

Under present law, if individuals are engaged in a trade or business in the United States or if their income exceeds \$21,200, they are taxed at the graduated rates (in the case of incomes above \$21,200, a flat rate applies under present law if it results in a larger tax).

10. *Treatment of capital gains of nonresident alien individuals.*—The bill provides for the taxation of the U.S. capital gains of a nonresident alien individual which are not effectively connected with a U.S. business only if the alien was in the United States for 183 days or more during a taxable year. The present rule taxed the U.S. capital gains of an alien who is not engaged in business in the United States if he was present in the United States for 90 days or more and, in any event, if the gains occurred during the alien's presence in the United States.

11. *Income from real property.*—The bill permits a foreigner to elect to treat income from U.S. real property as income which is effectively connected with the conduct of a trade or business in the United States (in cases in which this is not, in fact, true). This enables such a taxpayer to receive the benefits of the deductions connected with this income and to be taxable at the regular graduated rates on it.

12. *U.S. savings bond interest of residents of the Ryukyu Islands or the Pacific Trust Territories.*—The bill exempts from U.S. income tax interest derived by nonresident aliens from series E or H savings bonds if they were acquired while the alien was a resident of the Ryukyu Islands (includes Okinawa) or of the Trust Territory of the Pacific Islands.

13. *Income tax: Expatriation to avoid tax.*—The bill provides for imposition (for 5 years after loss of citizenship) of income tax at the regular graduated rates on the gross income (generally U.S. source income) of a citizen who has expatriated with one of his principal purposes being the avoidance of U.S. taxes. (However, the Government must establish the probability that the expatriate substantially reduced his income taxes.)

14. *Withholding of tax on nonresident aliens.*—The bill provides that withholding is not required with respect to income which is "effectively connected" with the conduct of a trade or business in the United States. It also permits the Treasury Department to exempt compensation for personal services from nonresident alien withholding (generally at 30 percent) and instead to require domestic wage withholding (14 percent) on such compensation.

15. *Liability for withheld tax.*—The bill provides, in effect, for the quarterly filing of returns and the quarterly remittance of the taxes withheld in the case of payments to foreigners, in the same manner as the code provides generally, instead of the present annual filing of returns and remittances of tax in these cases.

16. *Gain from disposition of certain depreciable real property.*—The bill removes, in the case of a foreigner, the limitation on the real estate depreciation "recapture" provision which presently limits the amount to be "recaptured" in an exchange of real property for the stock of a controlled corporation.

17. *Income tax on foreign corporations.*—The bill imposes the income tax at the regular corporate rates on the income of a foreign corporation which is "effectively connected" with the conduct of a trade or business in the United States and at a flat 30-percent rate (or applicable treaty rate) on the U.S. source income of such a corporation