other matters not ordinarily reflected in branch books. Under that interpretation, it would seem necessary for foreign corporations to maintain records of office "activities" for each separate transaction of sale, lease, license, loan, etc., or run the risk of being taxed on worldwide income in these categories. This novel record keeping could prove exceedingly burdensome for such corporations, even though little or no tax is involved.

Another difficulty is the problem of double taxation, which arises from the fact that the foreign-source income proposed to be subjected to U.S. taxation would often be taxed by the country of source or by the country of incorporation. The Bill would limit the type of foreign tax for which a tax credit, or a deduction, would be permitted. Our Committee recommends that this limit on use of the credit be removed (see pp. 86–9).

The creation of these practical problems and burdens might compel foreign corporations either to alter, or eliminate, their present office arrangements in the United States (see pp. 30–3). Our Committee questions whether this is the intended result and, if so, whether it has real policy advantages for the United States.

D. SALE OF GOODS

This important category is considered first in regard to foreign-to-foreign sales (pp. 35–43) and next in regard to export and import sales (pp. 43–66).

In the case of foreign-to-foreign sales, the Bill is not clear as to whether the proposed new tax is intended to apply where a foreign office or other foreign fixed place of business has "participated materially" either by producing the goods abroad or by performing abroad other substantial economic activities essential to the foreign-to-foreign sale. Our Committee recommends that in both instances the Bill be clarified to confirm that there would be no U.S. tax, since the economic "center of gravity" is located abroad. (A suggested draft amendment is set forth at pages 42–3.)

In the case of export and import sales, the proposals in the Bill would interlace in complex fashion with existing law (see the Tables at pp. 45–6). Our Committee recognizes that any recommendations in this area must be premised on the larger policies which Congress seeks to pursue in regard to U.S. export and import trade. Should such trade be burdened by new taxes and, if so, to what extent? Does uniform application of the new rules require that their enactment be deferred until conflicting tax treaties have been revised?

Assuming that immediate enactment is considered advisable, however, our Committee strongly urges a number of major changes to mitigate difficult problems of proof, avoid serious inequities and anomalies, and simplify administration. These recommendations are set forth in detail at pages 64–66.

E. BANKING AND FINANCE INCOME

Foreign banks perform important functions in the United States, utilizing branches, agencies, representatives and correspondents (see pp. 68–70). The proposed tax on banking and financing income "attributable" to a U.S. office is ambiguous in its application to foreign banking operations in the United States. As a result of the close intertwining of foreign and U.S. banking arrangements, the Bill may deter foreign banking activities that are essential to our domestic economy (see pp. 71–7). It also raises problems as to foreign banks held by domestic Edge Act subsidiaries of domestic banks (see pp. 77–9).

Our Committee believes that the proposed new rules have not received adequate study and should not be enacted in their present form. If they are to be enacted, our Committee urges that an exception be made where a foreign banking office materially participated in the transaction; suggestions are also made for simplifying the determination as to such material participation by a foreign office (see pp. 79–80).

F. ROYALTIES FROM PATENTS AND OTHER INTANGIBLES

It appears that the proposed tax would turn on whether negotiation of the license took place in the United States, with no allocation for the economic values represented by the development, acquisition, ownership and management of the licensed property (see pp. 82, 84). In our Committee's view this rule—if we understand it correctly—would produce unwarranted economic results because it would allocate to the United States far more royalty income than was actually "generated" here. Our Committee believes that in no event should the U.S. tax consequences of a business transaction performed by a U.S. branch of a foreign