

(e) *Burden of proof.*—Subsection (e) of section 877 provides that, in determining whether a principal purpose for the loss of U.S. citizenship by an expatriate citizen was the avoidance of U.S. income, gift, or estate taxes, the Secretary of the Treasury or his delegate must first establish that it is reasonable to believe that the loss of U.S. citizenship would, but for section 877, result in a substantial reduction, for the taxable year in respect of which section 877 is being applied, in the taxes (domestic and foreign) on his probable income for such year from all sources. In establishing this, the Secretary or his delegate may, in the absence of factual information concerning the individual's income from all sources during the taxable year, determine the tax on the probable income of such individual, as determined on the basis of information available to the Secretary. The probable income may, in appropriate cases, be determined on the basis of the individual's income for the preceding taxable year. The individual concerned may refute the Secretary's determination concerning such probable income, by showing what his income for the period actually was.

The Secretary or his delegate, in the absence of the actual income tax liability of the expatriate U.S. citizen to the foreign country of which he is a citizen or resident, will be considered to have established that it is reasonable to believe that a substantial tax reduction resulted from such individual's loss of U.S. citizenship if it is shown that, under the laws of the foreign country of which such individual is a citizen or resident, such individual could be expected to pay an income tax for the taxable year substantially lower than the income tax which he would have paid had he remained a citizen of the United States during such year. For this purpose, only those taxes imposed by the foreign country of which the expatriate is a citizen or resident which are income taxes, or taxes in lieu of income taxes, and taxes imposed by the United States will be taken into account. If under the foreign country's taxation system the political subdivisions of such country impose income taxes, such taxes shall also be taken into account in determining the expatriate's taxes on his probable income.

Once it has been established that it is reasonable to believe that such taxes (domestic and foreign) of the expatriate U.S. citizen on his probable income are less as a result of his loss of U.S. citizenship than they would be had he remained a citizen of the United States, such individual has the burden of proving that the principal purpose of such loss of citizenship was not the avoidance of U.S. income, gift, or estate taxes.

SECTION 3 OF BILL—CONTINUED

(f) *Partial exclusion of dividends.*—Subsection (f) of section 3 of the bill amends section 116(d) of the code (relating to certain non-resident alien individuals ineligible for the dividend exclusion) by providing that the \$100 dividend exclusion provided by section 116(a) applies only in determining (1) the graduated tax imposed on the income of a nonresident alien individual pursuant to amended section 871(b), if the dividends with respect to which the exclusion is claimed are effectively connected with the conduct of a trade or business within the United States, or (2) the graduated tax imposed on