

locable to income from sources within the United States but only if the alien's U.S. income was subject to the regular income tax. However, where the regular income tax applied, the deduction of losses was allowed even though they were not connected with a U.S. trade or business if they were incurred in transactions entered into for profit provided that the transaction, had it resulted in a profit, would have been subject to U.S. tax. Also allowed were property losses not connected with a trade or business arising from certain casualties or thefts if the loss was of property located within the United States.

Explanation of provision.—The act generally limits the allowance of deductions in case of a nonresident alien individual to deductions allocable to income which is effectively connected with the conduct of a trade or business in the United States. The allowance of deductions is limited in this manner, since it is only effectively connected income which under the act is subject to the regular income tax.

In addition, the act deletes the provision relating to the deduction of losses not connected with a trade or business but incurred in transactions entered into for profit since the criteria for the allowance of deductions under the act is whether or not they are effectively connected with the conduct of a trade or business in the United States. However, the casualty loss deduction is to be available even if the property which gives rise to the loss is not effectively connected with the conduct of a trade or business in the United States if the property is located in this country. Also, the charitable contribution deduction is available even though not related to the trade or business.

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

c. Expatriation to avoid tax (sec. 103(f) of the act and new sec. 877 of the code)

Prior law.—The U.S. individual income tax applies to U.S. citizens, U.S. residents, and to nonresident aliens, but in this latter case, generally only with respect to income derived from sources within the United States. Under prior law, if an individual who had been a U.S. citizen gave up this citizenship and became a nonresident, no tax was then imposed with respect to income he derived from sources without the United States. Moreover, under prior law the regular graduated rates applicable to a citizen applied in the case of an expatriate only if he was engaged in a trade or business in the United States or his income exceeded \$21,200.

Explanation of provision.—The act added a new section to the code which, in general, taxes both effectively connected income and any other U.S. source income of an expatriate at regular income tax rates, if he surrendered his citizenship within 10 years of the taxable year in question (and after March 8, 1965) and if one of the principal purposes of the expatriation was the avoidance of U.S. income, estate, or gift taxes. This treatment is not to apply if it results in a smaller U.S. income tax than would otherwise be imposed.

In addition, the new section contains special source rules to be used in determining an expatriate's U.S. source income. These rules provide that gains from the sale or exchange of property (other than stock or debt obligations) located in the United States, and gains on the sale or exchange of stock of a domestic corporation or debt obligations of U.S. persons or of the United States, a State or political subdivision,