revoked and can be revoked only with the consent of the Secretary of the Treasury or his delegate.

If the election is revoked, a new election may not be made for 5 years unless the Secretary of the Treasury or his delegate consents to an earlier reelection.

(iii) *Certain pension income.*—Under present law a nonresident alien receiving pension or annuity income from a plan located in the United States is subject to U.S. tax (flat 30 percent or lower treaty rate) on the interest portion of the pension income not withstanding the fact that the services qualifying the nonresident alien for the pension were entirely rendered outside the United States. Your committee has added an amendment to this provision of the bill which would exempt from U.S. tax the type of pension income described above if 90 percent of the persons under the plan were U.S. citizens. It is the understanding of your committee that in general the regulations will provide that the plan paying the pension will be entitled to rely upon information presented by the annuitant or employer regarding the information as to whether or not the annuitant qualifies under this provision.

(iv) *Bond income of residents of the Ryukyu Islands, etc.*—At the present time the Ryukyu Islands (including Okinawa) are governed by the United States and large numbers of the individuals of these islands are in the employ of the U.S. Military Establishment. As such, their savings have frequently been invested in series E or H U.S. savings bonds. Interest income on U.S. savings bonds is, of course, U.S. source income. As a result, under present law the residents of the Ryukyu Islands, as well as the Trust Territory of the Pacific Islands, are subject to a flat 30-percent tax on the income from these bonds. Since investment in U.S. savings bonds in their case is merely a convenient way for these individuals to save a portion of their income, it is difficult for them to see why a tax should be imposed any more than would be true if they were to invest their income, in the islands, in some other type of investment. Because of this, the bill excludes from gross income subject to U.S. tax, income derived by nonresident aliens from U.S. savings bonds (series E or H) if the alien at the time of acquiring the bonds was a resident of the Ryukyu Islands or the Trust Territory of the Pacific Islands.

Effective date.—These amendments apply with respect to taxable years beginning after December 31, 1966.

b. Deductions (sec. 103(c) of the bill and sec. 873 of the code)

Present law.—In the case of a nonresident alien individual, present law generally allows deductions to the extent they are properly allocable to income from sources within the United States but only if the alien's U.S. income is subject to the regular income tax. However, where the regular income tax applies, the deduction of losses is allowed even though they are not connected with a U.S. trade or business if they are incurred in transactions entered into for profit provided that the transaction, had it resulted in a profit, would have been subject to U.S. tax. Also allowed are property losses not connected with a trade or business arising from certain casualties or thefts if the loss is of property located within the United States.

Explanation of provision.—The bill amends present law generally to limit the allowance of deductions in case of a nonresident alien in-