

*Effective date.*—These amendments apply to estates of decedents dying after the effective date of this act.

*f. Expatriation to avoid tax (sec. 108(f) of the bill and new sec. 2107 of the code)*

*Present law.*—The U.S. estate tax applies to U.S. citizens and U.S. residents with respect to their estate no matter where situated. However, a foreign estate tax credit is allowable with respect to foreign death taxes paid in the case of property having a situs outside of the United States. In the case of nonresident aliens, a U.S. estate tax also applies but only with respect to property having a U.S. situs. Under present law, if an individual who has been a U.S. citizen gives up this citizenship and becomes a nonresident alien, no tax is imposed with respect to his estate to the extent the property is situated outside of the United States.

*Reason for provision.*—As discussed above with respect to the income tax provision of this bill, your committee and the House are concerned that the elimination of the progressive income tax rates on income of nonresident aliens which is not effectively connected with a U.S. trade or business may encourage some U.S. citizens to surrender their U.S. citizenship and move abroad. Accordingly, the bill contains a provision which generally has the effect of retaining the progressive income tax rates for a period of 10 years in case of persons who become expatriates where it appears likely that they did so for tax avoidance purposes. The same problem exists as a result of the reduction of the estate tax rates applicable to nonresident aliens. Although it is doubtful that many citizens would expatriate for this reason, your committee agrees with the House that the removal of any such incentive is desirable. In these cases the wealth of the expatriate generally would have been accumulated in the United States and therefore is properly subject to the regular U.S. estate tax rates.

*Explanation of provision.*—For this reason, the bill adds a new section to the code which imposes the regular U.S. estate tax rates on the U.S. estate of a nonresident alien dying within 10 years after losing U.S. citizenship if one of the principal purposes of the loss of citizenship was the avoidance of U.S. income, estate, or gift taxes. This provision is not to apply to those who lost their citizenship on or before March 8, 1965 (the date of introduction of a predecessor bill, H.R. 5916, on this topic). It also does not apply in the case of decedents dying on or before the date of enactment of this bill.

In determining the value of the gross estate of such an expatriate (as in the case of nonresident aliens generally) only property situated in the United States that was owned by him at the time of his death is included. However, the U.S. estate tax base of these expatriate decedents is expanded in certain respects to prevent him from avoiding U.S. tax on his estate by transferring assets with a U.S. situs to a foreign corporation in exchange for its stock. Such a transfer by a nonresident alien would reduce the portion of his gross estate having a U.S. situs, since the stock of a foreign corporation has a foreign situs even though the assets of the foreign corporation are situated in the United States. The new provision specifies, if certain stock ownership tests are met, that the value of the expatriate's gross U.S. estate is to include the same proportion of the value of the stock-