

alien individual, or by a foreign corporation, engaged in trade or business within the United States, if such income does not consist of income of the types described in section 871(a)(1) or 881(a) or of gains from the sale or exchange of capital assets. On the other hand, all income from sources within the United States, other than gains from the sale or exchange of capital assets which are not effectively connected with the conduct of a trade or business within the United States, are subject to U.S. tax, either under amended section 871(a)(1) or 871(b) in the case of a nonresident alien individual who is engaged in trade or business within the United States, or under amended section 881 or 882(a) in the case of a foreign corporation which is engaged in trade or business within the United States.

Gains which are not effectively connected with the conduct of a trade or business within the United States and which are derived from sources within the United States from the sale or exchange of capital assets are subject to U.S. tax only if the provisions of amended section 871(a)(2) apply. The income, gain, or loss to which paragraph (3) applies will be treated as income effectively connected with the conduct of a trade or business within the United States, whether or not there is any connection between such income, gain, or loss and the trade or business being carried on in the United States during the taxable year in respect of which the tax is being determined.

Income from sources without the United States

Paragraph (4) of new subsection (c) contains the rules applicable for determining, in the case of a nonresident alien individual, or of a foreign corporation, engaged in trade or business within the United States during the taxable year, whether income, gain, or loss from sources without the United States is to be treated as income, gain, or loss which is effectively connected with the conduct of a trade or business within the United States.

General rule

Subparagraph (A) of paragraph (4) provides that, except as provided in subparagraphs (B) and (C), no income from sources without the United States is to be treated as effectively connected with the conduct of a trade or business within the United States. Under existing law, a nonresident alien individual or a foreign corporation is not subject to U.S. tax upon any of its income derived from sources outside the United States, except in the case of a life insurance company to which section 819(a) of the code applies. The provisions of sections 861 through 863 of the code are to apply in determining whether an item of income is from sources within or without the United States. Section 864(c) does not affect these rules of source in sections 861 through 863 (except in the case of interest described in amended sec. 861(c) and of dividends described in amended sec. 861(a)(2)(B)).

Income attributable to business office in the United States

Subparagraph (B) of paragraph (4) describes certain types of income, gain, or loss which, although treated as income, gain, or loss from sources without the United States, may be treated as income, gain, or loss effectively connected with the conduct of a trade or business within the United States and therefore be taken into account for purposes of