

accounts are treated in the same manner as interest on bank deposits. Under section 591 of the code amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends or interest on their deposits or withdrawable accounts are deductible by the association if the depositor or holder of account is entitled to withdraw such amounts on demand, subject to customary notice of intention to withdraw. The provisions of amended section 861(a)(1)(A) do not apply to amounts paid by such savings and loan or similar associations on or with respect to shares of capital stock of such associations, or on or with respect to funds held in restricted accounts which represent a proprietary interest in such associations.

Interest on amounts held by insurance companies under an agreement to pay interest thereon is also subject to the provisions of amended section 861(a)(1)(A). In determining under new section 861(c)(3) whether an amount is held by an insurance company under an agreement to pay interest thereon the same rules are to apply as are applied under section 6049(b)(1)(D) of the code (relating to returns regarding payments of interest). Thus, for example, the provisions of amended section 861(a)(1)(A) apply to interest paid on policy "dividend" accumulations and interest paid with respect to the proceeds of insurance policies left with the insurer. The so-called interest element in the case of annuity or installment payments under life insurance or endowment contracts does not constitute interest for such purposes. Amended section 861(a)(1)(A) does not apply to interest paid by an insurance company to its creditors on notes, bonds or similar evidences of indebtedness.

The provisions of amended section 861(a)(1)(A) and of new section 861(c) cease to apply in the case of amounts paid or credited after December 31, 1971.

*Interest on deposits with foreign banking branches of domestic corporations*

Paragraph (2) of section 2(a) of the bill amends section 861(a)(1) of the code by adding a new subparagraph (D) providing that, for taxable years beginning after December 31, 1966, interest on deposits with a foreign branch of a domestic corporation is not income from sources within the United States if the foreign branch with which the deposit is made is engaged in the commercial banking business. This rule will apply to such interest notwithstanding the fact that the recipient is a citizen or resident of the United States or domestic corporation or that the interest is effectively connected with the conduct of a trade or business within the United States by a non-resident alien or a foreign corporation. It is not necessary for this purpose that the paying corporation be carrying on a banking business within the United States. Since under the provisions of section 862(a)(1) such interest is treated as income from sources without the United States, the interest will be considered to be from sources within the foreign country in which the foreign branch is located.

*Interest on bank deposits of foreign central banks of issue or the Bank for International Settlements*

Paragraph (3) of section 2(a) of the bill amends section 895 of the code (relating to income derived by a foreign central bank of issue