estate tax, and no need to file an estate tax return. In those instances where the estate is larger, the effective rate would be sharply reduced and would be comparable to the effective rate of tax of a U.S. citizen who utilizes the $60,000 exemption and the marital deduction.

As to capital gains, the present system of taxing capital gains realized by foreigners has contributed to the view that investment in the United States is something which should be approached cautiously because of the possibility of inadvertently becoming subject to tax. The Internal Revenue Code now provides for a general exemption from capital gains tax for nonresident foreigners not doing business in the United States with two exceptions. First, the foreigner's gains are subject to U.S. capital gains tax if he is physically present in the United States when the gain is realized, and second, all gains during the year are taxable if he spends 90 days or more in the United States during that year.

The physical presence restriction can be easily avoided by the experienced foreign investor if he arranges to be outside the country when the gain is realized, but is a potential trap to the foreigner who is not aware of its existence. The bill would eliminate this restriction from the general capital gains exemption.

In addition, the bill would extend the 90-day period which a foreigner may spend here without being subject to capital gains tax to 183 days. This will make the provision more consistent with international standards governing the taxation of foreigners residing in a country for a substantial period. It will also minimize the possibility that a foreigner will be taxed on capital gains realized at the beginning of a taxable year if he later spends a substantial amount of time in the United States during that year.

As to graduated income tax rates at the present time, foreign individuals not doing business in the United States who derive more than $21,200 of investment income from U.S. sources are subject to regular U.S. income tax graduated rates on that income and are required to file returns. These requirements have produced little revenue, in part because we have eliminated graduated rate taxation of investment income in almost all of our treaties with the other industrialized countries and in part because of the ease with which this provision is avoided. Moreover, it has been indicated that graduated rate taxation and the accompanying return requirement may represent a substantial deterrent to foreign investment in the United States.

H.R. 5916 eliminates all progressive taxation of nonresident foreigners not doing business here and removes the requirement for filing returns in such cases. The liability of foreign investors deriving U.S. investment income would thus be limited to the tax withheld at the statutory 30-percent rate or the lower applicable treaty rate. The legislation would continue graduated rate taxation for foreigners who are doing business in the United States. These rules are consistent with the practices of most other industrialized countries.

The fourth recommendation has to do with segregation of investment and business income. Under present law, if a foreign individual is doing business in the United States he is subject to tax on all of his U.S. income, whether or not connected with his business operations, on the same basis in general as a U.S. citizen. H.R. 5916 would separate the business income of a foreign individual engaged in business here from his nonbusiness income, and would tax the nonbusiness