H.R. 13103, a new and revised version of the earlier bill. It is our understanding that the hearing will be confined to a consideration of the new features of the proposed legislation. These include, of course, the revision of the "effectively connected" concept of taxing foreign source income devised during the committee's consideration of the original version of this legislation. H.R. 5916, as to which public hearings were held in the summer of 1965. Since the "effectively connected" concept was not included in H.R. 5916, the hearings last summer did not cover this subject. Accordingly, in its telegram of February 23, MAPI recommended further hearings addressed to this new concept.

Having considered the pertinent provisions relating to "effectively connected"—the language beginning at line 20, page 14, of H.R. 13103—the institute acknowledges that they appear to represent a considerable improvement over the corresponding provisions of H.R. 11297.

Despite this improvement, we are opposed to what appears to us to be the underlying philosophy of the "effectively connected" concept to permit the imposition of U.S. taxation on income earned by a foreign corporation from foreign sources. We think that such taxation by the United States is unsound as a matter of both theory and practical application. For many years, this country has followed the fundamental principle of restricting U.S. taxation on income of foreign corporations to that earned from U.S. sources. We recognize that this principle has been violated by the enactment of subpart F of the Internal Revenue Code—the so-called tax haven provisions of the Revenue Act of 1962. However, even in that instance, adherence to at least the theory was followed because the U.S. tax is imposed not under the foreign corporation directly but on its American parent.

It may be that the Treasury feels that certain income earned by foreign corporations should rightly be considered to be attributable to activities in the United States. If this is the case, the problem should be addressed squarely by proposed amendments to those sections of the code relating to source-of-income determination. Thus, this committee, the Senate Finance Committee, and the Congress as a whole, after appropriate deliberation and public hearings, would be afforded an opportunity to consider this problem directly and to approve or disapprove such proposals on their merits. That course of action seems to u the way to cope with the problem—if, indeed, there is a problem—as opposed to what is being proposed here—a limited nonrecognition of the foreign source character of the income on the ground that it is "effectively connected" with the United States. The indirect approach suggested by Treasury—in connection with a bill the principal purpose of which is to encourage foreign investment in the United States—is, we submit, clearly not the best way to deal with this point.

Nevertheless, we deeply appreciate the committee's efforts to improve these provisions and its willingness to get public reaction on this subject by scheduling next Monday's hearings, despite a heavy committee work schedule.

Respectfully,

CHARLES W. STEWART,
President.

MANUFACTURING CHEMISTS' ASSOCIATION, INC.,
Washington, D.C., March 7, 1966.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, Longworth House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to the press release of February 24, announcing the decision of your committee to conduct a public hearing on Monday, March 7, 1966, on the new features of the revised version of H.R. 11297. On February 28, you introduced H.R. 13103, the printed text of the revised version. This letter embodies the views of the Manufacturing Chemists' Association on these new features for inclusion in the printed record of the hearing.

This association wishes to commend the action of your committee in substantially revising and narrowing the coverage of the provisions which set forth the new concept of taxing foreign corporations on income which is "effectively connected" with the conduct of their trades or businesses in the United States. In particular, we are relieved that all income which is "subpart F income" within the meaning of section 952(a) is specifically excluded. As indicated in our letter of February 23, we were seriously concerned with the broad implications of the new concept in H.R. 11297.