

amendments are effective with respect to taxable years beginning after December 31, 1966.

*b. Interest on deposits in foreign branch banks of domestic corporations and partnerships (sec. 102(a)(2) of the act, sec. 861(a)(1)(F) of the code)*

*Prior law.*—Prior law provided that interest paid to nonresident alien individuals or foreign corporations on deposits with foreign branches of U.S. banks, although paid by the foreign branch situated abroad, is treated as from sources within the United States if the recipient of the interest was engaged in a trade or business in the United States.

*Explanation of provision.*—The act provides that the interest on deposits paid by foreign branch banks of U.S. corporations and partnerships is to be treated as foreign source income. Thus, nonresident aliens and foreign corporations will not be subject to U.S. tax on this type of interest income.

*Effective date.*—This amendment is effective with respect to taxable years beginning after December 31, 1966.

*c. Foreign central banks and the Bank for International Settlements (sec. 102(a)(4)(A) of the act and sec. 895 of the code)*

*Prior law.*—Under existing law interest received by a foreign central bank of issue from obligations of the U.S. Government is exempt from U.S. tax unless the obligations are used by the central bank in commercial transactions. In addition foreign central banks of issue and the Bank for International Settlements are not subject to tax on interest income from their U.S. bank deposits since bank-deposit interest received by nonresident aliens and foreign corporations not engaged in a trade or business within the United States is deemed to be from sources without the United States.

The central banks of issue are generally the custodians of the banking reserves of their countries and usually carry on most of the monetary functions of their countries in much the same way as our Federal Reserve Board. The Bank for International Settlements is an international organization, in practice used primarily to aid European central banks of issue in their international financial operations, to promote cooperation among these central banks and to act as trustee in regard to certain international financial settlements. At present, all the central banks of Europe, except that of the Soviet Union, belong to the Bank for International Settlements and over 90 percent of the Bank's deposits are owned by these central banks.

*Explanation of provision.*—The act specifically exempts from U.S. tax interest received by foreign central banks of issue and the Bank for International Settlements from U.S. bank deposits unless the deposits are held in connection with commercial transactions of these banks. Therefore, after 1972, this will distinguish their tax treatment for interest on bank deposits from that accorded other foreign persons. Amendments were also made which would exempt interest received by the Bank for International Settlements from U.S. Government obligations. In addition, an amendment was adopted extending the governmental obligation rule to include obligations of agencies or instrumentalities of the United States (including beneficial interests, participations, and other instruments issued under sec. 302(c) of the Federal National Mortgage Association Charter Act).