

has \$30 of overhead expenses (concededly not incurred in respect of the foreign royalties or dividends). Under present law, the United States tax (at 48% rate) would be computed as follows:

	Foreign	Domestic	Total
Income.....	\$100	\$150	\$250.0
Allocated deductions.....	12	18	30.0
Taxable income.....	88	132	220.0
U.S. tax before credit (\$220 at 48 percent).....			105.6
Amount of foreign taxes (\$48 available) creditable after limitation $\left(\frac{\$88}{\$220} \times \$105.60\right)$			42.2
U.S. tax after credit.....			63.4
Total taxes paid: \$48 foreign, plus \$63.4 United States.....			111.4
or Total taxes on same amount of U.S. income.....			105.6
Excess taxes paid.....			5.8

Thus, \$250 of gross income from domestic and foreign sources bears a significantly higher tax than the same amount of income would have borne if entirely from domestic sources.

This problem is further compounded by the effect of foreign withholding taxes on dividends paid to U.S. taxpayers. When such withholding rates are added to already high foreign tax rates, the foreign tax burden in many countries is substantially greater than the U.S. tax burden. The Treasury position on expense allocations substantially increases this burden, with the result that the withdrawal of foreign earnings is discouraged by the high tax cost.

Under an amendment which would require that foreign income be reduced only be expenses directly related thereto the U.S. tax would be computed as follows:

	Foreign	Domestic	Total
Income.....	\$100	\$150	\$250.0
Deductions.....		30	30.0
Total.....	100	120	220.0
U.S. tax before credit (\$220 at 48 percent).....			105.6
Amount of foreign taxes (\$48 available) creditable after limitation $\left(\frac{\$100}{\$220} \times \$105.6\right)$			48.0
U.S. tax after credit.....			57.6
Total taxes paid: \$48 foreign, plus \$57.6 United States.....			105.6
or Total taxes on same amount of U.S. income.....			105.6

It is submitted that the latter result reached under the proposed amendment is the proper one. The total tax paid by the U.S. corporation is equal to the tax that would be paid by a domestic corporation with the same amount of taxable income arising from operations solely in the United States. This result is one of equitable tax treatment, the basic objective underlying both the long-standing foreign tax credit provisions of the Internal Revenue Code, the foreign income provisions of the Revenue Act of 1962, and the provisions of the bill now before your Committee.

That the present rule is unfair and capricious has even been recognized by the U.S. Treasury Department which has given repeated assurances that new income tax regulations would be issued to correct the admitted inadequacies of the present regulations.

On August 2, 1966, the new regulations were issued in proposed form. An analysis of the proposed rules indicates that they in no way to resolve the problems. To the extent that they were intended to alleviate an admittedly unfair situation, they fail completely. The new proposed rules spell out in broad gen-