

Although the new provisions are much narrower in scope, this association continues to be opposed to the "new features" contained in H.R. 13103 which embody the concept of "effectively connected." This policy of taxing foreign corporations engaged in trade or business more extensively in the future than has been the case for past years is inconsistent with the broad objectives of the Fowler task force which were to remove tax barriers to foreign investment.

With this knowledge as to the broad purpose of the administration in this area, U.S. corporate taxpayers find it hard to understand why a new and novel concept has been adopted in connection with this project which would impose upon U.S.-controlled foreign corporations additional areas of taxable income despite a thorough consideration of this entire subject just a short time ago in 1961 and 1962. The language in H.R. 13103 setting forth the conditions under which income is to be treated as "effectively connected" with the conduct of a trade or business is new and complicated. The net effect of it is to override, in the particular situations covered, the old established principle of taxing foreign corporations engaged in business in the United States only on their U.S. income determined under the traditional source rules.

We believe that this new concept should be deleted from the bill because it is impossible at this time to determine its significance and, also, because it is not necessary to the purposes for which this bill was initiated by the Treasury.

Sincerely,

G. H. DECKER, *President.*

NATIONAL ASSOCIATION OF MANUFACTURERS,
New York, N.Y., March 4, 1966.

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

MY DEAR MR. CHAIRMAN: Our subcommittee has met this morning to consider the revisions of H.R. 11297 which are now incorporated in H.R. 13103. These were explained in your release of February 24. We think the new bill is a great improvement over the former, and we applaud the quick reaction of the Ways and Means Committee to the concern which business spokesmen have expressed.

As you know, our concern is focused largely on the "effectively connected income" test. The revision excludes subpart F income. We urge that this exclusion be expanded to encompass all foreign source income of controlled foreign corporations.

One reason suggested for objecting to this approach has been that two foreign corporations doing business in the same manner might appear to be taxed differently; that is, one that is completely foreign owned and one which has the appropriate U.S. "persons" as shareholders. But since such corporations are already effectively taxed differently, this would not be a valid objection.

Other objections to this approach include areas which properly can be and are controlled by the application of section 482.

These comments are addressed only to the refinements in this legislation as you requested. Our statement would not be complete, however, without observing that unless this new concept of "effectively connected income" is carefully drawn and applied, it invites a host of questions and uncertainties in the application of existing U.S. source rules. Our understanding is that it is not the intention that H.R. 13103 would change these rules, and perhaps a clear statement to this effect in the report of the Ways and Means Committee would prevent any subsequent misconstruction. These rules are of long standing, and are generally understood. Any proposal which would change them should be subjected to the most careful public consideration before enactment.

We respectfully ask that this letter be made a part of the record of your committee's hearings.

Sincerely,

DONALD H. GLEASON,
*Chairman, Subcommittee on International Taxation,
NAM Taxation Committee.*