lamation is to be determined by disregarding the amendments to the income tax law, as it relates to nonresident aliens and foreign corporations, made by this bill or by subsequent acts.

If after such a proclamation, the foreign country modifies the offending provisions of its tax law so that the President finds they are no longer more burdensome, he may proclaim that the U.S. tax on similar items of income derived from U.S. sources by residents or corporations of the foreign country, for taxable years beginning after such proclamation, is to be determined by taking into account the amendments made to the income tax provisions of the code relating to nonresident aliens and foreign corporations by this bill and later acts. Before the President makes a proclamation under this new provision, he is to give the Congress 30 days notice of his intention so to do.

Imposition of discriminatory taxes by foreign country.—It was brought to the attention of your committee that there are some foreign countries which discriminate against U.S. persons either generally or with regard to specific classes of U.S. persons. Since the present provisions of the code do not provide the President with authority to counteract discrimination by effecting substantially the same tax on the persons of the discriminating country (the present provision provides only for a doubling of the tax) it was the opinion of your committee that the ability to counteract all degrees of discrimination should be provided the President. Your committee is aware that at the present time the United Kingdom taxes dividends received by a United Kingdom permanent establishment of U.S. corporations at a higher rate than that at which it taxes its own corporations on intercorporate dividends. It is the understanding of your committee that it is situations such as this which may require action under this section.

In view of the foregoing facts your committee added a provision to the House bill granting the President the authority to take such action as is necessary to raise the effective rate of U.S. tax on income received by nationals, residents, or corporations of a discriminating country to substantially the same rates as are applied in the other country.

Effective date.—These provisions are effective for taxable years beginning after December 31, 1966.

c. Foreign community property income (sec. 105(e) of the bill and new sec. 981 of the code)

Present law.—The general income tax provisions provide, in effect, that the worldwide income of a U.S. citizen is subject to tax from whatever source derived. In a recent case,[4] it was held that an American citizen who acquired residence in a foreign country with community property laws, and who married a nonresident alien, had a sufficient interest in one-half of the marital partnership income—even though earned by the husband foreigner—to render her subject to U.S. taxation on that income.

Reasons for provision.—Your committee agrees with the House that it is undesirable to require a U.S. citizen to pay U.S. tax on income earned by a spouse who is a foreigner merely because of the attribution of one-half of the income to the U.S. citizen through the community property laws of the foreign country of residence. Although the tax is levied on the spouse who is a U.S. citizen, it is regarded by most

[4] *Katrushka J. Parsons* v. *Commissioner*, 43 T.C. 331 (1964).