

904 (f) (2) (C) is only provided in cases where the U.S. taxpayer receiving this interest directly owns 10% of the borrowing foreign affiliate, it believes that the intent of present law is that such a foreign affiliate may be either directly or indirectly owned by the U.S. company to come within the exception.

It will be recalled that when Secretary Dillon was examined by Senator Long with respect to his recommendation for a separate foreign tax credit limitation for certain investment income, he made it very clear that this provision was directed specifically to passive short-term funds that were invested abroad. This will be seen from the following questions and answers appearing on pages 4259 and 4260 of the record of Senate Hearings on the Revenue Act of 1962:

*Senator Long.* Mr. Secretary (Dillon), . . . You cited a flow of short-term funds to Canada and I believe you are correct in what you recommended with regard to that.

According to your testimony contained on pages 103 and 104 of the record, [attached hereto as Appendix A] and in greater detail at page 243, this change is intended to cover short-term investments abroad.

Am I correct in my understanding you do not intend this change to apply to dividends received by a U.S. corporation from another corporation, domestic or foreign in which it owns at least 10 percent of the voting stock?

*Secretary Dillon.* That is correct. No, it would not. It is only meant to handle this one specific short-term problem which I described in my April 2 statement.

*Senator Long.* Would I also be correct in understanding that you do not intend this change to apply to interest received from investments in such affiliates?

*Secretary Dillon.* No, it would not apply to interest received from such affiliates.

*Senator Long.* Now, do you intend this change to apply to interest received on a loan made to a foreign customer to secure an outlet for products to be sold to the lender?

*Secretary Dillon.* No. This was only meant to apply, in effect, to passive funds that were transferred abroad for the specific purpose of taking advantage of this situation in the law where there is an unused credit which allows totally tax-free treatment of the income from such passive funds by investment abroad.

*Senator Long.* I have been informed by some corporations occasionally that they are required to buy bonds in a Latin American country. They are not particularly anxious to buy them, but while they have no enthusiasm for the purchase, as a matter of good will in the country they are