

U.S. Congress 100th Congress, 2nd Session  
UNITED STATES



OF AMERICA

# Congressional Record

PROCEEDINGS AND DEBATES OF THE 93<sup>d</sup> CONGRESS  
SECOND SESSION

VOLUME 120—PART 10

MAY 1, 1974 TO MAY 8, 1974

(PAGES 12485 TO 13864)

period of 30 days or more during any taxable year, every person who is a United States shareholder (as defined in section 951(b)) of such corporation who owns (within the meaning of section 958) stock in such corporation on the last day in such year on which such corporation is a controlled foreign corporation shall include in his gross income, for his taxable year in which or with which such taxable year of the corporation ends, his pro rata share of the corporation's earnings and profits for such year.

"(2) PRO RATA SHARE OF EARNINGS AND PROFITS.—A United States shareholder's pro rata share referred to in paragraph (1) is the amount—

"(A) which would have been distributed with respect to the stock which such shareholder owns (within the meaning of section 958) in such corporation if on the last day, in its taxable year, on which the corporation is a controlled foreign corporation it had distributed pro rata to its shareholders an amount (i) which bears the same ratio to its earnings and profits for the taxable year, as (ii) the part of such year during which the corporation is a controlled foreign corporation bears to the entire year, reduced by

"(B) an amount (i) which bears the same ratio to the earnings and profits of such corporation for the taxable year, as (ii) the part of such year described in subparagraph (A) (ii) during which such shareholder did not own (within the meaning of section 958) such stock bears to the entire year.

"(b) EARNINGS AND PROFITS.—For purposes of this subpart, under regulations prescribed by the Secretary or his delegate, the earnings and profits of any foreign corporation, and the deficit in earnings and profits of any foreign corporation, for any taxable year—

"(1) except as provided in section 312(m) (3), shall be determined according to rules substantially similar to those applicable to domestic corporations,

"(2) shall be appropriately adjusted for deficits in earnings and profits of such corporation for any prior taxable year beginning after December 31, 1974,

"(3) shall not include any item of income which is effectively connected with the conduct by such corporation of a trade or business within the United States unless such item is exempt from taxation (or is subject to a reduced rate of tax) pursuant to a treaty obligation of the United States, and

"(4) shall not include any amount of earnings and profits which could not have been distributed by such corporation because of currency or other restrictions or limitations imposed under the laws of any foreign country.

"(c) COORDINATION WITH ELECTION OF A FOREIGN INVESTMENT COMPANY TO DISTRIBUTE INCOME.—A United States shareholder who, for his taxable year, is a qualified shareholder (within the meaning of section 1247(c)) of a foreign investment company with respect to which an election under section 1247 is in effect shall not be required to include in gross income, for such taxable year, any amount under subsection (a) with respect to such company.

"(d) COORDINATION WITH FOREIGN PERSONNEL HOLDING COMPANY PROVISIONS.—In the case of a United States shareholder who, for his taxable year, is subject to tax under section 551(b) (relating to foreign personal holding company income included in gross income of United States shareholders) on income of a controlled foreign corporation, the amount required to be included in gross income by such shareholder under subsection (a) with respect to such company shall be reduced by the amount included in gross income by such shareholder under section 551(b).

"(e) ADJUSTMENTS AND FOREIGN TAX CREDITS.—Under regulations prescribed by the Secretary or his delegate—

"(1) Adjustments to the basis of stock on account of earnings and profits taxed under subsection (a) shall be made in the manner provided in section 961 (relating to increases and reductions in basis on account of the income tax treatment of subpart F income):

"(2) Elimination of double taxation of previously taxed earnings and profits when distributed shall be made in the manner provided in section 959 (relating to exclusion from gross income of previously taxed subpart F income); and

"(3) Corporations shall be deemed to have paid income, war profits, and excess profits taxes paid (or deemed paid) by foreign corporations to a foreign country or possession of the United States in accordance with the special rules set forth in section 960."

(b) Section 951 (relating to taxation of Subpart F income) is amended by adding at the end thereof the following new subsection.

"(e) TAXABLE YEARS ENDING AFTER DECEMBER 31, 1974.—No amount shall be required to be included in the gross income of a United States shareholder under subsection (a) (other than paragraph (1) (A) (ii) of such subsection) with respect to a taxable year of a controlled foreign corporation ending after December 31, 1974."

(c) Section 1248(d) (1) (relating to treatment of gain on sale of stock in certain foreign corporations) is amended by striking out "under section 951" each time it appears and inserting in lieu thereof "under section 951 or 985", and by striking out "under section 959" and inserting in lieu thereof "under section 959 or 985(e) (2)".

(d) The amendments made by this section shall apply with respect to taxable years of foreign corporations ending after December 31, 1974, and to taxable years of United States shareholders within which or with which such taxable years of such foreign corporations end.

#### SEC. 9. REPEAL OF THE TAX EXEMPTION FOR A DISC.

(a) Section 991 (relating to tax exemption of a DISC) is amended by adding at the end thereof the following: "This section shall not apply to any taxable year beginning after the date of the enactment of the Tax Reform Act of 1974."

