

on only so much of their foreign income as is attributable to their activities in the United States.

Both of these results would be more in harmony with the stated purposes of H.R. 11297 than would the consequences of the section 882(b) proposed in H.R. 11297 (as introduced).

The change we propose herein would eliminate the need for the amendment of IRC section 952(b), now proposed in H.R. 11297, and thus would avoid the nullification, in many instances, of the benefits intended to be afforded by section 970 to "Export Trade Corporations," and avoid many other complications under "subpart F."

In addition to the serious defects in H.R. 11297 enumerated in our February 18 letter, we point out that, under H.R. 11297 as introduced, "effectively connected" income would, in some cases, be taxed twice, at full U.S. corporation rates; first to the foreign corporation and then, when distributed as a dividend, to its U.S. parent corporation, without allowing any credit or other relief from this unbearable burden.

To continue to point out defects in H.R. 11297 when applied to U.S.-owned and controlled corporations would only distract attention from the one essential issue—the vital need to exclude such U.S.-owned corporations from the application of these novel "effectively connected" provisions.

We will greatly appreciate your cooperation in transmitting our suggestions to the chairman and members of the Committee on Ways and Means and including in the committee print our two letters submitting these suggestions.

Very truly yours,

PAUL D. SEGHERS,
President.

INTERNATIONAL ECONOMIC POLICY ASSOCIATION,
Washington, D.C., February 9, 1966.

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

DEAR CONGRESSMAN MILLS: The attention of the International Economic Policy Association, representing some of the major American industrial corporations with substantial investments abroad, has been called to the provisions of H.R. 11297, introduced by you last September.

While this bill generally incorporates the provisions of H.R. 5916, the so-called Fowler bill, designed to encourage foreign investment in the United States, H.R. 11297 goes far beyond the original Fowler bill in incorporating substantial changes in the basic rules for determining the income of foreign corporations doing business in the United States. Since original enactment in 1918, such corporations have been taxed *only* on their income from clearly defined U.S. sources. Under the proposed provisions of H.R. 11297, such corporations may be subject to U.S. income tax on income that is "effectively connected" with the United States even though such income is, admittedly, from non-U.S. sources.