like to carry a pad in their pockets to try to keep up with everything they spend on entertainment. So there had been accepted in years gone by the so-called Cohan rule permitting a taxpayer to estimate what he was paying out, and as long as he could appear to substantiate the estimate on a reasonable basis, the Internal Revenue Service would accept that. But there were a lot of people cheating on this, so the Treasury then said, "We want everybody to itemize it."

So what we came up with, to save any deduction at all for very legitimate expenses, was a proposition where each taxpayer would be expected to carry around a notebook and pad to note down who he entertained, where he entertained, what was the business relationship, and whether he entertained in a situation where there was music entertainment or whether he entertained in a situation where there was no music, no entertainment, where the discussion of business would be more appropriate. Of course, you would have to take each one of those items and analyze each one of them individually to decide whether each one was deductible, and that is a simple version of the kind of problem you are posing here applied to individual transactions.

Mr. HENDERSON. That is right, Senator. There are some areas in the tax law where, you know, additional complications have to be put in from time to time to produce fairness or proper tax revenue, and so on. It is not easy to have a completely simple code, but it is important that we not add complicating provisions that we do not really need. And we feel that because of the practical and policy questions raised by these provisions that we have just been discussing, that they should be considered very carefully by your committee before any action is taken.

I won't go into any more detail on our report. The detail is there, but I think what I have said, and what the detailed analysis in the report contains, indicate that there are very important questions raised by this portion of the bill—the portion which would impose a new tax on the so-called "effectively connected" foreign source income of foreign corporations—regarding its standing under the general policy objectives which Secretary Fowler has stated for the bill as a whole.

First, for example, this provision would not seem to create an additional simplification of the tax on foreigners. This is the point we have just discussed. Rather it would make such taxation more complex and burdensome.

There are other provisions of the bill which would, of course, simplify the tax treatment of foreigners, and this is an important goal because it does encourage foreign investment in a country if the tax rules applied to foreigners are simple and easy to understand.

Second, the new provision would not seem to create a more rational or equitable treatment for foreigners, either. Rather, the provision would apply in inconsistent and discriminatory ways.

Third, it would not seem to eliminate barriers to investment in the United States and to encourage new foreign investment and business activities here. Rather it would seem to impose a new barrier and to discourage new and even existing foreign investment and business activities in the United States. Thus, this provision would seem to have a harmful rather than a helpful effect on our balance-of-payments position.