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aliens and foreign corporations. It is the first systematic reappraisal in this area of our tax law which has been undertaken, as I remember the record, for approximately 25 years.

Mr. Chairman, although this bill will have only a slight effect on revenue and will not directly affect U.S. citizens or groups, in my opinion it represents a substantial effort on the part of the Committee on Ways and Means.

PURPOSE AND BACKGROUND OF BILL

Mr. Chairman, in October 1963, the President, as a part of his program to improve the U.S. balance of payments appointed a task force on "Promoting Increased Foreign Investment in United States Corporate Securities and Increased Foreign Financing for United States Corporations Operating Abroad." Among the recommendations of the task force were a series of proposals designed to modify the U.S. taxation of foreign investors. The Treasury Department studied the recommendations of the task force, and in March of 1965 submitted to the Congress proposed legislation designed to increase foreign investment in the United States.

Public hearings were held on this legislation during 1965 and again in 1966. During this same period, your committee extensively considered the proposal in executive session on numerous occasions. Your committee concluded that this area of the tax law was in need of change, but your committee altered the primary objective of the legislation suggested by the Treasury Department.

The bill, as modified by your committee, seeks as its primary objective the equitable tax treatment by the United States of nonresident aliens and foreign corporations. While, as I indicated, the initial proposals of the Treasury Department were concerned only with part of the tax provisions of the present law affecting nonresident aliens and foreign corporations—primarily those which could be modified to stimulate investments by foreigners in the United States—your committee considered more broadly the appropriateness of all the provisions of the present law affecting these foreign persons.

REVENUE ESTIMATES

It is expected the bill will result in a revenue gain at current income and investment levels of slightly over $1 million a year. In addition, the provision of the bill under which the Treasury is authorized to require quarterly payments of withheld taxes—instead of annual payments as now provided—is expected to increase collections on a one-shot basis in the fiscal 1967 by $22½ million.

MAJOR PROVISIONS OF THE BILL

Let me now talk about the major provisions of the bill. In this connection I ask unanimous consent, Mr. Chairman, to include at the end of my discussion a summary of these principal provisions of this bill. This summary reduces them, I believe, to as simple terms as it is possible in view of the complexity of the matters involved here.

The CHAIRMAN. Without objection, it is so ordered.

There was no objection.

1. TAXABLE STATUS OF INCOME

Mr. MILLS. Mr. Chairman, the first part of the bill deals with the taxable status of income. Undoubtedly, the most important proposal from the standpoint of tax policy is the amendment which separates the U.S. investment income from the U.S. business income of a nonresident alien or foreign corporation and taxes these two types of income on different bases.

Income of a foreigner derived from a U.S. business is to be taxed substantially in the same manner as if the business income were received by a U.S. citizen or a domestic corporation—that is, at the regular individual or corporate rates with all of the appropriate deductions.

On the other hand, investment income of a nonresident alien or foreign corporation, unless it is related to a U.S. business, is to be taxed at a flat rate of 30 percent or a lesser rate applicable where we have treaties with the foreign countries involved.

Your committee believes this method of taxing nonresident aliens and foreign corporations is more equitable and reasonable than the present law which taxes these persons at the regular rates or a flat 30 percent on their U.S. source income, depending on whether or not they are engaged in trade or business in the United States. In other words, under present law, investment income of a nonresident alien or foreign corporation is taxed at the regular rates, with the attributable reductions, if the recipient is engaged in business in the United States whether or not there is any relationship between the U.S. business and the U.S. investment income.

Additionally, your committee's attention was directed to the fact as a result of the interplay between the tax rules of certain foreign countries and the United States, foreign corporations which carry on substantial business activities in the United States, in some cases, have been able to cast their transactions in a form which may avoid all or most U.S. and foreign taxes on income generated from U.S. business activities. The provisions provided by this legislation will subject certain income generated by the U.S. business activities of these foreign corporations to U.S. tax.

The benchmark used in determining whether or not income is related to a U.S. business and, therefore taxable at regular rates rather than at the flat 30-