

The act deals with the problem described above by providing that nonresident aliens deriving income from real property held for the production of income and located in this country, or from an interest in this type of real property located in this country, may elect to treat all the income as effectively connected to the conduct of a U.S. trade or business. This permits the nonresident alien to utilize the deductions attributable to this real estate income and be taxed on only his net income from these sources.

The election is applicable with respect to gains from the sale or exchange of real property held for the production of income (or an interest therein) and rents or royalties from mines, wells, or other natural deposits, as well as certain timber, iron ore, and coal royalties. The election is not applicable to income not specifically covered by these provisions, such as distributions by real estate investment trusts. If the election is made, it applies to all the alien's income from U.S. real property for the taxable year which is not otherwise "effectively connected" with the conduct of a trade or business in this country. The election applies for all subsequent taxable years until revoked and can be revoked only with the consent of the Secretary of the Treasury or his delegate.

If the election is revoked, a new election may not be made for 5 years unless the Secretary of the Treasury or his delegate consents to an earlier reelection.

(iii) *Certain pension income.*—Under prior law a nonresident alien receiving pension or annuity income from a plan located in the United States was subject to U.S. tax (flat 30 percent or lower treaty rate) on the interest portion of the pension income notwithstanding the fact that the services qualifying the nonresident alien for the pension were entirely rendered outside the United States. This amendment exempts from U.S. tax the type of pension income described above if 90 percent of the persons under the plan are U.S. citizens. It is the understanding of the Congress that in general the regulations will provide that the plan paying the pension will be entitled to rely upon information presented by the annuitant or employer to determine whether or not the annuitant qualifies under this provision.

(iv) *Bond income of residents of the Ryukyu Islands, etc.*—At the present time the Ryukyu Islands (including Okinawa) are governed by the United States and large numbers of the individuals of these islands are in the employ of the U.S. Military Establishment. As such, their savings have frequently been invested in series E or H U.S. savings bonds. Interest income on U.S. savings bonds is, of course, U.S. source income. As a result, under prior law the residents of the Ryukyu Islands, as well as the Trust Territory of the Pacific Islands, were subject to a flat 30-percent tax on the income from these bonds. The act excludes from gross income subject to U.S. tax, income derived by nonresident aliens from U.S. savings bonds (series E or H) if the alien at the time of acquiring the bonds was a resident of the Ryukyu Islands or the Trust Territory of the Pacific Islands.

*Effective date.*—These amendments apply with respect to taxable years beginning after December 31, 1966.

*b. Deductions (sec. 103(c) of the act and sec. 873 of the code)*

*Prior law.*—In the case of a nonresident alien individual, prior law generally allowed deductions to the extent they were properly al-