"(2) the deductions shall be allowed to the extent, and in the manner provided by, section 931 in the case of a citizen of the United States entitled to the benefits of such section, except that the capital loss carryover provided by section 1212(b) shall not be allowed.

"(c) SPECIAL RULES OF SOURCE.—For purposes of subsection (b), the following items of gross income shall be treated as income from sources within the United States:

"(1) SALE OF PROPERTY.—Gains, profits, and income derived from the sale or exchange of property (other than stock in corporations or debt obligations) situated in the United States.

"(2) STOCKS OR DEBT OBLIGATIONS.—Gains, profits, and income derived from the sale or exchange of stocks or debt obligations issued by or enforceable against United States persons.

"(d) EXCEPTION FOR LOSS OF CITIZENSHIP FOR CERTAIN CAUSES.—Subsection (a) shall not apply to a nonresident alien individual who has lost United States citizenship under section 301(b), 350, or 355 of the Immigration and Nationality Act, as amended (8 U.S.C. 1401(b), 1482, or 1487).

"(e) BURDEN OF PROOF.—For purposes of subsection (a), the burden of proving that an individual's loss of United States citizenship did not have for one of its principal purposes the avoidance of United States taxes shall be on such individual."

(e) CREDIT FOR PARTIALLY TAX-EXEMPT INTEREST.—Subsection (c) of section 35 (relating to certain nonresident aliens ineligible for credit) is amended to read as follows:

"(c) CREDIT NOT APPLICABLE TO TAX ON CERTAIN INCOME OF NONRESIDENT ALIENS.—In the case of a nonresident alien individual, credit shall be allowed under subsection (a) only—

"(1) against the tax imposed for the taxable year under section 871(b)(1) and only in respect of interest which constitutes business income, or

"(2) against the tax imposed for the taxable year under section 878(b)."

(f) PARTIAL EXCLUSION OF DIVIDENDS.—Subsection (d) of section 116 (relating to certain nonresident aliens ineligible for exclusion) is amended to read as follows:

"(d) CERTAIN NONRESIDENT ALIENS INELIGIBLE FOR EXCLUSION.—In the case of a nonresident alien individual, subsection (a) shall apply only in determining the tax imposed for the taxable year under section 878(b)."

(g) WITHHOLDING OF TAX ON NONRESIDENT ALIENS.—Section 1441 (relating to withholding of tax on nonresident aliens) is amended—

(1) 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);

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

"(1) BUSINESS INCOME.—No deduction or withholding under subsection (a) shall be required in the case of any item of income which is business income on which a tax is imposed for the taxable year under section 871(b)(1)."; and

(3) by adding at the end of subsection (c) the following new paragraph:

"(7) ELECTION TO TREAT REAL PROPERTY INCOME AS BUSINESS INCOME.—No deduction or withholding under subsection (a) shall be required in the case of any income from real property described in section 871(f) if such income is treated as business income pursuant to an election made under such section."

(h) LIABILITY FOR WITHHELD TAX. Section 1461 (relating to return and payment of withheld tax) is amended to read as follows:

"SEC. 1461. LIABILITY FOR WITHHELD TAX.

"Every person required to deduct and withhold any tax under this chapter is hereby made liable for such tax and is hereby indemnified against the claims and demands of any person for the amount of any payments made in accordance with the provisions of this chapter."

(i) DECLARATION OF ESTIMATED INCOME TAX BY INDIVIDUALS.—Section 6015 (relating to declaration of estimated income tax by individuals) is amended—

(1) by striking out that portion of subsection (a) which precedes paragraph (1) and inserting in lieu thereof the following:

"(a) REQUIREMENT OF DECLARATION.—Except as otherwise provided in subsection (i), every individual shall make a declaration of his estimated tax for the taxable year if—"; and

(2) by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection: