

"(i) **NONRESIDENT ALIEN INDIVIDUALS.**—No declaration shall be required to be made under this section by a nonresident alien individual unless—

"(1) withholding under chapter 24 is made applicable to the wages, as defined in section 3401 (a), of such individual,

"(2) such individual is a resident of Puerto Rico during the entire taxable year,

"(3) such individual is an expatriate United States citizen whose tax for the taxable year is imposed pursuant to section 878(b),

"(4) such individual is exempt under section 1441(c)(1) for the taxable year from deduction and withholding under section 1441(a) on business income, or

"(5) such individual is exempt under section 1441(c)(7) for the taxable year from deduction and withholding under section 1441(a) on income from real property."

(j) **GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY.**—The second sentence of paragraph (3) of section 1250(d) (relating to certain tax-free transactions) is amended to read as follows: "This paragraph shall not apply to—

"(A) a disposition to an organization (other than a cooperative described in section 521) which is exempt from the tax imposed by this chapter, or

"(B) a transfer of property by a nonresident alien individual, a foreign estate or trust, or a foreign partnership, to a domestic corporation in exchange for stock or securities in such corporation in a transaction to which section 351 applies."

(k) **TECHNICAL AMENDMENTS.**—

(1) Section 154(3) (relating to cross references in respect of deductions for personal exemptions) is amended to read as follows:

"(3) For exemptions of nonresident aliens, see section 873(b)(3)."

(2) The table of sections for subpart A of part II of subchapter N of chapter 1 (relating to nonresident alien individuals) is amended by inserting at the end thereof the following:

"Sec. 878. Expatriation to avoid tax."

(1) **EFFECTIVE DATES.**—

(1) The amendments made by this section (other than the amendments made by subsection (g)) shall apply with respect to taxable years beginning after December 31, 1965, except that subsection (d) shall apply only in the case of an individual who has lost United States citizenship after March 8, 1965.

(2) The amendments made by subsection (g) shall apply with respect to payments occurring after December 31, 1965.

SEC. 4. FOREIGN CORPORATIONS.

(a) **TAX ON FOREIGN CORPORATIONS NOT ENGAGED IN BUSINESS IN UNITED STATES.**—Section 881 (relating to imposition of tax) is amended—

(1) by striking out "(except interest on deposits with persons carrying on the banking business)" in subsection (a);

(2) by redesignating subsection (b) as subsection (c); and

(3) by adding after subsection (a) the following new subsection:

"(b) **ELECTION TO TREAT REAL PROPERTY INCOME AS BUSINESS INCOME.**—Notwithstanding subsection (a), a foreign corporation, not engaged in trade or business within the United States, which during the taxable year derives from sources within the United States any income from real property, or from any interest in real property, including gains from the sale or exchange of real property, rents or royalties from the operation of mines, wells, or other natural deposits, and dividends (to the extent constituting income from real property) received from a real estate investment trust described in section 857, may, under regulations prescribed by the Secretary or his delegate, elect for such year to treat all such income as business income which is taxable in the manner provided by section 882(a)(1). The election provided by this subsection shall be made in accordance with, and subject to, the provisions of section 871(f)."

(b) **TAX ON RESIDENT FOREIGN CORPORATIONS.**—Section 882 (relating to tax on resident foreign corporations) is amended to read as follows:

"SEC. 882. TAX ON RESIDENT FOREIGN CORPORATIONS."

"(a) **IMPOSITION OF TAX.**—

"(1) **BUSINESS INCOME—NORMAL TAX AND SURTAX.**—A foreign corporation engaged in trade or business within the United States shall be taxable as