

ing the paragraph which sets the rules for determining effective connection with the United States. Paragraph (4) of the amended section 864(c) creates an apparent contradiction to section 864(b)(2) dealing with the determination of whether or not a foreign corporation is engaged in trade or business in the United States. Under section 864(b)(2), a foreign corporation which is or would be a personal holding company, the principal business of which is trading in stocks and securities and which has its principal office in the United States, is not determined to be engaged in the conduct of a trade or business in the United States. However, section 864(c)(4)(B)(ii) apparently is in direct conflict with the former provision since it provides that income, gain or loss, from sources without the United States shall be treated as "effectively connected with the conduct of a trade or business within the United States," where the foreign corporation has an office within the United States and the principal business of the corporation is trading in stock or securities for its own account. This seems to be an obvious, unintentional result. Surely the committee cannot intend to catch foreign source income with this provision.

Furthermore, in section 864(c)(4)(B)(iii) the bill attempts to exclude a sale outside the United States by a foreign corporation from the concept of "effectively connected," only if the taxpayer can establish that a fixed place of business outside of the United States "participated materially" in the sale. No adequate definition of "material participation" is supplied.

Generally, the "effectively connected" concept is so uncertain that it could easily catch within its purview foreign source income of foreign corporations which are subsidiaries of U.S. companies.

Many years of litigation, Internal Revenue Service rulings, and usage and study have given the traditional source rules some relative certainty. We respectfully urge that the "effectively connected" concept be abandoned in its entirety and that any changes in the law be made through and by use of the traditional source rules as a basic and overriding concept.

Respectfully submitted.

COUDEBT BROTHERS.

INTERNATIONAL ECONOMIC POLICY ASSOCIATION,
Washington, D.C., March 4, 1966.

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

DEAR MR. CHAIRMAN: I wish to express the association's appreciation for your scheduling of a hearing on Monday, March 7, on H.R. 13103, the Foreign Investors' Tax Act of 1966, in response to the requests in which IEPA joined.

Our membership feels that the revisions made to limit the application of the concept of income, whether or not from sources from within the United States, "effectively connected" with the conduct of a trade or business within the United States, represent a substantial improvement over the corresponding provisions in H.R. 11297.

This "effectively connected" concept, as you know, is a novel one in that it provides for U.S. taxation of income which heretofore has been considered income from sources without the United States and not taxable by the United States. Our tax experts have feeling of uneasiness about the introduction of such a new concept without knowing where it will lead and how it will be interpreted. They feel, therefore, that it would be helpful and enlightening if the committee's report on H.R. 13103 would explain the tax philosophy and the specific purpose underlying the introduction of this novel concept into the law, and illustrate with examples the types of situations to which it is specifically applicable.

Sincerely yours,

N. R. DANIELIAN, *President.*

MACHINERY & ALLIED PRODUCTS INSTITUTE,
Washington, D.C., March 3, 1966.

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

DEAR MR. CHAIRMAN: The Machinery & Allied Products Institute is gratified by your announcement of a 1-day public hearing on Monday, March 7, on the proposed changes to H.R. 11297, the Foreign Investors Tax Act, as included in