

only those foreign corporations where two tests are met; namely, where their U.S. source gross income is less than 50 percent of their total gross income and all of their stock is held directly or indirectly by non-resident aliens. In place of this the bill substitutes a broader exemption which applies to any foreign corporation all of whose outstanding stock during the last half of its taxable year is owned by nonresident alien individuals (directly or indirectly through foreign estates, trusts, partnerships or other foreign corporations).

(d) *Effective date.*—This amendment applies with respect to taxable years beginning after December 31, 1966.

6. *Foreign corporations carrying on insurance business in the United States (sec. 4(g) of the bill and secs. 819, 821, 822, 831, 832, 841, and 842 of the code)*

(a) *Present law.*—Present law taxes a foreign life insurance company carrying on a life insurance business in the United States on all its income attributable to that business in substantially the same manner as a domestic life insurance company.⁴ Foreign insurance companies carrying on life insurance businesses in the United States generally have interpreted this as providing they were not taxable on U.S. source income which is not income of the U.S. life insurance business of the company.

As is indicated above, with respect to their life insurance company business, foreign life insurance companies are taxed, under present law, in substantially the same manner as domestic life insurance companies. However, a special rule is provided where the surplus of a foreign life insurance company held in the United States is less than a specified minimum figure. This figure is expressed as the same percent of the foreign life insurance company's liabilities on U.S. business as the average surplus of domestic corporations is of their total liabilities. The Secretary of the Treasury determines this ratio each year. If the foreign insurance company's surplus held in the United States is less than this proportion of the taxpayer's total insurance liabilities on U.S. business, then the policy and other contract liability requirements, and the required interest for computing gain from operations, are reduced by this deficiency multiplied by the rate of earnings on investments. This provision is designed to prevent foreign insurance companies doing business in the United States from avoiding tax that they would otherwise have to pay to the United States merely by not holding a sufficient amount of surplus attributable to the U.S. business.

(b) *Reason for, and explanation of provisions.*—Your committee believes that foreign insurance companies—life insurance companies and other insurance companies, including both mutual and stock companies—should, in general, be taxed on their investment income in the same manner as other foreign corporations. For this reason, the bill provides that a foreign corporation carrying on an insurance business within the United States is to be taxable in the same manner as domestic companies carrying on a similar business with respect to its income which is effectively connected with the conduct of a trade or business

⁴ A foreign life insurance company that is not carrying on a life insurance business in the United States is taxable under the provisions applicable to foreign corporations generally.