

connected with the conduct of a U.S. trade or business is in accord with the general concept, explained subsequently, of treating U.S. source investment income essentially the same with respect to foreign corporations whether or not they have a trade or business in the United States. As is explained further subsequently, different treatment with respect to this investment income does not appear appropriate merely on the grounds of the presence or absence in the United States of an unassociated trade or business of the foreign corporation.

(c) *Explanation of provision.*—To achieve the objectives set forth above your committee's bill amends the source rule with respect to dividends paid by foreign corporations to provide that no portion of a dividend received from a foreign corporation is to be considered to be from U.S. sources unless 80 percent or more of the corporation's gross income for the 3-year period preceding the year in which the dividend is declared, was effectively connected with the conduct of a trade or business in the United States. Thus, the effect of the interaction of these two rules is to decrease the portion of the dividends likely to remain subject to U.S. tax: this reduction occurs first because only income which is effectively connected to a U.S. trade or business is taken into account and, second, because, even with respect to such income, only if in the last 3-year period it accounted for 80 percent or more of the corporation's gross income.

The bill also contains a transitional rule providing that, in applying the new 80-percent test, all income derived from sources within the United States, and not merely that effectively connected to a trade or business in the United States, is to be taken into account for determinations made with respect to periods beginning before the effective date of these new provisions. Thus, any gross income of the foreign corporation from U.S. sources, for any period before the first taxable year beginning after December 31, 1966, is treated as effectively connected income in applying this test.

(d) *Effective date.*—These amendments are effective with respect to dividends received after December 31, 1966.

5. *Compensation for personal services (secs. 2 (c) and (d) of the bill and secs. 861(a)(3)(C)(ii) and 864(b)(1) of the code)*

(a) *Present law.*—Present law provides that payments of compensation for services performed in the United States generally are treated as U.S. source income. An exception to this rule is provided for compensation received by a nonresident alien where certain conditions are met. Thus, payments for personal services received by a nonresident alien are treated as foreign source income if (1) he was temporarily present in the United States for not over 90 days during the year; (2) the compensation does not exceed \$3,000; and (3) the services are performed for a foreign employer not engaged in a trade or business in the United States or for a domestic corporation if the services are performed for an office or place of business it maintains in a foreign country or U.S. possession. Also, present law provides that the rendering of personal services in the cases described above is not to constitute engaging in a trade or business in the United States.

(b) *Reasons for provision.*—Your committee's attention was called to the fact that temporary personal services of the type described above on occasion may be rendered not only for a domestic corporation hav-