

*Recommendation No. 32:*

Provide that a nonresident alien individual engaged in trade or business within the United States be taxed at regular rates only on income connected with such trade or business.

There is obvious justification for taxing nonresident alien individuals at regular rates on earnings from a trade or business conducted within the United States. However, the logic of extending such taxation to the investment income of foreign investors is open to question. This provision certainly deters foreign businessmen operating in the United States from becoming investors in the United States, and may also deter foreigners already investing in the United States from commencing a trade or business here.

The problem posed by the present system of taxation may be particularly acute in the case of foreign investors owning and operating real estate (or having it operated for them). Such investors are deemed engaged in a trade or business, even though the real estate activities may be more in the nature of an investment than a business. Real estate investors of this type are often large potential investors in securities. To the extent that an investor is engaged in one of these two activities, he is to a great degree precluded from engaging in the other.

We recognize the administrative complications the Internal Revenue Service would face in segregating a foreign investor's activities along the lines discussed above. But we believe that this is an important part of the package of recommendations for attracting additional foreign investment and that an attempt should be made to resolve these difficulties.

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*Recommendation No. 33:*

Amend the definition of personal holding companies appearing in the Internal Revenue Code so that foreign corporations owned entirely by nonresident alien individuals are excluded from the definition.

The penalty provisions of the personal holding company tax were designed to prevent the use of holding corporations as a device to