There are many reasons why governments should abstain from basing income taxes on incidental and ancillary activities occurring within their borders. For example, this policy prevents the taxation of a portion of income derived from foreign selling of goods which are purchased in the country, even though, from the "activity" point of view, the purchasing side of the business may be more substantial than the selling side of the business in terms of assets, personnel and skills devoted to it. Most governments understand that it would not be in their own interest to attempt to levy income taxes which would burden the purchase of their products. As to local offices in charge of other ancillary activities such as warehousing, transportation, and technical assistance to suppliers in the country, and even offices for solicitation and negotiation of sales, governments generally understand that such offices could readily be removed, if threatened with the burden of a tax on the income from sales. This is also true as to local offices engaged in the licensing of patents and other intangibles.

It is still in the self-interest of the United States to adhere to the generally recognized principle of not trying to derive revenue from offices and activities which are likely to be driven away rather than to pay tax.

In addition, in the case of income from the licensing of such intangibles, the bill is particularly unrealistic in attributing the income to the activity of negotiating and concluding license contracts rather than to the ownership of the intangible or its actual use in operations,

Substantial double taxation would also result from the imposition of the proposed tax by the United States on foreign source income "effectively connected" with a U.S. office. The situation would be chaotic if other countries also adopted a similar rule, unless entirely new apportionment formulas were consistently applied by all countries. It seems unlikely that international tax consistency could be re-established until after years of international negotiations, if ever.

As a generally accepted international rule, an "activities" test could work satisfactorily only as a *substitute* for existing source rules. In the case of the United States, the bill does not propose such substitution. It uses the "activities" test to impose U.S. tax on income which is not now taxable under the existing source rules, but it does not permit the "activities" test to excuse from U.S. tax any U.S.-source income "effectively connected" with a foreign office.

Moreover, the bill would thus tax a foreign corporation on U.S. source income generated by foreign business activities without, in most cases, giving a credit against the U.S. tax for the foreign tax on such U.S. source income.

The bill also ignores the corollary of its stated purpose, i.e., that a foreign country would then be entitled to tax a U.S. domestic corporation on its U.S. source income "effectively connected" with an office located within the foreign country. The bill ignores this situation since it fails to