

business within the United States at any time during the taxable year and who has not previously established a taxable year, as defined in section 441(b) of the code, is considered to have a taxable year which is a calendar year, as defined in section 441(d). Subsequent adoption of a fiscal year as the taxable year will be treated as a change in the taxpayer's annual accounting period to which section 442 applies and may only be made with the approval of the Secretary or his delegate.

If in the course of the taxable year an individual changes his status from that of a citizen or resident of the United States to that of a nonresident alien individual, or vice versa, the determination for purposes of paragraph (2) whether the individual has been present in the United States for 183 days or more during the taxable year shall be made by taking into account the entire taxable year, and not just that portion of the taxable year during which he has the status of a nonresident alien individual.

Deductions

The 30-percent tax of section 871(a) is imposed upon the gross amount of gains, profits, and income subject to tax, and no deductions are allowed except to the extent of taking losses into account for purposes of determining the excess amount of capital gains taxable under section 871(a)(2). The tax is not imposed, however, upon that portion of any item which does not constitute gross income, and thus, for example, the tax imposed under section 871(a)(1) on an annuity would be determined after the application of section 72 of the code. For rules pertaining to deductions, see section 873, as amended by subsection (c) of this section of the bill.

(b) *Income connected with U.S. business—Graduated rate of tax.*—Section 871(b) provides for the imposition of a graduated tax on the income derived by a nonresident alien individual which is effectively connected with the conduct of a trade or business within the United States.

Imposition of tax

Paragraph (1) of section 871(b) provides for a tax, to be computed at the graduated rates provided in section 1 or 1201(b), on the taxable income of a nonresident alien individual which is effectively connected with the conduct of a trade or business within the United States by such individual, whether such income is derived from sources within, or from sources without, the United States. Except as provided in amended section 871(d), the tax provided pursuant to the provisions of paragraph (1) applies only if the nonresident alien individual is engaged in trade or business within the United States at some time during the taxable year for which the tax is being determined.

The tax imposed pursuant to paragraph (1) is imposed only on the nonresident alien individual's taxable income which is effectively connected with any trade or business carried on by such individual within the United States, even though the trade or business with which the income is effectively connected is not the same as that currently carried on within the United States by such individual. Any income of such individual which is not effectively connected with a trade or business carried on within the United States is not to be taken into