

of foreign corporations, see, for example, present code section 883, should be taken into account in determining gross income for this purpose.

Section 4(f). Corporations subject to personal holding company tax

The proposed section 542(c) would change the present rule for excluding certain foreign corporations from classification as a personal holding company. Under the proposed rule indirect ownership by nonresident alien individuals through foreign estates, foreign trusts, foreign partnerships as well as through other foreign corporations would be taken into account. It is unclear why attribution through partnerships is limited to foreign partnerships. It is recommended that the word "foreign" immediately preceding "partnerships" be deleted.

Section 4(g). Foreign corporations carrying on insurance business in the United States

It is recommended that the title to proposed section 842 be changed by adding at the beginning thereof the words "Tax on." A corresponding change would be required in paragraph (2) of section 4(g) of the bill, which would amend the table of sections for part IV of subchapter L of chapter 1 of the code.

Estate and gift taxes

The task force recommended the elimination of the Federal estate tax on intangible property of nonresident alien decedents. It is widely believed that the estate tax is a significant deterrent to foreign investment in U.S. securities. Nonetheless, the Treasury decision in presenting H.R. 5916 to retain an estate tax with relatively large exemption (\$30,000) and with relatively low rates (a maximum of 15 percent and only 5 percent on the first taxable \$100,000) was probably warranted. The committee takes no position regarding the desirability, from the standpoint of encouraging U.S. investments, of the proposed maximum 25 percent rate instead of the 15 percent maximum rate proposed in H.R. 5916.

Section 8(b) would provide a new technical limitation on the credit for State death taxes. Though arguments can be made as to a limitation keyed to the kind of limitation that a domiciliary of the United States might have, in the context of a bill designed to reassure foreigners with respect to the low impact of death duties in this country, the introduction of any such limitation seems undesirable. In addition, the limitation may operate somewhat unevenly depending upon how many intangible assets the decedent had which were not assignable to any State of the United States.

Section 8(c) would amend section 2104 to make it clear that where a debt obligation of a U.S. obligor is owned by a nonresident alien, the obligation shall be treated as property within the United States no matter where it is located. However, it should also be made clear that a foreign obligation physically located in the United States will not be treated as property within the United States, a result which would be only a logical extension of the proposal with respect to U.S. obligations. The same comment can be made respecting section 9(b) which would amend section 2511(b) to set forth similar situs rules in the gift tax area.