United States citizens receiving from sources in a U. S. possession may, under certain conditions, exclude such income from tax.

Corporate taxation.—Domestic corporations which qualify as Western Hemisphere Trade Corporations are entitled to a special deduction which reduces their tax rate by 14 percentage points.

Income of foreign branches and subsidiaries of U. S. corporations is subject to taxation abroad and in the United States. A credit is allowed against U. S. income tax for the foreign income taxes paid, up to the amount of U. S. tax liability. U. S. corporations deriving income from foreign subsidiaries may claim a credit for foreign corporate profits tax deemed paid on that income, as well as for foreign taxes imposed directly on that income. If the subsidiary is in a developed country, the parent corporation must include both creditable foreign taxes in its U. S. taxable income; if the subsidiary is in a less developed country, the corporation need not "gross-up" its income to include the creditable portion of foreign profits tax.

United States corporations are not required currently to file consolidated returns which include the unrepatriated earnings of controlled foreign subsidiaries.

Domestic corporations deriving the bulk of their income in U. S. possessions may, under certain conditions, exclude such income from tax.

TABLE 2.—INTERNATIONAL AFFAIRS AND FINANCE

Tax expenditures, 1968

[In millions of dollars]

Individual taxation:	
Exemption for certain income earned abroad by U.S. citizens	40
Exclusion of income earned in U.S. possessions	10
Corporate taxation:	
Western Hemisphere trade corporations	50
Exclusion of gross-up on dividends of less developed country corporations	50
Exclusion of controlled foreign subsidiaries	150
Exclusion of income earned in U.S. possessions	70
Total tax expenditures	370

Budget outlays plus tax expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures	3.7	3.6	3.5
Net lending	.9	.3	.2
Total	4.6	3.9	3.9
Tax expenditures	.4	.4	.5
Total budget outlays plus tax expenditures	5.0	4.3	4.2
Tax expenditures as percent of budget outlays	9	10	14

Agriculture and Agricultural Resources

Farmers, including corporations, may deduct certain costs as current expenses even though these costs represent inventories on hand at the end of the year or capital improvements.

Capital gains treatment also extends to the sale of livestock, orchards, vineyards, and comparable agricultural activities.

The gain on the cutting of timber is taxed at the rates applicable to long-term capital gains, rather than at ordinary income rate.

TABLE 3.—AGRICULTURE AND AGRICULTURAL RESOURCES

Tax expenditures, 1968

[In millions of dollars]

Farming: Expensing and capital gains treatment	800
Timber: Capital gains treatment for certain income	130
Total tax expenditures	930