

erally have interpreted this as providing they were not taxable on U.S. source income which is not income of the U.S. life insurance business of the company.

As is indicated above, with respect to their life insurance company business, foreign life insurance companies are taxed, under present law, in substantially the same manner as domestic life insurance companies. However, a special rule is provided where the surplus of a foreign life insurance company held in the United States is less than a specified minimum figure. This figure is expressed as the same percent of the foreign life insurance company's liabilities on U.S. business as the average surplus of domestic corporations is of their total liabilities. The Secretary of the Treasury determines this ratio each year. If the foreign insurance company's surplus held in the United States is less than this proportion of the taxpayer's total insurance liabilities on U.S. business, then the policy and other contract liability requirements, and the required interest for computing gain from operations, are reduced by this deficiency multiplied by the rate of earnings on investments. This provision is designed to prevent foreign insurance companies doing business in the United States from avoiding tax that they would otherwise have to pay to the United States merely by not holding a sufficient amount of surplus attributable to the U.S. business.

*Reason for, and explanation of provisions.*—Your committee agrees with the House that foreign insurance companies—life insurance companies and other insurance companies, including both mutual and stock companies—should, in general, be taxed on their investment income in the same manner as other foreign corporations. For this reason, the bill provides that a foreign corporation carrying on an insurance business within the United States is to be taxable in the same manner as domestic companies carrying on a similar business with respect to its income which is effectively connected with the conduct of a trade or business within the United States. The remainder of the U.S. source income of this type of a corporation is to be taxed in the same manner as income of other foreign corporations which is not effectively connected with a U.S. trade or business; that is, at a flat 30 percent (or lower treaty) rate. The determination of whether a foreign insurance company qualifies for the special domestic insurance treatment is to be made by considering only the income of the corporation which is effectively connected with the conduct of its insurance business carried on in the United States. In making this change your committee intends no inferences as to the requirements of existing law with respect to investment income of foreign insurance companies.

For purposes of determining whether or not income of a foreign life insurance company is effectively connected with the conduct of its U.S. life insurance business, the annual statement of its U.S. business on the form approved by the National Association of Insurance Commissioners will usually be followed. It has been brought to the attention of your committee that certain foreign casualty insurance companies also use this form to indicate their U.S. business connected investment income. The committee does not intend to imply by negative inference that these companies will be precluded from using this form in the future. It is noted that all the income effectively connected with the foreign life insurance company's U.S. life insurance business, from whatever source derived, comes within the ambit of this provision. This a continuation of present law which subjects to U.S.