

(n) **EFFECTIVE DATES.**—

(1) The amendments made by this section (other than the amendments made by subsections (h) and (k)) shall apply with respect to taxable years beginning after December 31, 1966.

(2) The amendments made by subsection (h) shall apply with respect to payments occurring after December 31, 1966.

(3) The amendments made by subsection (k) shall apply with respect to remuneration paid after December 31, 1966.

SEC. 4. FOREIGN CORPORATIONS.

(a) **TAX ON INCOME NOT CONNECTED WITH UNITED STATES BUSINESS.**—Section 881 (relating to tax on foreign corporations not engaged in business in the United States) is amended to read as follows:

“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 September 28, 1965), 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.”

(b) **TAX ON INCOME CONNECTED WITH UNITED STATES BUSINESS.**—

(1) Section 882 (relating to tax on resident foreign corporations) is amended to read as follows:

“SEC. 882. 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 shall be taxable as provided in section 11 or 1201(a) on its taxable income which is effectively connected with the conduct of a trade or business within the United States.

“(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 a trade or business within the United States.

“(b) **GROSS INCOME.**—In the case of a foreign corporation, gross income includes only—

“(1) 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.**—

“(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 connected with income which is effectively connected with the conduct of a trade or business within the United States; and the proper apportionment and allocation of the deductions for this purpose shall be determined as provided in regulations prescribed by the Secretary or his delegate.

“(B) **CHARITABLE CONTRIBUTIONS.**—The deduction for charitable contributions and gifts provided by section 170 shall be allowed whether or not connected with income which is effectively connected with the conduct of a trade or business within the United States.