

dent of that country or a corporation because it is created, incorporated or domiciled in that country. Precedence appropriately should not be given for such taxes because they are not imposed by the country which is the source of the income. In addition, these taxes, sometimes called residual taxes, are not to be deductible, whether or not the individual or corporation elects to take the foreign tax credit. The term "domiciled" for this purpose is intended to include any basis used by a foreign country for ascertaining jurisdiction (other than the source of the income) to tax a corporation on its worldwide income, such as the location of management and control of the corporation within the country.

The credit is allowed under the existing foreign tax credit provision and is subject to the existing "per-country" or "overall" limitations. The "per-country" limitation restricts the credit to the proportion of the U.S. tax which the taxpayer's taxable income from sources within the particular country bears to his entire taxable income for the year. Similarly the "overall" limitation restricts the credit to the proportion of the U.S. tax which the taxpayer's taxable income, from sources without the United States, bears to his entire taxable income for the year. In determining the credit allowable to a nonresident alien individual or a foreign corporation under these limitations, the individual's or corporation's taxable income is to include only the taxable income effectively connected with the taxpayer's conduct of a trade or business within the United States. Moreover, the credit is not allowable against U.S. taxes imposed at the flat 30-percent rate on income not effectively connected with the conduct of a trade or business in the United States.

Under some circumstances, present law treats a portion of the foreign taxes paid by certain foreign subsidiaries of a domestic corporation as having been paid by the domestic corporation for purposes of computing its foreign tax credit. Your committee's bill accords this same treatment to foreign corporations, but its application is limited to income effectively connected with the conduct of a trade or business within the United States.

(d) *Effective date.*—These amendments apply for taxable years beginning after December 31, 1966. In applying the foreign tax credit carryback and carryover provisions of present law to nonresident aliens and foreign corporations no amount may be carried to or from a taxable year beginning before January 1, 1967.

5. *Similar credit requirement (sec. 6(b) (2) and (3) of the bill and secs. 901(c) and 2014(b) of the code)*

(a) *Present law.*—Under present law, the foreign tax credit for income, etc., or death taxes are allowable to an alien who is a resident of the United States (or Puerto Rico) only if the foreign country of which the alien is a citizen or subject, in imposing its income, etc., or death taxes, allows a similar credit to citizens of the United States residing in such country.

(b) *Reason for provision.*—It has been called to the attention of your committee that present law acts to deny the credit to alien residents of the United States who are citizens of countries which may be following foreign policies which are adverse to the United States.