

effectively connected; that is, at a flat 30-percent rate. An adjustment also is made to avoid double taxation which might result from the interaction of the minimum surplus provision for life insurance companies under present law and the new method of taxing foreign life insurance companies.

*12. Discrimination and more burdensome taxes by foreign countries.*—The House bill authorizes the President to reinstate the income, estate, or gift tax provisions in effect prior to the enactment of this bill in the case of foreigners upon a determination that the foreign country in which they are residents or were incorporated is imposing more burdensome taxes on U.S. citizens or domestic corporations on income from sources within the foreign country than the U.S. tax on similar U.S. source income of foreigners. Your committee added an amendment which provides the President with authority in the case of discrimination by a foreign government against U.S. persons, to take such action as is necessary to raise the effective rate of U.S. tax on income received by nationals or corporations of that other country to substantially the same effective rates as are applied in the other country on income of U.S. citizens or corporations.

*13. Foreign community property income.*—A U.S. citizen who is married to a nonresident alien and resident in foreign country with community property laws, is to have an election for post-1966 years to treat the community income of the husband and wife as income of the person who earns it or, in the case of trade or business income, as income of the husband unless the wife manages the business. Income from separate property is to be treated as income of the person owning the property. All other community income is to be governed by the applicable foreign community property law. For open pre-1967 years, an election may also be made and the rules set forth above govern except that the other community income is to be treated as the income of the person who had the greater income from the other community income categories plus separate income.

*14. Foreign tax credit.*—A foreign tax credit is to be allowed nonresident aliens and foreign corporations with respect to foreign taxes on foreign source income which is effectively connected to the conduct of a U.S. business. Your committee extended this provision to include income taxes paid to the foreigner's home country on grounds other than that the income was derived from sources within that country.

*15. Similar income tax credit requirement.*—Under present law a foreign tax credit is denied to citizens of a foreign country who are resident in the United States if the foreign country does not allow a similar credit to U.S. citizens who are resident in the foreign country. In the future the credit is to be denied only where the President finds that this is in the public interest and the foreign country refuses to grant U.S. citizens such a credit when requested to do so.

*16. Separate foreign tax credit limitation.*—The 10-percent exception to the separate application of the limitation on the foreign tax credit for interest income was amended by your committee so as to apply to a U.S. corporation which directly or indirectly owns 10 percent of the foreign corporation from which the interest is derived, or is a member of an affiliated group of corporations which has such ownership. The House bill contained a more limited exception which