loopholes in foreign tax laws, or (2) by the idea that all income should be fragmented into as many pieces as there are countries in which some "activities" are performed. Much less does it seem a tenable position that the United States alone is entitled to apply these ideas, the universal application of which could only result in years of conflict between the tax systems of the nations of the world.

Effect on Controlled Foreign Corporations

The new provisions of H.R. 13103 would be particularly objectionable in their application to foreign corporations controlled by U.S. persons.

In enacting the Revenue Act of 1962, the Congress conducted an extensive review of the "tax haven" possibilities of such controlled foreign corporations. Subpart F of the 1962 Act reflects the decision of Congress to tax certain types of income immediately and to allow the taxation of certain other classes of income to be deferred until such income is remitted to the shareholders. It would appear that the exclusion of all income of controlled foreign corporations would be appropriate since Congress has carefully prescribed just what income of such controlled foreign corporations should be currently taxed.

It should also be noted that various classes of income are excluded from immediate taxation under subpart F, including:

1) Dividends, interest and gains realized by a corporation engaged in a banking, financing or similar business:
2) Dividends, interest and gains from qualified investments in less developed countries:
3) Income which would otherwise be subpart F income but which constitutes less than 30% of the foreign corporation's gross income:
4) Income of a foreign corporation not availed of to reduce taxes:
5) Royalty income derived in the active conduct of a trade or business which is received from unrelated persons.

H.R. 13103 would in some cases impose an immediate U.S. tax on the above classes of income and thus appears inconsistent with the policies excluding those classes of income under subpart F. The Council believes that consistency with those policies would require a similar exemption of such classes of income from tax under H.R. 13103.

The exclusion of such classes of income of controlled foreign corporations from coverage under the bill would not be a discrimination in favor of U.S. controlled corporations because such exclusion would only mitigate the existing discrimination against U.S. controlled foreign corporations created by subpart F.

Income of Banking and Similar Corporations

The provisions of H.R. 13103 for taxing dividends and interest received