vestment in the United States," as expressed in the Treasury Department's March 8, 1965, statement.

This purpose was again stated in the report on H.R. 11297 published by this committee for the use of its members, as follows:

> to modernize the present U.S. tax treatment of foreigners and to encourage foreign investment in the United States * * * by removing tax barriers to such investment.

2. Objection to use of H.R. 13103 to burden our foreign trade: H.R. 11297 would have constituted a further oppressive burden on U.S. foreign trade. While H.R. 13103 goes far to avoid this evil, it still presents a threat to all U.S.-owned subsidiaries engaged in foreign trade, especially in the case of U.S. manufacturers exporting and selling their products abroad through such subsidiaries.

Such added burden is in no wise consistent with the purpose of affording incentives for foreign investment in the United States, nor with efforts to encourage export of U.S.-manufactured products.

We make no comments or recommendation herein regarding the possibly adverse effects of H.R. 13103 on foreign-owned foreign corporations. We are concerned here only with adverse effects on U.S. business and the U.S. economy.

Comments regarding specific ways in which this bill would impose added burdens on U.S. businesses engaged in foreign trade are given in statements filed with your committee by other organizations, including the American Bar Association's Section of Taxation and the American Institute of Certified Public Accountants' Committee on Federal Taxation.

Attention also is directed to study entitled: "Sleepers in New Foreign Tax Bill; Drastic Changes Require Immediate Planning," published in the February 1966 issue of the Journal of Taxation.

See also the attached reprint of article: "New Tax Threat for U.S. Exporters" in March 7 issue of Dun & Bradstreet's "Business Abroad," reprint of which is submitted herewith.

3. The radical new "effectively connected" theory is wrong in principle: The feature of H.R. 11297 which led to a storm of protest was the proposal to subject foreign corporations to U.S. tax on income earned by them outside the United States by applying new "effectively connected" theory. That theory seems to be that every foreign corporation should pay U.S. tax on income it earns anywhere in the world outside the United States, if such income is "effectively connected" with business activities in the United States.

The expression (even with its "clarification") is so vague that it would cause endless uncertainty, confusion, and disputes. This is one point on which all who have examined this bill and its predecessor agree. We believe that no amount of "legislative history" could adequately cure this defect.

Although H.R. 13103 has substantially modified the application of this "effectively connected" theory, it still pervades the bill, the phrase being repeated scores of times throughout the first 62 of its 74 pages. The exact meaning of this phrase defies definition.

4. Recommendation limitation of application of the "effectively connected" theory to exclude U.S. controlled corporations: If the purpose of this bill is to afford U.S. tax incentives to foreign invest-