

not present in the United States for 90 days during a year should be extended to a period of 183 days. The 183-day period more closely parallels the general rule applied by most of the industrialized countries of the world.

*Explanation of provision.*—For the reasons indicated above the bill substantially revises the income tax treatment of nonresident alien individuals, dividing their income, for tax purposes, into two basic groups according to whether or not the income is effectively connected with a U.S. trade or business.

(A) *Income not effectively connected with the conduct of a U.S. business.*—Income of a nonresident alien individual which is fixed or determinable (substantially the same categories referred to under present law) and which is not effectively connected with the conduct of a trade or business in the United States is to be taxed at a flat 30-percent rate (or lower treaty rate).

Generally, the fixed or determinable income referred to here, as under present law, includes such income as interest, dividends, rents, salaries, annuities, and certain income accorded capital gain treatment. The House bill added two items not included in the list contained in present law and has slightly modified the language of present law so as to clarify this provision as it relates to certain amounts received from pensions or annuity plans, certain timber, iron ore, and coal royalties, and gains on certain transfers of patent rights. The two new items added to the list by the House bill are (1) gains with respect to the sale of stock of a collapsible corporation and (2) amounts received on retirement or exchange of bonds and other evidences of indebtedness issued after September 28, 1965, which are treated as gains from the sale of property which is not a capital asset. Your committee has retained this latter House provision regarding the income received on the retirement or exchange of bonds. However, your committee has deleted the collapsible corporation provision. Additionally, there was some question as to the scope of the provision in the House bill dealing with original issue discount. The reference in the bill to section 1232 refers only to original issue discount on evidences of indebtedness held by a taxpayer for more than 6 months. Also, income constituting original issue discount received on the retirement or sale or exchange of bonds is to be considered as having the same source as interest paid by the corporation issuing the bonds. As a result, if the corporation with respect to whose bonds the original issue discount arises is a domestic corporation which in the prior 3 years derives more than 80 percent of its income from foreign sources, then the original issue discount (interest) at the time of the retirement or sale or exchange of the bonds also will be considered as foreign source income.

Your committee has amended the provision of the House bill regarding gains realized on the sale of a patent or other intangible property. As amended it provides that gains realized on the sale of a patent or other intangible property, where the income from the sale is derived as a result of the use of such property in the United States, is not to be subject to U.S. tax as “fixed and determinable income” (taxed at 30 percent or lower treaty rate) unless a part of the income derived from the sale is contingent. If part of the profits from such sale are contingent, the amount subject to U.S. tax in any year would be the