

account in determining the tax imposed pursuant to paragraph (1), even though such income is not subject to the 30-percent tax imposed by section 871(a). Similarly, losses which are not effectively connected with the conduct of a trade or business within the United States are not to be taken into account in determining the tax under subparagraph (1) except as provided in section 873 (b), as amended by subsection (c) of this section of the bill.

The determination of whether the nonresident alien individual is engaged in trade or business within the United States, and the determination of what gross income is to be treated as effectively connected with the conduct of such trade or business, are to be made under the rules set out in section 864 (b) and (c), as added by section 2(d) of the bill. Since a nonresident alien individual is considered to be engaged in trade or business within the United States by reason of performing personal services therein, such as an employee, the wages, salaries, fees, compensations, emoluments, or other remuneration, including bonuses, received for such personal services are income effectively connected with the conduct of such trade or business. Pensions, retirement pay, or annuities attributable to such services constitute income which is effectively connected with the conduct of such trade or business within the United States if the recipient of such income is engaged in trade or business within the United States in the taxable year of such recipient in which such income is received.

*Determination of taxable income*

Paragraph (2) of section 871(b) provides that, in determining taxable income for purposes of paragraph (1), gross income includes only the individual's gross income which is effectively connected with the conduct of a trade or business within the United States by such individual. The deductions from such gross income are to be determined in accordance with section 873, as amended by subsection (c) of this section of the bill. Thus, in determining the tax rate to be applied under section 1 of the code to the taxable income which is effectively connected with the conduct of a trade or business within the United States, none of the income upon which a tax is imposed under section 871(a) is taken into account.

(c) *Participants in certain exchange or training programs.*—Subsection (c) of section 871 conforms the provisions of existing section 871(d) to the amended structure of section 871. Under this amended subsection, a nonresident alien individual who is not engaged in trade or business within the United States and who is temporarily present in the United States as a nonimmigrant under subparagraph (F) or (J) of section 101(a)(15) of the Immigration and Nationality Act (relating to visiting students, teachers, trainees, etc.) is treated as if he were engaged in trade or business within the United States. The amended provision further provides that, for purposes of section 871, the portion of any scholarship or fellowship grant received by such individual which is not excluded from gross income under section 117 (a)(1) of the code solely by reason of section 117(b)(2)(B), as well as amounts (to the extent includible in gross income) received for travel, research, clerical help, or equipment, incident to such scholarship or fellowship grant, shall, to the extent derived from sources