

If it is desired to make radical changes in the half-century old principle of source of income, adequate time should be allowed for that operation. H.R. 13103 provides that it is not to go into effect until 1967.

We doubt that, on balance, the income tax provisions of H.R. 13103 will afford much incentive to foreign investors.

It is beyond the scope of this statement to labor further these points. It is clear that no U.S. businessman relishes the need for a legal opinion as to the possible tax consequences of every shipment of goods to a subsidiary.

I thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Seghers, for coming to the committee and giving us the benefit of your thinking on this matter.

Mr. Watts.

Mr. WATTS. I have questions that I have been requested to ask you and that I am interested in, too.

It is your opinion that this legislation would hurt the U.S. balance of payments?

Mr. SEGHERS. Yes, it is my opinion because I feel that it will hurt us in three ways. It will hurt your exports in two ways. It will also hurt employment, all of which will affect our balance of payments.

First, as to the effect on exports of foreign-owned foreign corporations, because that is the simplest and most direct effect of this. There are corporations in this country that are branches of European corporations that operate here to sell goods in the United States, Canada, and Latin America.

Those offices employ substantial staffs. They employ freight handlers, customhouse brokers, and others. If they are to be penalized where they make sales of goods in Latin America they will find some other way to make those sales and cut down their staff in this country.

Instead of directing Latin American sales from here they will direct them from some other point where there will not be such a penalty. New York is probably the most convenient, most efficient place, but it isn't the only place that sales could be directed from. That is one example of interfering with employment.

Now, that would also represent a reduction in exports of U.S. products because such a company that is selling here European products, if they are selling to Latin America you would find that they would also be selling U.S. products because the sales effort used to sell their own European products can also be used efficiently to sell other products in related lines.

It would hurt exports in the case of U.S. exporters because where in effect this law says, "Well, if we don't get you under subpart (f), then we will get you under this provision." I can give an example. H.R. 11297 would have been very easy to demolish. This will only hit the unusual case, but there are unusual cases, and it is the fact that you possibly could be hit here or there that will have a bad psychological effect.

It looks as if the Treasury wants to penalize exports rather than to help them. The case where they could be hit is an unusual situation, but again it is not unheard of.

A foreign subsidiary of a U.S. manufacturer maintains an office here to purchase and ship goods from this country to the country