

tions the written statement of the obligation is only evidence of the existence of the debt and hence the debt is situated with the debtor. Your committee agrees with the House that this distinction is an unsatisfactory basis for exempting these bonds from the U.S. estate tax. Moreover, it sees no reason for treating bonds and stock differently in this respect.

*Explanation of provision.*—For the reasons given above the bill adds a new provision to the law providing that for purposes of the tax imposed on the estates of nonresidents not citizens, all debt obligations (including bonds) of a U.S. person, the United States, a State or political subdivision of a State, or of the District of Columbia owned and held by a nonresident not a citizen of the United States are to be deemed to be property situated within the United States. An exception to this rule is provided for debt obligations of U.S. corporations which have derived less than 20 percent of their gross income from U.S. sources for the 3 years prior to the nonresident's death. In such cases these debt obligations are to be considered as having a foreign situs. For purposes of this provision U.S. currency is not to be considered a debt obligation of the United States.

Additionally, a conforming change was also made by your committee with respect to the U.S. estate tax on foreigners' deposits in U.S. branch banks of foreign corporations.

*Effective date.*—This amendment applies with respect to estates of decedents dying after the date of enactment of this bill.

*d. Deposits in U.S. banks or foreign branch banks of U.S. corporations (sec. 108(d) of the bill and sec. 2105 of the code)*

*Present law.*—Present law provides that, for purposes of estate tax, the deposits of nonresident aliens with U.S. persons carrying on the banking business will not be considered to have a situs within the United States if the decedent was not engaged in a trade or business in the United States at the time of his death and a situs within the United States if the decedent was so engaged. This rule applies to deposits in foreign branch banks of U.S. corporations as well as to deposits in domestic branches.

*Reasons for provision.*—As explained above with respect to the rules for determining the source of interest payments on bank deposits with U.S. banks (see No. 1(a), above), your committee agrees with the House that it is questionable whether deposits of this type which are clearly situated in the United States should be treated as though situated without the United States and thereby allowed to escape U.S. estate taxation. On the other hand, deposits in foreign branch banks of U.S. corporations are, in fact, situated in a foreign country. Additionally, with respect to deposits in foreign branch banks of U.S. corporations, it is understood that foreign persons often have been uncertain as to whether they would be held to be "engaged in business in the United States" and that as a result they have been reluctant to deposit their funds in foreign branch banks of U.S. corporations for fear this might subject their estate to U.S. tax. As a result they are likely to place their deposits in competing foreign banks. Thus the present treatment clearly discriminates against the U.S. branches and adversely affects their ability to compete in foreign countries.

*Explanation of provision.*—The House bill would have immediately deleted the provision of present law which treats U.S. bank deposits