main subject to tax at regular U.S. rates on all income derived from U.S. sources. A similar rule would apply for estate tax purposes to the U.S. estates of expatriate citizens of the United States. Thus, the U.S. property owned by expatriates would be taxed at the estate tax rates applicable to our citizens (but without the $60,000 exemption, marital deduction, and other such provisions applicable to our citizens), in cases where the alien decedent's surrender of citizenship took place less than 10 years before the day of his death. The $30,000 exemption granted nonresident aliens would be allowed to expatriate citizens.

To prevent an expatriate from avoiding regular U.S. rates on his U.S. income by transferring his U.S. property to a foreign corporation, or disposing of it overseas, the recommended legislation treats profits from the sale or exchange of U.S. property by an expatriate as being U.S. source income. To preclude the use of a foreign corporation by an expatriate to hold his U.S. property and thus avoid U.S. estate taxes at regular U.S. rates, an expatriate is treated as owning his pro rata share of the U.S. property held by any foreign corporation in which he alone owns a 10-percent interest and which he, together with related parties, controls. Furthermore, the recommended legislation makes gifts by expatriates of intangibles situated in the U.S. subject to gift tax.

These provisions would be applicable only to expatriates who surrendered their citizenship after March 8, 1965, and would not apply if contravened by the provisions of a tax convention with a foreign country. Moreover, they would not be applicable if the expatriate can establish that the avoidance of U.S. tax was not a principal reason for his surrender of citizenship.

7. *Retaining treaty bargaining position.*—Provide that the President be given authority to eliminate with respect to a particular foreign country any liberalizing changes which have been enacted, if he finds that the country concerned has not acted to provide reciprocal concessions for our citizens after being requested to do so by the United States.

One difficulty which may arise from the liberalizing changes being proposed in U.S. tax law is that it may place the United States at a disadvantage in negotiating concessions for Americans abroad as respects foreign tax laws. Moreover, the failure to obtain concessions abroad may have an effect upon our revenues since the foreign income and estate tax credits we grant our citizens mean that the United States bears a large share of the burden of foreign taxation of U.S. citizens. To protect the bargaining power of the United States the President should, therefore, be authorized to reapply present law to the residents of any foreign country which he finds has not acted (when requested by the United States to do so, as in treaty negotiations) to provide for our citizens as respects their U.S. income or estates substantially the same benefits as those enjoyed by its citizens as a result of the proposed legislative changes. The provisions reapplied would be limited to the area or areas where our citizens were disadvantaged. Furthermore, the provisions reapplied could be partly mitigated, if that were desirable, by treaty with the other country.

It is essential, if we are to revise our system of taxing nonresident aliens as is being suggested, that this recommendation be adopted. Otherwise, we risk sacrificing the interests of our citizens subject to tax abroad and reducing our revenues in an effort to simplify the taxes imposed upon nonresident aliens.

8. *Quarterly payment of withheld taxes.*—Provide that withholding agents collecting taxes from amounts paid to nonresident aliens be required to remit such taxes on a quarterly basis.

Under the present system, withholding agents are required to remit taxes withheld on aliens during any calendar year on or before March 15 after the close of such year. This procedure varies considerably from that applicable to domestic income tax withheld from wages and employee and employer FICA taxes, where quarterly (in some cases monthly) payments are required.

Withholding on income derived by nonresident aliens should be brought more closely into line with the domestic income tax system. There is no reason to permit withholding agents to keep nonresident aliens' taxes for periods which may exceed a full year before being required to remit those taxes, when employers must remit taxes withheld on domestic wages at least quarterly. The Government loses the use of the revenue, which revenue in 1962 exceeded $80 million, for the entire year. Accordingly, section 1461 requiring the return and payment of taxes withheld on aliens by March 15 should be revised to eliminate this specific requirement. The Secretary or his delegate would then exercise the general authority granted him under sections 6011 and 6071 and require withholding agents to return and remit taxes withheld on income derived by nonresident aliens quarterly. However, no detailed quarterly return would be required.