

WHEAT EXPORTERS LOSE PLEA ON TAX

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Break on Profits Is Denied
in Proposed Ruling—High
Shipping Subsidy Seen
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WASHINGTON, Sept. 29—The Treasury Department, in a proposed ruling announced today, has decided unexpectedly that export companies getting a subsidy on sales of wheat abroad should not also be freed of taxes on half their profits from such sales.

Until today it had been believed, on the basis of statements by Treasury officials, that the Treasury was sympathetic to the arguments of the exporters in the recent deal with the Soviet Union and would issue a ruling making them eligible for the tax break.

But this morning the Treasury announced that next week it would publish in the Federal Register a proposed regulation making ineligible for tax benefits exporters of agricultural commodities whose sales were not acknowledged had no bearing on

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abroad are aided by an export subsidy.

The Treasury said that in the 30 days after publication of the proposed regulation companies may submit their views on it. It also said that public hearings would be held on the proposed denial of tax benefits to exporters of wheat, rice and tobacco.

Appeal by Continental

The Continental Grain Company of New York had urged the Treasury to issue a ruling making the exporters eligible for such tax benefits under an export promotion program.

Continental is supplying five million tons of the 11 million or so tons of wheat purchased last summer by the Soviet Union from six grain exporters in the United States.

Senators Russell B. Long, chairman of the Senate Finance Committee, and Herman E. Talmadge, chairman of the Senate Agriculture Committee, and Representative Wilbur B. Mills, chairman of the House Ways and Means Committee, had written the Secretary of the Treasury in support of the position taken by Continental and exporters of rice and tobacco who also get export subsidies.

The whole question of whether the exporters who sold more than 400 million bushels to the Soviet Union should be freed of taxes of half their profits has become politically heated as a result of the controversy over the Administration's handling of the United States-Soviet grain deal.

This controversy has stemmed from charges that exporters made windfall profits by knowing in advance of the Soviet needs and buying early-harvest wheat in Texas, Oklahoma and Kansas before the farmers were aware of the magnitude of the Soviet purchases. As a consequence, many farmers did not hold their wheat for the inevitable rise in the market when the need became known.

Butz and Aides Scored

There have also been charges that the Soviet negotiators, with the collaboration of the exporters, outsmarted Secretary of Agriculture Earl L. Butz and his aides.

The United States officials, it is charged, made it possible for the Soviet Union to buy all the wheat at the low price of about \$1.63 a bushel — a target price set by the department — by assuring the exporters in advance of a subsidy between that selling price and the domestic price, no matter how high it went under the impact of the Soviet purchases.

Critics have argued that no subsidy was needed to encourage sales to the Soviet Union since the United States

had the only wheat available in the quantities required by the Russians.

The subsidy varied from 14 to 47 cents a bushel from July through Sept. 22, when the Department of Agriculture ended it because of rising costs reportedly on the insistence of Caspar W. Weinberger, director of the Office of Management and Budget. The total paid out to exporters for subsidies since June is estimated at \$200-million, almost all of it for the sales to the Soviet Union.

At issue in the dispute over tax benefits to the exporters was whether they should be allowed to take advantage of a provision in last December's revenue act. This allowed companies to set up a domestic and international sales corporation — called DISC to handle receipts from foreign sales.

Taxes on half the profits from such sales could be indefinitely deferred if the company used the profits to promote its export business or make loans to United States manufacturers.

However, the law also provided that DISC benefits could be denied by the Secretary of the Treasury to exporters whose profits came from sales "accomplished by a subsidy."

Early Subsidy Request

On the face of it this would seem to exclude wheat exporters who got such a subsidy. However, Continental Grain, only 11 days after the law was enacted, wrote to the Treasury, asserting that wheat exporters should be eligible for the DISC benefits.