(b) Section 992(a) (relating to definition of DISC) is amended by adding at the end thereof the following new paragraph:

"(4) TERMINATION.—No corporation shall be treated as a DISC for any taxable year beginning after the date of the enactment of the Tax Reform Act of 1974."

#### SEC. 10. REPEAL OF DEDUCTION FOR WESTERN HEMISPHERE TRADE CORPORATIONS.

(a) Part III of subchapter N of chapter 1 (relating to income from sources without the United States) is amended by striking out subpart C (relating to Western Hemisphere trade corporations).

(b) Section 170(b) (2) (relating to charitable deductions for corporations) is amended by striking out subparagraph (D).

(c) Section 172(d) (relating to the net operating loss deduction) is amended by striking out paragraph (5).

(d) Section 1503 (relating to consolidated returns) is amended by striking out subsection (b).

(e) Section 1562(b) (4) (relating to multiple surtax exemptions) is amended by striking out "and 923 (relating to special deduction for Western Hemisphere trade corporations)".

(f) The amendments made by this section shall apply with respect to taxable years beginning after the date of the enactment of this Act.

#### SEC. 11. REPEAL OF ASSET DEPRECIATION RANGE SYSTEM.

(a) Section 167(m) (relating to the Asset Depreciation Range System) is repealed.

(b) Section 167(a) (relating to a reasonable allowance for depreciation) is amended by adding at the end thereof the following:

"Such reasonable allowance shall be computed, subject to the provisions of Revenue Procedure 62-21 (including the provisions for the reserve ratio test) as in effect on January 1, 1971, on the basis of the expected useful life of property in the hands of the taxpayer."

(c) The amendment made by subsection (a) shall apply to property placed in service after April 30, 1974. The amendment made by subsection (b) shall apply to taxable years ending after April 30, 1974, but it shall not apply to property placed in service by the taxpayer before May 1, 1974 if an election has been made to have the provisions of section 167(m) applicable to such property.

By Mr. MONDALE (for himself,  
Mr. HUMPHREY, Mr. SCHWEIKER,  
and Mr. CLARK):

S. 3438. A bill to amend the Regional Rail Reorganization Act of 1973 in order to expand the planning and rail service continuation subsidy authority under such act, and for other purposes. Referred to the Committee on Commerce.

Mr. MONDALE. Mr. President, Senators HUMPHREY, SCHWEIKER, and CLARK, and I are today reintroducing legislation which we offered last December to preserve and upgrade the quality of rail services to rural America.

During the debate on the Rail Services Act of 1973, Senator HUMPHREY and I proposed two amendments, one to mandate a comprehensive study of the impact of branch line abandonments on our Nation's economic, social, and environmental requirements and to provide Federal assistance to continue service along essential lines which would otherwise be discontinued. Our second amendment would have placed a 2 year moratorium on railroad abandonments pending completion of the study and the implementation of State and local programs to effectively utilize Federal rail service continuation grants. These amendments were adopted by the Senate, but unfortunately, they were dropped from the bill during conference committee.

Today, we are introducing our amendments in the form of a clean bill, the Rural Rail Preservation Act of 1974.

The need for such legislation is even more critical today than it was just a few months ago. Since then, 24 new applications for branch line abandonments have been filed with the Interstate Commerce Commission, bringing the total number of cases now pending to 197. If each of these abandonments is ultimately granted by the Commission—and since 1960 the ICC has approved more than 97 percent of the requests they have received—rural America stands to lose more than 3,300 miles of track.

During 1974 our Nation's farmers will be expanding their production of wheat by 15 percent and of corn by 15 percent. Growing world demand for food means

that our agricultural communities will need ever greater quantities of seed, fertilizer, machinery; and they will be shipping unprecedented quantities of grain to market.

Even at somewhat lower production levels in 1973, rural areas throughout the midwest and virtually every other region in the country suffered costly delays and bottlenecks in seeking to move their commodities to market and to bring in supplies of fertilizer for spring planting. These problems are not getting better; they are getting worse, and if we do not find ways to solve them, consumers in the years ahead will also suffer from higher prices for the food they eat.

Incredibly, the administration's solution to this problem is not to provide assistance to rural communities to preserve and improve the quality of transportation services; it is rather to accelerate the pace of branch line abandonments.

Over the past 3 years alone, rail abandonments have resulted in the loss of 7,800 miles of track to rural communities. Now, in an effort to further accelerate the pace of abandonments, the ICC is attempting to expedite abandonments on lines which handle a volume of fewer than 34 carloads per mile each year. According to a study by the Iowa State Government, the new 34-car rule could result in the loss of 19 percent of the State's nearly 7,500 miles of rail line through abandonment. Other States face equal or more severe problems with the 34-car rule.

Instead of hastening the demise of America's rural transportation system, the Federal Government ought to be moving to upgrade that system. Steps should be taken to modernize rail lines that would be profitable if only track and roadbed were restored to an adequate condition.

Beyond the issues of food production and the impact on rural growth and development, there are other major reasons why our policy of accelerating rail abandonments should be reexamined.

