connection with an acquisition made other than on a national securities exchange described in subsection (c) shall be conclusive proof for purposes of this exemption of prior American ownership, unless the confirmation states that the acquisition was made from a person who has not executed and filed a certificate of American ownership with respect to the stock or debt obligation sold or a blanket certificate of American ownership with respect to the account from which the stock or debt obligation is sold (or the person making such acquisition has actual knowledge that the confirmation is false in any material respect), if such association has in effect at the time of the acquisition rules providing that any member or member organization of such association who effects a sale as broker other than on a national securities exchange of any stock or debt obligation, the acquisition of which by any United States person would be subject to the tax imposed by section 4911 but for the provisions of this section, must—

"(1) have in his possession (A) a certificate of American ownership with respect to the stock or debt obligation sold, or (B) a blanket certificate of American ownership with respect to the account for which such stock or debt obligation is sold; or

"(2) furnish to the person acquiring such stock or debt obligation written confirmation stating that the acquisition is from a person who has not executed and filed a certificate of American ownership with respect to such stock or debt obligation or a blanket certificate of American ownership with respect to the account from which such stock or debt obligation is sold.

Any member or member organization of such an association who acquires any stock or debt obligation for his or its own account other than on a national securities exchange may treat a blanket certificate of American ownership with respect to the seller's account as conclusive proof for purposes of this exemption of prior American ownership, unless such member or member organization has actual knowledge that such certificate is false in any material respect.

"(e) **EXECUTION, FILING, AND CONTENTS OF CERTIFICATE.**—A certificate of American ownership or blanket certificate of American ownership under this section must be executed and filed in such manner and set forth such information as the Secretary or his delegate shall prescribe by regulations.

"(f) **OTHER PROOF OF EXEMPTION.**—For purposes of subsection (a), if a person establishes, with respect to an acquisition, that there is reasonable cause for his inability to establish prior American ownership under subsection (b), (c), or (d), he may establish prior American ownership for purposes of this exemption by other evidence that the person from whom such acquisition was made was a United States person eligible to execute a certificate of American ownership with respect to such acquisition.

"SEC. 4919. SALES BY UNDERWRITERS AND DEALERS TO FOREIGN PERSONS.

"(a) CREDIT OR REFUND.—The tax paid under section 4911 on the acquisition of stock or debt obligations of a foreign issuer or obligor shall constitute an overpayment of tax to the extent that such stock or debt obligations—

"(1) PRIVATE PLACEMENTS AND PUBLIC OFFERINGS.—Are acquired by an underwriter in connection with a private placement or a public offering by a foreign issuer or obligor (or a person or persons directly or indirectly controlling, controlled by, or under common control with such issuer or obligor) and are sold as part of such private placement or public offering by the underwriter (including sales by other underwriters who are United States persons participating in the placement or distribution of the stock or debt obligations acquired by the underwriter) to persons other than United States persons;

"(2) CERTAIN DEBT OBLIGATIONS.—Consist of debt obligations—
"(A) acquired by a dealer in the ordinary course of his business and sold by him, within 90 days after their purchase, to—

"(i) persons other than United States persons, or

"(ii) another dealer who resells them on the same or the next business day to persons other than United States persons; or

"(B) acquired by a dealer in the ordinary course of his business to cover short sales made by him, within 90 days before their purchase, to—

"(i) persons other than United States persons, or

"(ii) another dealer who resold them on the same or the next business day to persons other than United States persons; or

"(3) CERTAIN STOCK.—Consist of stock—

"(A) acquired by a dealer in the ordinary course of his business and sold by him on the day of purchase or on either of the two succeeding business days to persons other than United States persons; or

"(B) acquired by a dealer in the ordinary course of his business to cover short sales made by him on the day of purchase or on either of the two preceding business days to persons other than United States persons.

Under regulations prescribed by the Secretary or his delegate, credit or refund (without interest) shall be allowed or made with respect to such overpayment. For purposes of paragraphs (2) and (3) of this subsection and for purposes of paragraph (3) of subsection (b), the day of purchase or sale of any stock or debt obligation is the day on which an order to purchase or to sell, as the case may be, is executed.

"(b) EVIDENCE TO SUPPORT CREDIT OR REFUND.—

"(1) IN GENERAL.—Credit or refund shall be allowed to an underwriter or dealer under subsection (a) with respect to any stock or debt obligation sold by him only if the underwriter or dealer—

"(A) files with the return required by section 6011(d) on which credit is claimed, or with the claim for refund, such information as the Secretary or his delegate may prescribe by regulations; and

"(B) establishes that such stock or debt obligation was sold to a person other than a United States person.

In any case where two or more underwriters form a group for the purpose of purchasing and distributing (through resale) stock or debt obligations of a single foreign issuer or obligor, any one of such underwriters may, to the extent provided by regulations prescribed by the Secretary or his delegate, satisfy the requirements of this paragraph on behalf of all such underwriters.

“(2) CERTAIN SALES BY UNDERWRITERS.—For purposes of paragraph (1) (B), in the case of a claim for credit or refund under subsection (a) (1) with respect to stock or a debt obligation acquired by an underwriter and not sold by him directly to a person other than a United States person, a certificate of sale to a foreign person (setting forth such information, and filed in such manner, as the Secretary or his delegate may prescribe by regulations), executed by the underwriter who made such sale, shall be conclusive proof that such stock or debt obligation was sold to a person other than a United States person, unless the underwriter relying upon the certificate has actual knowledge that the certificate is false in any material respect.

