

Senator ANDERSON. Specifically, which section then would you change?

Mr. SEATH. For one, I would eliminate this "effectively connected" language completely from the bill. The "effectively connected" is a new concept. It is, again, indefinite; it is a subjective test, it is not an objective test; and when you put language like "effectively connected" into the hands of the many revenue agents there are around the country, you are going to get almost as many interpretations of the words "effectively connected" as there are revenue agents.

Senator ANDERSON. Well, on a matter of this nature, wouldn't it be much better around the country if it all came into one place?

Mr. SEATH. Around the country, it would be all over the country, sir. All these provisions in this bill will ultimately be in the hands of the thousands of revenue agents around the country who audit taxpayers' returns, and it is their job to apply that language.

Senator ANDERSON. But they have to concern themselves with only one type income, do they not, which is foreign income?

Mr. SEATH. Yes, sir. They examine all different kinds of tax returns. They just do not limit themselves to one type of income.

Senator ANDERSON. I am trying to think what the average agent would do with your tax account.

Mr. SEATH. Pardon me, sir?

Senator ANDERSON. I am wondering what the average agent would do with your tax account that would not get them involved in my State or his State? What are you worried about?

Mr. SEATH. That is right. We get an agent; one agent will take one position, and another agent will take another position. The court case in 1944 which changed the interpretation of the Internal Revenue Service which it had put in the rules for many, many years prior to that time was the thought of one revenue agent. It was not a thought of the Internal Revenue Service, but he bulled it through, and it became the law of the land, and even today, sir, this allocation of expenses against foreign source income is not uniformly applied. There are many corporations today which have foreign-source income, and when they are determining the utilization of the foreign tax credits under limitation they do not allocate U.S. expenses against the foreign-source income because it is an abstruse provision of the code and not a well understood one.

The CHAIRMAN. Senator McCarthy.

Senator MCCARTHY. I have no questions.

The CHAIRMAN. Senator Morton.

Senator MORTON. Sir, I think it is clear that the Treasury Department wants to recapture as much foreign earnings as we can for reasons of balance of payments.

Mr. SEATH. Right.

Senator MORTON. And your point is that their regulation today fails to recapture as much?

Mr. SEATH. They fail to encourage it.

Senator MORTON. Encourage the recapture.

Mr. SEATH. That is right; that is right.

Senator MORTON. Do you think that it would require an amendment to this bill to see that we recapture or encourage to recapture these foreign earnings? Has your experience been with regulation that