

(g) **EFFECTIVE DATE.**—The amendments made by this section shall apply with respect to estates of decedents dying after the date of the enactment of this Act.

INSTITUTE ON U.S. TAXATION OF FOREIGN INCOME, INC.,
New York, N.Y., February 18, 1966.

Re H.R. 11297.

Hon. LEO H. IRWIN,
*Chief Counsel, Committee on Ways and Means,
House of Representatives, Washington, D.C.*

DEAR MR. IRWIN: The position of this institute can be very briefly stated with respect to H.R. 11297. We have no opposition to its prompt passage, provided that it is limited to its announced purpose, to comply with the express wish of President Johnson:

“ * * * to modernize the present U.S. tax treatment of foreigners and to encourage foreign investment in the United States—thereby beneficially affecting the U.S. balance-of-payments—by removing tax barriers to such investment.”

In order to avoid harmful effects which otherwise would result to U.S. corporations engaged in foreign trade and to the U.S. balance-of-payments, it is essential that the “effectively connected” provisions of H.R. 11297 (e.g., proposed amended Internal Revenue Code sec. 882) be limited so as to be applicable only to foreign corporations controlled by foreigners (i.e., by persons other than U.S. persons).

If the title and statement of the purpose of H.R. 11297 fairly state its purpose, there is no reason why its application should not be limited to foreign investors and foreign investments in the United States.

That is all we ask—and we earnestly request the opportunity to bring out the facts in open hearings on these new provisions of H.R. 11297.

We recognize that it would be impossible to correct what are believed to be technical flaws in H.R. 11297 and still effect its prompt passage as desired by the administration. However, we feel that it is worth while to point out a few of these flaws:

1. H.R. 11297 would do away with the exemption otherwise allowable under the Export Trade Corporation provisions of Internal Revenue Code section 970 (proposed new sec. 952(b)).

2. The proposed new section 906(a) apparently would allow a foreign subsidiary corporation credit for foreign taxes paid and deemed paid by it with respect to U.S. income subject to tax under the “effectively connected” provisions and *also* would allow its U.S. parent credit for the same foreign income taxes *deemed* paid by it (the U.S. corporation) with respect to dividends received from such foreign subsidiary.

3. There is no indication that, if the worldwide income of a foreign subsidiary were connected with its U.S. activities, the amount subject to tax under the proposed section 882 would be limited to the portion properly allocable to such U.S. activities.

4. Apparently, no consideration has been given to the effect of the “effectively connected” provisions (e.g., proposed sec. 882