

Public Law 89-243

AN ACT

October 9, 1965
[H. R. 4750]

To provide an extension of the interest equalization tax, and for other purposes.

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

Interest Equalization Tax Extension Act of 1965.

SECTION 1. SHORT TITLE, ETC.

(a) **SHORT TITLE.**—This Act may be cited as the “Interest Equalization Tax Extension Act of 1965”.

(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 is to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. EXTENSION OF INTEREST EQUALIZATION TAX.

78 Stat. 810.
26 USC 4911.

Section 4911(d) is amended by striking out “December 31, 1965” and inserting in lieu thereof “July 31, 1967”.

SEC. 3. IMPOSITION OF TAX WITH RESPECT TO DEBT OBLIGATIONS HAVING MATURITY OF 1 TO 3 YEARS.

(a) **IMPOSITION OF TAX.**—The following provisions are amended by striking out “3 years” each place it appears and inserting in lieu thereof “1 year”—

26 USC 4914.

- (1) section 4911 (a) ;
- (2) section 4914 (e) (3) (D) ;
- (3) section 4914 (e) (3) (E) (ii) ; and
- (4) section 4920 (a) (7) (B) (iv).

26 USC 4920.

(b) **AMOUNT OF TAX.**—Section 4911(b) (2) is amended by striking from the table the line reading

“At least 3 years, but less than 3½ years..... 2.75 percent”

and inserting in lieu thereof the following:

“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 3½ years.....	2.75 percent”.

(c) **EFFECTIVE DATE.**—

(1) **GENERAL RULE.**—Except as provided by paragraphs (2), (3), and (4), the amendments made by subsections (a) and (b) shall apply with respect to acquisitions of debt obligations, and designations described in section 4914(e) (3) (D) or 4914(e) (3) (E) (ii) of the Internal Revenue Code of 1954, made after February 10, 1965.

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

(A) made pursuant to an obligation to acquire which on February 10, 1965—

- (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 February 10, 1965, 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.

(3) **PUBLIC OFFERINGS.**—Such amendments shall not apply to an acquisition of debt obligations made on or before April 12, 1965, if—

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

48 Stat. 74,
15 USC 77a.

(B) the registration statement was first filed with the Securities and Exchange Commission on February 10, 1965, or within 90 days before that date; and

(C) no amendment was filed with the Securities and Exchange Commission after February 10, 1965, and before the acquisition which had the effect of increasing the aggregate face amount of the debt obligations covered by the registration statement.

(4) **FORECLOSURES.**—Such amendments shall not apply to an acquisition of debt obligations as a result of a foreclosure by a creditor pursuant to the terms of an instrument held by such creditor on February 10, 1965.

(d) **RETURNS.**—

(1) **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) with respect to acquisitions made subject to tax by this section shall be the period commencing February 11, 1965, and ending at the close of the calendar quarter in which the enactment of this Act occurs.

78 Stat. 843,
26 USC 6011.

(2) **TIME FOR FILING FIRST RETURNS.**—Notwithstanding any provision of section 6076 of the Internal Revenue Code of 1954, the first return with respect to acquisitions made subject to tax by this section shall be filed on or before the last day of the first month following the close of the calendar quarter in which the enactment of this Act occurs, or at such later time as may be provided in regulations prescribed by the Secretary or his delegate.

26 USC 6076.

(e) **CONFORMING AMENDMENTS.**—

(1) Effective as provided in paragraph (2), section 4931 is amended—

26 USC 4931.

(A) by striking out subsection (c) and redesignating subsections (d) and (e) as subsections (c) and (d), respectively;

(B) by striking out “subsection (b) or (c)” each place it appears in subsection (a) and inserting in lieu thereof “subsection (b)”;

(C) by striking out “, and the tax imposed under subsection (c),” each place it appears in the subsection herein redesignated as subsection (c); and

(D) by striking out “3 YEARS” in the heading to subsection (b) and inserting in lieu thereof “1 YEAR”.

(2) Executive Order 11198, issued February 10, 1965, shall not be affected by the amendments made by this section and shall continue to apply as though such amendments had not been made.

30 F. R. 1929.

The amendments made by this subsection shall take effect only at such time as may be provided in a modification hereafter made (in accordance with section 4931 of the Internal Revenue Code of 1954) in such Executive order.

