

this device of acting unilaterally and affording some protection for the United States was discussed.

Mr. BYRNES. What you have done here, it seems to me, is halfway between the treaty concept and the unilateral concept, haven't you, that is being recommended by the Treasury?

Mr. SURREY. It is an endeavor to accomplish really both objectives, to act quickly and unilaterally, but at the same time to preserve an international position for the United States if it becomes necessary where, in engaging in our treaties, we don't get reciprocal action.

Secretary FOWLER. In commenting on tax treaties at one point the task force said, on page 24 of the report:

Adoption of our recommendations would not eliminate the need to extend and modernize our tax treaties. Among other desirable changes: The United States should work for the reciprocal reduction of withholding taxes on dividends and interest and toward the reciprocal elimination of all taxes on the income of pension trusts and similar investors that are exempt from tax in their country of residence. Such changes will, however, take time.

I don't think that goes to your particular point at all, Congressman Byrnes, and I only cite it as recognition of the fact that you have already observed that this is something of a mixed bag. You can accomplish a certain amount through unilateral action, of which this bill is an example, but there will still be areas, and Secretary Surrey is currently engaged in significant negotiations in the tax treaty area which go beyond the purview of this particular bill.

Mr. BYRNES. Do the presumptions contained in the bill with respect to corporations not having permanent establishment in the country, mean that we presume they don't have a permanent establishment?

Mr. SURREY. No; I wouldn't put it quite that way, Mr. Byrnes. There is a provision in the bill that reads that way, but I think its technical effect is not quite what you read into it.

Mr. BYRNES. You said today that under the treaties if you did not have a permanent establishment in the country, then you would pay the 15-percent rate, but if you had a permanent establishment then you paid the regular U.S. rates.

Mr. SURREY. That is the present law.

Mr. BYRNES. That is the present law?

Mr. SURREY. That is right.

Mr. BYRNES. But what you would be saying under this bill is that a corporation is assumed not to have a permanent establishment.

Mr. SURREY. As to its dividend income.

Mr. BYRNES. As to its dividend income?

Mr. SURREY. The bill happens to say presently just dividends and capital gain.

Mr. BYRNES. You are then liberalizing in a sense what is already contained in treaties?

Mr. SURREY. We are for some corporations and we are for practically all individuals. Some corporations, if they are doing business here in the United States, may prefer the present treatment. That is one of the problems we wanted to discuss because that gives them the intercorporate dividend deduction, which may therefore give a rate of less than 15 percent.

I might say, Mr. Byrnes, with respect to withholding on corporations, where you have a parent company and subsidiaries in the United States the rate sometimes drops to 5 percent under our treaties.