

that they are properly attributable to income which is effectively connected with the conduct of a trade or business within the United States. Charitable contributions, however, are allowed whether or not attributable to income which is effectively connected. As under present law, deductions are permitted only if a true and accurate income tax return is filed.

(d) *Effective date.*—These amendments apply with respect to taxable years beginning after December 31, 1966.

*2. Withholding of tax on foreign corporations (sec. 4(c) of the bill and sec. 1442 of the code)*

Under present law, the fixed or determinable U.S. source income of a foreign corporation not engaged in trade or business in the United States, like that of a nonresident alien not engaged in a trade or business in the United States, is subject to a withholding tax of 30 percent. However, foreign corporations engaged in trade or business in the United States are not subject to the withholding tax.

The bill amends the withholding provisions of present law to conform to the effectively connected concept in the bill. Thus, under the bill a withholding tax at the 30-percent rate will apply in the case of a foreign corporation to items of fixed or determinable U.S. source income which are not effectively connected with the conduct of a trade or business in the United States. The bill provides that this 30 percent withholding provision is not applied if the Secretary of the Treasury determines that the withholding requirements impose an undue administrative burden and that the collection of the tax will not be jeopardized by an exemption.

This latter point was added by your committee after its attention was called to the administrative difficulty foreign insurance companies would have in keeping dividend payors informed as to which investments are effectively connected with their U.S. business and which are not. In cases like this, if the Treasury concludes that revenue will not be jeopardized (or delayed) by foregoing withholding, your committee concluded it would be desirable to do so. This amendment is applicable to taxable years beginning after December 31, 1966.

*3. Deduction for dividends received from foreign corporations (sec. 4(d) of the bill and sec. 245(a) of the code)*

(a) *Present law.*—In general, present law allows an 85 percent dividend-received deduction for dividends received from domestic corporations. In order for this deduction to be available in the case of dividends from a foreign corporation, it must be engaged in a trade or business in the United States for an uninterrupted period of at least 3 years and 50 percent of its gross income must be from U.S. sources during that period. Where these conditions exist, an 85 percent dividend-received deduction is available for the same proportion of the dividend as the corporation's gross income, which is from U.S. sources, is of its total gross income.

(b) *Explanation of the provision.*—Your committee's bill conforms the dividends-received deduction to the effectively connected concept appearing elsewhere in the bill. Under the bill 50 percent or more of the foreign corporation's gross income for the uninterrupted period must be from income effectively connected with the conduct