78 Stat. 839.
26 USC 4931.

SEC. 4. OTHER AMENDMENTS.

(a) CERTAIN EXPORT LEASES.—

26 USC 4914.

(1) Section 4914(c) is amended by redesignating paragraph (6) as paragraph (7) and by inserting after paragraph (5) the following new paragraph:

26 USC 4911.

“(6) CERTAIN EXPORT LEASES.—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 arising out of a lease of personal property to such obligor by such United States person if—

“(A) at least 30 percent of the value of the property subject to the lease, or 60 percent of the actual value of the debt obligation arising out of such lease, is attributable to the use of tangible personal property which was manufactured, 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), or to the performance of services pursuant to the terms of the lease by such United States person (or by one or more such corporations) with respect to such personal property, or to both, and

68A Stat. 369.
26 USC 1504.

“(B) at least 50 percent of the value of the property subject to lease, or 100 percent of the actual value of the debt obligation arising out of such lease, is attributable to the use of tangible personal property which was manufactured, produced, grown, or extracted in the United States, or to the performance of services pursuant to the terms of the lease by United States persons, or to both.”

(2) Section 4914(b) (6) is amended by inserting “or lease” after “sale”.

(3) Section 4914(j) (1) is amended—

(A) by striking out “or (5)” in subparagraph (A) and inserting in lieu thereof “(5), or (6)”;

(B) by striking out “or (5)” in subparagraph (D) and inserting in lieu thereof “(5), or (6)”;

(C) by striking out “or (3)” in clause (iii) in subparagraph (A) and inserting in lieu thereof “(3), or (6)” and by inserting after the word “sale” in such clause the words “or lease”.

(4) Paragraph (1) of the subsection of section 4931 redesignated as subsection (c) by section 3(e) of this Act is amended—

(A) by inserting “or lease” after “sale” each place it appears;

(B) by inserting after “loan” in subparagraph (A) the following: “, amount paid, or other consideration given to acquire such debt obligation”;

(C) by inserting “or leasing” after “selling” in subparagraph (B); and

(D) by adding at the end of such paragraph (after and below subparagraph (B)) the following new sentence:

“For purposes of the preceding sentence, the acquisition by a wholly-owned subsidiary of a commercial bank of a debt obligation arising out of a lease made by such subsidiary shall be treated as the acquisition of a debt obligation by a commercial bank.”

(b) SALES OF FOREIGN BRANCHES.—

(1) Section 4914(g)(1) is amended—

78 Stat. 813,
26 USC 4914.

(A) by striking out “or” at the end of subparagraph (A);

(B) by striking out the period at the end of subparagraph (B) and inserting in lieu thereof “; or”; and

(C) by adding at the end thereof the following new subparagraph:

“(C) as part or all of the purchase price in a sale by such United States person of substantially all of the assets of a branch of such United States person located outside the United States.”

(2) Section 4914(g)(2) is amended to read as follows:

“(2) LIMITATIONS.—Subparagraphs (A) and (B) of 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. Subparagraph (C) of paragraph (1) shall not apply to the acquisition of a debt obligation if any of the assets sold had been transferred to the branch for the purpose of sale (other than sale in the ordinary course of its trade or business).”

(3) The heading of section 4914(g) is amended by inserting “OR SALE OF FOREIGN BRANCH” after “SUBSIDIARY”.

(4) Section 4914(b)(10) is amended to read as follows:

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

(c) CONSTRUCTION LOANS.—

(1) Section 4914(h) is amended to read as follows:

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

26 USC 4911.

“(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) a debt obligation of such foreign obligor which is secured by real property located in the United States, to the extent that such debt obligation—

“(i) is a part of the purchase price of such real property (or of such real property and related personal property), or

“(ii) 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); or

“(B) a debt obligation of such foreign obligor which is secured by real property located in the United States on which improvements are under construction by the obligor, if such debt obligation arises out of a loan made by such United States person all the proceeds of which are used—

“(i) to finance the construction of such improvements,

or

“(ii) to repay all or any part of a loan made to finance such construction, if the construction loan has qualified (or would have qualified) under paragraph (2)(B) and such repayment occurs within 5 years after such construction loan is made.

