

required funds by borrowing U.S. dollars in foreign countries. This type of financing is intended solely to assist in improving the balance-of-payments position of the United States in compliance with the voluntary cooperation program instituted by the President.

It should be noted that this procedure is considerably more expensive than direct borrowing in the United States. This allegedly high money cost is the basis of a derivative action instituted by a stockholder of Standard Oil of Indiana (see Wall Street Journal, Feb. 8, 1966).

The preponderance of the companies obtaining funds in this manner have formed a new domestic corporation to issue the bonds and loan the proceeds to foreign affiliates. It is, of course, possible that withholding taxes will be imposed by various foreign countries with respect to interest paid to the financing subsidiary by the debtor foreign affiliates. The ultimate cost of these taxes to the domestic parent and the affiliated group will depend largely upon the extent to which they may be claimed as foreign tax credit under IRC sections 901 et seq.

It is possible that there may be a loss of foreign tax credit in respect to amounts withheld on interest payments (as described above) by reason of the additional limitations imposed by section 904(f). This provision limits the foreign tax credit otherwise available in the case of certain interest income. It requires the segregation of such interest from all other foreign income in applying the general code limitations on the use of foreign tax credits and restricts the taxpayer to the use of the "per country limitation" in respect thereof.

The following is an illustration of the loss of foreign tax credit which may result under section 904(f).

Interest received by domestic finance company from foreign affiliate (say, 6 percent of 5,000,000) -----	\$300,000
Amount withheld at source (say, 30 percent of \$300,000) --	90,000
Expense attributable to interest income under "per country limitation" (say, 41½ percent of \$5,000,000) -----	225,000
Net income derived from foreign country -----	75,000
Limitation for purposes of U.S. tax (48 percent of \$75,000) -----	36,000
Unused foreign tax credit -----	54,000

Thus, in the above example, the amount withheld at source is imposed on gross income, while the per country limitation is based upon net income.

Section 904(f) does not apply to interest received from a corporation in which the taxpayer owns directly at least 10 percent of the voting stock. Therefore, it is conceivable that the impact of section 904(f) could be avoided simply by contributing to the capital of the domestic finance company 10 percent of the capital stock of all foreign subsidiaries from which interest income would be received. This, however, is a most undesirable alternative inasmuch as it produces a complicated and unwieldy corporate structure.

It should be noted also that the contribution route may not be available in the case of second-tier foreign subsidiaries. Furthermore, section 367 poses a problem in such a corporate reorganization.

Rather than go to the extreme of altering the corporate structure by means of capital contributions, as described above, the same result