foreign corporation will not be deemed engaged in trade or business by reason of the mere ownership of real property, by reason of a strict net lease, or by reason of an agent's activity in connection with the selection of real estate investments in the United States.

35. The Department of State and the Treasury Department should take bilateral diplomatic action aimed at securing the step-by-step removal of remaining exchange controls on capital transactions between advanced capital-forming countries and the discontinuance or liberalization of special exchange markets or procedures for investment transactions.

36. The Department of State and the Treasury Department should encourage and support the enlargement of free world capital markets and urge countries with balance-of-payments surpluses to relax their capital issues control in order to permit an expanded volume of international lending.

37. The Department of State and the Treasury Department should request that the Organization of Economic Cooperation and Development (OECD) initiate a comprehensive review of the practices and regulations in member countries relating to investment portfolios of financial institutions.

38. The Department of State and the Treasury Department should, through appropriate international bodies, particularly the OECD, advocate the step-by-step relaxation of monetary, legal, institutional, and administrative restrictions on capital movements, together with other actions designed to increase the breadth and efficiency of free world capital markets.

39. The Department of State and the Treasury Department should urge the International Monetary Fund to encourage step-by-step elimination of capital controls. The Fund should be requested to prepare a study dealing with remaining capital controls and how their elimination can encourage stabilizing movements of long-term capital and thus contribute to balanced international payments.

Comparison of H.R. 5916 With Treatment Under Existing Treaties

1. Graduated rates applicable in certain instances

Under the existing statute (altered in many instances by treaty as noted below) a nonresident alien's U.S. source income is taxed at progressive income tax rates if he derives gross income of more than $21,200 from U.S. sources. An individual engaged in a trade or business in the United States is also taxed at progressive rates on his U.S. source income even if he derives less than $21,200 from U.S. sources.

Both the Fowler Task Force and the Treasury recommendations call for elimination of progressive taxation when a nonresident alien's U.S. source income exceeds $21,200. The Fowler Task Force recommended that a nonresident alien individual engaged in a trade or business within the United States be taxed at regular rates only on income connected with such trade or business. The Treasury proposal would tax investment income at the 30 percent statutory holding rate or the applicable treaty rate (whichever is less) rather than graduated rates. For purposes of determining the applicability of treaty rates to dividends and capital gain, the alien will be deemed not to have a permanent establishment in this country.

The following table indicates the treaty rates applicable to investment income under existing treaties with the countries listed. Although the chart is specifically addressed to withholding, the applicable tax rates are the same due to the necessity to withhold from nonresident aliens an amount equal to their tax liability.

It is to be noted that in most instances the favorable treaty rate applicable to investment income only applies where the nonresident alien does not have a permanent establishment in the United States. Under the Treasury recommendations granting the statutory or treaty rate (whichever is lesser) to the investment income of nonresident aliens engaged in a trade or business in the United States, the alien will be deemed not to have a permanent establishment in this country.