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

“(A) in the case of the sale of property referred to in paragraph (1) (A)—

“(i) the seller is a United States person, and

“(ii) 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; or

“(B) in the case of the construction of improvements referred to in paragraph (1) (B)—

“(i) at the time any proceeds of the loan out of which such debt obligation arises are advanced, an amount equal to at least one-third of the amount of such advance, plus one-third of the amount of any previous advances of such proceeds, has been expended for such construction by the foreign obligor in United States currency from funds not obtained from United States persons for the purpose of financing such construction, and

“(ii) not less than 85 percent of the cost of such construction attributable to property or services is attributable to property grown, extracted, manufactured, or produced in the United States, or to services performed by United States persons, or to both.

“(3) RELATED PERSONAL PROPERTY.—For purposes of paragraph (1) (A), 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.”

(2) Section 4914(b) (11) is amended to read as follows:

“(11) ACQUISITIONS OF CERTAIN DEBT OBLIGATIONS SECURED BY REAL PROPERTY IN THE UNITED STATES.—Of debt obligations secured by real property in the United States, to the extent provided in subsection (h).”

(d) STUDENT LOANS.—Section 4914(b) is amended by adding at the end thereof the following new paragraph:

“(13) STUDENT LOANS.—Of debt obligations which arise out of loans to a foreign obligor registered as a full-time student at an educational institution (as defined in section 151(e) (4)) in the United States, to the extent that the acquisition by the acquiring person of such debt obligations with a period remaining to maturity of 1 year or more from such obligor in any calendar year does not exceed \$2,500.”

(e) TANGIBLE PROPERTY HELD FOR PERSONAL USE.—Section 4914(b) is amended by adding at the end thereof (after the new paragraph added by subsection (d) of this section) the following new paragraph:

“(14) TANGIBLE PROPERTY HELD FOR PERSONAL USE.—Of debt obligations arising out of the sale of tangible property located outside the United States which was held for his personal use by the person acquiring such obligation.”

(f) CERTAIN FOREIGN BRANCHES ENGAGED IN THE COMMERCIAL BANKING BUSINESS WHICH ARE MEMBERS OF FOREIGN STOCK EXCHANGES.—

(1) Section 4914(b) (2) is amended by adding at the end thereof (after and below subparagraph (B)) the following new sentence:

“Stock or debt obligations acquired by a foreign branch of a corporation, in connection with its banking business, shall be

78 Stat. 813.
26 USC 4914.

68A Stat. 42.
26 USC 151.

considered debt obligations described in subparagraph (A) of the preceding sentence if—

“(i) such branch is engaged in the commercial banking business and is also a member of a foreign stock exchange all the members of which on June 29, 1965, were banks,

“(ii) on July 18, 1963, such branch was so engaged and was such a member,

“(iii) such stock or debt obligations would not (but for this sentence) be excludable under the preceding sentence, and

“(iv) at the time of such acquisition, such branch does not hold stock and debt obligations described in clause (iii) which have an adjusted basis in excess of 3 percent of the deposits of the customers (other than deposits of United States persons engaged in the commercial banking business and members of an affiliated group (determined under section 48(c)(3)(C)) of which such a United States person is a member) of such branch payable in the currency of the country in which such branch is located.”

76 Stat. 969.
26 USC 48.

(2) Section 4914(j)(2) is amended by adding at the end thereof the following new sentence: “For purposes of this chapter, if, after July 18, 1963, a United States person sells or otherwise disposes of stock or a debt obligation to the acquisition of which the last sentence of subsection (b)(2) applied, such person shall not, with respect to that stock or debt obligation, be considered a United States person.”

78 Stat. 813.
26 USC 4914.

(3) The amendments made by this subsection shall apply to acquisitions made after July 18, 1963.

(g) CERTAIN CURRENT DESIGNATIONS BY INSURANCE COMPANIES.—Section 4914(e)(3)(B) is amended to read as follows:

“(B) CURRENT DESIGNATIONS TO MAINTAIN FUND.—

“(i) IN GENERAL.—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 clause at the time of such initial designation without regard to such 30-day and continued ownership requirements.

