

additional revenue, since *it replaces a theoretical system impractical of administration in a great number of cases.*" [Italics added.]

The rate of tax imposed by Sec. 231(a) of the Revenue Act of 1936 on the gross amount of interest income was 15%, equal to the maximum tax rate applicable to domestic corporations under that Act. The following table shows the comparable tax rates in each category for all subsequent years:

Years	Flat rate of tax on interest income, nonresident foreign corporations (percent)	Top bracket domestic corporations ¹
1936-40.....	15	15 percent (19 percent for 1939; 24 percent for 1940).
1941.....	27½	31 percent.
1942 to date.....	30	40 percent (through 1945; thereafter varying between 38 percent and 52 percent; now 48 percent.)

¹ Exclusive of excess profits tax.

STATEMENT OF R. CARRION, JR., PRESIDENT, BANCO POPULAR DE PUERTO RICO

INTRODUCTION

Banco Popular de Puerto Rico, a corporation organized under the laws of The Commonwealth of Puerto Rico, is engaged in the commercial banking business. This taxpayer has forty-one branches and its Head Office located in this Commonwealth, in addition to three branches in New York City, which service the local Puerto Rican population with general banking services, including the making of loans, and the maintenance of checking and savings accounts for depositors. All excess available funds of the entire bank are kept at the Head Office in San Juan, Puerto Rico, where they are invested under the direction of the Investment Officer. Currently, the bank has approximately \$35,000,000 invested in United States Treasury and other Federal Agency obligations, which yield the bulk of its U.S. Source income.

PRESENT RULES

Under the tax rules presently in effect, the bank is taxable in much the same manner as a domestic corporation since it is engaged in trade or business in the United States. However, under Section 882 of the 1954 Internal Revenue Code as amended, it is only taxable on its gross income from sources within the United States less the applicable deductions. It is not taxable on income derived from sources without the United States. Interest income derived from a foreign government or foreign resident entity is generally excluded from U.S. income tax unless such entity derives 20% or more of its gross income from U.S. sources (Section 861(a)(1)(B)). Interest received from securities of the United States Government is treated as income from sources within the United States under Section 861(a)(1) of the Code regardless of where received, and is combined with the other taxable U.S. source income (including that generated by the New York branches) for Federal income tax purposes. All expenses, losses and other deductions properly apportioned or allocated to the items of taxable gross income and a ratable part of any other expenses, losses and other deductions which cannot definitely be allocated to some item or class of taxable gross income, but which are related thereto, are allowable in computing taxable income (Section 861(b) and 882(c)(2) of the Code; Treasury Regulation Section 1.882-3(b)(2) and 1.873-1(a)(1)). Such expenses, to the extent allowable under the above rules, may be claimed regardless of whether they are incurred by the New York or Puerto Rican offices of the bank. In other words, the bank is taxed as a single entity regardless of whether the U.S. taxable income is earned by the New York branches or by a Puerto Rican office of the bank.