

which is not so connected. Under present law, if a foreign corporation has a trade or business in the United States, all of its income from U.S. sources is taxed at the regular corporate rates. Only if the foreign corporation is not engaged in a trade or business here, does the flat 30-percent rate (or applicable treaty rate) apply to its income from U.S. sources.

18. *Income from real property.*—The bill permits a foreign corporation to elect to treat income from United States real property as income which is effectively connected with the conduct of a trade or business in the United States (in cases in which this is not, in fact, true). This enables such a corporation to receive the benefits of the deductions connected with this income and to be taxable at the regular corporate income tax rates on it.

19. *Withholding of tax on foreign corporations.*—The bill requires withholding at a 30-percent rate (or lower applicable treaty rate) on payments to a foreign corporation of income which is not effectively connected with the conduct of a trade or business in the United States irrespective of whether the corporation is engaged in business in the United States. Under present law withholding is required only if the corporation is not engaged in a trade or business within the United States.

20. *Deduction for dividends received from foreign corporations.*—The bill conforms the 85-percent dividends received deduction provision applicable to dividends received from foreign corporations to the "effectively connected income" concept. Instead of providing this deduction where 50 percent or more of its gross income is from U.S. sources, the bill makes the deduction available only where 50 percent of its gross income is effectively connected with the conduct of a U.S. trade or business.

21. *Corporations subject to personal holding company tax.*—The bill exempts from the personal holding company tax a foreign corporation if all of its stock outstanding during the last half of its taxable year is owned by foreigners whether held by them directly or indirectly through foreign estates, foreign trusts, foreign partnerships, or other foreign corporations. Under present law this exemption applies only if the foreign corporation derives less than 50 percent of its income from U.S. sources.

22. *Foreign corporations carrying on insurance business in the United States.*—The bill provides that foreign insurance companies are to be taxed in the same manner as domestic insurance companies on their income which is effectively connected with the conduct of a trade or business within the United States. Income which is not so connected (even though the company is engaged in an insurance business here) is to be taxed in the same manner as foreign corporations generally; i.e., at a flat 30-percent rate (or at the lower applicable treaty rate).

23. *Income affected by treaty.*—The bill provides that in the case of income which is not effectively connected with the conduct of a trade or business within the United States, any reduced rate of tax under a treaty (or exemption from tax) applicable where there is no permanent establishment in the United States is also to be applicable to such income even though there is a permanent establishment in the United States.

24. *Application of pre-1966 income tax provisions.*—The bill, in certain circumstances, permits the President to reinstate the income tax provisions of the code in effect prior to the enactment of this bill with