First, there is the question of energy use. Studies show that trains can move each ton of freight for from one-fourth to one-seventh the amount of fuel required by trucks. At a time when our Nation faces an energy crisis, we ought to be encouraging, not abandoning, fuel-efficient methods of transportation.

Second, in terms of environmental quality, trains generate less pollution and require less land than alternative means of transportation.

Third, in terms of our Nation's social goals, I believe we ought to carefully evaluate the effects of a policy which makes it even more difficult for people to earn a decent living in the countryside. We ought to find out the impact of abandonments on employment and business opportunities for rural community residents. We ought to examine the costs to railroad employees and others who are affected.

The bill which Senator HUMPHREY and I introduce today does not argue that all railroad abandonments are wrong. We are not saying that every branch line must be preserved indefinitely. However,

we do believe that before our Nation is irrevocably committed to a policy of widespread rail abandonments, we ought to take a careful look at where we are going. Our bill would provide the mechanism to determine the costs, benefits and alternatives to rail abandonments, not just rural America but to our Nation as a whole. If we find that the total costs of abandoning a branch line exceed the benefits, our proposal would enable States and local communities to assure that service will be continued. The Regional Rail Reorganization Act of 1973 provides Federal assistance to State and local governments for up to 70 percent of the cost of keeping essential branch lines in operation if they are located in the Northeast Rail Emergency Region. The bill which Senator HUMPHREY and I introduce today would extend this same program throughout the Nation to help all communities that are threatened by the abandonment of rail service. It would also raise the authorization to carry out the program from \$100,000,000 to \$200,000,000 per year.

Finally, to provide time for study of our rural transportation network and to enable State and local governments to set up programs to utilize rail service continuation grants, our bill would provide for a temporary 2-year moratorium on rail abandonments. This moratorium could be waived whenever an abandonment request is not opposed by any State, county, or municipality served by the line.

As evidence of the strong State and local support for this measure, I ask unanimous consent that a resolution, adopted by the Minnesota State Legislature on February 25, and an editorial from the St. Paul Pioneer Press be printed in full at this point in the Record along with the text of the bill.

#### WE MUST PRESERVE A SOUND RURAL RAIL SYSTEM

Mr. HUMPHREY. Mr. President, I am delighted to join with Senator MONDALE in reintroducing rail legislation which we introduced last December in the form of two amendments to the Rail Service Act of 1973.

The bill we are introducing today combines the two amendments in the form of a clean bill, the Rural Rail Preservation Act of 1974.

One feature of the bill would require a comprehensive study of the impact of branch line abandonments on our Nation's economic, social, and environmental requirements and provide Federal assistance to continue service along essential lines which would otherwise be discontinued. A second feature of the legislation would place a 2-year moratorium on railroad abandonments pending completion of the study and the implementation of State and local programs to effectively utilize Federal rail service continuation grants.

This legislation is needed today more than ever. An interim report by the U.S. Department of Agriculture, "Transportation in Rural America," which I released earlier, makes it clear that this bill is

required if rail transportation in the rural areas is not to deteriorate further. The report concludes:

There appears to be an immediate need for reexamination of the transportation situation in rural America. The present great concern over the problem of moving people and goods from place to place in rural America suggests that stresses may have reached the crisis stage.

It is about time that the administration and the Congress recognized that rural America faces a transportation crisis. The USDA study clearly supports my contention that the rural transportation crisis in 1973 was real.

We are also facing a crisis in 1974. On March 14 I wrote to Mr. George Stafford, Chairman of the Interstate Commerce Commission, urging that the ICC make an additional 4,000 rail cars available to move fertilizer to farmers for the spring planting. This is hardly what I would consider to be the ideal way to meet our transportation needs.

The situation is not likely to improve, since we have increased our acres planted by about 20 million for this year. In my State of Minnesota, a record acreage will be planted this year with an increase in production of about 100 million bushels in feed grain. Last year our rail system broke down and with this year's sharp increase in production, I fail to see how we will move the crop.

The administration response in the face of this crisis has been to accelerate the pace of abandonment. This approach takes into account the views of the railroads but not that of the communities. The USDA report notes:

None of the cases that were reviewed considered aggregate impacts of abandonment on communities, but effects on railroads were always considered.

We may wish to draw on the Canadian experience in attempting to rationalize our own rail system. As in our case, grain exports are important to the Canadian economy, and they move grains from the provinces by rail under "Crow's Nest Pass" rates, estimated to be less than 50 percent of total costs.

Beyond these immediate concerns, however, is the fact that wholesale abandonment is a move in the wrong direction. I am not saying that there should be no abandonments, but I do feel that with the present energy crisis we should not be too hasty in phasing down our rail system. We need to take steps to outline a rational transportation policy and begin to upgrade our rural rail system.

We also need to pay greater attention to the long-run impact of our rail policy on the economic life of our rural communities. While rail transportation may be only one factor in the economy of a rural area, it quite clearly is a major ingredient in keeping and attracting industry in rural communities.

The bill we are introducing today would provide the time required to take a thorough and analytical look at this question.

As we consider the problems facing our rural communities today, there is widespread agreement that we need to do more to help these areas not only sur-