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amendments

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(1) *Fixed or determinable income.*—Under the bill, as amended by the Senate, the types of fixed or determinable income specified are generally the same as under present law and the House bill with the same two additions provided in the case of nonresident aliens, namely, (1) contingent income received from the sale of patents and other intangibles, and (2) amounts of original issue discount which are treated as ordinary income received on retirement or sale or exchange of bonds or other evidences of indebtedness issued after September 28, 1965. A corresponding amendment to the House bill deleting the tax on income realized with respect to stock of a collapsible corporation was made in this provision.

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(2) Technical changes.

(b) Tax on income connected with U.S. business. (Pp. 128–133.)

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(1) *Allowance for personal holding company tax purposes of dividends paid deduction.*—Under present law if a foreign corporation is determined to constitute a personal holding company and the foreign corporation has not filed a return or that which was filed is not a true and accurate return, the 70 percent personal holding company tax is assessed without allowance of the dividend-paid deduction. In such cases the combination of the 30 percent tax and the 70 percent personal holding company tax can constitute an effective rate of tax of about 80 percent of the income of the foreign corporation.

This amendment provides that a foreign corporation can claim all appropriate deductions in computing its personal holding company tax notwithstanding the general rule disallowing deductions where no return is filed.

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(2) *Certain interest received by banks in U.S. possessions.*—The application of the flat 30-percent rate to U.S. source income which is not effectively connected with a U.S. trade or business results in a high effective rate of tax on interest received by banks located in U.S. possessions with respect to U.S. Government obligations which they must necessarily hold to meet reserve requirements.

The Senate added an amendment to the House bill which provides that interest received by banks located in a U.S. possession from U.S. Government obligations will be treated as effectively connected with a U.S. trade or business whether or not the bank has such a business. Consequently, the interest received by a bank in a possession from U.S. Government obligations will be taxed on a net basis—gross interest income less allocable expenses.