corporation for such period from sources within the United States will be considered, by reason of the amendment contained in paragraph (2) of section 2(b) of the bill, to be gross income effectively connected with the conduct of a trade or business within the United States.

The substance of the provision in section 861(a) (2) (B) of the code which provides in effect that, for purposes of determining the foreign tax credit, dividends paid by a foreign corporation are from sources without the United States to the extent that they exceed an amount which is 100/85ths of the amount of the deduction allowable under section 245 of the code in respect of such dividends is not changed by the bill. Thus, for example, if a dividend paid by a foreign corporation is not considered to be from sources within the United States under amended section 861(a) (2) (B) because less than 80 percent of such corporation's gross income from all sources for the applicable period was effectively connected with its conduct of a trade or business in the United States, and if the recipient of such dividend is a corporation which is allowed a deduction in respect of such dividend under section 245, as amended by section 4(d) of the bill, because 50 percent or more of the foreign corporation's gross income from all sources for the applicable period was effectively connected with the conduct of a trade or business within the United States by the foreign corporation, only a portion of such dividend is treated as income from sources without the United States for purposes of the foreign tax credit.

(*c*) *Personal services.*—Subsection (c) of section 2 of the bill amends subparagraph (C) (ii) of section 861(a) (3) of the code (relating to the source of income from personal services). The amendment is effective for taxable years beginning after December 31, 1966. Existing section 861(a) (3) provides that compensation for personal services performed in the United States is income from sources within the United States except in a case where the tests contained in subparagraphs (A), (B), and (C) are satisfied in respect of the compensation. Subparagraph (C) (ii) presently provides, as one of the tests to be satisfied, that the exception to the general source rule of section 861(a) (3) applies only if the compensation is for services performed by the nonresident alien individual as an employee of, or under a contract with, a domestic corporation, if the services are performed for an office or place of business maintained in a foreign country or in a possession of the United States by such domestic corporation. The test prescribed by amended subparagraph (C) (ii) continues the existing provision but broadens it so as to apply to services performed by the nonresident alien individual for an office or place of business maintained in a foreign country or in a possession of the United States by an individual who is a citizen or resident of the United States or by a domestic partnership.

(*d*) *Definitions.*—Subsection (d) (1) of section 2 of the bill amends section 864 of the code (relating to definitions) by redesignating the existing provisions of section 864 as section 864(a). Subsection (d)(2) of section 2 of the bill adds new subsection (b) (relating to trade or business within the United States) and new subsection (c) (relating to effectively connected income) to section 864. These amendments are effective for taxable years beginning after December 31, 1966.