

A serious practical objection is that some foreign countries, such as Sweden, tax their local corporations on world-wide income without allowing appropriate credits for taxes paid to other countries.

Moreover, even if the foreign corporation's home country does, in general, allow credit for income tax paid to other countries, it may well deny a credit in those cases where title to the goods passes at the point of shipment within the home country because the income would then have its "source" within that country (rather than within the United States where the sales office is located). Since the U.S. Treasury does not allow any credit to U.S. corporations for foreign taxes on domestic source income, how can it reasonably expect that foreign governments will allow credit to their corporations for a U.S. tax on *their* domestic source income?

Finally, the foreign corporation's home country may restrict the credit allowed to its local corporations for taxes paid to other countries by means of a "per-country limitation" similar to that under the U.S. tax law. Such a "per-country limitation" would often operate to eliminate the foreign country's credit for any U.S. tax imposed on profits from sales to foreign customers whenever the income would have its "source" in the customer's country, e.g., when title passes upon arrival of the goods.

It is therefore apparent that foreign corporations would frequently suffer serious double taxation with respect to income "effectively connected" with a U.S. office, if the United States were not to allow a credit against its tax for all foreign taxes imposed on such income, regardless of whether the taxing country is the country of "source", the country of domicile, or both.

In this connection, it is noted that H.R. 13103 would impose on foreign corporations a *greater* tax burden than is borne by domestic corporations. Since a domestic corporation is allowed a credit against its U.S. tax for foreign taxes on its income from sources outside the United States, a foreign corporation should, if taxed under H.R. 13103, likewise be allowed a credit against its U.S. tax for foreign taxes on its income from sources outside the United States (to the extent that such income is "effectively connected" with a U.S. office).

Even if the United States were to allow a credit for income tax imposed by the home country, the foreign corporation might still suffer a serious detriment from the new U.S. tax proposed by H.R. 13103. That is because the credit would automatically be reduced to reflect any income tax benefits which the home country may see fit to grant.

For example, the home country might well confer a variety of tax advantages on a local corporation engaged in activities promoting the expansion of local exports, e.g., construction of new warehouse facilities, by means of "tax holidays", deductions for reinvested profits, rapid depreciation, etc. The economic incentive afforded by these tax benefits would often be completely nullified by the concomitant increase in the