

alien individuals with respect to any item of income (other than compensation for services) which is effectively connected with the conduct of a trade or business within the United States. It is the understanding of the Congress that the person required to withhold will be relieved of any liability for failure to withhold if the failure was in reliance upon information as to whether or not the income was effectively connected, furnished (in accordance with regulations to be issued) by the person entitled to the receipt of the income. The act specifically provides for withholding on the following additional types of income: (1) the contingent income derived from the sale of patents and other intangibles; (2) a foreign partner's share of the U.S. income of a domestic partnership which is not effectively connected with the partnership's business; and (3) amounts received on retirement or exchange of bonds issued after September 28, 1965, which are treated as gains from the sale of property which is not a capital asset (sec. 1232).

In the case of salary and wage income, the act also correlates the 30-percent-withholding rate applicable to nonresidents aliens with the domestic graduated withholding rates. Thus, the act amends present law to provide that the Secretary of the Treasury or his delegate may, by regulations, exempt compensation for services performed by non-resident aliens from the 30-percent withholding and require withholding at the domestic graduated withholding rates.

The act also makes amendments of a technical nature to conform the language of the withholding provisions to the language used in the other taxing provisions.

*Effective date.*—The amendment relating to the 30-percent withholding rule applies with respect to payments made in taxable years beginning after December 31, 1966. The amendment relating to domestic wage withholding applies with respect to remuneration paid after December 31, 1966.

*f. Withheld taxes and declarations of estimated income tax (secs. 103 (i) and (j) of the act and secs. 1461 and 6015 of the code)*

Under prior law, persons who were required to withhold on amounts paid to nonresident aliens and foreign corporations were required to file a return and remit the taxes withheld during any calendar year by March 15 of the following year. This procedure was unusual since all other withheld taxes, such as the employees' social security taxes and domestic wage withholding, are required to be remitted (together with the return) at least quarterly.

The act amends prior law to provide the Treasury Department with the authority to require more current remittance of the taxes withheld on nonresident aliens and foreign corporations. This amendment is effective with respect to payments made after December 31, 1966.

The act also amends the provisions of prior law which require individuals to file declarations of estimated tax. The amendment continues prior law which includes nonresident aliens within the category of individuals required to file these declarations. However, the application of this provision to nonresident aliens is limited to those who receive income which is effectively connected with the conduct of a trade or business within the United States.

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