

effectively connected; that is, at a flat 30-percent rate. An adjustment also is made to avoid double taxation which might result from the interaction of the minimum surplus provision for life insurance companies under present law and the new method of taxing foreign life insurance companies.

12. Application of pre-1967 income, estate and gift tax provisions.—The President is authorized to reinstate the income, estate, or gift tax provisions in effect prior to the enactment of this bill in the case of foreigners upon a determination that the foreign country in which they are residents or were incorporated is imposing more burdensome taxes on U.S. citizens or domestic corporations on income from sources within the foreign country than the U.S. tax on similar U.S. source income of foreigners.

13. Foreign community property income.—A U.S. citizen who is married to a nonresident alien, resident in a foreign country with community property laws, is to have an election for post-1966 years to treat the community income of the husband and wife as income of the person who earns it or, in the case of trade or business income, as income of the husband unless the wife manages the business. Income from separate property is to be treated as income of the person owning the property. All other community income is to be governed by the applicable foreign community property law. For open pre-1967 years, an election may also be made and the rules set forth above govern except that the other community income is to be treated as the income of the person who had the greater income from the other community income categories plus separate income.

14. Foreign tax credit.—A foreign tax credit is to be allowed nonresident aliens and foreign corporations with respect to foreign taxes on foreign source income which is effectively connected to the conduct of a U.S. business. However, the credit is not to include taxes paid to the foreigner's home country on grounds other than that the income was derived from sources within that country.

15. Similar income tax credit requirement.—Under present law a foreign tax credit is denied to citizens of a foreign country who are resident in the United States if the foreign country does not allow a similar credit to U.S. citizens who are resident in the foreign country. In the future the credit is to be denied only where the President finds that this is in the public interest and the foreign country refuses to grant U.S. citizens such a credit when requested to do so.

16. Overseas operations funding subsidiaries.—The separate application of the limitation on the foreign tax credit for interest income is not to apply to a domestic funding subsidiary which is formed and availed of for the principal purpose of (1) raising funds outside the United States through foreign public offerings, and (2) using these funds to finance the foreign operations of related foreign corporations.

17. Estate tax rates, exemptions, and returns.—A separate schedule of estate tax rates is made applicable to estates of nonresident aliens. The rates are graduated from 5 percent on the first \$100,000 of a taxable estate to 25 percent on the portion which exceeds \$2 million. The exemption also is raised from \$2,000 to \$30,000. These two measures are designed to accord approximately the same tax treat-