

Three copies of our draft are attached, and include the following material:

Section 819(a).—A new subsection suggested to define the effectively connected income to be taxed under part 1 of subchapter L. To avoid interpretative and administrative difficulties in future, as previously expressed, if at all possible it would be most desirable to include some provision on this point in the proposed bill. If this is not possible, we would hope that some provisions substantially as suggested would be included in the committee report and regulations.

Section 819(b)(3).—A new subparagraph dealing with the reduction of section 881 tax for the overlap referred to in our memorandum. Presumably, any provision on this point should be included in the bill itself, inasmuch as the 819(b)(1) adjustment was included in full detail in the 1959 act.

Section 819(b)(1) and (2) and section 819(c).—Minor changes intended only to make the language conform more closely to that used in the other sections of our draft.

Section 1442.—A new subsection (b) is suggested to permit exemption from withholding.

Section 842 and section 894.—Included as possibly suggesting some clarification of the intent of the sections of the proposed bill.

Please be assured that we very much appreciate the cooperation you have extended to us. If further information or discussion would be helpful to you in any way, we would be glad to have the opportunity to send you a further memorandum or to meet with you again.

Sincerely,

(S) E. C. ROBINSON,
Associate Secretary.

Per favor of Mr. Kenneth L. Kimble, vice president and general counsel, Life Insurance Association of America, Washington, D.C.

SECTION 819. FOREIGN LIFE INSURANCE COMPANIES

(a) CARRYING ON UNITED STATES INSURANCE BUSINESS.—In the case of any foreign corporation carrying on a life insurance business within the United States, if with respect to its trade or business conducted within the United States it would qualify as a life insurance company under section 801,

(1) all computations entering into the determination of its income effectively connected with its conduct of its trade or business within the United States and the determination of the tax payable thereon under this part shall be made, except as otherwise provided in this part, on the basis of the income, disbursements, assets, liabilities, and surplus reported in the annual statement for the taxable year of the United States business of such company in the form prescribed by the National Association of Insurance Commissioners, and

(2) the acquisition and holding for investment purposes only of stocks, bonds, mortgages, or other securities, land or other property, which are not reported in such annual statement, and the collection of investment income therefrom and the sale and reinvestment of the proceeds thereof, shall not constitute the conduct of a trade or business.