

some that the new provision may be construed to apply whether or not such commercial paper is held for more than six months. The annual market for short-term (9 months and under) commercial paper sold in the U.S. to nonresidents is estimated to be in excess of \$1 billion. The loss of this market would have a severe adverse effect on our balance of payments.

4. *Section 904(f).* — The bill would make the special limitation on foreign tax credits with respect to interest income inapplicable to interest income received by an “overseas operations funding subsidiary” on obligations of a “related foreign corporation.” The Council supports the general purpose of this amendment, although it believes the exception in existing 904(f) (2) (C) should be construed to apply where a U.S. parent uses a domestic affiliate to finance the operations of a foreign affiliate owned by such domestic parent to the extent of at least 10%, whether such ownership is direct or indirect.

The proposed definition of the terms “overseas operations funding subsidiary” and “related foreign corporation” contained in the bill are unduly restrictive, and should be liberalized. The Council urges that section 904 (f) (2) (C) be clarified so as to exclude interest received from a corporation in which the recipient (or another member of the same affiliated group, as defined in section 1504) owns directly or indirectly 10% or more of the total combined voting power of all classes of stock.

The present law also contains an exception of interest on obligations acquired on disposition of stock or obligations of a corporation in which the taxpayer owns at least 10%. This should be extended to obligations acquired as a result of disposition of stock of a wholly-owned subsidiary of such a 10% owned corporation.