

Computation of tax under H.R. 13103 based on same facts and figures as schedule I—Continued

B. Tax on income effectively connected with U.S. business, section 882:

(1) Gross income:

(a) Interest on U.S. Government bonds held by U.S. branches, schedule I, item (1) (c)-----	200, 000
(b) Interest on commercial loans made by U.S. branches to U.S. residents, schedule I, item (1) (d) -----	500, 000
(c) Interest income of U.S. branches on FHA guaranteed mortgages and commercial loans to residents of Puerto Rico, schedule I, item 2(b) -	600, 000
(d) Miscellaneous income of U.S. branches, schedule I, item (1) (e)-----	50, 000

Total gross income for section 882----- 1, 350, 000

(2) Deductions applicable to gross income taxable under section 882:

(a) Expenses directly attributable to U.S. branches as in schedule I -----	700, 000
(b) Deductions apportioned on basis of figures in schedule II-B per formula as in schedule I:	

$$4,000,000 \times \frac{1,350,000}{10,000,000} = \underline{540, 000}$$

Total allowable deductions----- 1, 240, 000

COMPUTATION OF TAX, SECTION 882

Gross income connected with U.S. business-----	1, 350, 000
Deductions attributable thereto-----	<u>1, 240, 000</u>

Net income taxable under section 882----- 110, 000

Taxable at 22 percent: \$25,000-----	5, 500
Taxable at 48 percent: \$85,000-----	<u>40, 800</u>

Total tax, section 882----- 46, 300

The total tax liability under H.R. 13103 is the sum of the taxes computed under sections 881 and 882 as follows:

Section 881, as per A, above-----	\$375, 000
Section 882, as per B, above-----	<u>46, 300</u>

Total tax liability----- 421, 300

APPENDIX. LEGISLATIVE HISTORY OF INTERNAL REVENUE CODE SECTIONS 881 AND 882

The substance of Sections 881 and 882 of the Internal Revenue Code of 1954 as now in effect was derived from Sections 231(a) and (b) of the Internal Revenue Code of 1939. Section 231 of the 1939 Code, along with the corresponding provisions relating to non-resident alien individuals found in Section 211, first appeared in the income tax law in the Revenue Act of 1936.

In explaining Sections 211 and 231 of the Revenue Act of 1936, which superseded a system under which all foreign taxpayers were taxed on net income and capital gains like domestic taxpayers with reliance placed on the filing of returns instead of withholding at the source, the House Ways and Means Committee had this to say in its Report (74th Congress, 2nd Sess., H. Report No. 2475, pp. 9 and 10).

"In the case of a foreign corporation not engaged in trade or business within the United States and not having an office or place of business therein, it is proposed to levy a flat rate of tax . . . on the gross income of such corporation from interest, dividends . . . and other fixed and determinable income (not including capital gains) . . . to be collected at the source.

"It is believed that the proposed revision of our system of taxing nonresident aliens and foreign corporations will be productive of substantial amounts of