

SUMMARY OF RECOMMENDATIONS FOR REVISIONS GIVEN IN STATEMENTS TO THE COMMITTEE ON WAYS AND MEANS

Prepared by the staff of the Joint Committee on Internal Revenue Taxation

PART ONE. SUMMARY OF COMMENTS ON PRINCIPAL PROVISIONS OF THE BILL

I. Source rules

A. Section 2(a) of the bill.—Under present law, some interest paid by savings institutions to nonresident aliens is income from U.S. sources and is subject to tax. The bill would amend code section 861(a)(1) to provide that all such interest is not included in U.S. source income, so that it would not be taxable income to nonresident aliens.

Comments

American Life Insurance Co. and the United States Life Insurance Co. in the City of New York

A similar exemption should be provided by statute for the interest or earnings element paid to nonresident aliens under life insurance company contracts. This will improve the U.S. balance of payments, will increase the taxable income of U.S. life insurance companies and, finally and most important, will put nonresident alien investors in American life insurance in the same position as similar persons investing in U.S. savings institutions.

American Life Convention and Life Insurance Association of America

Strongly urges that similar exemption be provided for interest paid to nonresident aliens on life insurance.

United States Savings and Loan League

Strongly supports enactment of this provision.

Henry S. Conston, New York attorney

Exempt interest income from the gross income of nonresident aliens. Alternatively, treat interest on loans, proceeds of which are used exclusively outside the United States, as income from sources outside the United States.

B. Section 2(b) of the bill.—Under present law, a pro rata portion of dividend income from a foreign corporation is considered U.S. source income if more than 50 percent of the corporation's gross income is derived from U.S. sources. It is proposed to amend code section 861(a)(2)(B) to include in U.S. source income dividends from foreign corporations, but only if such corporations are engaged in trade or business within the United States. If more than 80 percent of the gross business income of such a corporation was U.S. source income, then a fraction (the gross business income of the corporation from U.S. sources divided by its gross income from all sources) of the dividend income from such corporation would be included in U.S.