

SEC. 881. INCOME OF FOREIGN CORPORATIONS NOT CONNECTED WITH UNITED STATES BUSINESS.

(a) *IMPOSITION OF TAX.*—There is hereby imposed for each taxable year a tax of 30 percent of the amount received from sources within the United States by a foreign corporation as—

(1) *interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, and other fixed or determinable annual or periodical gains, profits, and income,*

(2) *gains described in section 631 (b) or (c), and*

(3) *amounts which under section 341, or under section 1232 (in the case of bonds or other evidences of indebtedness issued after _____), are treated as gains from the sale or exchange of property which is not a capital asset, 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.

SEC. 882. [TAX ON RESIDENT FOREIGN CORPORATIONS.] 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) *[the] 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.*—

[(2)] (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 **[income**