“(3) SALES OF DEBT OBLIGATIONS BY DEALERS.—

“(A) SALES ON NATIONAL SECURITIES EXCHANGES.—For purposes of paragraph (1) (B), in the case of a claim for credit or refund under subsection (a) (2), the sale by a dealer of a debt obligation on a national securities exchange registered with the Securities and Exchange Commission subject to a special contract (and not in the regular market) shall be conclusive proof that such debt obligation was sold to a person other than a United States person, if such exchange has in effect at the time of the sale rules providing that—

“(i) a member or member organization of such exchange selling a debt obligation as a dealer, or effecting the sale as broker of a debt obligation on behalf of a dealer, on such exchange subject to a special contract (and not in the regular market) shall furnish to the member or member organization purchasing such debt obligation as a dealer, or effecting the purchase as broker of such debt obligation on behalf of a dealer, a written confirmation or comparison stating that such sale is being made as a dealer, or on behalf of a dealer; and

“(ii) if the purchaser of such debt obligation is a dealer (whether or not a member or member organization of such exchange), the terms of the contract applicable to such sale shall require the purchasing dealer to undertake to resell such debt obligation on the day of purchase or the next business day to a person other than a United States person.

A dealer who acquires a debt obligation in a transaction in which a written confirmation or comparison described in clause (i) is furnished shall not be entitled to a credit or refund under subsection (a) (2) with respect to his acquisition of such debt obligation unless he establishes that such debt obligation was sold by him on the day on which it was purchased or the next business day to a person other than a United States person.

“(B) OVER-THE-COUNTER SALES.—For purposes of paragraph (1) (B), in the case of a claim for credit or refund under subsection (a) (2) with respect to a debt obligation sold in a transaction not on a national securities exchange, a

written confirmation furnished by a member or member organization of a national securities association registered with the Securities and Exchange Commission stating that such member or member organization—

“(i) effected the purchase as broker of a debt obligation on behalf of a person other than a United States person, or

“(ii) purchased a debt obligation which he resold on the day of purchase or the next business day to a person other than a United States person,

shall be conclusive proof that such debt obligation was sold to a person other than a United States person (unless the dealer relying upon the confirmation has actual knowledge that the confirmation is false in any material respect), if such association has in effect at the time of the purchase rules providing that a member or member organization who effects a purchase of, or purchases, a debt obligation from a dealer who notifies such member or member organization that such debt obligation is being sold by such dealer and that such dealer intends to claim a credit or refund under subsection (a) (2), shall furnish to such dealer a written confirmation stating that the purchase of such debt obligation was (or was not) effected by such member or member organization on behalf of a person other than a United States person, or that such debt obligation was (or was not) sold by such member or member organization on the day of purchase or the next business day to a person other than a United States person.

“(4) SALES OF STOCK BY DEALERS.—For purposes of paragraph (1) (B), in the case of a claim for credit or refund under subsection (a) (3), the sale by a dealer of stock on a national securities exchange registered with the Securities and Exchange Commission subject to a special contract (and not in the regular market) shall be conclusive proof that such stock was sold to a person other than a United States person, unless such dealer has actual knowledge at the time of such sale that the purchaser of such stock is a dealer (whether or not a member or member organization of such exchange).

“(c) DEFINITIONS.—For purposes of this section—

“(1) the term ‘underwriter’ means any person who has purchased stock or debt obligations from the issuer or obligor (or from a person controlling, controlled by, or under common control with such issuer or obligor), or from another underwriter, with a view to the distribution through resale of such stock or debt obligations; and

“(2) the term ‘dealer’ means any person who is a member of a national securities association registered with the Securities and Exchange Commission and who is regularly engaged, as a merchant, in purchasing stock or debt obligations and selling them to customers with a view to the gains and profits which may be derived therefrom.

“SEC. 4920. DEFINITIONS AND SPECIAL RULES.

“(a) IN GENERAL.—For purposes of this chapter—

“(1) DEBT OBLIGATION.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘debt obligation’ means—

“(i) any indebtedness, whether or not represented by a bond, debenture, note, certificate, or other writing,

whether or not secured by a mortgage, and whether or not bearing interest; and

“(ii) any interest in, or any option or similar right to acquire, a debt obligation referred to in this subparagraph, whether or not such interest, option, or right is in writing.

“(B) EXCEPTIONS.—The term ‘debt obligation’ shall not include any obligation which—

“(i) is convertible by its terms into stock of the obligor, if it is so convertible only within a period of 5 years or less from the date on which interest begins to accrue thereon; or

“(ii) arises out of the divorce, separate maintenance, or support of an individual who is a United States person.

“(2) STOCK.—The term ‘stock’ means—

“(A) any stock, share, or other capital interest in a corporation;

“(B) any interest of a partner in a partnership;

“(C) any interest in an investment trust;

“(D) any indebtedness which is convertible by its terms into stock of the obligor, if it is so convertible only within a period of 5 years or less from the date on which interest begins to accrue thereon; and

“(E) any interest in, or option or similar right to acquire, any stock described in this paragraph.

