of U.S. possessions at the time of death and are citizens of the United States solely by reason of being a citizen of the possession, or by reason of birth or residence in the possession, the exemption is the greater of $2,000, or the proportion of the $60,000 exemption granted to U.S. citizens which the value of that part of the decedent's gross estate which is situated in the United States bears to the value of his entire gross estate.

(*b*) *Reason for provision.*—Presumably the basis for having a lower exemption for nonresident aliens than citizens and residents is that they typically have only a portion of their estate in the United States and therefore should have only a portion of the exemption allowed citizens and residents. Your committee also agrees that this justifies a lesser exemption for nonresident aliens but the minimal estate tax exemption presently allowed is so low as to place an unreasonable and inequitable tax burden on the estates of nonresident aliens. The exemption level your committee concluded was reasonable for nonresident aliens was $30,000, or half that allowed in the case of citizens. This is high enough to make filing of returns unnecessary in the case of relatively small investments here. This level of exemption was also selected in conjunction with the rates made applicable to nonresident aliens (see No. F–1 above) to assure approximately the same level of tax burdens for a nonresident alien as in the case of citizens of the United States eligible for the marital deduction.

(*c*) *Explanation of provision.*—The bill amends the code to provide that the estate of a nonresident not a citizen is allowed to deduct a $30,000 exemption in computing the taxable estate. The exemption which the estate of a resident of a U.S. possession to which the special rule applies is allowed, under your committee's amendment, is to be the greater of $30,000 or the proportion of the $60,000 exemption allowable under present law.

(*d*) *Effective date.*—These amendments apply to estates of decedents dying after the effective date of this act.

6. Expatriation to avoid tax (sec. 8(f) of the bill and new sec. 2107 of the code)

(*a*) *Present law.*—The U.S. estate tax applies to U.S. citizens and U.S. residents with respect to their estate no matter where situated. However, a foreign estate tax credit is allowable with respect to foreign death taxes paid in the case of property having a situs outside of the United States. In the case of nonresident aliens, a U.S. estate tax also applies but only with respect to property having a U.S. situs. Under present law, if an individual who has been a U.S. citizen gives up this citizenship and becomes a nonresident alien, no tax is imposed with respect to his estate to the extent the property is situated outside of the United States.

(*b*) *Reason for provision.*—As discussed above with respect to the income tax provision of this bill, your committee is concerned that the elimination of the progressive income tax rates on income of nonresident aliens which is not effectively connected with a U.S. trade or business may encourage some U.S. citizens to surrender their U.S. citizenship and move abroad. Accordingly, the bill contains a provision which generally has the effect of retaining the progressive