

creased the \$2,000 exemption to \$30,000, the return filing requirement is likewise increased by the bill from \$2,000 to \$30,000. This amendment applies with respect to estates of decedents dying after the enactment of this bill.

7. GIFT TAX PROVISIONS

a. Tax on gifts of nonresidents not citizens (sec. 109(a) of the bill and sec. 2501 of the code)

Under present law a gift of intangible property having a U.S. situs by a nonresident alien who is engaged in trade or business in the United States is subject to U.S. gift tax.

In practice this rule has proved to be impossible to enforce, since there is no practical way for the Internal Revenue Service to find out when these gifts are made. Moreover, it does not occur to many nonresident aliens that these transfers are subject to U.S. gift tax. Thus the revenue significance of this provision is minimal.

For the above reasons the bill amends present law to provide that gifts of intangible property by nonresident aliens are not to be subject to the U.S. gift tax.

To prevent this new rule from becoming a means of tax avoidance by U.S. citizens, the bill also provides that the rule is not to apply to gifts by donors who within the 10 years immediately before the gift became expatriates of the United States with a principal purpose of avoiding U.S. income, estate, or gift taxes.

As in the case of similar amendments made by your committee with respect to the income and estate taxes, the new provision provides a special rule relating to the burden of proof. Under this rule if the Secretary of the Treasury or his delegate establishes that it is reasonable to believe that the individual's loss of U.S. citizenship will result in a substantial reduction in the gift tax payable by the donor, the burden of proving that tax avoidance was not one of the principal purposes rests with the donor. Certain types of losses of citizenship, as in the case of similar income and estate tax provisions, are not to result in the application of this provision (see No. 3(c) above).

This amendment applies with respect to the calendar year 1967 and all calendar years thereafter.

b. Situs of bonds given by expatriates (sec. 109(b) of the bill and sec. 2511 of the code)

Under present law bonds issued by U.S. persons, unlike other debt obligations, are considered to be situated where the instrument is located for purposes of the gift tax applicable to nonresident aliens. Under this rule (and in the absence of the provision added here) a citizen who becomes an expatriate with a principal purpose of avoiding U.S. taxes would continue to escape U.S. gift taxation (even under the special gift tax rules this bill makes applicable to them) on the transfer of a debt obligation of a U.S. person. To prevent this result, the bill amends the present gift tax laws to provide that debt obligations of a U.S. person, or of the United States, a State or political subdivision thereof, or the District of Columbia which are owned by such expatriates are deemed to be situated in the United States. This amendment applies with respect to the calendar year 1967 and all calendar years thereafter.