

a. *Equitable Considerations*

It would be highly inequitable for the United States—solely because the selling activities of the single employee stationed at the Seattle office—to attempt to tax the entire profit of the Philippine corporation from sales to U.S. customers. Such taxation would be unfair because it would ignore the much larger volume of activities and assets having their situs in the Philippines.

The case of the Philippine corporation is very different from the type of case to which the existing Regulation is addressed. The latter may be illustrated by an English corporation operating a retail shoe store in New York where it sells shoes purchased from suppliers in England. Here title to the shoes necessarily passes to U.S. customers within the United States, causing the entire profit from their sale to be taxable by the United States. This result is reasonable because the English corporation's business is substantially similar to that of a U.S. domestic corporation selling shoes from an inventory maintained within the United States.

This type of business is very different, however, from the type of business to which H.R. 13103 is directed. Thus, the nature of the Philippine corporation's business does not require it to land and warehouse its goods within the United States. Accordingly, the fact that title to the goods passes to the U.S. customer when the goods are shipped from Manila (rather than when they arrive in Seattle) is no mere technicality. On the contrary, this fact flows from the nature of the business of the Philippine corporation: that its economic "center of gravity" is in the Philippines rather than in the United States. There is, therefore, no valid reason for the United States to tax the Philippine corporation *as if* it had been required by business exigencies to defer passing title to the goods until their arrival in Seattle.

b. *Objective of Ways and Means Committee*

U.S. taxation of the entire profit of the foreign corporation would also conflict with the stated objective of the Ways and Means Committee to tax "income generated by U.S. business activities." Clearly, the aim of taxing "income generated by U.S. business activities" does not justify the taxation of profit from other activities performed by a foreign corporation outside the United States.

As previously noted, the Report of the Ways and Means Committee is explicit "that the sales income attributable to a U.S. business will not include income attributable to manufacturing *or any other activities* (apart from sales) occurring outside the United States." (Emphasis added). This intention is stated even more emphatically at P. 64:

"... if only a part of the income, gain, or loss from a transaction, or series of transactions, is properly considered attributable to such