

QUESTIONS POSED

it clear whether the repatriation of earnings is to be calculated on the basis of the residence of the holding company or according to the source of the income. Furthermore, some question is raised whether a holding company in a Schedule C country could, under the regulations, have earnings or loan repayments transferred to it from a Schedule A or B country, or whether a holding company in a Schedule B country could have earnings or loan repayments transferred to it from a Schedule A country. This lack of clarity will impede compliance as well as the business operations of such holding companies.

CORRECTIONS PROPOSED

from countries in more than one Schedule. They should be subject to repatriation according to the rules applying to the country which is the source of the income and not simply on the basis of the residence of the holding company, on a flexible basis, preferably prorated on the basis of income rather than assets. Such holding companies if located in a Schedule C country should be authorized to transfer earnings and loan repayments from Schedule A and B countries, or if located in a Schedule B country should be authorized to transfer earnings and loan repayments from Schedule A countries.

II. LIQUID FOREIGN BALANCES OF DIRECT INVESTORS—SECTION 1000.203

This section requires each direct investor on or before June 30, 1968 to reduce his bank deposits and other short-term financial assets in all foreign countries to an amount not in excess of the average end-of-month amounts of the same so held during 1965 and 1966. He is required to transfer the excess to a dollar account in a U.S. domestic bank. He is further required to take similar action at the end of each succeeding month.

This section makes no distinction between funds resulting from current earnings, past earnings, foreign borrowings, depreciation or sinking funds.

QUESTIONS POSED

A. If a U.S. company borrows abroad at long term in advance of the need for funds to cover investment plans abroad and deposits such funds in banks or invests them in short-term financial assets abroad, they would have to be repatriated if, after June 30, 1968, they exceeded the amounts so held in 1965 and 1966. Having been repatriated to a dollar account in the United States they could not be used outside of the limits fixed since any subsequent use would constitute a dollar overflow. Repatriation and investment of these funds in the United States might put the foreign affiliate in a position where it failed to meet the requirement that 80 percent of its revenues accrue from foreign sources to qualify it for foreign source income tax treatment. Furthermore, funds so repatriated from corporations set up for the purpose of borrowing funds abroad for investment abroad could in many cases not be invested freely in the United States because of regulations of the Securities and Exchange Commission governing such borrowing. This is inequitable because long-term foreign borrowings are not counted within the limits fixed for investments abroad in Section 1000.504.

CORRECTIONS PROPOSED

A. Amend Section 1000.203 in such a fashion that it will not be applicable to funds arising from long-term borrowings abroad to finance investment abroad.