

TABLE 1.—*Estimated revenue changes resulting from the foreign investors tax bill*

Tax proposals	Revenue gain or loss (—)		
	Gain	Loss	Net
A. Elimination of progressive taxation of U.S. source income of nonresident alien individuals not engaged in trade or business in the United States.....		—\$748, 000	—\$748, 000
B. Estate tax at top rate of 25 percent on intangibles and tangibles with \$30,000 exemption.....		—3, 000, 000	—3, 000, 000
1. Tax on excluded bank deposits.....	\$300, 000		300, 000
C. Taxation of foreign life insurance company income from nontrusted investments in the United States.....	3, 000, 000		3, 000, 000
D. Saving in interest cost to U.S. Government resulting from quarterly payment of withheld taxes.....	1, 593, 000		1, 593, 000
E. Tax on capital gains.....		—50, 000	—50, 000
Total.....	4, 893, 000	—3, 798, 000	1, 095, 000

NOTE.—Based on the most recently available withholding tax information, quarterly payment of withheld taxes will result in a revenue gain of \$22,500,000 in the fiscal year 1967. Taxes will be collected for 5 quarters in the fiscal year 1967. All 1966 withholding, estimated at \$90,000,000, will be collected on March 15, 1967, plus tax of \$22,500,000 for the 1st quarter of 1967 on April 15, 1967.

The amendments added to the bill by your committee, other than those relating to the Foreign Investors Tax Act, are expected to result in an annual revenue loss (or expenditure increase) of slightly over \$400 million. Two hundred million dollars of this is attributable to the medicare amendment making provision for drugs under the supplementary benefit program. The provision making medical expenses deductible in full with respect to most persons over age 65 is expected to result in an annual revenue loss of \$180 million. An expenditure of approximately \$70 million every 4 years also is expected from the Presidential Election Campaign Fund Act. The remaining provisions added by your committee are expected to result in a further revenue loss of approximately \$10 million a year.

IV. GENERAL EXPLANATION

A. FOREIGN INVESTORS TAX ACT

I. INCOME TAX SOURCE RULES

a. Rules for determining source of certain interest payments (sec. 102(a)(1) of the bill and secs. 861 (a) and (c) of the code)

Present law.—Present law provides that nonresident alien individuals and foreign corporations are subject to U.S. tax only on the income they derive from sources within the United States. For purposes of determining whether the income is from within or without the United States, the code specifically enumerates types of income treated as income from sources within and as income from sources without the United States.

One of the rules under present law provides that interest on deposits paid to foreign persons not engaged in trade or business in the United States is to be treated as income from sources without the United States if the interest is paid by a bank. The Internal Revenue Service in interpreting this rule has held that, in addition to banks, the provision applies to certain deposits with some types of State-chartered savings and loan associations. However, the Service has not interpreted this provision as extending to interest paid on deposits with all savings