

To deprive these, and similarly situated foreign corporations, of the intercorporate dividend received deduction at this time would cause an unwarranted and perhaps unintended, disruption of traditional and legitimate patterns of doing business in this country by foreign corporations.

As I have mentioned several times now, we feel that such a step might well discourage these companies from making further U.S. stock investments in the future.

Finally, I would like to call your attention to one interesting note, that one group of foreign corporations in which this pattern of doing business is fairly common will be completely unaffected by the amendment in question. These are foreign insurance companies.

Under the bill the dividends received deduction is withdrawn only from those foreign corporations which are taxed under section 11. Since foreign insurance companies are taxed under section 801 and following sections, they are not affected by the bill.

Obviously, we think this treatment of insurance companies is proper and fully in keeping with the objectives of H.R. 5916. We think other foreign corporations with bona fide business operations in this country should be taxed in the same manner.

In view of the foregoing we offer the following recommendations: That foreign corporations which are actively engaged in business in the United States and that have made substantial, permanent type investments in domestic corporations for example, at least a 10 percent equity interest, should be permitted to elect either:

(1) The treatment provided under existing law for resident foreign corporations, that is, they would have the availability of the intercorporate dividends received deduction, but a tax on capital gains realized in connection with U.S. stock investments or the alternative.

(2) The tax treatment provided in the proposed amendment, that is, no incorporate dividend received deduction, but be exempt from the tax on capital gains when they dispose of their U.S. stocks.

Thank you, Mr. Chairman.

Mr. KARSTEN. Does that conclude your statement, Mr. Waris?

Mr. WARIS. That does.

Mr. KARSTEN. Are there questions of Mr. Waris? If not, we thank you for your appearance and we appreciate your giving us the benefit of your views on this legislation.

Mr. WARIS. Thank you.

Mr. KARSTEN. That concludes the witnesses scheduled for this morning. In fact it concludes the public hearings on this legislation. The committee will stand adjourned.

(Whereupon, at 10:45 a.m., the committee was adjourned.)