

the bill and does not comment on the tax policy and economic policy considerations involved.

Section 1(a)

The committee is of the view that the short title of the act is much too long and unwieldy and recommends that a shorter title, such as "Foreigners Investment Act of 1965," be adopted.

Section 2(b)

The term "gross business income" is undefined in the proposed section 861(a)(2)(B). To remove any doubt as to its meaning, it is suggested that immediately following the phrase "gross business income" in the second sentence of the section there be inserted "as defined in section 882(a)(3)."

In its present form the proposed amendment to section 861(a)(2)(B) could subject to U.S. taxation dividends from a foreign corporation engaged in business within the United States so long as 80 percent of its gross business income was derived from sources within the United States even though the gross business income of such corporation constituted only an insignificant portion of the corporation's entire income. For example, if only 10 percent of a corporation's entire income constituted gross business income and 80 percent or more of such gross business income was derived from sources within the United States, an insignificant fraction of the dividends paid by such corporation would be deemed income from sources within the United States. The insignificant amount of revenue derived from this does not justify the burden imposed upon the payor corporation or the administrative difficulties imposed upon the Internal Revenue Service. It is therefore suggested that a de minimis rule be adopted and that it be provided that section 861(a)(2)(B) not be applicable unless, for example, at least 25 percent of the foreign corporation's entire income constitutes gross business income as defined in section 882(a)(3).

Section 2(c)

This provision, pertaining to the effective date of section 2, should be amended so as to make it clear that it applies to interest credited as well as interest paid. It is suggested that it be amended to read as follows: "The amendments made by this section shall apply with respect to interest paid or credited or dividends paid in taxable years beginning after December 31, 1965." With this amendment the provision would conform with section 2(a) of the bill.

Section 3

Proposed section 871(b)(3), defining business income, excludes from that category "dividends or gain from the sale or exchange of stock in a corporation." Interest and gain from the sale of securities apparently would be treated as "business income." No reason is apparent for the differentiation between dividends and interest or between gain from the sale of securities as distinguished from stock. It therefore is suggested that consideration be given in section 871(b)(3) and in section 882(a)(3) to the exclusion from the category of business income of interest as well as dividends and gain from the sale of securities as well as stock. An exception could be made for interest earned in the conduct of a banking business. Consideration should be given here and at section 882(a)(3) to the intended treat-