

861 (a) (2) (B) since this section would treat dividends from such a foreign corporation as being U.S. source income. Therefore, the section 904 limitation on the foreign tax credit would prevent any available foreign tax credits from being used to reduce the U.S. income tax payable on the dividends. Under existing law, the parent's U.S. income tax on dividends from such a foreign corporation could be offset by available foreign tax credits. It is submitted that to the extent that 15% of such dividends would be subject to the U.S. income taxation under the bill, this would constitute double taxation.

It seems inconsistent with the purpose for which the changes regarding foreign source income which might be "effectively connected" were made to have this result. That is, such changes were intended to prevent tax avoidance by foreign corporations. The effect of this "upstream dividend tax" is to impose an additional tax on U.S. shareholders. The Committee Report submitted by the Committee on Ways and Means does not specifically recognize the possibility of creating an additional tax on U.S. shareholder corporations. It is hoped, therefore, that this is an unintended effect which the Senate will correct.