

we wish to foreclose the possibility that this bill would serve as an encouragement to such people. Generally, the expatriation provisions of this bill provide that U.S. source income and the effectively connected income of a citizen received within 5 years after expatriation is to be taxed at the regular U.S. tax rates if a principal purpose of the expatriation was the avoidance of U.S. taxes.

5. OTHER AMENDMENTS

The remaining amendments, which I will not discuss in detail, do not, in my opinion, constitute major changes. In any event I would like to include in the RECORD at this point the summary of the principal changes and previously referred to:

SUMMARY OF PRINCIPAL PROVISIONS

A. TAXATION OF FOREIGN CORPORATIONS

1. The regular corporate income tax is to apply to all income of foreign corporations which is "effectively connected" with a U.S. business. Under present law, the regular corporate rate applies to all U.S. source income of a foreign corporation which is engaged in a trade or business in this country, whether or not the income in question is connected with that business.

2. Income of a foreign corporation which is not "effectively connected" with a U.S. business is to be taxed at a flat 30 percent rate (or lower treaty rate).

3. In general, income is to be treated as "effectively connected" with a U.S. business if the underlying assets were used or held for use in a U.S. business or if the activities of the U.S. business were a material factor in producing the income. Income from foreign sources will be treated as "effectively connected" only in the case of rents and royalties from licensing, certain banking income, and sales income, but only to the extent that this income is not "subpart F" income.

4. Foreign corporations carrying on a life insurance business in the United States are to be taxed as life insurance companies on income "effectively connected" with this U.S. business. Other income from U.S. sources is to be subject to the flat 30 percent rate (or lower treaty rate).

B. TAXATION OF NONRESIDENT ALIENS

1. Investment and other fixed or determinable income of nonresident aliens which is not "effectively connected" with a U.S. business is to be taxed at a flat 30 percent rate (or lower treaty rate). Under present law the regular rates generally apply with respect to this type of income where it is over \$21,200.

2. Investment and other fixed or determinable income which is "effectively connected" with a U.S. business is to be taxed at the regular graduated individual rates. For purposes of determining whether the income is "effectively connected" the same rules apply as set forth above with respect to foreign corporations.

3. U.S. source capital gains which are not "effectively connected" with a U.S. business will be taxed to a nonresident alien only if he is in the United States for 183 days or more during the year. Presently capital gains are taxed if the nonresident alien is physically present when the sale is made or if he has been in the United States for 90

days or more during the year. Capital gains which are "effectively connected" with a U.S. business are to be taxed at the regular rates.

C. ESTATE AND GIFT TAX PROVISIONS

1. A separate schedule of estate tax rates is to apply to estates of nonresident aliens. The rates are graduated from 5 percent on the first \$100,000 to 25 percent on the excess over \$2 million. The exemption is raised from \$2,000 to \$30,000. These changes accord approximately the same tax treatment in the case of an estate of a nonresident alien as presently applies for a U.S. citizen eligible for the marital deduction.

2. Bonds of a U.S. person or corporation even though owned by foreigners are to be considered property within the United States and, therefore, subject to U.S. estate tax.

3. Bank deposits of nonresident aliens are to be treated as property within the United States and, therefore, subject to U.S. estate tax (except for deposits in foreign branches of U.S. banks).

4. Transfers of intangible property by nonresident aliens are not to be subject to gift tax whether or not they are engaged in a U.S. business.

D. MISCELLANEOUS PROVISIONS

1. Interest on U.S. bank deposits of foreigners is to be taxed after 1971; until then interest on accounts with mutual savings banks, etc., and on deposits with insurance companies are to be treated as foreign source income.

2. The Treasury Department is authorized to require payments of amounts withheld from nonresident aliens and foreign corporations on a quarterly basis.

3. Except in the case of dealers and certain investment companies, trading in stocks or securities in the United States, for one's own account, whether by a foreign investor physically present in the United States, through an employee located here, or through a resident agent (whether or not the agent has discretionary authority) is not to constitute a trade or business in the United States for income tax purposes. A parallel rule is provided for those trading in commodities.

4. U.S. source income and the effectively connected income of a citizen received for 5 years after expatriation is, in most cases, to be taxed at the regular U.S. tax rates if a principal purpose of the expatriation was the avoidance of U.S. income, estate, or gift taxes.

CONCLUSION

In conclusion, I would like to reiterate that this bill was primarily designed to provide equitable tax treatment for nonresident aliens and foreign corporations, treating them generally on a basis which is consistent with the tax treatment of American citizens and domestic corporations. It is believed that this more equitable treatment will, to some extent, encourage foreigners to invest in the United States, but this is not the principal purpose of the legislation before the House.

The bill was reported favorably by the committee. It is supported by the Treasury Department. I therefore urge the Members to support the measure here today.

Mr. GROSS. Mr. Chairman, will the gentleman yield?