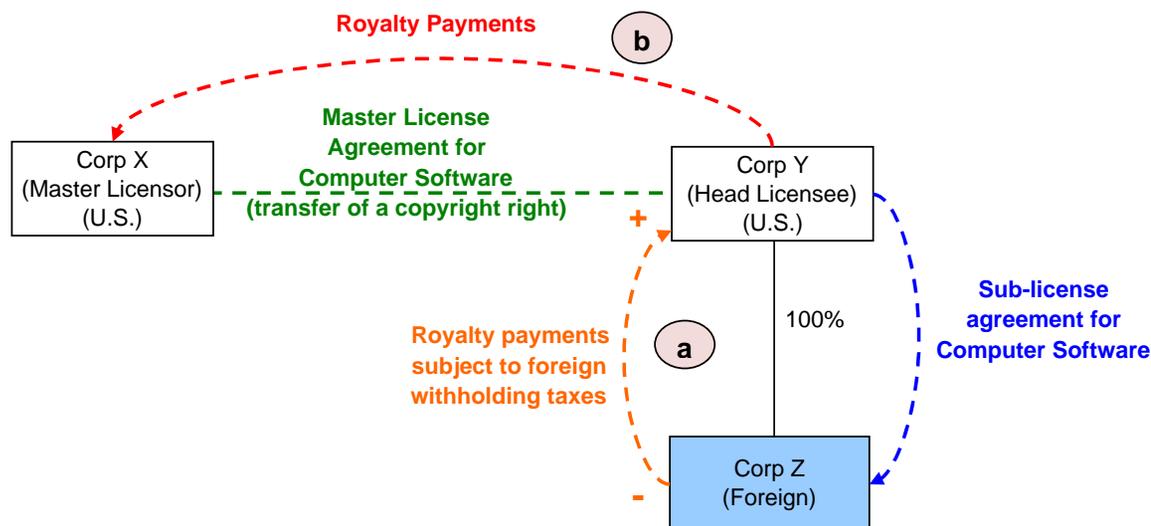


**Foreign Tax Credits Not Disallowed in Certain Back-to-Back Licensing Arrangements**



Under a typical business arrangement, a domestic corporation (X) licenses rights to a computer program (the master license agreement) to another domestic corporation (Y) for use in computers and similar and related equipment that Y employs in connection with its business or that it manufactures and markets to customers. Y conducts its business operations through various domestic and foreign subsidiaries, sublicensing rights to X's computer program to the subsidiaries as permitted under the terms and conditions of the master license agreement. X licenses the computer program to Y rather than directly to each of Y's subsidiaries because X wishes to centralize its customer relationship with Y and minimize administrative burdens, minimize its exposure to the credit risk and local risk of Y's foreign subsidiaries, and protect its rights in the computer program. Pursuant to the master license agreement, Y makes payments to X when (a) Y or Y's subsidiaries reproduce the licensed computer program on computers and other equipment used by Y or Y's subsidiaries or (b) Y or Y's subsidiaries reproduce and distribute X's computer program on computers and other equipment manufactured and marketed to customers by Y or Y's subsidiaries. Pursuant to the sublicense agreements, Y's subsidiaries make payments to Y when they reproduce X's computer program on computers and other equipment that they use or when they reproduce and distribute X's computer program on computers and other equipment that they manufacture and market to customers. Foreign gross-basis withholding taxes may be imposed with respect to the payments by Y's foreign subsidiaries to Y.

Section 901(l) generally disallows a foreign tax credit for foreign withholding tax on any item of income (other than dividends) or gain with respect to property if the recipient is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, and section 901(l)(3) provides that the Secretary may by regulation provide that section 901(l)(1) does not apply to property where such application is not necessary to carry out the purposes of section 901(l). Pursuant to section 901(l)(3), the Treasury Department and the IRS have determined that the application of section 901(l) to foreign withholding taxes imposed on payments in a back-to-back computer program licensing arrangement in the ordinary course of the licensor's and licensee's respective trades or businesses is not necessary to carry out the purposes of section 901(l).