

SOCONY MOBIL OIL Co., INC.,
New York, N.Y., March 4, 1966.

Re Foreign Investors Tax Act.

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

DEAR MR. CHAIRMAN: On January 28, 1966, I wrote to you to express concern over certain provisions of the Foreign Investors Tax Act, H.R. 11297. I have since had the chance to review the refinements in this proposal which are contained in the new bill, H.R. 13103. In accordance with your request, I will confine my comments here to those refinements.

The changes which were made with regard to the "effectively connected" principle represent a substantial improvement since it is now applicable to foreign source income only in those situations which are set out in the new bill. The exemption of subpart F income from the foreign source income taxable under this principle is likewise a substantial improvement, largely obviating the risk of unintended taxation of the foreign subsidiaries of U.S. corporations under H.R. 13103. It would be still better if the exemption provided that the subpart F income exclusions and exceptions contained in section 954 should not apply for purpose of determining the foreign source income exempt from the "effectively connected principle". Since Congress intended these subpart F exclusions and exceptions to be of benefit to the taxpayer, it would be well to be sure that they would not operate under this new bill to impose additional taxes.

While the criteria for income which is "effectively connected" are still somewhat unclear, this is no longer so important because the scope of the "effectively connected" principle has been reduced. However, in order to attract the maximum investment by foreign persons engaged in trade or business here, your committee reports should endeavor to make clear under what circumstances U.S. investments by such persons will not be considered to be "effectively connected". Otherwise, uncertainty may prevent such persons from making the kind of U.S. investments which the Fowler task force was so anxious to encourage.

Some improvement has been made in the provisions relating to taxation of bank deposits. I personally still feel that the further amendments recommended in my letter to you would also tend toward improving the U.S. balance of payments. However, I realize that you must balance various considerations in determining how far you should go in attempting to encourage or retain investment by foreign persons in the United States. The cooperation of your committee and staff, and of Treasury staff, in meeting taxpayers' major objections to H.R. 11297 is greatly appreciated.

Respectfully yours,

GEORGE F. JAMES,
Senior Vice President.

MARCH 3, 1966.

Re Foreign Investors Tax Act of 1966, H.R. 13103.

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

DEAR MR. CHAIRMAN: The undersigned, who appeared at the public hearings on H.R. 5916, are gratified that section 2(a)(1)(B) of the present bill gives life insurance companies the same exemption as that granted to banks and savings and loan associations on interest payments made on funds held on deposit under a contract to pay interest. For the reasons we have already stated to your committee, we believe that the extension of the interest exemption to life insurance companies can only further the avowed purposes of the bill.

We must record, however, our strong opposition to the provision of section 2(a)(1)(B) of the present bill which would cut off all such interest exemptions on December 31, 1971. We believe that all of the reasons previously advanced in support of the interest exemption argue for its indefinite continuance. The effect upon the maintenance here and the future inflow of such foreign deposits, position by forcing the withdrawal from this country of deposits held by non-resident aliens and foreign corporations not doing business here, and effectively preventing future deposits from such sources. In this connection we fully en-