This amendment is effective for taxable years beginning after December 31, 1966.

F. ESTATE TAX PROVISIONS

1. *Estate tax rates (sec. 8(a) of the bill and sec. 2101(a) of the code)*

(*a*) *Present law.*—The estate of a nonresident alien is taxed only on the transfer of property situated or deemed to be situated in the United States at the time of his death. While the tax rates are the same as for citizens and residents of the United States, the deductions, credits, and exemptions are different: No marital deduction is allowed with respect to the estate of a nonresident alien; the specific exemption in determining the taxable estate is $2,000 instead of the $60,000 applicable in the case of U.S. citizens; no credit is allowed for foreign death taxes paid; and expenses, losses, etc., are generally limited to the same proportion of these expenses which the alien's gross estate situated within the United States is of his entire gross estate.

(*b*) *Reason for provision.*—The fact that a marital deduction of up to 50 percent of the adjusted gross estate is not allowed in the case of the estate tax liability of a nonresident alien, in effect nearly doubles the size of the taxable estate of many aliens over that of similarly situated citizens. The $2,000 exemption, instead of the $60,000 exemption applying to citizens, also leads to a higher estate tax base. This, of course, means that the estate of a nonresident alien is likely to pay heavier taxes on its U.S. assets than would be true in the case of the estate of a U.S. citizen of similar size. Your committee believes that this is not appropriate. In addition it has been suggested to your committee that the high U.S. estate tax on the U.S. assets of a nonresident alien tends to discourage foreign persons from investing in the United States. Any increase in foreign investment in this country which may be brought about by this change will, of course, have a favorable effect on this country's balance of payments.

In view of the considerations set forth above, your committee believes that the taxation of the U.S. estates of nonresident aliens should be reduced to more closely equate with the taxation of the estates of U.S. citizens. The bill therefore establishes a new schedule of graduated estate tax rates applicable to nonresident aliens which will impose a tax on the U.S. estates of these persons in an amount which is generally equivalent to the tax imposed on an estate of similar value of a U.S. citizen with the maximum marital deduction. (As is explained subsequently the bill also increases the specific exemption available with respect to estates of nonresident aliens).

(*c*) *Explanation of provision.*—The new schedule of rates applicable to estates of nonresidents not citizens is as follows:

If the taxable estate is:	The tax shall be:
Not over $100,000	5 percent of the taxable estate.
Over $100,000 but not over $500,000	$5,000, plus 10 percent of excess over $100,000.
Over $500,000 but not over $1,000,000	$45,000, plus 15 percent of excess over $500,000.
Over $1,000,000 but not over $2,000,000	$120,000, plus 20 percent of excess over $1,000,000.
Over $2,000,000	$320,000, plus 25 percent of excess over $2,000,000.