method of taxation which present law provides for regulated investment companies. The effect would be to exclude from the corporate tax all but a small margin of retained earnings of real-estate trusts.

While the bill assumes a similarity between trusts and regulated investment companies, there are important differences between the two situations. The income of regulated investment companies is generally derived from the securities of corporations which are fully subject to the corporate income tax. In the case of regulated investment companies, therefore, the conduit treatment merely avoids an additional level of corporate taxation, which for dividends income consists of the tax on the portion of dividends remaining after the 95 percent intercorporate dividends deduction.

By contrast, the conduit treatment proposed for real-estate trusts would entirely remove the corporate income tax from much of the income originating in their real-estate operations. It is by no means clear how far a new provision of this sort might be applied. Though intended to be applicable only to a small number of trusts, it could, and might well become, available to many real-estate companies which were originally organized and have always carried on their activities as fully taxable corporations.

For these reasons, I am constrained to withhold my approval of the bill.

Dwight D. Eisenhower.

The White House, August 10, 1956.

TAXES, ROYALTIES ON PATENTS AND COPYRIGHTS

H. R. 7643. I am withholding my approval of H. R. 7643. "An act to amend the Internal Revenue Code of 1939 and the Internal Revenue Code of 1954 with respect to foreign tax credit for United Kingdom income tax paid with respect to royalties and other like amounts." This bill would extend to firms with a permanent establishment in the United Kingdom that receive royalties there a credit for the foreign tax paid on the income originating in the United Kingdom on the payer of the royalties. This provision would be retroactive to 1950.

Under the income tax convention with the United Kingdom royalties received by a United States licensor are not subject to tax in the United Kingdom if the recipient has no permanent establishment there. If it does have a permanent establishment, the royalty is subject to British taxation. The American recipient reports the net amount of royalties from British sources and receives no United States tax credit for the British tax paid. This treatment under United States law arises from two court decisions (Trico Products Corp. (46 BTA 346, affirmed 137 F. (2d) 424, cert. den. 323 U. S. 773), Irving Air Chute Co. Inc. (1 T. C. 886, affirmed 143 F. (2d) 256, cert. den. 323 U. S. 773).

The combined effect of the United States income tax law and the income tax convention with the United Kingdom is to produce a different combination of British and United States taxes on the royalties paid some American recipients than on others. However, the tax credit for royalties is the cause of this difference in treatment. It is caused by the provisions in the convention itself. The appropriate way to correct the situation would be modification of the convention. The Treasury Department is conducting discussions on the convention with the British and will add this problem to the agenda.

The present status of royalty payments from the United Kingdom to the United States has been well known to interested parties at least since the convention was adopted in 1945. Many arrangements between licensees and licensees who have reflected existing law and the burden of British tax may not rest on United States licensors in such cases. Consequently, to allow the British tax as a credit against the United States tax on a retroactive basis would give a windfall gain to some American licensors.

The proposed change would single out for special relief a small group of taxpayers whose need for relief has not been demonstrated. Tax relief should not be given in this way.

For these reasons, I am constrained to withhold my approval of the bill.

Dwight D. Eisenhower.

The White House, August 10, 1956.