The Department of Commerce regulations require what it describes as repatriation of earnings. So far as we know, there is no requirement that such earnings necessarily be remitted in the form of dividends. This apparently means that loans or advances from the subsidiary to the American parent company would satisfy the requirements of the Commerce regulations. However, in many situations the payment of such advances or loans would be impossible or impractical from the viewpoint of the foreign subsidiary because of the laws or policies of the country within which it is located, and also because of financial and other operating considerations relating to the subsidiary itself. In any event, we think that certain things might well be done by the U.S. Government to make it easier for companies to comply with repatriation requirements. We suggest that the Treasury and the Internal Revenue Service should issue an official announcement to the effect that interest-free advances from a subsidiary to the parent would not be considered "constructive dividends," at least to the extent that such advances were made pursuant to the direct investment control program. In addition, the Treasury might well attempt to persuade foreign governments to follow policies which would permit companies within such jurisdictions to make loans or advances to American shareholders in connection with the U.S. balance-of-payments program in cases where such loans or advances might not be permitted at the present time.

Where because of foreign law or because of other circumstances the repatriation of funds must be in the form of a dividend, it certainly would be appropriate to permit deferral of the U.S. tax on that dividend. Such deferral might extend for a stated period of time such as 5 years or possibly even for a period of time that would be determined for each individual company on the basis of its past experience with respect to dividend payments from foreign subsidiary earnings. Here we are talking about dividends from foreign subsidiary earnings that are not "foreign-base company income" and therefore are not taxable to the American parent company until received in the form of dividends. If for some reason it is determined that such deferral is impractical or undesirable, the Government should consider granting some type of tax reduction with respect to foreign subsidiary dividends.

6. *Tax incentives for exports.*—Just over 2 years ago the Action Committee on Taxation of the National Export Expansion Council, chaired by Mr. Carl A. Gerstacker, board chairman of the Dow Chemical Co., presented to the Department of Commerce and the President a series of proposals relating to taxation and designed to encourage U.S. exports. In brief, these proposals were as follows:

> 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