

# CONTENTS

|                                                                                                                                                             | Page |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| I. Summary.....                                                                                                                                             | 1    |
| II. Purpose and background of the bill.....                                                                                                                 | 5    |
| III. Revenue estimates.....                                                                                                                                 | 6    |
| IV. General explanation.....                                                                                                                                | 7    |
| A. Income tax source rules.....                                                                                                                             | 7    |
| 1. Rules for determining source of certain interest pay-<br>ments (sec. 2(a)(1) of the bill and secs. 861 (a) and<br>(c) of the code).....                  | 7    |
| 2. Interest on deposits in foreign branch banks of do-<br>mestic corporations (sec. 2(a)(2) of the bill, sec.<br>861(a)(1)(D) of the code).....             | 8    |
| 3. Foreign central banks and the Bank for International<br>Settlements (sec. 2(a)(3)(A) of the bill and sec. 895<br>of the code).....                       | 9    |
| 4. Rules for determining the source of dividends from<br>foreign corporations (sec. 2(b) of the bill and sec.<br>861(a)(2)(B) and (c) of the code).....     | 10   |
| 5. Compensation for personal services (secs. 2(c) and (d)<br>of the bill and secs. 861(a)(3)(C)(ii) and 864(b)(1)<br>of the code).....                      | 11   |
| B. Definitions used in determining taxable status of income.....                                                                                            | 12   |
| 1. Trading in stocks or securities or in commodities (sec.<br>2(d) of the bill and sec. 864(b)(2) of the code).....                                         | 12   |
| 2. Income effectively connected with the conduct of a<br>trade or business in the United States (sec. 2(d) of<br>the bill and sec. 864(c) of the code)..... | 14   |
| C. Taxation of nonresident aliens.....                                                                                                                      | 17   |
| 1. Income tax on nonresident alien individuals (sec. 3(a)<br>of the bill and sec. 871 of the code).....                                                     | 17   |
| 2. Deductions (sec. 3(c) of the bill and sec. 873 of the<br>code).....                                                                                      | 22   |
| 3. Expatriation to avoid tax (sec. 3(e) of the bill and new<br>sec. 877 of the code).....                                                                   | 22   |
| 4. Partial exclusion of dividends from gross income (sec.<br>3(f) of the bill and sec. 116(d) of the code).....                                             | 23   |
| 5. Withholding of tax on nonresident alien individuals<br>(secs. 3 (g) and (k) of the bill and secs. 1441 and<br>3401 of the code).....                     | 24   |
| 6. Withheld taxes and declarations of estimated income<br>tax (secs. 3 (h) and (i) of the bill and secs. 1461 and<br>6015 of the code).....                 | 25   |
| 7. Gain from disposition of certain depreciable realty<br>(sec. 3(j) of the bill and sec. 1250(d) of the code).....                                         | 25   |
| 8. Definition of foreign estate or trust (sec. 3(l) of the<br>bill and sec. 7701(a)(31) of the code).....                                                   | 26   |
| 9. Citizens of possessions of the United States (sec. 3(m)<br>of the bill and sec. 932(a) of the code).....                                                 | 26   |
| D. Taxation of foreign corporations.....                                                                                                                    | 26   |
| 1. Income tax on foreign corporations (secs. 4 (a) and (b)<br>of the bill and secs. 881 and 882 of the code).....                                           | 26   |
| 2. Withholding of tax on foreign corporations (sec. 4(c)<br>of the bill and sec. 1442 of the code).....                                                     | 29   |
| 3. Deduction for dividends received from foreign corpo-<br>rations (sec. 4(d) of the bill and sec. 245(a) of the<br>code).....                              | 29   |
| 4. Unrelated business taxable income of certain foreign<br>charitable organizations (sec. 4(e) of the bill and sec.<br>512(a) of the code).....             | 30   |