and sec. 952(b)) upon the "minimum distribution" provisions of section 963.

Time and space do not permit further enumeration of technical flaws in this bill.

The substantive objection is that in attempting to afford U.S. tax incentives to foreign investors, it would impose various unjustifiable penalties on foreign corporations owned and controled by U.S. persons.

You are respectfully requested to distribute copies of this statement to members of the Ways and Means Committee and to include this statement in the committee print.

Thanking you in advance for your attention to this request, I remain,

Sincerely yours,

PAUL D. SEGHERS, *President.*

INSTITUTE ON U.S. TAXATION OF FOREIGN INCOME, INC.,
New York, N.Y., February 19, 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: Please add to our letter dated yesterday (February 18) our suggestion for wording to accomplish the recommended changes in the provisions of H.R. 11297 so as not to penalize foreign corporations owned by U.S. persons.

In lieu of the amendment of IRC section 882(b) proposed in section 4(b) of H.R. 11297, we suggest the following:

"(b) GROSS INCOME.—

"(1) FOREIGN OWNED CORPORATIONS.—In the case of a foreign corporation controlled (through the ownership, direct or indirect, of more than 50 percent of its voting stock) by persons who are not U.S. persons (as defined in sec. 957) gross income includes only—

"(A) gross income which is derived from sources within the United States and which is not effectively connected with the conduct of a trade or business within the United States, and

"(B) gross income which is effectively connected with the conduct of a trade or business within the United States, to the extent attributable to such activities.

"(2) OTHER FOREIGN CORPORATIONS.—In the case of all other foreign corporations, gross income includes only gross income from sources within the United States."

This wording would:

(1) Limit the application of the proposed new "effectively connected" provisions to those persons whom H.R. 11297 is intended to benefit, foreign investors, without adding new burdens of U.S. taxes on U.S. manufacturers and other U.S. corporations having foreign subsidiaries engaged in foreign trade, and

(2) Limit the impact of the proposed "effectively connected" provisions so as to tax foreign-owned and controlled foreign corporations