“(3) FOREIGN ISSUER OR OBLIGOR.—The terms ‘foreign issuer’, ‘foreign obligor’, and ‘foreign issuer or obligor’ mean any issuer of stock or obligor of a debt obligation, as the case may be, which is—

“(A) (i) an international organization of which the United States is not a member,

“(ii) the government of a foreign country or any political subdivision thereof, or an agency or instrumentality of such a government,

“(iii) a corporation, partnership, or estate or trust which is not a United States person as defined in paragraph (4); or

“(iv) a nonresident alien individual;

“(B) a domestic corporation which, as of July 18, 1963, was a management company registered under the Investment Company Act of 1940 if—

“(i) at least 80 percent of the value of the stock and debt obligations owned by such corporation on July 18, 1963, and at least 80 percent of the value of the stock and debt obligations owned by such corporation at the end of every calendar quarter thereafter (through the quarter preceding the quarter in which the acquisition involved is made), consists of stock or debt obligations of foreign issuers or obligors and other debt obligations having an original maturity of 90 days or less;

“(ii) such corporation elects to be treated as a foreign issuer or obligor for purposes of this chapter; and

“(iii) such corporation does not materially increase its assets during the period from July 18, 1963, to the date on which such election is made through borrowing or through issuance or sale of its stock (other than stock issued or sold on or before September 16, 1963, as part of a public offering with respect to which a registration statement was first filed with the Securities and Exchange Commission on July 18, 1963, or within 90 days before that date).

The election under clause (ii) shall be made on or before the 60th day after the date of the enactment of this chapter under regulations prescribed by the Secretary or his delegate. Such election shall be effective as of the date specified by the corporation, but not later than the date on which such election is made, and shall remain in effect until revoked. If, at the close of any succeeding calendar quarter, the company ceases to meet the requirement of clause (i), the election shall thereupon (with respect to quarters after such calendar quarter) be deemed revoked. When an election is revoked no further election may be made. If the assets of a foreign corporation are acquired by a domestic corporation in a reorganization described in subparagraph (D) or (F) of section 368(a)(1), the two corporations shall be considered a single domestic corporation for purposes of this subparagraph.

26 USC 368.

“(4) UNITED STATES PERSON.—The term ‘United States person’ means—

“(A) a citizen or resident of the United States,

“(B) a domestic partnership,

“(C) a domestic corporation, other than a corporation described in paragraph (3)(B),

“(D) an agency or wholly-owned instrumentality of the United States,

“(E) a State or political subdivision, or any agency or instrumentality thereof, and

“(F) any estate or trust—

“(i) the income of which from sources without the United States is includible in gross income under subtitle A (or would be so includible if not exempt from tax under section 501(a), section 521(a), or section 584(b)),

26 USC 501,
521, 584.

“(ii) which is situated in the Commonwealth of Puerto Rico or a possession of the United States.

“(5) DOMESTIC CORPORATION; DOMESTIC PARTNERSHIP.—The terms ‘domestic corporation’ and ‘domestic partnership’ mean, respectively, a corporation or partnership created or organized in the United States or under the laws of the United States or of any State, except that such terms do not include a branch office of such a corporation or partnership located outside the United States if —

“(A) such corporation or partnership (without regard to the activities of such office) is a dealer (as defined in section 4919(c)(2));

Ante, p. 833.

“(B) such office (which is operated by employees or partners of such corporation or partnership) was located outside the United States on July 18, 1963, and was regularly engaged, as a merchant, in purchasing and selling stock or debt obligations of foreign issuers or obligors with a view to the gains and profits which may be derived therefrom, for a period of not less than 12 consecutive calendar months prior to July 18, 1963;

“(C) all acquisitions by such branch office of stock of foreign issuers and debt obligations of foreign obligors are made in the ordinary course of its business as such a merchant or as an underwriter (as defined in section 4919(c)(1));

“(D) such office maintains separate books and records reasonably reflecting the assets and liabilities properly attributable to such office; and

“(E) there is in effect an election that such branch office be treated as a foreign corporation or foreign partnership for purposes of this chapter.

The election under subparagraph (E) shall be made by such corporation or partnership on or before the 60th day after the date of the enactment of this chapter under regulations prescribed by the Secretary or his delegate. A separate election may be made with respect to each branch office of such corporation or partnership. Such election shall be effective as of July 18, 1963, and shall remain in effect until revoked in accordance with such regulations. If, at any time, a branch office ceases to meet the requirements of subparagraph (A), (C), or (D), the election with respect to such office shall thereupon be deemed revoked. When an election is revoked, a new election under subparagraph (E) may be made subject to such conditions and limitations as may be prescribed by the Secretary or his delegate.

“(6) UNITED STATES; STATE.—The term ‘United States’ when used in a geographical sense includes the States, the District of Columbia, the Commonwealth of Puerto Rico, and the possessions of the United States; and the term ‘State’ includes the District of Columbia, the Commonwealth of Puerto Rico, and the possessions of the United States.

“(7) PERIOD REMAINING TO MATURITY.—

“(A) IN GENERAL.—Subject to the modifications set forth in subparagraph (B), the period remaining to maturity of a debt obligation shall be that period beginning on the date of its acquisition and ending on the fixed or determinable date when, according to its terms, the payment of principal becomes due.

