urges that this date be deleted from the bill.

The Council agrees that foreign-owned funds on deposit with savings and loan associations and insurance companies should receive similar treatment to that given to bank deposits in the United States.

Short-Term Promissory Notes

Section 881 of the Internal Revenue Code imposes a tax on fixed or determinable income from sources within the United States of foreign corporations not engaged in the conduct of a trade or business within the United States.

Presently, section 881, in addition to taxing fixed or determinable income, imposes a tax on types of income described in section 631 (b) and (c), which relate to gains on the disposal of timber, coal and iron with a retained economic interest. Except as provided in section 631, foreign corporations not engaged in trade or business in the United States are not presently subject to tax on capital gains from United States sources. The Committee on Ways and Means in House Report No. 1450, Page 87, recognized this when it said:

> "Gains from the sale or exchange of a capital asset (other than amounts to which amended sec. 881 (a) (2) and (3) applies) are subject to tax only if they are received by a foreign corporation which is engaged in trade or business within the United States at some time during the taxable year for which the tax is being determined and are effectively connected with the conduct of a trade or business within the United States."

The proposed amendment to section 881 retains the types of income specified under present law as being taxable, but with two additions: (1) gains with respect to the sale of stock of a collapsible corporation, treated as ordinary income (section 341), and (2) amounts of original issue discount which are treated as ordinary income received on retirement or sale or exchange or bonds or other evidences of indebtedness issued after September 28, 1965 (section 1232).

Certain United States corporations, principally finance companies, in the ordinary course of business sell to nonresident aliens short-term (nine months and under) promissory notes (commercial paper) issued in bearer form at a discount without interest. With regard to these sales, the discount on the non-interest bearings notes has, under Revenue Rulings L. O. 1024, 2 CV 189 (1920); I. T. 1398, I-2 CB 149 (1922); I. T. 3889, 1948-1 CB 78 (1948), been considered to be not fixed or determinable and, therefore, not subject to tax. To subject such discount to Federal income tax will, as explained below, have substantial and lasting adverse effect on the United States balance of payments.

Proposed section 881 (a) (3), by reference to section 1232, specifi-