

since it only applies to income which is effectively connected to a U.S. trade or business instead of including all U.S. source income of an alien with such a trade or business. For purposes of determining whether or not income is effectively connected with the conduct of a trade or business in the United States, the rules discussed above in connection with the definition of effectively connected income (No. 2, pt. B, above) apply.

(3) *Miscellaneous types of income receiving special treatment.*—Under present law certain types of income are provided special treatment. The bill revises and extends these categories as indicated below.

(i) *Participants in exchange programs.*—Your committee's bill retains the rule in present law which treats nonresident aliens temporarily in the United States as part of a cultural exchange or training program as engaged in a trade or business in the United States even though they are actually not so engaged. The provision is modified to provide in such cases that this type of income is effectively connected to a U.S. trade or business. The effect of treating these categories of income as effectively connected to a U.S. trade or business (or under present law as derived from a U.S. trade or business) is to impose the regular U.S. income tax on these aliens on the taxable portion of their scholarship or fellowship grants and certain other amounts incident to these grants. In this computation one exemption (except in the case of contiguous countries) and the deductions allocable to this income are allowed. In the absence of this special provision, these aliens would be taxed on these grants (and amounts incident thereto) at the flat 30 percent rate. In most cases the 30 percent tax would substantially exceed the regular tax on this income.

The types of income referred to under present law as scholarship or fellowship grants received by a nonresident alien individual temporarily present in the United States as a nonimmigrant (under subpar. (F) or (J) of sec. 101(a) (15) of the Immigration and Nationality Act) or received by a citizen or resident, are, subject to a dollar limitation, exempt from U.S. tax.

Present law (sec. 872(b) (3)) also excludes from gross income compensation paid by a foreign employer to a nonresident alien for the period he is temporarily present in the United States as a nonimmigrant for the purposes of participating in a cultural or training program. Under present law this is available where the "foreign employer" is a foreign person or a domestic corporation having an office in a foreign country or U.S. possession. The bill extends this to also cover a domestic partnership or a U.S. citizen or resident with such a foreign office.

(ii) *Income from real property.*—Under present law, it is not clear as to what situations or arrangements for the ownership by a nonresident alien of real property located in the United States will cause the nonresident alien to be considered as engaging in a trade or business within this country. This, of course, is important since the question of whether or not the alien is engaging in a trade or business in the United States determines whether his U.S. source capital gains are subject to U.S. tax and whether his other U.S. source income is taxable at the regular individual income rates, with allocable deduc-