

permanent establishment in the United States, are denied the benefits of treaty rates or exemptions.

The bill adds to the code a new subsection providing that for purposes of applying any exemption from, or any reduced rate of, tax granted by a treaty to which the United States is a party, with respect to income which is not effectively connected with the conduct of a trade or business within the United States, a nonresident alien individual or foreign corporation shall be deemed not to have a permanent establishment in the United States at any time during the taxable year. In other words, with respect to investment income not effectively connected with a trade or business, a nonresident alien or foreign corporation will be taxed at the lower treaty rate if one is provided. This provision does not apply in computing the special tax applicable to U.S. citizens who become expatriates with a primary purpose of avoiding tax.

*Effective date.*—This new provision is effective for taxable years beginning after December 31, 1966.

*b. Adjustment of tax on nationals, residents, and corporations of certain foreign countries (sec. 105(b) of the bill and new sec. 896 of the code)*

*Imposition of more burdensome taxes.*—Unilaterally revising the statutory pattern of taxation of nonresident aliens and foreign corporations and granting favorable tax treatment to such persons may have the effect of making it more difficult to negotiate satisfactory tax treaties. At the same time, your committee agrees with the House that a systematic modernization of the U.S. income tax treatment of nonresident aliens and foreign corporations requires a modernization of the basic statutory provisions.

To prevent a deterioration in our position in negotiating treaties while at the same time modernizing these statutory provisions, the bill has added a provision to the tax laws which generally grants to the President the authority to apply the income tax law without regard to the amendments which this or later acts make to the provisions relating to the taxation of foreigners (including corporations) in the case of any country which imposes more burdensome taxes on U.S. citizens and corporations than the United States does on nonresident aliens and foreign corporations.

The new section gives special authority to the President where he finds that—

(1) under the laws of any foreign country, citizens of the United States (not residents of the foreign country) or U.S. corporations are being subject to more burdensome taxes on any item of income from sources within the foreign country, than those imposed by the United States on similar U.S. source income of residents or corporations of the foreign country;

(2) when asked so to do the foreign country has not acted to revise or reduce its taxes to eliminate this condition; and

(3) it is in the public interest to reimpose the pre-1967 income tax provisions.

Where these conditions exist, the President may proclaim that the tax on similar income derived from U.S. sources by residents or corporations of the foreign country for taxable years beginning after the proc-