

increaseⁱⁿ the United States revenues. It would simply cause the United States economy and balance of payments to lose the benefit of the employment and expenditures of United States offices of foreign corporations.

It is therefore apparent that, although H.R. 13103 uses the same "tax haven" label as a subpart F, its real thrust is in the opposite direction, i.e., to discourage foreign corporations from conducting activities within the United States rather than to discourage U.S. taxpayers from conducting activities in foreign countries.

The foreign corporations that would be affected by H.R. 13103 are not used to siphon off capital or employment from the United States. On the contrary, the use by such corporations of a U.S. office tends to augment both capital and employment in the United States.

Purpose of Taxing "Income Generated from U.S. Business Activities"

On first impression it seems difficult to disagree with the statement that there should be a U.S. tax on the "income generated from U.S. business activities" conducted through an office located within the United States. However, on analysis, it will be seen that the real issue is as to what income is "generated" from U.S. activities.

The bill as drafted would change the United States method of taxation of the income of foreign corporations from one which meshes well into the established international system which has been developed in the income tax laws of the principal trading nations into one which would conflict with that system and create unwarranted double taxation. It would detract from the degree of international harmony which now exists as to rules of source of income and provisions for foreign tax credits.

Under existing tax systems, including the U.S. system, income of the types affected by the bill is generally treated as entirely taxable by a single country which is regarded as the source of the income. A country other than the country of source does not seek to tax a portion of the income simply because that portion might be regarded as "generated" by activities within its borders. General recognition of this principle is necessary to avert the double taxation that results from conflict between the laws of different countries.

The income tax laws of most countries apply to income attributable to local manufacture and production of commodities. Income from selling is usually attributed by existing tax systems entirely to a single country, i.e., the place of title passage or the place of contract. Income from licensing intangibles is generally considered to have its source in the country where the right is exercised or, under recent treaties, the domicile of the owner. Similarly, dividend or interest income is generally attributed to the situs of the payor or the source of the payor's income, except for some treaties which attribute it to the domicile of the owner of the shares of stock or the debt claim.