

more or less compelled to do so.

And I take it that you would not intend your recommendation to apply to that either?

*Secretary Dillon.* No.

*Senator Long.* As long as it is limited to that, I think the recommendation should receive complete support. At least I would expect to support it.

However, to completely resolve these points, the Council urges that 904 (f) (2) (C) be clarified so as to exclude interest received from a corporation in which the recipient (or one or more includible corporations in an affiliated group, as defined in section 1504, of which such recipient is a member) owns directly or indirectly 10% or more of the total combined voting power of all classes of stock.

This wording is similar to that in section 4915 of the Code whereby direct foreign investments are excluded from the imposition of the Interest Equalization Tax. Direct foreign investments are spelled out by statute as investments of 10% or more of the total combined voting power of all classes of stock held either directly or indirectly by members of an affiliated group of corporations.

While this recommendation would eliminate the need for the special amendment to section 904 (f) for interest received by an "overseas operations funding subsidiary" on obligations of a related foreign corporation, the Council wishes to express its concern over the unduly restrictive proposed definitions of the terms "overseas operations funding subsidiary" and "related foreign corporation" contained in H.R. 13103.

The definition of the term "overseas operations funding subsidiary" as contained in the proposed section 904 (f) (5) (A) requires that such a subsidiary raise its funds through "public offerings." The Council is at a loss to understand why there should be a requirement that the offerings be public. The objectives of the balance of payments program will be satisfied if the funds are raised outside of the United States from foreign persons whether the offerings are public or private.

The definition of a "related foreign corporation" in proposed section 904 (f) (5) (B) requires that at least 50% of the voting stock of the foreign corporation must be owned either directly or through ownership of only one other foreign corporation included in the affiliated group of which the "overseas operations funding subsidiary" is a member.

First, it is felt this definition is too restrictive insofar as it requires the affiliated group to own at least 50% of the voting stock of the foreign corporation from which the interest income is received. This 50% requirement is to be contrasted with the 10% requirement of the existing section 904 (f) (2) (C) which makes the separate "per country" limitation inapplicable to interest income "received from a corporation in which the taxpayer owns at least 10% of the voting stock."

The apparent rationale of this 10% rule is that an interest-bearing loan