

of income which can be taxed to that which the activities would have earned if carried on by an independent corporation. The bill does not conform to these rules.

5. *Effect on Controlled Foreign Corporations.* — Congress in 1962 reviewed the “tax haven” possibilities of U.S.-controlled foreign corporations and enacted subpart F of the Code, prescribing the types of income of such corporations which should be taxed immediately and deferring taxation of other classes of income until remitted to the shareholders. The bill would impose immediate U.S. tax on income as to which the policy of subpart F was to continue deferment. It is believed that consistency with the policy of subpart F should be maintained by making the new provisions inapplicable to income of controlled foreign corporations which were excluded from subpart F.

6. *Income of Banking and Similar Corporations.* — The bill exempts dividends and interest from foreign sources, received by a foreign corporation from corporations in which it has a 50% stock interest. It is suggested that a 10% stock ownership requirement would be more appropriate.

7. *Sales to Foreign Customers.* — The bill would not tax income from sales for use, consumption, or disposition outside of the U.S., even though the income would otherwise be “effectively connected” with a U.S. office, “if an office or other place of business of the taxpayer outside the U.S. participated materially in such sale.” The Council is concerned that this language will not be construed to give proper recognition to foreign activities other than selling—for example, manufacture, extraction, or production of goods and purchasing and related activities.

8. *Sales to Foreign Customers of U.S. Exports.* — It is not believed that the U.S. should seek to tax any income of foreign corporations from sales outside the U.S. to foreign customers of goods purchased in the U.S., nor to tax more than the profit attributable to manufacture or production on such foreign sales of goods manufactured or produced here. Such taxation would run counter to our national policy of encouraging exports.

9. *Sales to U.S. Customers.* — In the case of foreign source income from sales to U.S. customers, it should be made clear that the income deemed to be “effectively connected” with a U.S. office will not exceed that which would be allocable to that office if its activities had been carried on by a separate subsidiary of the foreign corporation.

10. *Foreign Sales with No Foreign Office.* — Where a foreign corporation has substantial foreign economic activities outside the U.S. but no office outside the U.S., the foreign source income deemed to be “effectively connected” with its U.S. office should be limited as suggested in paragraph 9 above.

11. *Credit for Foreign Income Taxes.* — Foreign corporations would suffer serious double taxation with respect to income “effectively con-