“(B) MODIFICATIONS.—The period remaining to maturity—

“(i) of any interest in, or any option or similar right to acquire, any debt obligation shall be the period remaining to maturity of that debt obligation at the time of the acquisition of such interest, option, or right;

“(ii) of any debt obligation which is renewable without affirmative action by the obligee, or of any interest in or option or similar right to acquire such a debt obligation, shall end on the last day of the final renewal period;

“(iii) of any debt obligation which has no fixed or determinable date when the payment of principal becomes due shall be considered to be 28½ years;

“(iv) of any debt obligation which is payable on demand (including any bank deposit) shall be considered to be less than 3 years; and

“(v) of a debt obligation which is subject to retirement before its maturity through operation of a mandatory sinking fund shall be determined under regulations prescribed by the Secretary or his delegate.

“(8) FOREIGN STOCK ISSUES TREATED AS DOMESTIC.—

“(A) IN GENERAL.—A foreign corporation (other than a company registered under the Investment Company Act of 1940) shall not be considered a foreign issuer with respect to any class of its stock if, as of the latest record date before July 19, 1963, more than 65 percent of such class of stock was held of record by United States persons.

“(B) STOCK TRADED ON NATIONAL SECURITIES EXCHANGES.—A foreign corporation (other than a company registered under the Investment Company Act of 1940) shall not be

considered a foreign issuer with respect to any class of its stock which is traded on one or more national securities exchanges registered with the Securities and Exchange Commission, if the trading on such national securities exchanges constituted the principal market for such class of stock during the calendar year 1962 and if, as of the latest record date before July 19, 1963, more than 50 percent of such class of stock was held of record by United States persons.

“(b) **SPECIAL RULE FOR FOREIGN UNDERWRITERS.**—A partnership or corporation which is not a United States person and which participates, as an underwriter in an underwriting group that includes one or more United States persons, in a public offering of stock or debt obligations of a foreign issuer or obligor shall, if such partnership or corporation so elects and subject to such terms and conditions as the Secretary or his delegate may prescribe by regulations, be treated as a United States person for purposes of this chapter with respect to its participation in such public offering.

“(c) **CROSS REFERENCE.**—

“For definition of ‘acquisition’, see section 4912.

“Subchapter B—Acquisitions by Commercial Banks

“Sec. 4931. Commercial bank loans.

“SEC. 4931. COMMERCIAL BANK LOANS.

“(a) **STANDBY AUTHORITY.**—The provisions of this section shall apply only if the President of the United States—

“(1) determines that the acquisition of debt obligations of foreign obligors by commercial banks in making loans in the ordinary course of the commercial banking business has materially impaired the effectiveness of the tax imposed by section 4911, because such acquisitions have, directly or indirectly, replaced acquisitions by United States persons, other than commercial banks, of debt obligations of foreign obligors which are subject to the tax imposed by such section, and

“(2) specifies by Executive order that the provisions of this section shall apply to acquisitions by commercial banks of debt obligations of foreign obligors, to the extent specified in such order.

Such Executive order shall be effective, to the extent specified therein, with respect to acquisitions made during the period beginning on the day after the date on which the order is issued and ending on the date set forth in section 4911(d). Such Executive order may be modified from time to time (by Executive order), except that no such modification shall (A) have the effect of excluding from the application of subsection (b) or (c) a significant class of acquisitions to which such subsection applied under such Executive order or any modification thereof, or (B) subject any acquisition made on or before the date of issuance of such modification to the application of subsection (b) or (c).

“(b) **DEBT OBLIGATIONS WITH MATURITY OF 3 YEARS OR MORE, ETC.**—During the period in which an Executive order issued under subsection (a) is effective, and to the extent specified in such order (and any modifications thereof), sections 4914(b) (2) (A), 4914(j) (1) (A) (ii), and 4915(c) (2) (A) shall not apply.

“(c) **DEBT OBLIGATIONS WITH MATURITY FROM 1 TO 3 YEARS.**—During the period in which an Executive order issued under subsection (a) is effective, and to the extent specified in such order (and any modifications thereof), there is hereby imposed, on each acquisition by a United States person (as defined in section 4920(a) (4)) which is

Ante, pp. 813,
824.

a commercial bank of a debt obligation of a foreign obligor (if such obligation has a period remaining to maturity of 1 year or more and less than 3 years), a tax equal to a percentage of the actual value of the debt obligation measured by the period remaining to its maturity and determined in accordance with the following table:

"If the period remaining to maturity is:	The tax, as a percentage of actual value, is:
At least 1 year, but less than 1¼ years.....	1.05 percent
At least 1¼ years, but less than 1½ years.....	1.30 percent
At least 1½ years, but less than 1¾ years.....	1.50 percent
At least 1¾ years, but less than 2¼ years.....	1.85 percent
At least 2¼ years, but less than 2¾ years.....	2.30 percent
At least 2¾ years, but less than 3 years.....	2.75 percent

For purposes of this title, the tax imposed under this subsection shall be treated as imposed under section 4911, except that, for such purposes, the provisions of section 4918 shall not apply.

