

Our recommendations for changes in taxation of foreign investors are intended to remove a number of elements in our tax structure which unnecessarily complicate and inhibit investment in U.S. corporate securities without generating material tax revenues. They are not intended to turn the United States into a tax haven, nor to drain funds from developing countries.

Basic Provisions in Internal Revenue Code for Taxation of Nonresident Alien Individuals and Foreign Corporations

Except as provided in tax treaties with certain countries, nonresident alien individuals not engaged in trade or business in the United States are taxed at a minimum of 30 percent on (a) dividends, interest, and other periodic income from U.S. sources, and (b) capital gains in the United States under the circumstances specified below. This 30-percent tax is applied against gross income and is withheld at the source, except in the case of taxable capital gains and other minor exceptions. If such gross income from U.S. sources in any year exceeds \$19,000,¹ nonresident alien individuals are required to compute the tax on their U.S. source net income at regular rates if this method of computation yields a higher total tax than the minimum 30 percent tax on gross income. Nonresident alien individuals engaged in trade or business within the United States are, in general, subject to tax on all their U.S. source income, including capital gains (whether or not derived from the conduct of such trade or business) on the same basis and at the same rates as U.S. citizens.

Nonresident alien individuals not engaged in trade or business in the United States are taxed, at rates specified above, on capital gains realized in the United States if they are (a) physically present in the United States for 90 days or more during a taxable year, or (b) physically present in the United States when the gain is realized.

The U.S. property of nonresident alien decedents (which by definition includes shares of U.S. corporations) is subject to U.S. estate tax at normal rates.

Foreign corporations engaged in trade or business in the United States are taxed on all of their U.S. source income, whether or not derived from the conduct of such trade or business, on the same basis and at the same rates as domestic corporations. Foreign corporations not engaged in trade or business within the United States are taxed at a flat rate of 30 percent on the gross amount of dividends, interest, and other periodic income received from U.S. sources, but are not taxed on capital gains.

In addition, any foreign corporation meeting the personal holding company tests is subject, with certain exceptions, to a

¹ \$21,200 in 1965 and thereafter.