corporations are not so treated appears to be purely discriminatory, and the inequity of this treatment is more evident when it is considered that there are a number of other provisions of the existing Internal Revenue Code which already discriminate to a substantial extent against such banks, e.g.: the provisions of Sec. 582(c) of the Code under which domestic banks are allowed to treat losses on the sale of bonds and other government and corporate obligations as ordinary losses fully deductible from ordinary income while foreign banks having agencies or branches in the United States are not; the similar provisions of Code Sec. 582(a) dealing with losses due to worthless securities; the disallowance of the right to deduct additions to a reserve for bad debts under Rev. Rul. 65–92 1965–1, C.B., 112, and the right to deduct interest and other expense notwithstanding the investment of the bank's funds in tax exempt state and municipal bonds whereas under Sec. 882(c)(2) of the Code and the applicable regulations, foreign banks may deduct only expenses attributable to the earning of *taxable* income from sources within the United States.

It is therefore respectfully submitted that in furtherance of the stated purposes of the Bill and to avoid its present harsh and discriminatory operation in the case of the foreign banks with branches or agencies in the United States, the Bill should be changed so as to permit such banks to treat all interest and dividend income derived from sources within the United States as effectively connected with its U.S. trade or business and to eliminate banks from the operation of the provisions of Sec. 864(c)(4)(b)(ii). These changes can readily be accomplished in various ways. For example, Sec. 864(c) of the Code, as added by Sec. 2(d) of the Bill might be revised (1) by adding at the end of Code Sec. 64(c)(2) the following sentence:

"This paragraph shall not apply to any income derived from sources within he United States in the active conduct of a banking business by a foreign cor- oration having one or more branches or agencies in the United States which are ubject by law to supervision and examination by State, Territorial or Federal uthority having supervision over banking institutions."

nd (2) by deleting the word "banking" from Clause (ii) of Code Sec. 64(c)(4)(B).

As an alternative to the foregoing proposed revision of Sec. 864(c)(2), the ame result might be accomplished by adding to Sec. 882 as amended by the Will new subsection (e) allowing to foreign banks having branches or agencies in he United States the same option to elect to have *all* their income of the types pecified in Sec. 864(c)(2) treated as effectively connected with the conduct of heir U.S. business as that granted in the case of real estate income under subection (d) of Sec. 882 as added by the Bill.

TATEMENT OF ROBERT BEAUMONT, AGENT-IN-CHARGE, THE HONGKONG AND SHANGHAI BANKING CORPORATION

The Hongkong and Shanghai Banking Corporation, organized under the laws f Hong Kong, is engaged in the commercial banking business. In addition to its lead Office located in Hong Kong, and branches in the Far East, it maintains an gency located at 80 Pine Street, New York City which is licensed to do business n New York State, and one at 180 Sansome Street, San Francisco which is icensed to do business in California. The vast majority of stock in the corporaion is owned by foreign nationals, and under chapter 70 of the laws of Hong Kong no single shareholder can own more than approximately 3% of the issued nd outstanding capital stock. Its banking business in the U.S.A. consists of ervicing export and import operations, providing the necessary financing thereof, nd offering many of the general banking services of a domestic bank.

Under the tax rules presently in effect, the bank is taxable in much the same nanner as a domestic corporation since it is engaged in trade or business in the Jnited States. However, under Section 882 of the 1954 Internal Revenue Code as amended, it is only taxable on its gross income from sources within the United States, less the applicable deductions. Interest received from securities issued by foreign governments is treated as income from sources without the United States under Section 861(a)(1) and 862(a)(1) of the Code regardless of whether or not such interest is received by the New York Agency or a foreign office of the bank. Thus, for example, if this banking corporation purchases bonds issued by the Government of Australia, the interest earned thereon is not taxed by the United States.