

It is not the purpose of this letter to question the advisability or inadvisability of such a fundamental change in U.S. tax law. However, the association is firmly convinced that a change having such a profound impact on historical U.S. tax principles is one that should require the most thorough consideration by your committee. We sincerely believe that the constitutional obligation imposed on the House of Representatives to propose revenue legislation requires full public exploration of all basic changes in U.S. tax provisions and we must, in honesty, state that we feel that it would be remiss for Congress to make such far-reaching changes without affording an opportunity for full public hearings.

We know that your committee is fully aware of the proposed legislation but we doubt whether all U.S. taxpayers affected by it are fully cognizant of the substantive changes proposed in this bill. Although comments on H.R. 5916 were requested, public hearings have never been held. Accordingly, we respectfully request that your committee hold public hearings on H.R. 11297. If such hearings are held, we wish to assure you that the IEPA will endeavor to present constructive views on the proposed legislation and on any modifications to this legislation that we feel are desirable.

Sincerely yours,

N. R. DANIELIAN, *President.*

STATEMENT BY INTERNATIONAL TELEPHONE & TELEGRAPH ON
H.R. 11297

H.R. 11297, more commonly known as the Fowler bill, is a bill designed to encourage foreign investment in the United States. It has received a broad spectrum of public support for these objectives. However, as introduced by Chairman Mills last September the bill contains a significant change in basic U.S. tax policy, a change that has not had the benefit of full public discussion or understanding.

Since the earliest days of income taxation in this country, going back to the Revenue Acts of 1916 and 1918, a foreign corporation engaged in trade or business within the United States has been taxed only on its income from clearly defined sources within the United States. However section IV of H.R. 11297 changes this long-established pattern of taxation by amending section 882 of the Internal Revenue Code to subject a foreign corporation engaged in trade or business within the United States to taxation on its income which is "effectively connected" with the conduct of such trade or business.

Under this proposed fundamental change in U.S. tax law, the traditional source rules now contained in sections 861 through 864 of the code are no longer to determine the scope of U.S. taxation of foreign corporations engaged in trade or business in the United States. From a position of relative certainty permitting business judgment and action, foreign corporations which wish to engage in trade or business within the United States will have to act at their peril, with exposure to U.S. income tax being limited only by the vague general concept "effectively connected income."