

Mr. MILLS. I yield to the gentleman from Iowa.

Mr. GROSS. Mr. Chairman, if I understood, did the gentleman say that the exemptions on estates were increased from \$2,000 to \$60,000?

Mr. MILLS. The exemption is increased from \$2,000 to \$30,000 to treat them more nearly like U.S. citizens or residents. However, the American citizen is still better off since his exemption is \$60,000, instead of \$30,000.

Mr. GROSS. That is a tremendous increase.

The next question is: What are the foreigners doing by way of equal treatment for American investors in foreign countries?

Mr. MILLS. Let me say to my friend that most foreign countries do not impose estate taxes on assets of Americans which are located in their countries. Those that do usually impose relatively low rate taxes. In addition we have provisions in this bill which permit the President to raise income or estate taxes with respect to citizens or residents of foreign countries which impose more burdensome taxes on Americans with income or assets from sources within their countries.

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

Mr. MILLS. I yield to the gentleman from Montana.

Mr. BATTIN. Mr. Chairman, it seems to me that during the hearings on this matter it was pointed out that one of the compelling reasons to equate our taxes as we did—at least as recommended in this bill—was to put us more on a par with some of the foreign powers, so as to attract capital—rather than have capital go into their countries—because they receive a fair tax treatment.

Mr. MILLS. The gentleman is entirely correct. However, we also tried to make sure that the foreign country treated our citizens or residents fairly.

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

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Mr. MILLS. I yield to the gentleman from Missouri.

Mr. CURTIS. Mr. Chairman, I simply want to recall that this was a point a number of us made in the executive session with the Treasury Department. We hoped there would be real reciprocity in these tax concessions.

I can assure the gentleman from Iowa that this point was uppermost in the minds of the members of the Ways and Means Committee. I believe most of us were satisfied with the results. Certainly I was satisfied that under the bill we were moving toward more reciprocity.

Mr. MILLS. I think my friend from Missouri would agree that even if we pass this bill, the estate tax we impose on the assets of these foreigners located in the United States would in most cases still

be higher, in all probability, than the taxes we impose on our own citizens.

Mr. CURTIS. I agree with the gentleman.

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

Mr. MILLS. I yield to the gentleman from Iowa.

Mr. GROSS. I merely used that as an example. I did not mean to confine it to the estate tax.

Mr. MILLS. On the income tax side, too, we will still be taxing foreigners at relatively high rates. Of course, we have treaties with some countries that fix the rate of tax on certain types of income at 15 percent or in some cases at lower rates. Those countries in turn, however, generally apply similar low rates to citizens of the United States deriving income from those countries.

Mr. GROSS. Suppose an alien bought Government securities, such as E or H bonds, or something of that kind, or, as someone suggests, participation certificates under the legislation recently enacted. What would happen under those circumstances? Would he pay tax to this country, or be exempt?

Mr. MILLS. Those are not exempt. They are subject to U.S. tax.

Mr. GROSS. None of them are exempt?

Mr. MILLS. This is interest income developed within the United States, and it is subject to U.S. tax.

If that is all the individual received from U.S. sources or if it is not effectively connected to a U.S. business, he would pay tax on that income at the flat rate of 30 percent or lower applicable treaty rate. An American citizen would be likely to be taxed on similar income at, say, a 14-percent rate or a 20-percent rate, but a nonresident alien would be taxed at 30 percent, unless we had a treaty with his country making it less.

If there were business income—if the individual had a business establishment developing business income in the United States—that business income would be taxed just as any other business income would be taxed in the United States. This would also be true of income effectively connected with this business income.

Mr. GROSS. I thank the gentleman.

Mr. DE LA GARZA. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Texas.

Mr. DE LA GARZA. I come from the border country, as the gentleman knows. There are commercial banks which derive deposits from both sides of the border, in Mexico and the United States.

A nonresident alien might have a commercial banking account on the U.S. side. Would interest income on that account be touched by this legislation?

Mr. MILLS. If he had a bank account in the United States, until after