

derived from assets used or held for use in the conduct of a U.S. business or if the activities of the U.S. business were a material factor in the realization of the income. All other types of U.S. source income are to be considered to be effectively connected if there is a U.S. business. Income from sources without the United States will not be treated as effectively connected with a U.S. business unless the nonresident alien or foreign corporation has a fixed place of business in the United States and the income is attributable to that place of business. Moreover, in general only rents and royalties from licensing, income from banking and so forth, and sales income are to be taken into account for this purpose and only to the extent the income is not "subpart F" income or income derived from a foreign corporation 50-percent owned by the nonresident alien or foreign corporation receiving the income.

7. *Income tax on nonresident alien individuals.*—The income of nonresident aliens which is effectively connected with a U.S. business is to be taxed at the regular graduated rates applicable to individuals and all income not so connected is to be taxed at a flat 30-percent rate (or lower applicable treaty rate). U.S. source capital gains of a nonresident alien not engaged in business in the United States are to be taxed only if the alien was in the United States for 183 days or more during the year. Deductions are allowable only to the extent allocable to income which is effectively connected to a U.S. business. Also, an election is provided which allows an alien to treat income from real property as U.S. business income in order to take deductions allocable to it.

8. *Expatriation to avoid income tax.*—U.S. source income and the effectively connected income of a citizen received for 5 years after expatriation is, in most cases, to be taxed at the regular U.S. tax rates if a principal purpose of the expatriation was the avoidance of U.S. income, estate, or gift taxes.

9. *Withheld taxes and declarations of estimated income tax.*—The Treasury Department is authorized to require payment of amounts withheld from nonresident aliens and foreign corporations on a more current basis, rather than the annual basis presently provided. It is expected that quarterly payments will be required. Nonresident aliens who receive income which is effectively connected with the conduct of a U.S. business are to be required to file declarations of estimated tax.

10. *Income tax on foreign corporations.*—The regular corporate income tax is to apply to income of foreign corporations which is effectively connected with a U.S. business. U.S. source income which is not so connected is taxable at a flat 30-percent rate (or at a lower treaty rate). Foreign corporations are given an election to treat real property income as business income similar to that afforded nonresident aliens.

11. *Foreign corporations carrying on insurance business in the United States.*—A foreign corporation carrying on a life insurance business within the United States is to be taxed under the present special insurance company provisions on its income effectively connected with a U.S. business. The remainder of the income of this type of corporation from sources within the United States is to be taxed in the same manner as income of other corporations which is not