

SEC. 8. Estates of nonresidents not citizens.

- (a) Rate of tax.
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- "(a) Rate of tax.
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"SEC. 2108. Application of pre-1967 estate tax provisions.

- "(a) Imposition of more burdensome tax by foreign country.
- "(b) Alleviation of more burdensome tax.
- "(c) Notification of Congress required.
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- (g) Estate tax returns.
- (h) Clerical amendment.
- (i) Effective date.

SEC. 9. Tax on gifts of nonresidents not citizens.

- (a) Imposition of tax.
- (b) Transfers in general.
- (c) Effective date.

SEC. 10. Treaty obligations.

(c) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. SOURCE OF INCOME.

(a) INTEREST.—

(1)(A) Subparagraph (A) of section 861 (a)(1) (relating to interest from sources within the United States) is amended to read as follows:

"(A) interest on amounts described in subsection (c) received by a nonresident alien individual or a foreign corporation, if such interest is not effectively connected with the conduct of a trade or business within the United States,".

(B) Section 861 is amended by adding at the end thereof the following new subsection:

"(c) INTEREST ON DEPOSITS, ETC.—For purposes of subsection (a)(1)(A), the amounts described in this subsection are—

"(1) deposits with persons carrying on the banking business,

"(2) deposits or withdrawable accounts with savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, but only to the extent that amounts paid or credited on such deposits or accounts are deductible under section 591 in computing the taxable income of such institutions, and

"(3) amounts held by an insurance company under an agreement to pay interest thereon.

Effective with respect to amounts paid or credited after December 31, 1971, subsection (a)(1)(A) and this subsection shall cease to apply."

(2) Section 861(a)(1) is amended by striking out "and" at the end of subparagraph

(B), by striking out the period at the end of subparagraph (C) and inserting in lieu thereof ", and", and by adding at the end thereof the following new subparagraph:

"(D) interest on deposits with a foreign branch of a domestic corporation, if such branch is engaged in the commercial banking business."

(3)(A) Section 895 (relating to income derived by a foreign central bank of issue from obligations of the United States) is amended—

(i) by striking out "shall not be included" and inserting in lieu thereof ", or from interest on deposits with persons carrying on the banking business, shall not be included";

(ii) by striking out "such obligations" and inserting in lieu thereof "such obligations or deposits";

(iii) by adding at the end thereof the following new sentence: "For purposes of the preceding sentence, the Bank for International Settlements shall be treated as a foreign central bank of issue with respect to interest on deposits with persons carrying on the banking business."; and

(iv) by striking out the heading and inserting in lieu thereof the following:

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"SEC. 895. INCOME DERIVED BY A FOREIGN BANK OF ISSUE FROM OBLIGATIONS OF THE UNITED STATES OR FROM BANK DEPOSITS."

(B) The table of sections for subpart C of part II of subchapter N of chapter 1 is amended by striking out the item relating to section 895 and inserting in lieu thereof the following:

"Sec. 895. Income derived by a foreign central bank of issue from obligations of the United States or from bank deposits."

(b) DIVIDENDS.—

(1) Section 861(a)(2)(B) (relating to dividends from sources within the United States) is amended to read as follows:

"(B) from a foreign corporation unless less than 80 percent of the gross income from all sources of such foreign corporation for the 3-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was effectively connected with the conduct of a trade or business within the United States; but only in an amount which bears the same ratio to such dividends as the gross income of the corporation for such period which is effectively connected with the conduct of a trade or business within the United States bears to its gross income from all sources; but dividends from a foreign corporation shall, for purposes of subpart A of part III (relating to foreign tax credit), be treated as income from sources without the United States to the extent (and only to the extent) exceeding the amount which is 100/85ths of the amount of the deduction allowable under section 245 in respect of such dividends, or".

(2) Section 861(a)(2) is amended by adding after subparagraph (C) the following: "For purposes of subparagraph (B), the gross income of the foreign corporation for any period before the first taxable year beginning after December 31, 1966, which is effectively connected with the conduct of