“(ii) CERTAIN DEBT OBLIGATIONS HAVING MATURITY OF LESS THAN 3 YEARS.—A debt obligation having a period remaining to maturity (on the date of acquisition) of at least 1 year but less than 3 years, which is acquired during the period beginning February 11, 1965, and ending on the date of the enactment of the Interest Equalization Tax Extension Act of 1965, may be designated as part of a fund of assets described in paragraph (2) on or before the 30th day after the date of such enactment (or at such later time as the Secretary or his delegate may by regulations prescribe) without regard to the 30-day and continued ownership requirements provided in clause (i).”

(h) ACQUISITIONS BY CERTAIN TAX-EXEMPT ORGANIZATIONS.—

78 Stat. 813,
26 USC 4914.

(1) Section 4914(f) is amended by adding at the end thereof (after and below paragraph (2)) the following new sentence: "For purposes of this subsection, stock or debt obligations acquired as a result of the investment or reinvestment of such contributions or fees which consist of insurance premiums (other than premiums paid to a mutual insurance company or association described in section 501(c)(15)) paid by the members of such local organizations shall be treated as held exclusively for the benefit of such members if primarily so held, notwithstanding that such stock or debt obligations may, under certain contingencies, be used for the benefit of other members of such United States person."

68A Stat. 165,
26 USC 501.

(2) The amendment made by paragraph (1) shall apply with respect to acquisitions of stock and debt obligations made after July 18, 1963:

26 USC 4916.

68A Stat. 911,
26 USC 7701.

(i) EXCLUSION FOR INVESTMENTS IN LESS DEVELOPED COUNTRY PARTNERSHIPS.—Section 4916(c)(1) is amended by adding at the end thereof the following new sentence: "A foreign partnership, as defined in section 7701(a)(2) and (5), the assets and gross income of which, for the applicable periods set forth in paragraph (3), satisfy the requirements of subparagraph (A) or (B) of the first sentence of this paragraph, shall be treated as a less developed country corporation for purposes of this section."

26 USC 4917.

(j) NOTICE OF ACQUISITION FOR EXCLUSION OF ORIGINAL OR NEW ISSUES.—Section 4917 is amended—

(1) by adding at the end of subsection (a) the following new sentence: "In the case of acquisitions of debt obligations having a period remaining to maturity of 1 year or more but less than 3 years made during the period beginning February 11, 1965, and ending with the date of the enactment of the Interest Equalization Tax Extension Act of 1965, 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."; and

(2) by adding at the end of such section the following new subsection:

"(d) REDUCTION OF EXCLUSION IN CASE OF LATE FILING OF CERTAIN NOTICES OF ACQUISITION.—If, with respect to an acquisition after the date of the enactment of the Interest Equalization Tax Extension Act of 1965 of stock or a debt obligation which is all or part of an original or new issue to which an Executive order issued under subsection (a) is applicable (other than an Executive order which is applicable to a limited aggregate amount of such issues), the notice of acquisition required by subsection (a) is not filed on or before the last day (including extensions of time) specified in the regulations prescribed by the Secretary or his delegate under such subsection, the exclusion provided by such Executive order shall not apply to 5 percent of such acquisition for each 30-day period or fraction thereof after such last day during which such failure continues, except that in no event shall such exclusion be reduced under this subsection by more than 25 percent of such acquisition."

(k) CONSIDERATION OF TREATY VIOLATIONS IN CONNECTION WITH EXCLUSION FOR ORIGINAL OR NEW ISSUES.—Section 4917 is amended by adding after subsection (d) (as added by subsection (j) of this section) the following new subsection:

"(e) FULFILLMENT OF TREATY OBLIGATIONS.—In determining whether to issue an Executive order under subsection (a) with respect to a foreign country, and in determining whether to revoke or modify an Executive order issued under subsection (a) with respect to a foreign country (whether issued before or after the enactment of this

subsection), the President may take into account whether such foreign country is according privileges to United States persons in conformity with treaties of friendship, commerce, and navigation between the United States and such foreign country."

(1) CREDIT OR REFUND FOR SALES OF STOCK BY DEALERS TO FOREIGN PERSONS.—

(1) Section 4919(a) (3) is amended to read as follows:

"(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—

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

"(ii) another dealer who resells it 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 on the day of purchase or on either of the two preceding business days to—

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

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

(2) Section 4919(b) (3) is amended by striking out the heading and inserting in lieu thereof "CERTAIN SALES BY DEALERS.—".

