

to increase collections in the fiscal year 1967 alone by \$22.5 million. Table 1 shows the revenue gain or loss attributable to the various provisions in the bill to the extent this can be quantified.

TABLE 1.—*Estimated revenue changes resulting from the foreign investors tax bill*

Tax proposals	Revenue gain or loss (—)		
	Gain	Loss	Net
A. Elimination of progressive taxation of U.S. source income of nonresident alien individuals not engaged in trade or business in the United States.....		—\$748, 000	—\$748, 000
B. Estate tax at top rate of 25 percent on intangibles and tangibles with \$30,000 exemption.....		—3, 000, 000	—3, 000, 000
1. Tax on excluded bank deposits.....	\$300, 000		300, 000
C. Taxation of foreign life insurance company income from nontrusted investments in the United States.....	3, 000, 000		3, 000, 000
D. Saving in interest cost to U.S. Government resulting from quarterly payment of withheld taxes.....	1, 593, 000		1, 593, 000
E. Tax on capital gains.....		—50, 000	—50, 000
Total.....	4, 893, 000	—3, 798, 000	1, 095, 000

NOTE.—Based on the most recently available withholding tax information, quarterly payment of withheld taxes will result in a revenue gain of \$22,500,000 in the fiscal year 1967. Taxes will be collected for 5 quarters in the fiscal year 1967. All 1966 withholding, estimated at \$90,000,000, will be collected on March 15, 1967, plus tax of \$22,500,000 for the 1st quarter of 1967 on April 15, 1967.

IV. GENERAL EXPLANATION

A. INCOME TAX SOURCE RULES

1. *Rules for determining source of certain interest payments (sec. 2(a) (1) of the bill and secs. 861 (a) and (c) of the code)*

(a) *Present law.*—Present law provides that nonresident alien individuals and foreign corporations are subject to U.S. tax only on the income they derive from sources within the United States. For purposes of determining whether the income is from within or without the United States, the code specifically enumerates types of income treated as income from sources within and as income from sources without the United States.

One of the rules under present law provides that interest on deposits paid to persons not engaged in trade or business in the United States is to be treated as income from sources without the United States if the interest is paid by a bank. The Internal Revenue Service in interpreting this rule has held that, in addition to banks, the provision applies to certain deposits with some types of State-chartered savings and loan associations. However, the Service has not interpreted this provision as extending to interest paid on deposits with all savings and loan associations or all types of deposits. Additionally, interest on similar deposits with insurance companies has not been accorded the benefits of this special rule.

(b) *Reasons for provision.*—Your committee believes that it is questionable whether interest income of this type, which is so clearly derived from U.S. sources, should be treated as though derived from sources without the United States and thereby escape U.S. taxation. At the same time, however, your committee realizes that an immediate alteration of the present source rule might have a substantial adverse effect on our balance of payments. To meet these two quite different