

of a nonresident alien as situated without the United States. In order to conform this estate tax provision to the effective date of the income tax provision which taxes the interest derived from these deposits, your committee has amended the House bill to postpone the effective date of this provision until 1972. Your committee did not alter the provisions in the bill which also adds to the code a new provision which deems the situs of deposits by foreigners in foreign branch banks of U.S. corporations to be without the United States except to extend the same rule to foreign branch banks of U.S. partnerships. The new situs rule provides that for purposes of the U.S. estate tax on estates of nonresident aliens, deposits in a foreign branch bank of a U.S. corporation or partnership, if the branch is engaged in the commercial banking business, are not to be deemed to be property within the United States. Therefore these deposits will not be included in the foreigner's taxable U.S. estate.

Effective date.—This amendment is applicable to the estates of decedents dying after the effective date of this act.

e. Definition of taxable estate (sec. 108(e) of the bill and sec. 2106 (a) (3) of the code)

Present law.—Under present estate tax law, the estate of a citizen of the United States is entitled to a \$60,000 exemption. In the case of the estate of a nonresident alien, however, present law allows only a \$2,000 exemption. In the case of decedents who were residents of U.S. possessions at the time of death and are citizens of the United States solely by reason of being a citizen of the possession, or by reason of birth or residence in the possession, the exemption is the greater of \$2,000, or the proportion of the \$60,000 exemption granted to U.S. citizens which the value of that part of the decedent's gross estate which is situated in the United States bears to the value of his entire gross estate.

Reason for provision.—Presumably the basis for having a lower exemption for nonresident aliens than citizens and residents is that they typically have only a portion of their estate in the United States and therefore should have only a portion of the exemption allowed citizens and residents. Your committee agrees with the House that this justifies a lesser exemption for nonresident aliens but the minimal estate tax exemption presently allowed is so low as to place an unreasonable and inequitable tax burden on the estates of nonresident aliens. The exemption level your committee concluded was reasonable for nonresident aliens was \$30,000, or half that allowed in the case of citizens. This is high enough to make filing of returns unnecessary in the case of relatively small investments here. This level of exemption was also selected in conjunction with the rates made applicable to nonresident aliens (see No. (a) above) to assure approximately the same level of tax burdens for a nonresident alien as in the case of citizens of the United States eligible for the marital deduction.

Explanation of provision.—The bill amends the code to provide that the estate of a nonresident not a citizen is allowed to deduct a \$30,000 exemption in computing the taxable estate. The exemption which the estate of a resident of a U.S. possession to which the special rule applies is allowed, under the bill, is to be the greater of \$30,000 or the proportion of the \$60,000 exemption allowable under present law.