(3) Section 4919(b) (3) (B) is amended—

(A) by striking out "with respect to a debt obligation sold in a transaction" and inserting in lieu thereof "with respect to a sale";

(B) by striking out "a debt obligation" each place it appears in clauses (i) and (ii) and in the matter which follows and inserting in lieu thereof "stock or a debt obligation";

(C) by striking out "such debt obligation" each place it appears in the matter which follows clause (ii) and inserting in lieu thereof "such stock or debt obligation"; and

(D) by inserting "or (a) (3)" after "subsection (a) (2)" each place it appears.

(m) COMMERCIAL FINANCING.—

(1) Section 4920(a) is amended by inserting after paragraph (5) the following new paragraph:

"(5A) CERTAIN COMMERCIAL FINANCING BRANCHES NOT TREATED AS DOMESTIC CORPORATIONS.—The term 'domestic corporation' does not include a branch office of such a corporation located outside the United States if—

"(A) such corporation is primarily engaged in the trade or business of acquiring debt obligations (i) arising out of the sale of tangible personal property produced, manufactured, or assembled by one or more includible corporations in an affiliated group (determined under section 48(c) (3) (C) except that clause (i) of such section shall not apply) of which such acquiring corporation is a member and (ii) arising out of the sale of tangible personal property received as part or all of the consideration in sales of tangible personal property described in clause (i);

"(B) such office is primarily engaged in the trade or busi-

78 Stat. 833.
26 USC 4919.

26 USC 4920.

76 Stat. 969.
26 USC 48.

ness of acquiring debt obligations described in subparagraph (A) which are repayable exclusively in one or more currencies other than United States currency;

“(C) such office was located outside the United States on February 10, 1965, and was regularly engaged in the trade or business of acquiring debt obligations described in subparagraph (B) for a period of not less than 12 consecutive months before February 10, 1965;

“(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 for purposes of this chapter.

For purposes of this paragraph, a corporation or a branch office shall be treated as primarily engaged in the trade or business described in subparagraph (A) during the taxable year if at least 90 percent of the face amount of the debt obligations acquired by such corporation or branch office during such taxable year consists of debt obligations described in subparagraph (A) and if throughout such taxable year such corporation or branch office is exclusively engaged in the trade or business of acquiring debt obligations (whether or not described in subparagraph (A)) and servicing debt obligations arising out of sales of tangible personal property described in subparagraph (A). The election under this paragraph shall be made by such corporation in accordance with regulations prescribed by the Secretary or his delegate. A separate election may be made with respect to each branch office of such corporation except that, for purposes of this paragraph, all branch offices of such corporation located in a country shall be treated as a single branch office. Such election shall be effective as of February 10, 1965, and shall remain in effect until revoked in accordance with such regulations. If, at any time, such corporation ceases to meet the requirements of subparagraph (A), all elections made by such corporation under this paragraph shall be deemed revoked. If, at any time, a branch office (within the meaning of this paragraph) ceases to meet the requirements of subparagraph (B) 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.”

(2) (A) Section 4920(a)(5) is amended by adding at the end thereof the following new sentence: “A corporation or partnership making an election under this paragraph or paragraph (5A) with respect to a branch office located outside the United States shall not, at any time, execute a certificate of American ownership (within the meaning of section 4918) either with respect to stock or a debt obligation of a foreign issuer or obligor held by such branch office at the time the election is made with respect to such branch office or with respect to stock or a debt obligation of a foreign issuer or obligor acquired by such branch office while the election with respect to such branch office is in effect.”

78 Stat. 835.
26 USC 4920.

26 USC 4918.

(B) The amendment made by subparagraph (A)—

(i) insofar as it relates to elections made under section 4920(a)(5), shall apply to dispositions made after June 28, 1965; and

78 Stat. 835.
26 USC 4920.

(ii) insofar as it relates to elections made under section 4920(a)(5A), shall apply to dispositions made after February 10, 1965.

(3) Section 4912(b)(2)(B) is amended—

26 USC 4912.

(A) by striking out “section 4920(a)(5)(E)” and inserting in lieu thereof “paragraph (5) or (5A) of section 4920(a)”; and

(B) by inserting “(including, in the case of a transfer to a branch office described in section 4920(a)(5A), a transfer made for consideration)” after “money or other property” where it first appears.