"(d) EXCLUSIONS.—

"(1) EXPORT LOANS.—The provisions of subsection (b), and the tax imposed under subsection (c), shall not apply with respect to the acquisition by a commercial bank of a debt obligation arising out of the sale of personal property or services (or both) if—

"(A) not less than 85 percent of the amount of the loan is attributable to the sale of property manufactured, produced, grown, extracted, created, or developed in the United States, or to the performance of services by United States persons, or to both, and

"(B) the extension of credit and the acquisition of the debt obligation related thereto are reasonably necessary to accomplish the sale of property or services out of which the debt obligation arises, and the terms of the debt obligation are not unreasonable in light of credit practices in the business in which the United States person selling such property or services is engaged.

"(2) FOREIGN CURRENCY LOANS BY FOREIGN BRANCHES.—The provisions of subsection (b), and the tax imposed under subsection (c), shall not apply to the acquisition by a commercial bank of a debt obligation of a foreign obligor payable in the currency of a foreign country if, under regulations prescribed by the Secretary or his delegate—

"(A) such bank establishes and maintains, for each of its branches located outside the United States, a fund of assets with respect to deposits payable in foreign currency to customers (other than banks) of such branch, and

"(B) such debt obligation is designated, to the extent permitted by this paragraph, as part of a fund of assets described in subparagraph (A) (but only after debt obligations of foreign obligors payable in foreign currency having a period remaining to maturity of less than one year held by such bank have been designated as part of such a fund).

A debt obligation may be designated as part of a fund of assets described in subparagraph (A) only to the extent that, immediately after such designation, the adjusted basis of all the assets held in such fund does not exceed 110 percent of the deposits payable in foreign currency to customers (other than banks) of the branch with respect to which such fund is maintained.

"(3) PREEXISTING COMMITMENTS.—The provisions of subsection (b), and the tax imposed under subsection (c), shall not apply to the acquisition by a commercial bank of a debt obligation of a foreign obligor—

“(A) made pursuant to an obligation to acquire which on August 4, 1964—

“(i) was unconditional, or

“(ii) was subject only to conditions contained in a formal contract under which partial performance had occurred; or

“(B) as to which on or before August 4, 1964, the acquiring commercial bank (or, in a case where 2 or more commercial banks are making acquisitions as part of a single transaction, a majority in interest of such banks) had taken every action to signify approval of the acquisition under the procedures ordinarily employed by such bank (or banks) in similar transactions and had sent or deposited for delivery to the foreign person from whom the acquisition was made written evidence of such approval in the form of a document setting forth, or referring to a document sent by the foreign person from whom the acquisition was made which set forth, the principal terms of such acquisition.

“(e) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations (not inconsistent with the provisions of this section or of an Executive order issued under subsection (a)) as may be necessary to carry out the provisions of this section.”

(b) TECHNICAL AMENDMENT.—The table of chapters for subtitle D is amended by adding at the end thereof the following item:

“Chapter 41. Interest equalization tax.”

(c) EFFECTIVE DATE.—

(1) GENERAL RULE.—Except as provided by paragraphs (2), (3), (4), (5), (6), and (7), the amendments made by this section shall apply with respect to acquisitions of stock and debt obligations made after July 18, 1963.

(2) PREEXISTING COMMITMENTS.—Such amendments shall not apply to an acquisition—

(A) made pursuant to an obligation to acquire which on July 18, 1963—

(i) was unconditional, or

(ii) was subject only to conditions contained in a formal contract under which partial performance had occurred;

(B) as to which on or before July 18, 1963, the acquiring United States person (or, in a case where 2 or more United States persons are making acquisitions as part of a single transaction, a majority in interest of such persons) had taken every action to signify approval of the acquisition under the procedures ordinarily employed by such person (or persons) in similar transactions and had sent or deposited for delivery to the foreign person from whom the acquisition was made written evidence of such approval in the form of a commitment letter, memorandum of terms, draft purchase contract, or other document setting forth, or referring to a document sent by the foreign person from whom the acquisition was made which set forth, the principal terms of such acquisition, subject only to the execution of formal documents evidencing the acquisition and to customary closing conditions;

(C) if, on or before July 18, 1963, the acquiring United States person—

(i) had entered into a contract for the sale to the government of a less developed country or a political subdivision thereof, or an agency or instrumentality of such government (within the meaning of section 4916(a)), of property owned within such less developed country or political subdivision by such person or by a controlled foreign corporation (as defined in section 957) more than 50 percent of the total combined voting power of all classes of stock entitled to vote of which was owned (within the meaning of section 958) by such person, or of stock or debt obligations of such a controlled foreign corporation which was actively engaged in the conduct of a trade or business within such less developed country; or had entered into a contract of indemnification with respect to the nationalization, expropriation, or seizure of such property or of such stock or debt obligations by the government of a less developed country or political subdivision thereof, or an agency or instrumentality of such government (within the meaning of section 4916(a)), or

(ii) had sent or deposited for delivery to the government of a less developed country or political subdivision thereof, or an agency or instrumentality of such government (within the meaning of section 4916(a)), a commitment letter, memorandum of terms, or other document setting forth the principal terms of a contract described in clause (i),

to the extent such acquisition is required by the terms of the contract as a reinvestment within such less developed country of amounts equal to part or all of the consideration received under the contract;

