

eign corporations doing business here be taxed at flat statutory or treaty withholding rates, no further U.S. tax should be imposed on such income. Therefore, in applying the proposed 80 percent test, such income of the foreign corporation, whether from U.S. or foreign sources, should be disregarded and the test applied only to the corporation's other income. Furthermore, if the 80 percent rule is met, the dividends of such corporations should be subject to tax only to the extent that such dividends are from U.S. source income other than income from stock investments in the United States.

Withholding requirements should conform to the incidence of tax, and therefore withholding should be required on dividends paid by foreign corporations doing business in the United States with 80 percent or more U.S. source income to the extent such dividends are from U.S. source income other than income from stock investments in the United States.

With the adoption of the revisions proposed in U.S. system of taxing nonresident aliens and foreign corporations, the regulations dealing with the accumulated earnings tax will be revised to eliminate the application of this tax to foreign corporations not doing business in the United States which are owned entirely by nonresident aliens. The accumulation of earnings by such corporations will not result in the avoidance of U.S. taxes. However, because of possible avoidance of the revised second dividend tax, the accumulated earnings tax will remain applicable to foreign corporations doing business here.

5. Estate tax and related matters: (a) Increase the \$2,000 exemption from tax to \$30,000 and substitute for regular U.S. estate tax rates a 5-10-15 percent rate schedule; (b) provide that bonds issued by domestic corporations or governmental units and held by nonresident aliens are property within the United States and therefore are subject to estate tax; and (c) provide that transfers of intangible property by a nonresident alien engaged in business in the United States are not subject to gift tax.

It is generally believed that high estate taxes on foreign investors are one of the most important deterrents in our tax laws to foreign investment in the United States. Our rates in many cases are higher than those of other countries and in these situations, despite tax conventions and statutory foreign estate tax credits, nonresidents who invest in the United States suffer an estate tax burden. Moreover, under present law a nonresident alien's estate must pay heavier estate taxes on its U.S. assets than would the estate of a U.S. citizen owning the same assets.

To mitigate this deterrent to investment and to rationalize the estate tax treatment of nonresident aliens, the exemption for estates of nonresident alien decedents should be increased from \$2,000 to \$30,000 and such estates should be subject to tax at the following rates:

If the taxable estate is not over \$100,000, the tax should be 5 percent of the taxable estate.

If the taxable estate is over \$100,000 but not over \$750,000, the tax shall be \$5,000, plus 10 percent of excess over \$100,000.

If the taxable estate is over \$750,000, the tax shall be \$70,000, plus 15 percent of excess over \$750,000.

The increase in exemption and reduced rates will bring U.S. effective estate tax rates on nonresident aliens to a level somewhat

higher than those imposed upon resident estates in Switzerland, Germany, France, and the Netherlands, for example, but substantially below those imposed on resident estates in the United Kingdom, Canada, and Italy. Thus U.S. investment from these latter countries bears no higher estate tax than local investment because of foreign tax credits or exemptions provided in such countries. The proposed tax treatment of the U.S. estates of nonresident aliens is similar to the treatment accorded the estates of nonresidents by Canada, whose rates on the estates of its citizens are comparable to our own. Where additional reductions are justified these may be made by treaty.

These changes should result in more appropriate estate tax treatment of nonresident aliens and thereby improve the climate for foreign investment in the United States. Particularly in the case of nonresident alien decedents who have only a small amount of U.S. property in their estates, present U.S. rates and the limited exemption provided result in an excessive effective rate of estate tax. The proposed changes correct this situation. The new rates will produce for nonresident aliens' estates an effective rate of tax on U.S. assets which in many cases is comparable to that applicable to U.S. citizens who may avail themselves of the \$60,000 exemption and marital deduction (which are not available to nonresident aliens).

The following figures show the effective rates for nonresident aliens under present law, and the effective rates produced by the proposed exemption and rates as compared to those applicable to the estates of U.S. citizens electing and not electing the marital deduction:

U.S. gross estate	Nonresident alien under present law	Nonresident alien under proposed law	U.S. citizen with marital deduction	U.S. citizen without marital deduction
\$60,000-----	12.5	2.0	-----	-----
100,000-----	17.3	3.0	-----	3.0
500,000-----	25.8	7.4	8.0	22.1
1,000,000-----	38.8	8.8	11.1	26.7
5,000,000-----	43.0	12.6	16.9	42.3

[P. 4263]

As part of this revision of the estate tax, the situs rule with respect to bonds should be changed. The present rule, very frequently modified by treaty, is that bonds have situs where they are physically located. This rule is illogical, permits tax avoidance, and is not a suitable way to determine whether bonds are subject to an estate tax as their location is one of their least significant characteristics for tax purposes. Other intangible debt obligations are presently treated as property within the United States if issued by or enforceable against a domestic corporation or resident of the United States. Accordingly, it is recommended that our law be amended to provide that bonds issued by domestic corporations or domestic governmental units and held by nonresident aliens are property within the United States and therefore subject to estate tax.

Furthermore, a present defect in the operation of the credit against the estate tax for State death taxes in the case of nonresident aliens should be corrected. Under present law the estate of a nonresident alien may receive the full credit