

Consequently, a foreigner who lives abroad—one who does not come to the United States at all, which, I think, is the example you had in mind—would not be subject to tax.

Senator CARLSON. In other words, a foreigner could continue to invest in mutual funds and receive capital gains without tax.

Mr. SURREY. That is right.

Senator WILLIAMS. But if he lived in the United States 183 days, then he would be taxable under this bill.

Mr. SURREY. That is right. Today, if he lived in the United States 90 days he would be subject to tax.

Secretary FOWLER. If he were physically present when he sold out he would also be taxable under present law.

Senator CARLSON. You have been stressing your interest in our balance of payments, and I think we can all share this with you. But I was interested to read in the last issue of Business Week that—

The Internal Revenue Service proposal to clarify tax laws affecting U.S. companies and their foreign affiliates is expected to boost shipments abroad.

And, of course, that is to boost exports which would be helpful in the balance of payments.

Secretary FOWLER. Yes.

Senator CARLSON (reading):

The Treasury Department this week moved to clarify the hazy tax picture on transactions between a company and its domestic and foreign subsidiaries. The law, section 482 of this law, permits the Internal Revenue Service to adjust or allocate the incomes of various members of a group of firms under common control in order to reflect accurately the true income of the members to prevent tax avoidance.

What can you do, what have you done, under that particular section of the tax law?

Secretary FOWLER. We have announced and issued proposed regulations which will be subject to a hearing and comment over the weeks ahead.

The particular regulations that have been published for hearing and consideration are designed to deal with the concern that many American companies who do business with affiliates abroad have concerning the action of the Internal Revenue Service in levying an additional tax on the domestic company on the ground that too much of the profit, so to speak, has been passing over to the foreign affiliates. There has been a great deal of concern in the exporting community about section 482 and the proposed regulations are primarily designed to give clarity to the situation, to avoid any rigid hard-and-fast rules, and to provide guidelines for areas which seem to be causing most of the trouble.

We have tried in the regulations to stay clearly within the policy of law as the Congress intended, and yet, at the same time, to interpret the law and apply it in such a way as to clear up the confusion and to encourage the venturing out into the export field of American concerns and businesses. We will, of course, hear the comments from those who specialize in these areas, and then, in the light of those comments, the regulations will become effective.

I should say also, Senator, that we have studied carefully in this connection the report of the National Export Expansion Committee which is a committee established by the Department of Commerce. It has made three very substantial reports on how to encourage ex-