

We believe these are sound reasons why this committee should not approve this bill in its present form. Our written statement sets forth our recommendations which may be thus summarized:

If you decide to retain the "effectively connected" concept for the benefit of foreign investors, then we recommend that you limit its application to them and do not impose it on U.S.-owned corporations.

We believe that before making any such radical changes in long-established principles of taxation and in the rules created in the 1962 Revenue Act, which already penalizes exports, there should be made available to the public:

1. A statement of the reasons for including in this bill the burdensome provisions which are in conflict with its stated purpose.
2. A statement of the revenue effect of these provisions.
3. Adequate time and opportunity to consider the effect of these provisions and the reasons advanced for them and to be heard.

Our views have been stated as briefly as possible so as to allow time to answer questions if any of the members of this committee who are present do not agree with the conclusions I have stated.

Off the record, Mr. Mills.

(Off the record discussion.)

Mr. SEGHERS. 1. This institute heartily agrees with the oft-stated purpose of this bill—to afford tax incentives for investment in the United States by foreigners.

2. Our objection is to this bill being made a vehicle to impose further U.S. tax burdens on U.S. foreign trade, especially U.S. manufacturers exporting their products for sale through foreign subsidiaries.

3. Despite the substantial improvements in the language of the latest bill concerning foreign income "effectively connected" with business activities in the United States, we must continue to insist that that theory is wrong in principle and objectionable.

4. To avoid further handicapping U.S. concerns engaged in foreign trade, it is essential, if the latest proposed "effectively connected" language is retained, to provide that these new provisions are not applicable to foreign corporations majority controlled by U.S. persons. We make no alternative recommendations for improving these very complicated and troublesome provisions, as the one change we recommend will be sufficient to eliminate the danger, which still exists, of harm to U.S. business engaged in foreign trade from the "effectively connected" provisions, even in their present form.

5. The proposed radically new provisions for disallowance of credit for foreign income taxes would, in certain circumstances, result in severe and unjustifiable hardship through double taxation, even if the "effectively connected" provisions were limited as recommended above.

6. We are convinced that the principal objectives of this bill could be achieved by the use of very much simpler and more direct language, and doubt if the provisions of H.R. 13103 regarding U.S. income and activities of foreign-owned foreign corporations, however expressed, would go far toward accomplishing the desired purpose.

1. The objective of H.R. 13103 is heartily approved: This institute heartily approves of the oft-repeated objective of H.R. 13103 (and its predecessors, H.R. 5916 and H.R. 11297)—"to increase foreign in-