SUMMARY OF THE FOREIGN INVESTORS TAX ACT OF 1966; PRESIDENTIAL ELECTION CAMPAIGN FUND ACT; AND OTHER AMENDMENTS (H.R. 13103, 89TH CONG., PUBLIC LAW 89-809)

The four titles of H.R. 13103, as enacted, contain provisions dealing with the tax treatment of nonresident aliens and foreign corporations, the establishment of a presidential election campaign fund, the amendment of various other tax provisions, and amendments for other purposes. The more important provisions of the act are summarized as follows:

A. The Foreign Investors Tax Act

Interest on deposits in foreign branch banks of domestic corporations and partnerships.—Interest on deposits with foreign branch banks of U.S. corporations or partnerships is to be treated as foreign source income, and thus is to be free of U.S. income tax when paid to nonresident aliens and foreign corporations.

Source rules for bank deposit interest and similar income.—After December 31, 1972, all interest on U.S. bank deposits (other than those described above), whether or not effectively connected with a U.S. business, is to be treated as U.S. source income (and subject to U.S. income tax) in the case of nonresident aliens and foreign corporations. Until then, this interest on bank deposits, interest paid on accounts with mutual savings banks, domestic building and loan associations, etc., and interest on amounts held by insurance companies on deposit also are to be treated as foreign source income (unless effectively connected with a U.S. business) and thereby free of U.S. income tax.

Rules for determining the source of dividends and interest from foreign corporations.—The source rules with respect to dividends and interest paid by foreign corporations are amended to provide that dividends and interest received from a foreign corporation are to be considered as having a U.S. source only if 50 percent of the corporation's gross income for the prior 3 years was effectively connected with the conduct of a trade or business in the United States.

Compensation for personal services.—The existing special source rule, providing that certain payments of compensation for services performed in the United States by a nonresident alien are treated as foreign source income (and therefore free of U.S. tax) if the services are performed for certain foreign persons or a foreign office of a U.S. corporation, is extended to services performed for a foreign office of a proprietor who is a citizen or resident of the United States or for the foreign office of a domestic partnership.

Trading in stocks or securities or in commodities.—Except in the case of dealers and certain investment companies, trading in stocks or securities in the United States for one's own account, whether by a foreign investor physically present in the United States, through an

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