

without the United States will be treated as effectively connected with the conduct of the business within the United States if the income is attributable to its U.S. life insurance business. This rule merely continues the treatment which applies under existing regulations which provide that income of a foreign corporation from its U.S. life insurance business is subject to tax whether the income is from sources within or without the United States.

(d) *Effective date.*—This amendment applies with respect to taxable years beginning after December 31, 1966. For purposes of determining whether foreign source sales income from a binding contract, entered into on or before February 24, 1966, is attributable to a U.S. office, all the activities in the United States on or before that date, which were related to the negotiation or effectuation of the binding contract are not to be taken into account. As a result in many cases the sales income from foreign sources under binding contracts entered into before February 25, 1966, will not come within the ambit of this provision.

C. TAXATION OF NONRESIDENT ALIENS

1. *Income tax on nonresident alien individuals (sec. 3(a) of the bill and sec. 871 of the code)*

(a) *Present law.*—Present law provides different tax treatment for nonresident alien individuals according to whether they are, or are not, engaged in a trade or business in the United States. Also, those not engaged in a trade or business in the United States are provided different treatment according to whether their income is under or over \$21,200.

Nonresident alien individuals not engaged in trade or business in the United States whose annual U.S. source income of the types specified below is \$21,200 or less are taxed at a flat rate of 30 percent (or lower applicable treaty rate), on certain specified items of U.S. source income. This tax is in lieu of the regular U.S. graduated rates applicable to individuals. The items of income included are interest, dividends, rents, salaries, wages, and other fixed or determinable annual or periodical gains, profits, and income. Also specifically included in the income taxable at the flat 30-percent rate are certain amounts otherwise treated in the same manner as capital gains; namely, lump-sum distributions from exempt employees' trusts (sec. 402(a)(2)); amounts paid to beneficiaries under qualified annuity plans (sec. 403(a)(2)); timber, coal, and iron ore royalties (sec. 631 (b) and (c)); and amounts received on transfers of patent rights (sec. 1235).

Nonresident alien individuals not engaged in trade or business in the United States but with an annual U.S. source income of the types indicated above, of more than \$21,200, are taxed under present law (in the absence of an applicable treaty provision) at whichever of the following produces the higher total tax: the regular U.S. rates applicable to individuals, or the flat 30-percent rate. In computing the tax at the regular graduated rates, such a nonresident alien is allowed deductions to the extent they are properly allocable to the income on which he is taxable.

Nonresident aliens not engaged in a trade or business in the United States—whether their income is over or under \$21,200—are subject to tax on regular capital gains only if one of two conditions exists. They