

(b) **DIVIDENDS FROM UNITED STATES SOURCES.**—Section 861(a)(2)(B) (relating to dividends from sources within the United States) is amended to read as follows:

“(B) from a foreign corporation engaged in trade or business within the United States unless less than 80 percent of the gross business income of such foreign corporation for the 3-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was derived from sources within the United States as determined under the provisions of this part; but only in an amount which bears the same ratio to such dividends as the gross business income of the corporation for such period derived from sources within the United States bears to its gross income from all sources; but dividends from a foreign corporation shall, for purposes of subpart A of part III (relating to foreign tax credit), be treated as income from sources without the United States to the extent exceeding the amount which is 100/85ths of the amount of the deduction allowable under section 245 in respect of such dividends, or”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply with respect to interest or dividends paid in taxable years beginning after December 31, 1965.

SEC. 3. NONRESIDENT ALIEN INDIVIDUALS.

(a) **TAX ON NONRESIDENT ALIEN INDIVIDUALS.**—Section 871 (relating to tax on nonresident alien individuals) is amended to read as follows:

“SEC. 871. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

“(a) **NO UNITED STATES BUSINESS—30 PERCENT TAX.**—There is hereby imposed for each taxable year, in lieu of the tax imposed by section 1, on the amount received, by every nonresident alien individual not engaged in trade or business within the United States, from sources within the United States, as interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income (including 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), a tax of 30 percent of such amount.

“(b) **UNITED STATES BUSINESS.**—

“(1) **BUSINESS INCOME—GRADUATED RATE OF TAX.**—A nonresident alien individual engaged in trade or business within the United States shall be taxable as provided in section 1 on that portion of his taxable income from sources within the United States which is business income, and the amount of tax under this paragraph shall be determined without taking into account any income which is not business income.

“(2) **NONBUSINESS INCOME—33 PERCENT TAX.**—There is hereby imposed for each taxable year, in lieu of the tax imposed by section 1, on the amount received, by every nonresident alien individual engaged in trade or business within the United States, from sources within the United States, as income other than income taxable under paragraph (1), a tax of 30 percent of such amount. The tax imposed by this paragraph shall not apply to gains from the sale or exchange of capital assets but shall apply to 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.

“(3) **BUSINESS INCOME DEFINED.**—In the case of a nonresident alien individual, business income includes all income derived from the conduct of a trade or business, wherever carried on, by such individual, including gains derived from the sale or exchange of property used in the conduct of a trade or business, except that such income shall not include dividends or gain from the sale or exchange of stock in a corporation.

“(c) **ENGAGED IN TRADE OR BUSINESS DEFINED.**—For purposes of part I, this section, sections 881 and 882, and chapter 3, the term ‘engaged in trade or business within the United States’ includes the performance of personal services within the United States at any time within the taxable year, but does not include—

“(1) **PERFORMANCE OF PERSONAL SERVICES FOR FOREIGN EMPLOYER.**—The performance of personal services, for a nonresident alien individual, foreign partnership, or foreign corporation, not engaged in trade or business within the United States, or for an office or place of business maintained by a domestic corporation in a foreign country or in a possession of the United States, by a