

shall be treated as effectively connected with the conduct of a trade or business within the United States. This provision is consistent with the treatment accorded by existing section 819(a) of the code in the case of a foreign life insurance company carrying on a life insurance business within the United States.

*Excluded dividends, interest, royalties, and subpart F income*

Subparagraph (D) of paragraph (4) provides, notwithstanding the provisions of subparagraphs (B) and (C), that certain types of income, gain, or loss from sources without the United States are in no case to be treated as effectively connected with the conduct of a trade or business within the United States by a nonresident alien individual or foreign corporation. Clause (i) of subparagraph (D) provides for the exclusion of dividends, interest, or royalties from sources without the United States paid by a foreign corporation in which the taxpayer owns (within the meaning of sec. 958(a) of the code), or is considered as owning (by applying the constructive ownership rules of sec. 958(b)), more than 50 percent of the total combined voting power of all classes of stock entitled to vote.

Clause (ii) of subparagraph (D) provides for the exclusion of any income from sources without the United States which is subpart F income within the meaning of section 952(a) of the code. Under that section a foreign corporation can have subpart F income only if it is a controlled foreign corporation within the meaning of section 957. In general, the subpart F income of a controlled foreign corporation is includible in the income of its shareholders who are U.S. shareholders within the meaning of section 951(b). However, exceptions to this general rule are provided by sections 951 (c) and (d) and 963 of the code. For purposes of the exclusion provided by clause (ii) of subparagraph (D), income of a controlled foreign corporation may be subpart F income even though some of such income is not includible in the income of a U.S. shareholder under section 951 because of the ownership of shares in such company by foreign shareholders. However, income of a controlled foreign corporation will not be considered subpart F income for purposes of clause (ii) of subparagraph (D) if it is excluded from subpart F income by any provision of subpart F of part III of subchapter N of chapter 1 of the code.

(e) *Effective dates.*—Subsection (e) of section 2 of the bill provides the effective dates for the amendments made by section 2 of the bill. Paragraph (1) provides that the amendments made by subsections (a), (c), and (d) apply with respect to taxable years beginning after December 31, 1966, except that in applying section 864(c)(4)(B)(iii) of the code, as added by subsection (d) of section 2, with respect to a binding contract entered into on or before February 24, 1966, activities in the United States on or before such date in negotiating or carrying out such contract are not to be taken into account. Paragraph (2) provides that the amendments made by subsection (b) apply with respect to amounts received after December 31, 1966. Section 861(c) of the code, as added by subsection (a)(1)(B) of section 2, also provides that amended section 861(a)(1)(A) and new section 861(c) are to cease to apply with respect to amounts paid or credited after December 31, 1971.