Senator ANDERSON. Where are you on your statement?

Mr. SEATH. I have submitted a longer statement and I am reading from a short statement which I thought you would prefer me to do rather than to read the long one.

Senator ANDERSON. We would like to have you do that, but we would like to know where you are. Have you any copies of that? Your full statement can go in the record.

Mr. SEATH. Yes, that was my thought.

Senator ANDERSON. Go ahead.

Mr. SEATH. We believe that this bill, to the extent that your committee can restore it to its original purpose of encouraging foreign investment to come to the United States, will significantly aid our balance-of-payments situation. But to accomplish this, I repeat, the bill has to be restored to its original objective. Only if that is done, can we reasonably expect this bill to increase the inflow of investment funds from abroad.

However, I should like to call the attention of this committee to hat I believe is another significant aspect of our balance-of-payents problem. The foreign tax sections of the Revenue Act of 1962 vere designed to encourage the repatriation of income derived by U.S. orporations from foreign sources. At the same time, the cost of reatriating that income was increased through the so-called "gross up" rovisions. Section 904 of the Internal Revenue Code imposes a limit n the credit against the U.S. tax on foreign-source income which may e claimed by a U.S. taxpayer against his U.S. income tax for foreign axes paid on the same income. Section 862 describes the method of llocating U.S. expenses against U.S.-source and foreign-source inome. In 1944 the U.S. courts decided that the expense allocation ules of section 862 must be followed in determining the limits on alowable foreign tax credits under section 904. The net effect of this nterplay is that many U.S. corporations operating with subsidiaries broad are not receiving the foreign tax credits that we believe Conress originally intended. The result is that such corporations build p unused credits, are thereby encouraged not to repatriate earnings, nd the U.S. balance-of-payments situation is not helped at all.

The Treasury Department, which recognized that there is an inequity ere, a few days ago, after many months of promises, issued proposed evised regulations under section 862 which were supposed to ease the roblems of excess foreign tax credits of U.S. corporations.

We have analyzed these proposed regulations and it is our opinion nat, if it was their intent to ameliorate present harsh rules, they are dismal failure. They do not ameliorate. They merely substitute omplicated rules for simple rules without offering any relief at all. his harsh limitation on the utilization of foreign tax credits places J.S. corporations in a position of picking and choosing those foreign ubsidiaries from which dividends will be paid on an annual basis in rder to avoid the accumulation of unused and unusable foreign tax redits. The solution is a simple amendment to section 904 of the ode providing that only expenses directly related to the production f the foreign income will be allocated against foreign income in deermining the limitation on the foreign tax credits. This avoids omplicated or unnecessary rules proposed by the Treasury. And it rings dollars back to the United States.