(D) which would be excluded from tax under section 4915 of the Internal Revenue Code of 1954 but for the provisions of subsection (c) thereof, if (i) on or before July 18, 1963, the acquiring United States person applied for and received from a foreign government (or an agency or instrumentality thereof) authorization to make such acquisition and approval of the amount thereof, and (ii) such authorization was required in order for such acquisition to be made; or

(E) of stock in the initial capitalization of a foreign corporation which would be excluded from tax under section 4915 of the Internal Revenue Code of 1954 but for the provisions of subsection (c) thereof, if at least 75 percent in interest of the United States persons who acquired stock in such initial capitalization had signified on or before July 18, 1963, to the person coordinating the organization of such corporation the intention to invest a specified amount of money through the purchase of such stock, which amount was equal to or greater than the amount ultimately so invested.

(3) PUBLIC OFFERING.—Such amendments shall not apply to an acquisition made on or before September 16, 1963, if—

(A) a registration statement (within the meaning of the Securities Act of 1933) was in effect with respect to the stock or debt obligation acquired at the time of its acquisition;

(B) the registration statement was first filed with the Securities and Exchange Commission on July 18, 1963, or within 90 days before that date; and

Ante, p. 827.

76 Stat. 1017.
26 USC 957.

26 USC 958.

48 Stat. 74.
15 USC 77a.

(C) no amendment was filed with the Securities and Exchange Commission after July 18, 1963, and before the acquisition which had the effect of increasing the number of shares of stock or the aggregate face amount of the debt obligations covered by the registration statement.

(4) **INVESTMENT OF PROCEEDS OF SUBSCRIPTION OFFERING.**—Such amendments shall not apply to an acquisition of stock or debt obligations of a foreign issuer or obligor by a corporation electing under section 4920(a)(3)(B) of the Internal Revenue Code of 1954 to be treated as a foreign issuer or obligor for purposes of chapter 41 of such Code, to the extent that the amount of consideration paid for all such stock and debt obligations does not exceed the proceeds received by such corporation from a subscription offering (completed on or before September 16, 1963) as to which a registration statement was filed with the Securities and Exchange Commission on July 18, 1963, or within 90 days before that date.

Ante, p. 836.

(5) **LISTED SECURITIES.**—Such amendments shall not apply to an acquisition made on or before August 16, 1963, if the stock or debt obligation involved was acquired on a national securities exchange registered with the Securities and Exchange Commission.

(6) **OPTIONS, FORECLOSURES, AND CONVERSIONS.**—Such amendments shall not apply to an acquisition—

(A) of stock pursuant to the exercise of an option or similar right (or a right to convert a debt obligation into stock), if such option or right was held on July 18, 1963, by the person making the acquisition or by a decedent from whom such person acquired the right to exercise such option or right by bequest or inheritance or by reason of such decedent's death, or

(B) of stock or debt obligations as a result of a foreclosure by a creditor pursuant to the terms of an instrument held by such creditor on July 18, 1963.

(7) **DOMESTICATION.**—Such amendments shall not apply to the acquisition by a domestic corporation of the assets of a foreign corporation pursuant to a reorganization described in subparagraph (C), (D), or (F) of section 368(a)(1) of the Internal Revenue Code of 1954 if the acquisition occurs on or before the 180th day after the date of the enactment of this Act and the foreign corporation was a management company registered under the Investment Company Act of 1940 from July 18, 1963, until the time of the acquisition.

26 USC 368.

54 Stat. 789.
15 USC 80a-51.

(8) **MEANING OF TERMS.**—Terms used in this subsection (except as specifically otherwise provided) shall have the same meaning as when used in chapter 41 of the Internal Revenue Code of 1954.

SEC. 3. RETURNS.

(a) **MAKING OF RETURNS.**—Section 6011 (relating to general requirement of return, statement, or list) is amended by redesignating subsection (d) as subsection (e), and by adding after subsection (c) the following new subsection:

72 Stat. 1305.
26 USC 6011.

“(d) **INTEREST EQUALIZATION TAX RETURNS, ETC.**—

“(1) **IN GENERAL.**—Every person shall make a return for each calendar quarter during which he incurs liability for the tax imposed by section 4911, or would so incur liability but for the provisions of section 4918. The return shall, in addition to such other information as the Secretary or his delegate may by regulations require, include a list of all acquisitions made by such person during the calendar quarter which are exempt under the

Ante, p. 831.

provisions of section 4918, and shall, with respect to each such acquisition, be accompanied either (A) by a certificate of American ownership which complies with the provisions of section 4918(e), or (B) in the case of an acquisition for which other proof of exemption is permitted under section 4918(f), by a statement setting forth a summary of the evidence establishing such exemption and the reasons for the person's inability to establish prior American ownership under subsection (b), (c), or (d) of section 4918. No return or accompanying evidence shall be required under this paragraph in connection with any acquisition with respect to which a written confirmation, furnished in accordance with the requirements described in section 4918 (c) or (d), is treated as conclusive proof of prior American ownership; nor shall any such acquisition be required to be listed in any return made under this paragraph.

