to Canada) of short-term funds, such as bank deposits, in order to make it possible to use foreign tax credits, which otherwise could not be used, to reduce the U.S. tax on a domestic corporations' worldwide income. Interest income previously could be used in this manner because typically the foreign tax on such income was below the regular corporate tax which would apply to interest income received by a domestic corporation. Thus, if the overall limitation were used there was foreign income which was available against which could be applied excess foreign tax credits.

(*b*) *Reasons for provision.*—U.S. corporations, in cooperating with the President's voluntary program to aid our balance of payments by limiting the outflow of capital investment funds, have been requested to obtain a portion of their funds necessary to finance their foreign operations from the foreign capital markets rather than from sources within the United States. In this manner, the flow of dollars abroad has been curtailed and our balance-of-payments position aided. Some corporations have established subsidiaries in this country for the specific purpose of handling these foreign funding transactions. However, the use of such a subsidiary to finance these foreign operations may result in the special separate interest income limitation (described above) being applied, for purposes of computing the foreign tax credit, with respect to interest income the subsidiary derives from loaning funds to the related companies.

As indicated previously an exception is provided in those cases where the U.S. taxpayer receiving the interest directly owns 10 percent of the foreign subsidiary paying the interest. However, where the U.S. parent establishes a wholly owned domestic subsidiary to borrow the foreign funds to finance the operation of its foreign subsidiary this exception of present law may not apply. This is because the funding subsidiary does not directly own a 10-percent interest in the foreign operating subsidiary. This is true even where the domestic funding subsidiary is a wholly owned subsidiary of a corporation which, in turn, owns more than 50 percent of the foreign operating subsidiary to whom the funds are loaned. In these circumstances your committee does not see why the limitation on the foreign tax credit should not apply in the same manner whether the foreign financing is done through the parent or a domestic subsidiary of the parent. Additionally, the application of the regular limitations, rather than the separate limitation on interest, in the case of these funding subsidiaries is particularly important now in view of their favorable impact on the balance of payments and the fact that they represent compliance with the administration's voluntary program for restraint on foreign investments. However, your committee did not wish this provision to be used to reduce U.S. taxes in transactions where debt obligations are not offered publicly, but instead to only a few large foreign investors.

(*c*) *Explanation of provision.*—This amendment provides that the limitation on the allowable foreign tax credit applicable to interest income is not to apply to a domestic funding subsidiary which was formed and availed of for the principal purpose of (1) raising funds outside the United States through foreign public offerings and (2) using these funds to finance the foreign operations of related foreign corporations.