

but only to the extent the amount so received is not effectively connected with the conduct of a trade or business within the United States.

“(b) DOUBLING OF TAX.—

“For doubling of tax on corporations of certain foreign countries, see section 891.”

(b) TAX ON INCOME CONNECTED WITH UNITED STATES BUSINESS.—

(1) Section 882 (relating to tax on resident foreign corporations) is amended to read as follows:

“SEC. 882. INCOME OF FOREIGN CORPORATIONS CONNECTED WITH UNITED STATES BUSINESS.

“(a) NORMAL TAX AND SURTAX.—

“(1) IMPOSITION OF TAX.—A foreign corporation engaged in trade or business within the United States during the taxable year (or during any preceding taxable year beginning after December 31, 1965) shall be taxable as provided in section 11 or 1201 (a) on its taxable income which is effectively connected with the conduct of such trade or business.

“(2) DETERMINATION OF TAXABLE INCOME.—In determining taxable income for purposes of paragraph (1), gross income includes only gross income which is effectively connected with the conduct of the trade or business within the United States.

“(b) GROSS INCOME.—In the case of a foreign corporation, gross income includes only—

“(1) gross income which is derived from sources within the United States and which is not effectively connected with the conduct of a trade or business within the United States, and

“(2) gross income which is effectively connected with the conduct of a trade or business within the United States.

“(c) ALLOWANCE OF DEDUCTIONS AND CREDITS.—

“(1) ALLOCATION OF DEDUCTIONS.—

“(A) GENERAL RULE.—In the case of a foreign corporation, the deductions shall be allowed only for purposes of subsection (a) and (except as provided by subparagraph (B)) only if and to the extent that they are effectively connected with the conduct of a trade or business within the United States; and the proper apportionment and allocation of the deductions for this purpose shall be determined as provided in regulations prescribed by the Secretary or his delegate.

“(B) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions and gifts provided by section 170 shall be allowed whether or not effectively connected with the conduct of a trade or business within the United States.

“(2) DEDUCTIONS AND CREDITS ALLOWED ONLY IF RETURN FILED.—A foreign corporation shall receive the benefit of the deductions and credits allowed to it in this subtitle only by filing or causing to be filed with the Secretary or his delegate a true and accurate return, in the manner prescribed in subtitle F, including therein all the information which the Secretary or his delegate may deem necessary for the calculation of such deductions and credits. This paragraph shall not be construed to deny the credit provided by section 32 for tax withheld at source or the credit provided by section 39 for certain uses of gasoline and lubricating oil.