

within the United States, be treated as income effectively connected with the conduct of a trade or business within the United States.

(d) *Election to treat real property income as income connected with United States business.*—Subsection (d) of section 871 provides that a nonresident alien individual may, subject to certain limitations, elect to treat certain income from real property as income effectively connected with the conduct of a trade or business within the United States. The election is available to all nonresident alien individuals, whether or not engaged in trade or business within the United States during the taxable year for which the election is made.

*In general*

Paragraph (1) of section 871(d) provides that an election may be made with respect to any income from real property held for the production of income and located in the United States, or from any interest in such real property, including (1) gains from the sale or exchange of any such real property or any interest in such property; (2) rents or royalties from mines, wells, or other natural deposits; and (3) gains referred to in section 631 (b) or (c) of the code. The election may be made only with respect to such income which is not effectively connected with the conduct of a trade or business within the United States. For this purpose, income from such real property does not include either interest on a debt obligation secured by a mortgage of real property or any portion of a dividend paid by a corporation or a trust (such as a real estate investment trust described in sec. 857 of the code) which derives income from real property. Income from such real property does include, however, that portion of the income included under section 652 or 662 of the code in the income of the beneficiary of a trust which is treated as consisting of income from real property.

A nonresident alien individual who makes the election under paragraph (1) will determine the tax on his income from such real property as provided in section 871(b) even though he is not engaged in trade or business in the United States during the taxable year. Such individual is entitled to the deductions which are allowed by section 873, as amended by subsection (c) of this section of the bill, but none of such deductions shall be allowed in determining any tax under amended section 871 (a) on income which is not effectively connected with the conduct of a trade or business within the United States. Income which is treated pursuant to an election under paragraph (1) as income effectively connected with the conduct of a trade or business within the United States is to be aggregated, for purposes of determining the tax imposed pursuant to section 871(b), with all other income for the taxable year which is effectively connected with the conduct of a trade or business within the United States. To the extent that deductions are connected with income from such real property in respect of which an election is made under paragraph (1), such deductions shall be treated as connected with income which is effectively connected with the conduct of a trade or business within the United States.

An election under paragraph (1) applies to all gains, profits, and income derived from such real property, or from any interest in such real property, located in the United States, whether or not such gains, profits, and income would be subject to tax under amended section