

(h) **SUBPART F INCOME.**—Section 952(b) (relating to exclusion of United States income) is amended to read as follows:

“(b) **EXCLUSION OF UNITED STATES INCOME.**—In the case of a controlled foreign corporation, subpart F income does not include any item of income from sources within the United States which is effectively connected with the conduct by such corporation of a trade or business within the United States unless such item is exempt from taxation (or is subject to a reduced rate of tax) pursuant to a treaty obligation of the United States.”

(i) **GAIN FROM CERTAIN SALES OR EXCHANGES OF STOCK IN CERTAIN FOREIGN CORPORATIONS.**—Paragraph (4) of section 1248 (d) (relating to exclusions from earnings and profits) is amended to read as follows:

“(4) **UNITED STATES INCOME.**—Any item includible in gross of the foreign corporation under this chapter—

“(A) for any taxable year beginning before January 1, 1967, as income derived from sources within the United States of a foreign corporation engaged in trade or business within the United States, or

“(B) for any taxable year beginning after December 31, 1966, as income effectively connected with the conduct by such corporation of a trade or business within the United States.

This paragraph shall not apply with respect to any item which is exempt from taxation (or is subject to a reduced rate of tax) pursuant to a treaty obligation of the United States.”

(j) **DECLARATION OF ESTIMATED INCOME TAX BY CORPORATIONS.**—Section 6016 (relating to declarations of estimated income tax by corporations) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

“(f) **CERTAIN FOREIGN CORPORATIONS.**—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11.”

(k) **TECHNICAL AMENDMENTS.**—

(1) Section 884 is amended to read as follows:

“SEC. 884. CROSS REFERENCES.

“(1) For special provisions relating to unrelated business income of foreign educational, charitable, and certain other exempt organizations, see section 512(a).

“(2) For special provisions relating to foreign corporations carrying on an insurance business within the United States, see section 842.

“(3) For rules applicable in determining whether any foreign corporation is engaged in trade or business within the United States, see section 864(b).

“(4) For reinstatement of pre-1967 income tax provisions in the case of corporations of certain foreign countries, see section 896.

“(5) For allowance of credit against the tax in case of a foreign corporation having income effectively connected with the conduct of a trade or business within the United States, see section 906.

“(6) For withholding at source of tax on income of foreign corporations, see section 1442.”

(2) Section 953(b) (3) (F) is amended by striking out “832(b) (5)” and inserting in lieu thereof “832(c) (5)”.

(3) Section 1249(a) is amended by striking out “Except as provided in subsection (c), gain” and inserting in lieu thereof “Gain”.

(l) **EFFECTIVE DATES.**—The amendments made by this section (other than subsection (i)) shall apply with respect to taxable years beginning after December 31, 1966. The amendment made by subsection (i) shall apply with respect to sales or exchanges occurring after December 31, 1966.

SEC. 5. SPECIAL TAX PROVISIONS.

(a) **INCOME AFFECTED BY TREATY.**—Section 894 (relating to income exempt under treaties) is amended to read as follows:

“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.