

We recommend three specific areas of administrative action which will help to remove tax barriers to exports:

1. The realistic administration of laws providing for reallocation of income and expenses between related companies: recent Treasury efforts to clarify practices in this area have been helpful but guidelines on the reasonableness of selling prices are needed.

2. The adoption of rules on the repatriation of funds and the use of foreign tax credits when reallocations have been made by the Internal Revenue Service between related companies, consistent with policies now governing tax years prior to 1963.

3. More liberal policies on the transfer of industrial property to foreign corporations in tax-free exchanges to permit favorable rulings in more cases.

We also recommend four specific areas for legislative changes in the tax provisions:

1. Less complicated and more liberal rules for export trade corporations under Section 970 of the Internal Revenue Code.

2. An additional capital allowance for equipment producing goods for export.

3. An incentive deduction for promotion expenses in connection with export sales.

4. The extension of the investment tax credit to purchases of U.S. produced equipment used abroad.

The Administration has taken at least limited action in response to the Committee's recommendations for administrative action. With regard to the second administrative recommendation, the Treasury has extended special procedures relating to repatriation of funds and use of foreign tax credits following a "Section 482" allocation to 1963 and 1964. We strongly urge that such procedures be extended to all periods prior to the promulgation of new Section 482 regulations which the Treasury has not yet issued.

However, the Administration's reaction to the first three of the legislative proposals has been negative—at least there has been no official comment on them, much less any indication that the Administration will support them. We note that in this connection Senator Smathers of Florida, a senior member of the Senate Finance Committee, has introduced S. 2574 which would implement that part of the Committee's proposals relating to the liberalization of the present Internal Revenue Code provisions relating to export trade corporations. We think that favorable action along the lines of this set of proposals would do much to stimulate U.S. exports which cannot fail to be adversely affected by the direct investment control program.

[Supplement to Machinery & Allied Products Institute Statement]

THE U.S. BALANCE OF PAYMENTS AND THE GOVERNMENT'S MANDATORY RESTRICTIONS ON DIRECT PRIVATE INVESTMENT ABROAD—A DETAILED EXAMINATION

INTRODUCTION

The Administration's U.S. balance-of-payments program announced on January 1 represents but another in a series which have entailed progressively more restrictive controls over the movement of dollars in international markets. The major difference in the latest program is that the measures just taken far exceed anything which has been attempted heretofore. They are mandatory and unprecedented. These steps were taken, of course, in response to a renewed attack on the dollar and a deteriorating balance-of-payments situation which accelerated sharply in the fourth quarter of last year. In light of this deterioration and if one accepts a continuation of the enlarged U.S. military commitments abroad as essential, it would be irresponsible to oppose any or all measures to halt and reverse this decline in our payments position. The question is whether these particular measures are sound. When viewed within the context of the government's approach over the past decade toward this country's chronic balance-of-payments problem, the current program has, in our opinion, serious implications for the future. Certain elements are in our judgment particularly regrettable and could, in the retrospect of the early 1970's, prove to have been tragically wrong.