

plies with respect to foreign source effectively connected income so as to extend that credit provision to country of residence taxes.

INCOME TAX SOURCE RULES

The bill also proposes an amendment with respect to the taxation of the interest paid to nonresident aliens and foreign corporations on their U.S. bank deposits. Presently this type of interest income is subject to U.S. tax only if the foreign recipient is engaged in trade or business in the United States. Your committee adopted the provision of the House bill which, in effect, subjects all nonresident aliens and foreign corporations to U.S. tax on the interest income derived from their U.S. bank deposits after 1971. Your committee shared the House's concern that an immediate alteration of the present rule might have an adverse effect upon our balance of payments. Consequently, your committee agreed with the House that it is desirable to postpone the effective date of this provision until after 1971 at which time the Congress will have an opportunity to reconsider the then existing balance-of-payments situation. The bill also provides that as long as bank deposit interest is treated as foreign source income, similar types of interest income are to be given the same treatment.

ESTATE TAX PROVISIONS

Another major provision of the House-passed bill which was approved by your committee would modify the U.S. estate taxation of nonresident aliens. Although the U.S. estates of nonresident aliens are presently subject to the same estate tax rates as citizens or residents, the deductions, exemptions, and credit available to them are substantially less than those allowed to citizens or residents of the United States. Therefore, the estate of a nonresident alien frequently pays a heavier tax on its U.S. assets—and, in some instances, a much heavier tax—than would be true in the case of a similar estate of a U.S. citizen or resident. In an effort to more closely equate the taxation of the U.S. estates of nonresident aliens with the estates of U.S. citizens or residents, the bill establishes a

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new scale of graduated estate tax rates applicable to nonresident aliens, which would tax those estates in an amount which would be generally equivalent to the tax imposed upon an estate of similar value of a U.S. citizen entitled to a marital deduction. Also, the bill would raise the estate tax exemption of nonresident aliens from \$2,000 to \$30,000.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. LAUSCHE. Will the Senator define the term "nonresident alien"?

Mr. LONG of Louisiana. That would

be a person who is not a citizen of the United States and does not reside here.

The present estate tax rule, which excludes deposits in U.S. banks from the gross U.S. estate of a nonresident alien, was amended by the House bill so as to immediately include these assets in the taxable estates of such persons. In view of the fact that the provision dealing with the income taxation of the interest derived by nonresident aliens is not effective until 1972, your committee considered it appropriate to amend the House bill so as to postpone the effective date of this provision until that same date.

EXPATRIATION PROVISIONS

The bill as passed by the House and approved by your committee provides an amendment which establishes special tax treatment for U.S. citizens who expatriate in order to avoid U.S. taxes.

Your committee agrees with the House that such an amendment is necessary since—although there are undoubtedly few Americans who would avail themselves of such a maneuver—but for this provision, the bill does make such a scheme more advantageous. Therefore, we wish to foreclose the possibility that this bill would serve as an encouragement to such people. The expatriation provisions of the House bill provide that U.S. source income and the effectively connected income of a citizen received within 5 years after expatriation will be taxed at the regular U.S. tax rates if a principal purpose of the expatriation was the avoidance of U.S. taxes. Your committee adopted an amendment which would extend the 5-year period in the House bill to 10 years. This was an amendment suggested by the Senator from Delaware [Mr. WILLIAMS], and I believe it is a very good amendment.

OTHER AMENDMENTS TO THE FOREIGN INVESTORS TAX ACT

The remaining amendments regarding the foreign investors tax bill, which I will not discuss in detail, do not in my opinion constitute major changes. In any event, I will ask to include in the RECORD at the conclusion of my remarks a summary of all the changes.

OTHER PROVISIONS

Mr. President, there are a number of other provisions in this bill. Many of them are, I believe, essentially of a technical nature or are relatively minor in importance. I would hope we could agree to them without much discussion.

Mr. President, I ask unanimous consent to insert at this point in the RECORD the summary of the provisions.

There being no objection, the provisions were ordered to be printed in the RECORD, as follows:

SUMMARY OF PROVISIONS

A. THE FOREIGN INVESTORS TAX ACT

1. Interest on deposits in foreign branch