

Therefore, we recommend:

(1) The Congress insist that the administration first follow through with its promises to reduce nondefense spending. Actual cuts rather than the promises or assurances are necessary.

(2) That some reasonable prognosis be given as to the duration and cost of our Vietnam commitment. Current estimates seems to be running as high as 10 or 20 years, with annual defense expenditures already in excess of \$75 billion.

(3) The Congress not approve any tax increase until after a reasonable period (6 to 12 months) in order to allow the administration to show its ability to drastically reduce nondefense spending and to prove the effectiveness of such cuts on the budget deficit.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. We thank you, Mr. Bullen. Are there any questions of Mr. Bullen?

If not, we thank you, sir, for bringing to us the views of your organization.

Mr. BULLEN. Thank you, sir.

The CHAIRMAN. Mr. Seghers, you have been before the committee in the past on several occasions, but for this record will you again identify yourself.

STATEMENT OF PAUL D. SEGHERS, PRESIDENT, INSTITUTE ON U.S. TAXATION OF FOREIGN INCOME

Mr. SEGHERS. My name is Paul D. Seghers. I am president of the Institute on U.S. Taxation of Foreign Income. We are here to oppose the Treasury's proposal to impose the 10-percent surtax in such a way as, in effect, to deny a portion of the foreign tax credit allowable under existing law.

The Treasury states that the 10-percent surtax is to be imposed on the amount of tax computed without allowance of any investment credit or foreign tax credit to which a taxpayer is entitled under existing law.

The effect of this Treasury plan would be to reduce by 10 percent the presently allowable investment credit and foreign tax credit.

We cannot believe that your committee would approve this device for imposing a discriminatory tax increase of more than 10 percent on the tax bills of U.S. manufacturers and others exporting U.S. products and bringing into the United States income from abroad.

The discriminatory result of the Treasury's plan may be illustrated as follows:

Manufacturer A makes no plant investments and brings in no foreign income during 1968.

Manufacturer B makes plant investments and brings into the United States income from sales of its U.S. products abroad in 1968, resulting in allowable investment and foreign tax credits totaling \$40,000.

If, under existing law, each would pay an income tax of \$100,000, the Treasury's plan would require manufacturer A to pay, in addition to its income tax, a surtax of \$10,000; and manufacturer B to pay a surtax of \$14,000, or 40 percent more than manufacturer A.