

States is to be taxed in the same manner as income of other corporations which is not effectively connected; that is, at a flat 30-percent rate. An adjustment also is made to avoid double taxation which might result from the interaction of the minimum surplus provision for life insurance companies under present law and the new method of taxing foreign life insurance companies.

12. Discrimination and more burdensome taxes by foreign countries.—The House bill authorizes the President to reinstate the in-

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come, estate, or gift tax provisions in effect prior to the enactment of this bill in the case of foreigners upon a determination that the foreign country in which they are residents or were incorporated is imposing more burdensome taxes on U.S. citizens or domestic corporations on income from sources within the foreign country than the U.S. tax on similar U.S. source income of foreigners. Your committee added an amendment which provides the President with authority in the case of discrimination by a foreign government against U.S. persons, to take such action as is necessary to raise the effective rate of U.S. tax on income received by nationals or corporations of that other country to substantially the same effective rates as are applied in the other country on income of U.S. citizens or corporations.

13. Foreign community property income.—A U.S. citizen who is married to a nonresident alien and resident in foreign country with community property laws is to have an election for post-1966 years to treat the community income of the husband and wife as income of the person who earns it, or in the case of trade or business income, as income of the husband unless the wife manages the business. Income from separate property is to be treated as income of the person owning the property. All other community income is to be governed by the applicable foreign community property law. For open pre-1967 years, an election may also be made and the rules set forth above govern except that the other community income is to be treated as the income of the person who had the greater income from the other community income categories plus separate income.

14. Foreign tax credit.—A foreign tax credit is to be allowed nonresident aliens and foreign corporations with respect to foreign taxes on foreign source income which is effectively connected to the conduct of a U.S. business. Your committee extended this provision to include income taxes paid to the foreigner's home country on grounds other than that the income was derived from sources within that country.

15. Similar income tax credit requirement.—Under present law a foreign tax credit is denied to citizens of a foreign country who are resident in the United States if the foreign country does not allow a similar credit to U.S. citizens who are resident in the foreign country. In the future the credit is to be denied only where the President finds that this is in the public interest and the foreign country refuses to grant U.S. citizens such a credit when requested to do so.

16. Separate foreign tax credit limitation.—The 10-percent exception to the separate application of the limitation on the foreign tax credit for interest income was amended by your committee so as to apply to a U.S. corporation which directly or in-

directly owns 10 percent of the foreign corporation from which the interest is derived, or is a member of an affiliated group of corporations which has such ownership. The House bill contained a more limited exception which would have provided that the separate limitation is not to apply to a domestic funding subsidiary which is formed and availed of for the principal purpose of (1) raising funds outside the United States through foreign public offerings, and (2) using these funds to finance the foreign operations of related foreign corporations.

17. Estate tax rates, exemptions, and returns.—A separate schedule of estate tax rates is made applicable to estates of nonresident aliens. The rates are graduated from 5 percent on the first \$100,000 of a taxable estate to 25 percent on the portion which exceeds \$2 million. The exemption also is raised from \$2,000 to \$30,000. These two measures are designed to accord approximately the same tax treatment in the case of the estate of a nonresident alien as is accorded a similar-sized estate of a citizen eligible for a marital deduction. The filing requirement for returns for the estates of these nonresident aliens also is raised from \$2,000 to \$30,000.

18. Situs rule for bonds.—For purposes of the tax imposed on the estates of nonresident aliens, bonds of a U.S. person, the United States, a State, or political subdivision owned by a nonresident not a citizen of the United States, are to be considered property within the United States and therefore subject to U.S. estate tax. This rule already applies in the case of other forms of debt obligations.

19. Situs rule for bank deposits.—U.S. bank deposits of nonresident aliens are to be treated as property within the United States and therefore subject to U.S. estate tax after 1971. The provisions of the House bill would have been effective immediately.

20. Situs rule for deposits in foreign branch banks.—Deposits in a foreign branch bank of a U.S. corporation or partnership are to be treated as property without the United States and therefore not includable in a foreigner's U.S. estate tax base.

24. Expatriation to avoid estate tax.—The estate of a nonresident alien is to be taxed at the regular U.S. estate tax rates if, within 10 years of his death, the alien had expatriated from the United States with a principal purpose of avoiding U.S. taxes.

22. Tax on gifts of nonresident aliens.—Transfers of intangible property by nonresident aliens are not to be subject to gift tax whether or not they are engaged in business in the United States. However, gifts of intangibles made by citizens who become expatriates within 10 years of making the gift are to be subject to gift tax if the avoidance of income, estate or gift taxes was a principal purpose for their becoming an expatriate. In the case of a person who expatriated for tax avoidance reasons, debt obligations of a U.S. person, or of the United States or a State or political subdivision, are to be treated as having a situs in the United States.

23. Treaty obligations.—No amendment made by this bill is to apply in any case where its application would be contrary to any treaty obligation of the United States. However, the granting of a benefit provided by an amendment made by this bill is not to be considered to be contrary to a treaty obligation. Thus, even though a nonresident alien or foreign corporation has a permanent establishment in the United States, income