(h) Withholding of Tax on Nonresident Aliens.—Section 1441 (relating to withholding of tax on nonresident aliens) is amended— 68A Stat. 357. 26 USC 1441.

(1) by striking out ", or of any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens," in subsection (a) and inserting in lieu thereof "or of any foreign partnership";

(2) by striking out "(except interest on deposits with persons carrying on the banking business paid to persons not engaged in business in the United States)" in subsection (b);

(3) by striking out "and amounts described in section 402(a)(2)" and all that follows in the first sentence of subsection (b) and inserting in lieu thereof "gains described in section 402(a)(2), 403(a)(2), or 631 (b) or (c), amounts subject to tax under section 871(a)(1)(C), gains subject to tax under section 871(a)(1)(D), and gains on transfers described in section 1235 made on or before October 4, 1966."; 26 USC 402, 403, 631, 1235, Ante, p. 1547.

(4) by adding at the end of subsection (b) the following new sentence:

"In the case of a nonresident alien individual who is a member of a domestic partnership, the items of income referred to in subsection (a) shall be treated as referring to items specified in this subsection included in his distributive share of the income of such partnership.";

(5) by striking out paragraph (1) of subsection (c) and inserting in lieu thereof the following new paragraph:

"(1) Income connected with United States business.—No deduction or withholding under subsection (a) shall be required in the case of any item of income (other than compensation for personal services) which is effectively connected with the conduct of a trade or business within the United States and which is included in the gross income of the recipient under section 871 (b)(2) for the taxable year.";

(6) by amending paragraph (4) of subsection (c) to read as follows: 75 Stat. 536.

"(4) Compensation of certain aliens.—Under regulations prescribed by the Secretary or his delegate, compensation for personal services may be exempted from deduction and withholding under subsection (a).";

(7) by striking out "amounts described in section 402(a)(2), section 403(a)(2), section 631 (b) and (c), and section 1235, which are considered to be gains from the sale or exchange of capital assets," in paragraph (5) of subsection (c) and inserting in lieu thereof "gains described in section 402(a)(2), 403(a)(2), or 631 (b) or (c), gains subject to tax under section 871(a)(1)(D), and gains on transfers described in section 1235 made on or before October 4, 1966,", and by striking out "proceeds from such sale or exchange," in such paragraph and inserting in lieu thereof "amount payable,";

(8) by adding at the end of subsection (c) the following new paragraph: 70 Stat. 563.

"(7) Certain annuities received under qualified plans.—No deduction or withholding under subsection (a) shall be required in the case of any amount received as an annuity if such amount is, under section 871(f), exempt from the tax imposed by section 871 (a)."; and

(9) by redesignating subsection (d) as (e), and by inserting after subsection (c) the following new subsection:

"(d) Exemption of Certain Foreign Partnerships.—Subject to such terms and conditions as may be provided by regulations prescribed by the Secretary or his delegate, subsection (a) shall not apply