

tax all the income attributable to the U.S. life insurance business from whatever source derived.

In the case of insurance companies other than life—both mutual and stock—present law provides that if these companies have income from U.S. sources but are not engaged in an insurance business here, they are taxed in the same manner as other foreign corporations. Where mutual insurance companies (other than life or marine) are carrying on an insurance company business in the United States, they are taxable on their income derived from sources within the United States in the same manner as similar domestic mutual companies. Stock casualty, fire, flood, and so forth, insurance companies carrying on an insurance business in the United States, also are taxed in the same manner as domestic stock insurance companies with respect to the portion of their taxable income from sources within the United States.

It has been pointed out that the special rule in present law referred to above with respect to foreign life insurance companies—where these companies hold a lower ratio of surplus for their U.S. business than that held by the average domestic companies—may lead to what in effect is a double tax. This results from the interaction of this provision with the effectively connected rule. Thus for example, a company may find its deductions reduced (because of the minimum surplus requirement) while, at the same time, it is taxed at a flat 30 percent (or lower treaty rate) on investment income in this country not effectively connected with the U.S. business which, in effect, also includes the income subject to the minimum surplus adjustment.

To meet the problem referred to above, your committee's and the House bill adds a paragraph to the provision described above which has the effect of reducing the income subject to the flat 30-percent tax (or lower treaty rate) by the amount by which the deductions under this special provision are reduced as the result of the application of the Secretary's ratio. This is accomplished by allowing a credit against the 30-percent tax (or lower treaty rate) for the tax levied on the hypothetical income attributed to the U.S. life insurance company business.

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

*g. Subpart F income (sec. 104(j) of the bill and sec. 952(b) of the code)*

*Present law.*—Under present law certain portions of the undistributed income of a controlled foreign corporation are taxed currently to its U.S. shareholders having a 10 percent or greater voting interest. This undistributed income so taxed is termed "subpart F income." In determining "subpart F income," there is excluded income of a foreign corporation from U.S. sources which already is taxed by the United States because the corporation is engaged in trade or business in the United States. Present law is interpreted in the income tax regulations as not excluding from "subpart F" income, income exempt from U.S. tax, or subject to a reduced rate of tax, in accordance with a treaty.

The bill modifies existing law to conform this provision with the effectively connected concept and to clarify the language of existing law with respect to income affected by treaties.

*Explanation of provision.*—The bill amends present law to provide that in determining "subpart F income" there is to be excluded only