

received by such citizens or corporations within the United States, whether derived from sources within or without the United States.

(c) **DEFINITION.**—For purposes of this section, the term “possession of the United States” does not include the Virgin Islands of the United States, and such term when used with respect to citizens of the United States does not include Puerto Rico.

[(d) DEDUCTIONS.—

[(1) Citizens of the United States entitled to the benefits of this section shall have the same deductions as are allowed by section 873 in the case of a nonresident alien individual engaged in trade or business within the United States.

[(2) Domestic corporations entitled to the benefits of this section shall have the same deductions as are allowed by section 882 (c) in the case of a foreign corporation engaged in trade or business within the United States.]

(d) DEDUCTIONS.—

(1) **GENERAL RULE.**—*Except as otherwise provided in this subsection and subsection (e), in the case of persons entitled to the benefits of this section the deductions shall be allowed only if and to the extent that they are connected with income from sources within the United States; and the proper apportionment and allocation of the deductions with respect to sources of income within and without the United States shall be determined as provided in part I, under regulations prescribed by the Secretary or his delegate.*

(2) **EXCEPTIONS.**—*The following deductions shall be allowed whether or not they are connected with income from sources within the United States:*

(A) *The deduction, for losses not connected with the trade or business if incurred in transactions entered into for profit, allowed by section 165(c)(2), but only if the profit, if such transaction had resulted in a profit, would be taxable under this subtitle.*

(B) *The deduction, for losses of property not connected with the trade or business if arising from certain casualties or theft, allowed by section 165(c)(3), but only if the loss is of property within the United States.*

(C) *The deduction for charitable contributions and gifts allowed by section 170.*

(3) DEDUCTION DISALLOWED.—

For disallowance of standard deduction, see section 142(b)(2).

(e) **DEDUCTION FOR PERSONAL EXEMPTION.**—A citizen of the United States entitled to the benefits of this section shall be allowed a deduction for only one exemption under section 151.

(f) **ALLOWANCE OF DEDUCTIONS AND CREDITS.**—Persons entitled to the benefits of this section shall receive the benefit of the deductions