

eign source income is considered to be effectively connected in a U.S. trade or business. It is that particular clause that we are concerned about on this second issue which would attract foreign source income to U.S. tax.

In the other case, on the U.S. Government obligations, it is also the "effectively connected" concept which creates the problem. Under present law, this income, U.S. source income, earned in Puerto, is taxed in the United States at the regular corporate rates with a deduction for all the related expenses.

It is the "effectively connected" concept that affects that item a little more pointedly than the other issue that we have, but it affects both.

Senator DIRKSEN. The Treasury has worked with that phrase—

Mr. KALISH. Yes.

Senator DIRKSEN. At least, so they said the other day.

Mr. KALISH. Yes.

Senator DIRKSEN. I made a point that I thought in the bill itself there ought to be a more adequate definition so that you do not leave it to a whole range of interpretations and never know quite where you are because different people will interpret that in different ways.

So if there were a clear definition set out in the statute itself, you would know pretty well where you stand?

Mr. KALISH. Right. Except, of course, the "effectively connected" concept is really a subjective concept which is very, very difficult to define to cover all situations, unfortunately. It does not really—if it set an objective standard that would be a lot more helpful, I would say.

Senator DIRKSEN. Well, they discovered exactly that effect by now.

Mr. KALISH. Yes. Thank you.

Senator DIRKSEN. That is all.

Senator ANDERSON. The members of the committee received a statement from the Bank of Puerto Rico. Was your statement largely drawn from this?

Mr. KALISH. Banco Popular de Puerto Rico?

Senator ANDERSON. Yes.

Mr. KALISH. Actually, we submitted—I will speak for myself, I and for Mr. Burke—we submitted three statements to each of the Senators and yourself, Senator Anderson, one on Banco Popular de Puerto Rico; another one on Hongkong & Shanghai Banking Corporation, and another one on Barclay's Bank, which should be coming in if you have not received it already.

Mr. Burke of Burke & Burke has submitted a statement for the Banco de Ponce, and on the Bank of China, and I have stated here basically what our feelings are and our reasons for believing that not only the Puerto Rican banks, but the foreign agency banks, that the bill should be corrected so as to relieve the one on taxation on U.S. Government obligations at a flat 30 percent rate, and the other not to tax foreign source income to the domestic operations of the foreign agency banks as a whole.

Senator ANDERSON. I wanted to know if you desired to have these placed in full in the record?