

*e. Similar credit requirement (sec. 106(b) (2) and (3) of the act and secs. 901(c) and 2104(a) and new (h) of the code)*

*Prior law.*—Under prior law, the foreign tax credit for income, etc., or death taxes are allowable to an alien who is a resident of the United States (or Puerto Rico) only if the foreign country in which the alien is a citizen or subject, in imposing its income, etc., or death taxes, allows a similar credit to citizens of the United States residing in such country.

*Explanation of provision.*—The act modifies the provision of prior law which in all cases denies a credit for citizens of a foreign country if it does not provide reciprocity for U.S. citizens residing there. Under the act the President is given some discretion as to the disallowance of the credits in such cases. The act provides that the President is to deny a foreign tax credit to residents who are subjects of a foreign country if he finds: (1) That a foreign country, in imposing income, war profits, and excess profits taxes or death taxes does not allow U.S. citizens residing in that country a credit for any taxes paid or accrued to the United States or any foreign country, similar to the foreign tax credit allowed by the United States to subjects of that foreign country residing in the United States; (2) that the foreign country, when requested to do so, has not acted to provide a similar credit to U.S. citizens residing in that foreign country; and (3) that it is in the public interest to allow the U.S. foreign tax credit to citizens or subjects of the foreign country who reside in the United States only if the foreign country allows such a similar credit to citizens of the United States residing in the foreign country.

The disallowance of the credit in any such case is to apply for taxable years beginning while a Presidential proclamation denying the credit is in effect.

*f. Separate foreign tax credit limitation (sec. 106(c) of the act and sec. 904(f) of the code)*

*Prior law.*—Generally, under existing law the limitation on the allowable foreign tax credit must be computed separately for all interest income on a “per country” basis. Prior to this act, the exceptions to this general rule were:

(1) Interest derived from any transactions directly related to the active conduct of a trade or business in a foreign country or U.S. possession;

(2) Interest derived in the conduct of a banking, financing, or similar business (such as an insurance company business);

(3) Interest received from a corporation in which the taxpayer owned at least 10 percent of the voting stock; and

(4) Interest received on obligations acquired as the result of the disposition of a trade or business actively conducted by a taxpayer in a foreign country or as a result of a disposition of stock or obligations of a corporation in which the taxpayer owned at least 10 percent of the voting stock.

*Explanation of provision.*—The Act amends the 10-percent exception in (3) above to provide that the special limitation on interest from foreign corporations is not to apply with respect to interest income received by a U.S. lending corporation which directly or indirectly owns at least 10 percent of the foreign corporation from which the interest is derived. For purposes of this provision stock owned directly or