“(2) INFORMATION RETURNS OF COMMERCIAL BANKS.—Every United States person (as defined in section 4920(a)(4)) which is a commercial bank shall file a return with respect to loans and commitments to foreign obligors at such times, in such manner, and setting forth such information as the Secretary or his delegate shall by forms and regulations prescribe.

“(3) REPORTING REQUIREMENTS FOR MEMBERS OF EXCHANGES AND ASSOCIATIONS.—Every member or member organization of a national securities exchange or of a national securities association registered with the Securities and Exchange Commission shall keep such records and file such information as the Secretary or his delegate may by regulations prescribe in connection with acquisitions and sales effected by such member or member organization as a broker, and acquisitions made for the account of such member or member organization, of stock or debt obligations—

“(A) as to which a certificate of American ownership or blanket certificate of American ownership is executed and filed with such member or member organization as prescribed under section 4918(e); and

“(B) as to which a written confirmation is furnished to a United States person stating that the acquisition—

“(i) in the case of a transaction on a national securities exchange, was made subject to a special contract, or

“(ii) in the case of a transaction not on a national securities exchange, was from a person who had not filed a certificate of American ownership with respect to such stock or debt obligation or a blanket certificate of American ownership with respect to the account from which such stock or debt obligation was sold.”

(b) TIME FOR FILING RETURNS.—Part V of subchapter A of chapter 61 (relating to time for filing returns and other documents) is amended by adding at the end thereof the following new section:

“SEC. 6076. TIME FOR FILING INTEREST EQUALIZATION TAX RETURNS.

“Each return made under section 6011(d)(1) (relating to interest equalization tax) shall be filed on or before the last day of the first month following the period for which it is made.”

(c) PUBLICITY OF RETURNS.—Section 6103(a)(2) (relating to public record and inspection) is amended by striking out “and subchapter B of chapter 37” and inserting in lieu thereof “subchapter B of chapter 37, and chapter 41”.

26 USC 6071-6075.

Ante, p. 843.

26 USC 6103.

(d) **CLERICAL AMENDMENT.**—The table of sections for part V of subchapter A of chapter 61 is amended by adding at the end thereof the following:

“Sec. 6076. Time for filing interest equalization tax returns.”

(e) **FIRST RETURN PERIOD.**—Notwithstanding any provision of section 6011(d)(1) of the Internal Revenue Code of 1954, the first period for which returns shall be made under such section 6011(d)(1) shall be the period commencing July 19, 1963, and ending at the close of the calendar quarter in which the enactment of this Act occurs.

Ante, p. 843.

SEC. 4. DISALLOWANCE OF DEDUCTION FOR AMOUNT PAID AS INTEREST EQUALIZATION TAX.

Section 263(a) (relating to capital expenditures) is amended by adding at the end thereof the following new paragraph:

26 USC 263.

“(3) Any amount paid as tax under section 4911 (relating to imposition of interest equalization tax) except to the extent that any amount attributable to the amount paid as tax is included in gross income for the taxable year.”

SEC. 5. ORIGINAL ISSUE DISCOUNT.

Section 1232(b)(2) (relating to definition of issue price) is amended by inserting before the period at the end of the second sentence thereof the following: “increased by the amount, if any, of tax paid under section 4911 (and not credited, refunded, or reimbursed) on the acquisition of such bond or evidence of indebtedness by the first buyer”.

26 USC 1232.

SEC. 6. PENALTIES.

(a) **ASSESSABLE PENALTIES.**—Subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end thereof the following new sections:

26 USC 6671-6679.

“SEC. 6680. FAILURE TO FILE INTEREST EQUALIZATION TAX RETURNS.

“In addition to the penalty imposed by section 7203 (relating to willful failure to file return, supply information, or pay tax) any person who is required under section 6011(d)(1) (relating to interest equalization tax returns) to file a return for any period in respect of which, by reason of the provisions of section 4918, he incurs no liability for payment of the tax imposed by section 4911 and who fails to file such return within the time prescribed by section 6076, shall pay a penalty of \$10 or 5 percent of the amount of tax for which he would incur liability for payment under section 4911 but for the provisions of section 4918, whichever is the greater, for each such failure unless it is shown that the failure is due to reasonable cause. The penalty imposed by this section shall not exceed \$1,000 for each failure to file a return.

26 USC 7203.

Ante, p. 831.

Ante, p. 844.

“SEC. 6681. FALSE EQUALIZATION TAX CERTIFICATES.

“(a) **FALSE CERTIFICATE OF AMERICAN OWNERSHIP.**—In addition to the criminal penalty imposed by section 7241, any person who willfully executes a certificate of American ownership or blanket certificate of American ownership described in section 4918(e) which contains a misstatement of material fact shall be liable to a penalty equal to 125 percent of the amount of tax imposed by section 4911 on the acquisition of the stock or debt obligation involved which, but for the provisions of section 4918, would be payable by the person acquiring the stock or debt obligation.

Post, p. 847.

