

WRITTEN STATEMENTS ON H.R. 11297, FOREIGN INVESTORS TAX ACT OF 1965

ALUMINUM CO. OF AMERICA,
Pittsburgh, Pa., February 14, 1966.

HON. WILBUR D. MILLS,
*Chairman, House Ways and Means Committee,
House Office Building, Washington, D.C.*

DEAR CHAIRMAN MILLS: It is my understanding that your committee intends to consider in executive session on Wednesday, February 16, 1966, H.R. 11297 entitled "Foreign Investors Tax Act of 1965." We are most alarmed by what seems to be a fundamental change in U.S. concepts applicable to taxation of foreign corporations and foreign-earned income.

Under current law, a foreign corporation is subject to U.S. tax only where the corporation derives income from sources within the United States. The derivation of such income has heretofore been determined under the generally precise source rules in sections 861 through 863 of the Internal Revenue Code.

As now written, H.R. 11297 would radically depart from these established jurisdictional concepts and subject foreign corporations to U.S. tax on income which is "effectively connected" with the conduct of a trade or business within the United States. The question of when a foreign corporation "is engaged in business within the United States" is itself not easily answered. The subject bill would inject greater vagueness and uncertainty into this area of international business planning by adopting, as a jurisdictional principle of taxation, an entirely new, undefined and untested concept of "effective connection."

We are deeply concerned that such a radical change in the international aspects of our tax system is being considered. Accordingly, we strongly urge that this proposed language be deleted from H.R. 11297 or alternatively that further study be made of the feasibility and practicality of such a test, including the scheduling of public hearings.

Please let me know if I can be of any assistance to you in this matter.

Sincerely,

E. A. VAUGHN,
Vice President and Controller.

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