(n) FOREIGN STOCK ISSUES TREATED AS DOMESTIC.—Section 4920 is amended—

(1) by striking out paragraph (8) of subsection (a),

(2) by redesignating subsections (b) and (c) as subsections (c) and (d), respectively, and

(3) by inserting after subsection (a) the following new subsection:

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

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

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

“(A) as of the corporation’s latest record date before July 19, 1963, more than 65 percent of such class of stock was held of record by United States persons, or

“(B) the class of stock had its principal market during the calendar year 1962 on one or more national securities exchanges registered with the Securities and Exchange Commission, and, as of the corporation’s latest record date before July 19, 1963, more than 50 percent of such class of stock was held of record by United States persons.

“(2) CLASS OF STOCK DEFINED.—For purposes of this subsection, the term ‘class of stock’ means all shares of stock of a corporation issued and outstanding as of the corporation’s latest record date before July 19, 1963, which are identical with respect to the rights and interest such shares represent in the control, profits, and assets of the corporation. Such term also includes additional shares possessing rights and interests identical with the rights and interests of shares described in the preceding sentence if such additional shares shall have been—

“(A) issued on or before November 10, 1964;

“(B) issued after November 10, 1964, pursuant to a written commitment made by such corporation on or before such date;

“(C) issued after November 10, 1964, to a shareholder with respect to or in exchange solely for shares described in this paragraph; or

“(D) issued after November 10, 1964, and if—

“(i) such corporation was actively engaged in a trade or business on July 19, 1963;

“(ii) shares of such class were held of record by more than 250 shareholders on the corporation’s latest record date before July 19, 1963;

“(iii) the percentage of shares of such class held of record by United States persons as of the corporation’s latest record date before the issuance of such additional shares is not less than the percentage required to be held by United States persons as of the latest record date before July 19, 1963, in order for the class of stock to qualify under paragraph (1);

“(iv) all such additional shares are shares which, if acquired by United States persons at the time of original issuance, would have been excluded from the tax imposed by section 4911 by reason of section 4914(a) (6), 4916, or 4917, or are shares exchanged in a reorganization described in section 368(a) (1) (B) for shares of a domestic corporation which was engaged in the active conduct of a trade or business (other than as a dealer in securities) immediately before the date of such exchange; and

“(v) at least 15 days before the date such additional shares are issued (or, in the case of an issue occurring on or before the 60th day after the date of the enactment of this sentence, within such period as may be prescribed by the Secretary or his delegate by regulations), the issuing corporation files (in accordance with regulations prescribed by the Secretary or his delegate) a notice of intent to issue such shares.

For purposes of subparagraph (D), the issuance of an option or similar right to acquire stock, or of any debt obligation convertible into stock, shall be treated as the issuance of the stock which may be obtained on the exercise of such option or similar right or the conversion of such debt obligation.”

(o) **COMMERCIAL BANK LOANS.**—

(1) Paragraph (2) of the subsection of section 4931 redesignated as subsection (c) by section 3(e) of this Act is amended by striking out “(other than banks)” each place it appears and inserting in lieu thereof “(other than United States persons engaged in the commercial banking business and members of an affiliated group (determined under section 48(c)(3)(C)) of which such a United States person is a member)”.

(2) The last sentence of section 4931(c) (as enacted on September 2, 1964) is amended by striking out “, except that, for such purposes, the provisions of section 4918 shall not apply”.

(p) **DEDUCTIBILITY OF INTEREST EQUALIZATION TAX.**—

(1) Section 263(a) (3) is amended to read as follows:

“(3) Except as provided in subsection (d), any amount paid as tax under section 4911 (relating to imposition of interest equalization tax).”

(2) Section 263 is amended by adding at the end thereof the following new subsection:

“(d) **REIMBURSEMENT OF INTEREST EQUALIZATION TAX.**—The deduction allowed by section 162(a) or 212 (whichever is appropriate) shall include any amount paid or accrued in the taxable year or a preceding taxable year as tax under section 4911 (relating to imposition of interest equalization tax) to the extent that any amount attributable to the amount paid or accrued as tax is included in gross income

78 Stat. 809.
26 USC 4911,
4914, 4916, 4917.
68A Stat. 120.
26 USC 368.

An te, p. 955.

