

be made solely on the basis of income. Since the qualification tests actually depend on other elements of the operation, for example, reserves, we have suggested a wording that may be more satisfactory. We have also included in brackets the words "and not under section 882", to underline the intent of section 842. We do not think the above draft alters the intent of section 842 in any way.)

SEC. 894. INCOME AFFECTED BY TREATY.

(a) **INCOME EXEMPT UNDER TREATY.**—Income of any kind, to the extent required by any treaty obligation of the United States, shall not be included in gross income and shall be exempt from taxation under this subtitle.

(b) **PERMANENT ESTABLISHMENT IN UNITED STATES.**—For purposes of applying, with respect to income which is not effectively connected with the conduct of a trade or business within the United States, any exemption from, or reduction of any tax provided by any treaty to which the United States is a party, a nonresident alien individual or a foreign corporation shall be deemed not to have a permanent establishment in the United States at any time during the taxable year. This subsection shall not apply in respect of the tax computed under section 877(b).

(Explanation: In line 5 of subsection (b) above the word "a" has been added before "foreign corporation" to remove any possible misinterpretation of the existing wording to mean nonresident foreign corporation. This is in accordance with our understanding of the intent of section 894.)

SEC. 1442. WITHHOLDING OF TAX ON FOREIGN CORPORATIONS

(a) In the case of foreign corporations subject to taxation under this subtitle there shall be deducted and withheld at the source in the same manner and on the same items of income as is provided in section 1441 or section 1451 a tax equal to 30 percent thereof; except that, in the case of interest described in section 1451 (relating to tax-free covenant bonds), the deduction and withholding shall be at the rate specified therein. For purposes of the preceding sentence, the reference in section 1441(c)(1) to section 871(b)(1) shall be treated as referring to section 842 or 882(a) as the case may be.

(b) Under regulations prescribed by the Secretary or his delegate, any items of income payable to a foreign life insurance company taxable under part 1 of subchapter L may be exempted from deduction and withholding under subsection (a).

MANUFACTURING CHEMISTS' ASSOCIATION, INC.

Washington, D.C., February 23, 1966.

HON. WILBUR D. MILLS,

*Chairman, Ways and Means Committee, House of Representatives,
Washington, D.C.*

DEAR MR. CHAIRMAN: This letter is being sent to you on behalf of the Manufacturing Chemists' Association (MCA), a nonprofit trade