

Similar income tax credit requirement.—Under prior law a foreign tax credit has been denied to citizens of a foreign country who were resident in the United States if the foreign country did not allow a similar credit to U.S. citizens who were 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.

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 so as to apply to a U.S. corporation which directly or indirectly 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.

State 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 accord approximately the same tax treatment in the case of the estate of a nonresident alien as is accorded a similarsized 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.

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.

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 1972.

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 includible in a foreigner's U.S. estate tax base.

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 has expatriated from the United States with a principal purpose of avoiding U.S. taxes.

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.

Treaty obligations.—No amendment made by this act 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 pro-