only if 80 percent or more of the gross income of the corporation for the preceding 3 years was effectively connected with the conduct of a trade or business in the United States. The portion considered to be from sources in the United States equals the portion of the foreign corporation's income for that period which is effectively connected to such trade or business. Under present law, a portion of a foreign corporation's dividends are considered to be from U.S. sources if 50 percent or more of its income for the 3 preceding years was from U.S. sources.

6. *Compensation for certain personal services.*—The bill adds the foreign office or place of business of a citizen or resident of the United States or of a domestic partnership to the list of foreign employers whose payments of compensation to nonresident alien employees for services rendered in the United States is to be treated as having a source without the United States. Similarly, the bill provides that the performance of services in the United States for a foreign office or place of business of such U.S. employers does not constitute engaging in a trade or business in the United States by such employees. As under present law, these special rules apply only if the alien is temporarily present in the United States for not more than 90 days in the taxable year and the compensation does not exceed $3,000.

7. *Trading in stock or securities or in commodities.*—The bill excludes from the term "engaged in trade or business in the United States" trading in stocks or securities or in commodities in the United States by nonresident aliens or foreign corporations (other than dealers) in person or through an agent who has discretion to carry on such trading activities. However, a foreign investment company whose principal office is in the United States will be considered engaged in trade or business here. The exclusion of present law only applies if the trading is done through a resident independent agent not having discretion. This rule continues to apply to foreign dealers.

8. *Income "effectively connected" with the conduct of a trade or business in the United States.*—The bill prescribes factors to be taken into account in determining whether an item of income is "effectively connected" with the conduct of a trade or business in the United States. Among the factors to be considered are whether—

(1) the gains, profits, and income or loss are derived from assets used in or held for use in the conduct of such trade or business,

(2) the gains, profits, and income or loss are accounted for through such trade or business, or

(3) the activities of the trade or business were a material factor in the realization of the gains, profits, and income or loss.

Under this rule, income may be "effectively connected" to a branch office in the United States even though the income itself is from foreign sources (a foreign tax credit is allowed under appropriate circumstances in such cases).

9. *Tax on ordinary income of nonresident alien individuals.*—The bill provides for the taxation of the income of nonresident alien individuals which is "effectively connected" with the conduct of a trade or business in the United States at the regular graduated rates applicable to individuals, and for the taxation of income not so connected at a flat 30-percent rate (or the lower applicable treaty rate).