

percent tax (or lower treaty rate) for the tax levied on the hypothetical income attributed to the U.S. life insurance company business.

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

7. *Subpart F income (sec. 4(h) of the bill and sec. 952(b) of the code)*

(a) *Present law.*—Under present law certain portions of the undistributed income of a controlled foreign corporation are taxed currently to its U.S. shareholders having a 10 percent or greater voting interest. This undistributed income so taxed is termed “subpart F income.” In determining “subpart F income,” there is excluded income of a foreign corporation from U.S. sources which already is taxed by the United States because the corporation is engaged in trade or business in the United States. Present law is interpreted in the income tax regulations as not excluding from “subpart F” income, income exempt from U.S. tax, or subject to a reduced rate of tax, in accordance with a treaty.

Your committee’s bill modifies existing law to conform this provision with the effectively connected concept and to clarify the language of existing law with respect to income affected by treaties.

(b) *Explanation of provision.*—Your committee’s bill amends present law to provide that in determining “subpart F income” there is to be excluded only those items of income effectively connected with the conduct by the foreign corporation of a trade or business within the United States. It also makes it clear that “subpart F” income includes items exempt from U.S. tax or subject to a reduced rate pursuant to a treaty.

(c) *Effective date.*—This amendment applies with respect to taxable years beginning after December 31, 1966.

8. *Gain from certain sales or exchanges of stock in certain foreign corporations (sec. 4(i) of the bill and sec. 1248(d) of the code)*

(a) *Present law.*—Present law treats the gain realized by a 10-percent U.S. shareholder from the sale or exchange of stock of certain foreign corporations as a dividend, to the extent the post-1962 earnings and profits of the corporation are attributable to the shares being sold or exchanged. In determining the earnings and profits to be taken into account in determining this gain, present law excludes U.S. source income of a foreign corporation engaged in a U.S. trade or business. Consistent with the interpretation of similar language applicable to the determination of “subpart F income” explained above, these earnings and profits have been construed by the regulations as including income exempt from U.S. tax or subject to a reduced rate by treaty.

(b) *Explanation of provision.*—Your committee’s amendment provides that for years beginning on or after January 1, 1967, the earnings and profits of the foreign corporation (for purposes of sec. 1248) is not to include income effectively connected with the conduct of a trade or business within the United States. In addition, the amendment makes it clear that the exclusion does not apply to income which is exempt from tax, or subject to a reduced rate, pursuant to a treaty.

(c) *Effective date.*—This amendment applies to sales or exchanges occurring after December 31, 1966.