76 Stat. 969.
26 USC 48.

78 Stat. 839.

26 USC 4918.

78 Stat. 845.
26 USC 263.

68A Stat. 45, 69.
26 USC 162, 212.

for the taxable year. Under regulations prescribed by the Secretary or his delegate, the preceding sentence shall not apply with respect to any amount attributable to that part of the tax so paid or accrued which is attributable to an amount for which a deduction has been claimed for the taxable year or a preceding taxable year under section 171 (relating to amortization of bond premium)."

68A Stat. 61.
26 USC 171.

(3) The amendments made by this subsection shall apply to taxable years ending after September 2, 1964.

(q) **EFFECTIVE DATE.**—Except as otherwise specifically provided in this section and in the amendments made by this section, such amendments shall apply with respect to acquisitions of stock and debt obligations made after February 10, 1965. Executive Order 11198, issued February 10, 1965, to the extent it is inconsistent with the amendments made by this section, shall be deemed modified by such amendments.

30 F. R. 1929.

SEC. 5. PREEXISTING COMMITMENTS.

(a) **CERTAIN COMMITMENTS EXISTING ON OR BEFORE JULY 18, 1963.**—Section 2(c)(2)(B) of the Interest Equalization Tax Act is amended to read as follows:

78 Stat. 841.
26 USC 4911
note.

"(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, subject only to the execution of formal documents evidencing the acquisition and to customary closing conditions, and the acquiring United States person (or persons)—

"(i) 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, or

"(ii) had received from the foreign person from whom the acquisition was made a memorandum of terms, draft purchase contract, or other document setting forth, or referring to a document sent by the acquiring United States person (or persons) which set forth, the principal terms of such acquisition;"

(b) **CERTAIN DEBT OBLIGATIONS OF FORMER LESS DEVELOPED COUNTRIES.**—The tax imposed by section 4911 of the Internal Revenue Code of 1954 shall not apply to the acquisition by a United States person of a debt obligation issued by the government of a foreign country which has been designated as an economically less developed country under an Executive order of the President in effect for purposes of the tax imposed by section 4911, but with respect to which such designation has been terminated before the enactment of this Act, if, prior to such acquisition, the Secretary of State has certified to the Secretary of the Treasury or his delegate that—

78 Stat. 809.
26 USC 4911.

(1) the government of such foreign country had, on or before April 6, 1965, communicated to the United States Department of State its intention to issue such debt obligation;

(2) the government of such foreign country had, on or before April 6, 1965, commenced negotiations with United States persons relative to the issuance of such debt obligation; and

(3) exemption from the tax imposed by section 4911 of the Internal Revenue Code of 1954 on the acquisition of such debt obligation by a United States person is in the best interests of the United States.

78 Stat. 809.
26 USC 4911.

SEC. 6. USE OF FOREIGN CURRENCIES OWNED BY THE UNITED STATES.

(a) Under the direction of the President, the Secretary of the Treasury shall periodically ascertain, by country, the amount of funds required by the United States Government to pay its obligations in foreign countries, including obligations payable in foreign currencies.

(b) Every international agreement (other than an agreement entered into pursuant to title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480, 83d Congress)) hereafter entered into, or hereafter amended or extended, between the United States and any foreign country under which currency of such country accrues or will accrue for the use of the United States shall include provisions that such currency may be used for paying United States obligations in such country which may be paid in such currency, and if not needed for such purpose may be used, or converted to other foreign currencies or to dollars for use, in paying United States obligations in any foreign country, in such amounts as the Secretary of the Treasury considers necessary for the requirements of the United States.

68 Stat. 454.
7 USC 1701-1709.

Report to congressional committees.

(c) The Secretary of the Treasury shall submit a report annually to the Senate Committee on Finance and the House Committee on Ways and Means which shows, by executive agencies and by countries, (1) the expenditures in dollars and in foreign currencies made during the preceding fiscal year in paying the obligations of the United States in foreign countries, (2) the amounts of foreign currencies available for the use of the United States at the close of such year, and (3) the amounts of foreign currencies convertible to other foreign currencies or to dollars at the close of such year.

(d) This section shall terminate at the time when the tax imposed by section 4911 of the Internal Revenue Code of 1954 terminates.

Approved October 9, 1965, 6:25 a.m.