

received by an "overseas operations funding subsidiary" on obligations of a "related foreign corporation." The provisions of this section are too restrictive. It is recommended instead that the provisions of Section 904(f)(2)(c) be amended to provide an exception for interest received from a corporation in which the taxpayer or an affiliated corporation owns directly or indirectly at least 10% of the voting stock.

Bill section 8

10. Proposed code section 2101(a)

Rate of estate tax on nonresident alien decedents (page 71, lines 19-21 and page 72, lines 1-2) : The Fowler Task Force Report contained a recommendation to "eliminate U.S. estate taxes on all intangible personal property of nonresident alien decedents." We believe this recommendation should be followed. As pointed out in the report:

"Under existing U.S. tax law, a foreigner willing to go through the expense and trouble of establishing a personal holding company, incorporated abroad, and assuring himself that this personal holding company does not run afoul of the U.S. penalty taxes or undistributed personal holding company income, can already legally avoid estate taxes."

The possibility of using such a holding company would be made even easier due to a provision in the bill which would exempt from the personal holding company tax a foreign corporation if all of its stock is owned by foreigners.

Sophisticated investors may take advantage of this means of escaping estate tax; others will reject the complications and additional costs. It would seem preferable to enable both types of investors to acquire U.S. securities without concern for a substantial U.S. estate tax.

11. Proposed code section 2105(b)

Inclusion of bank deposits in the gross estate (page 74, lines 3-7) : The bill would remove the existing exemption from the gross estate for U.S. bank deposits owned by a nonresident alien decedent who was not engaged in business in the United States at the time of his death. This provision should be eliminated from the bill since, if enacted, it is likely to have an immediately adverse effect on the U.S. balance payments.

The exclusion of bank deposits from the gross estate would also result from the adoption of the recommendation in item 9 above. In any event, as far as bank deposits are concerned, the proposed inclusion in the gross estate is clearly in the wrong direction.

COMMENTS OF THE WORLD TRADE CENTER IN NEW ENGLAND, INC. ON H.R. 13103
SUBMITTED BY PATRICK FITZPATRICK, PRESIDENT

I. SUGGESTIONS FOR TECHNICAL CHANGES IN H.R. 13103

1. H.R. 13101 proposed to substitute for the term "resident foreign corporation" in section 882 of the Internal Revenue Code the new concept "effectively connected with the conduct of a trade or business within the U.S." Consequently, sections 861(a)(1) and 861(a)(1)(B) which still refer to "resident foreign corporations" require conforming amendments.

2. H.R. 13103 provides for the addition of section 896 to the Internal Revenue Code which, under appropriate circumstances, makes the existing provisions in Subchapter N and Chapter 3 of the Code applicable. Due to the fact that H.R. 13103, however, does not limit itself to the revision of rules within these mentioned areas of the Code, but also proposes changes of provisions that fall outside of Subchapter N and Chapter 3 (for example, section 542 relating to personal holding companies), it seems likely that it was not intended to restrict the application of this new section 896 to Subchapter N and Chapter 3. Moreover, other Code provisions outside of this area which are changed by this bill, such as section 245 relating to the dividends received deduction, could not be applied reasonably in their revised form if other related rules such as section 861(a)(2)(B) are applied in their present form. For these reasons, we respectfully suggest that section 896 be appropriately amended.

3. H.R. 13103 proposes to add a new subsection (c) to section 2104 of the Code which refers to "debt obligations *owned* by a nonresident alien." This should be contrasted with the language of section 2104(a) dealing with the situs of stock "*owned and held* by a nonresident alien." As it seems doubtful that it was in-