

anything else, the information sections of the code, in effect, cost the United States money.

I file with my returns each year a stack of paper, information on foreign subsidiaries, about that high, which is completely useless.

Senator DIRKSEN. You better say how high because the reporter cannot put that gesture down.

Mr. SEATH. About a foot to a foot and a half high, which is completely useless.

What has happened is, in the Revenue Act of 1962—and I have no brief for evaders of our tax or avoiders of our taxes—we set up a monster in the subpart F section of the code and, in order to try to effectuate that monster, they had to get information sections of the code and, as I say, I file a stack of paper about a foot and a half high that is of absolutely no use because our subsidiaries are primarily suppliers of equipment to their local government. A supplier of equipment to a local government cannot be a tax haven.

Senator DIRKSEN. In proportion to foreign earnings that do not come back, it would actually have an adverse, rather than a beneficial, effect on the balance-of-payments problem.

Mr. SEATH. Very definitely, sir.

One example—I was talking about the balancing of credits—Chile, for example, has a tax rate of 30 percent, but they have a withholding rate of 37½ percent. When you put that together that exceeds the U.S. rate. When you also allocate expenses against that income you increase the effective Chilean rate to something way up in the 60- to 70-percent rate against a 48-percent U.S. rate, so it makes it quite a mess.

The CHAIRMAN (presiding). What do you think about these Treasury regulations on section 482, the allocation of income and deduction on taxpayers? The Treasury has been asking for a long time that they have more time to study the problem you raise about the repatriation of some of this money earned overseas. Does that help you with your problem?

Mr. SEATH. No, sir; it certainly does not. They are long, they are complicated and, to the best of our study and our ability to analyze them, they have not done a thing. All they have done is to create complications, but they have not helped a bit.

The CHAIRMAN. You do not find that to be helpful then?

Mr. SEATH. Not a bit.

The CHAIRMAN. You have said the Internal Revenue Code discourages repatriation of foreign earnings. Will you be a little more explicit as to how that works out in your case?

Mr. SEATH. Yes, sir. I was starting to speak to that point just a minute ago. I used the example of Chile which has an income tax of 30 percent and a withholding tax of 37½ percent. When you put those two together, you have got an effective rate that is pretty high.

When you have to allocate——

The CHAIRMAN. It is 67½ if you add them.

Mr. SEATH. Straight addition.

For a non-gross-up country, which Chile is, that is the way it works out. If it were a gross-up country, it would not quite work out that way. But when you have to allocate U.S. expenses against that income, the net income decreases, the tax does not decrease.