

major portion of such investment income would arise from investments in the United States in connection with U.S. business. However, our companies have additional investments in the United States held in relation to liabilities arising from non-U.S. business. The income from these investments is not connected with U.S. business.

State insurance laws require foreign life insurance companies to maintain assets on deposit with approved trustees or State officials in the United States sufficient, at market value, to cover liabilities to U.S. policyholders and creditors. Only such deposited assets can be identified, by the company or others concerned, as being effectively connected with U.S. business. Furthermore, the operation of the minimum surplus requirement of section 819(b) insures, for income tax purposes, the adequacy of the amount of such deposited assets. Such assets are, of course, those reported in the aforementioned annual statement. We feel it is imperative, therefore, that there be a clear provision identifying income effectively connected as that reported in the annual statement of U.S. business. It seems only reasonable to us that such definite guidelines should be spelled out either in the law or regulations.

With income effectively connected clearly defined, as suggested in the foregoing, income from sources within the United States from investments in the United States not included in the annual statement of U.S. business, would fall automatically to be classified as income not connected and be taxable as provided in proposed section 881. With respect to this income not connected, our position taxwise would be the same as in the case of a foreign corporation not engaged in trade or business in the United States in receipt of similar income from sources within the United States.

*(b) Settlement of proposed section 881 tax*

Under proposed section 1442, the tax imposed by new section 881 would be collected by deduction and withholding at the source. Our companies will be in receipt of investment income as defined in new section 881, from sources within the United States arising from both deposited and nondeposited assets. The income from the former being effectively connected will not be subject to withholding. With respect to the latter, the income being not connected would normally be subject to withholding of tax at the source. Because of this situation, we foresee problems with respect to the application of withholding of tax at the source, and particularly so since not infrequently some issues of bonds and shares might be partly deposited and partly not deposited. Because of the volume involved, it would be complicated and costly for our companies to keep the payers of interest and dividends advised as to when withholding applied and when it did not.

To avoid these difficulties, we suggest that in the case of our companies and for others where a comparable problem existed, provision be made for settlement of the tax annually rather than by withholding. This could be done by means of a return filed annually in which such investment income as defined in new section 881 would be reported.

This could possibly be done by a provision in the statute, under which the Secretary of the Treasury would be given authority to vary