

It is our belief that the key to the success of the Government's fiscal program is its timing, and that premature action or over-reaction could knock the economy on its back before it is firmly on its feet.

5. A surcharge should be applicable to net tax liabilities after allowance of the 7-percent investment credit and foreign tax credits.

Any surcharge should be applied to net tax liabilities, after 7-percent investment tax credits and foreign tax credits. We believe this is necessary in order that all taxpayers bear a uniform and proportional increase in their U.S. tax burden.

Congress enacted numerous tax provisions to provide relief from burdensome taxation or to promote economic or social objectives.

In some instances, such relief has taken the form of a tax credit, while in other instances it has been classified as a deduction. A surcharge against gross tax liabilities would reduce the effect of this relief thoughtfully provided by tax credits.

A surcharge based upon a gross tax would partially nullify benefits intended to be granted by the 7-percent investment tax credit to corporations making additions to plant and equipment. The reasons expressed for the early reinstatement of that credit, and which were so carefully considered by your committee earlier this year, are equally applicable to the necessity for the application of any surcharge on a net tax liability basis after allowance for such credits.

Also, for example, dividends received from certain foreign corporations must, under current law, be grossed up by the amount of foreign taxes applicable thereto (thus creating additional taxable income) and a related foreign tax credit is allowed against the domestic corporation's U.S. income tax liability.

Alternatively, a taxpayer may elect to take a deduction for foreign taxes rather than utilize the credit. To apply a surcharge based upon the additional dividend income required to be reported and, at the same time, prohibit the foreign tax credit from reducing the surtax base, would result in a gross inequity, thus converting the surcharge into a disguised tax upon foreign income.

A surcharge applied before allowance of foreign tax credits and investment credits also creates the inequitable situation of increasing certain taxpayers U.S. taxes in an amount in excess of the surcharge percentage applied against other taxpayers.

For example, a corporation with a tax liability before credits of \$100 (before surcharge) and a foreign tax credit of \$20 is liable for U.S. taxation of \$80. The application of a surcharge of \$10 to the \$100 increases the liability of \$110. Reduction of such amount by the foreign tax credits of \$20 leaves a U.S. tax liability of \$90 which represents not a 10-percent increase, but a 12½-percent increase in the U.S. burden.

Further, certain domestic corporations are required to pay U.S. income tax on subpart F income or upon minimum distributions from their controlled foreign corporations (elected to minimize the burdensome provisions of subpart F).

Since these additional taxes have already placed such companies at a disadvantage with foreign-controlled competitors, any surcharge which is imposed upon this type of income, without allowance for foreign tax credits, would result in a further deterioration of the competitive positions of those U.S. companies with foreign operations.