“(b) **LIABILITY OF MEMBERS OF NATIONAL SECURITIES EXCHANGES AND ASSOCIATIONS.**—A member or member organization of a national securities exchange described in section 4918(c) or a national securities association described in section 4918(d) shall be liable to a penalty equal to 125 percent of the amount of tax imposed by section 4911 on

Ante, p. 831.

the acquisition (in a transaction subject to the rules of such exchange or association as described in section 4918 (c) or (d)) of stock or a debt obligation which but for the provisions of section 4918, would be payable by the person acquiring the stock or debt obligation, if such member or member organization—

“(1) willfully effects the sale of such stock or debt obligation or furnishes a written confirmation with respect to the purchase or sale of such stock or debt obligation other than in accordance with the requirements described in section 4918 (c) or (d); or

“(2) has actual knowledge that—

“(A) the certificate of American ownership or the blanket certificate of American ownership (referred to in section 4918) in his possession in connection with the sale of such stock or debt obligation is false in any material respect; or

“(B) the person who executed and filed the blanket certificate of American ownership in his possession was not a United States person at the time of sale.

Post, p. 847.

“(c) **FALSE CERTIFICATE OF SALES TO FOREIGN PERSONS.**—In addition to the criminal penalty imposed by section 7241, any person who willfully executes a certificate of sales to foreign persons described in section 4919(b)(2) which contains a misstatement of material fact shall be liable to a penalty equal to 125 percent of the amount of the tax imposed by section 4911 on the acquisition by the underwriter of the stock or debt obligation with respect to which such certificate is executed.

“(d) **FALSE CONFIRMATIONS OR COMPARISONS FURNISHED BY DEALERS.**—

“(1) **MEMBERS OF NATIONAL SECURITIES EXCHANGES.**—A member or member organization of a national securities exchange described in section 4919(b)(3)(A) who, in a transaction subject to the rules of such exchange as described in such section, willfully furnishes a written confirmation or comparison which contains a misstatement of material fact or which fails to state a material fact shall be liable to a penalty equal to 125 percent of the amount of the tax imposed by section 4911 on the acquisition of the debt obligation by the dealer for whose benefit such confirmation or comparison is furnished.

“(2) **DEALERS.**—Any person who sells as a dealer a debt obligation in a transaction subject to the rules of a national securities exchange as described in section 4919(b)(3)(A), in which such sale is effected on his behalf by a member or member organization of such exchange, and who willfully fails to disclose to such member or member organization that such sale is being made by him as a dealer, shall be liable to a penalty equal to 125 percent of the amount of the tax imposed on his acquisition of such debt obligation.

“(3) **MEMBERS OF NATIONAL SECURITIES ASSOCIATIONS.**—A member or member organization of a national securities association described in section 4919(b)(3)(B) who willfully furnishes a written confirmation described in such section (in a transaction subject to the rules of such association as described in such section) which contains a misstatement of material fact or which fails to state a material fact shall be liable to a penalty equal to 125 percent of the amount of the tax imposed by section 4911 on the acquisition of the debt obligation by the dealer for whose benefit such confirmation is furnished.

“(e) **PENALTY TO BE IN LIEU OF TAX IN CERTAIN CASES.**—Unless the person acquiring the stock or debt obligation involved had actual knowledge that the certificate was false in any material respect, the

penalty under subsection (a) or (c) shall be in lieu of any tax on the acquisition of such stock or debt obligation under section 4911."

(b) **CRIMINAL PENALTY.**—Part II of subchapter A of chapter 75 (relating to penalties applicable to certain taxes) is amended by adding at the end thereof the following new section:

26 USC 7231-7240.

"SEC. 7241. PENALTY FOR FRAUDULENT EQUALIZATION TAX CERTIFICATES.

"Any person who, on or after the date of the enactment of the Interest Equalization Tax Act, willfully executes a certificate of American ownership or blanket certificate of American ownership described in section 4918(e), or a certificate of sales to foreign persons described in section 4919(b) (2), which is known by him to be fraudulent or to be false in any material respect shall be guilty of a misdemeanor and, upon conviction thereof, shall for each offense be fined not more than \$1,000, or imprisoned not more than 1 year, or both."

Ante, p. 831.

(c) **CLERICAL AMENDMENTS.**—

(1) The table of sections for subchapter B of chapter 68 is amended by adding at the end thereof the following:

"Sec. 6680. Failure to file interest equalization tax returns.

"Sec. 6681. False equalization tax certificates."

(2) The table of sections for part II of subchapter A of chapter 75 is amended by adding at the end thereof the following:

"Sec. 7241. Penalty for fraudulent equalization tax certificates."

Approved September 2, 1964.

Public Law 88-564

AN ACT

To amend the District of Columbia Sales Tax Act, as amended, relating to certain sales to common carriers or sleeping-car companies.

September 2, 1964
[H. R. 8451]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 114(b) of the District of Columbia Sales Tax Act, as amended (63 Stat. 112; D.C. Code, sec. 47-2601, par. 14(b)), is amended by adding at the end thereof the following:

D.C. Sales Tax
Act, amendment.

"(5) Sales to a common carrier or sleeping-car company by a corporation all of whose capital stock is owned by one or more common carriers or sleeping-car companies of tangible personal property, procured or acquired by such corporation outside the District, which consists of repair or replacement parts used for the maintenance or repair of any train operating principally without the District in the course of interstate commerce, or commerce between the District and a State, provided such sales are made in connection with the furnishing of terminal services pursuant to a written agreement entered into before January 1, 1963."

Approved September 2, 1964.