

a trade or business within the United States. A has no other income from United States sources during the taxable year. In determining his income subject to tax under section 1 of the code, A is allowed any deductions which are allowable under amended section 873; and for such purposes deductions attributable to such real property and to the income therefrom is to be treated as connected with income which is effectively connected with the conduct of a trade or business within the United States. In 1968, A sells the unimproved parcel of real estate held for investment, the election under section 871(d) still being in effect. Any gain realized from such sale, and A's income for the year from the rental property, are subject to tax under section 1 or 1201(b). If such sale is at a loss, the loss will be treated as a capital loss which is deductible under amended sections 873(a) and 1212(b) of the code.

Election after revocation

Paragraph (2) of section 871(d) provides that if an election made pursuant to the provisions of paragraph (1) has been revoked, a new election may not be made for any taxable year before the fifth taxable year beginning after the first taxable year for which such revocation was effective. A new election may be made at any time, however, if the electing individual secures the consent of the Secretary of the Treasury or his delegate.

Form and time of election and revocation

Paragraph (3) of section 871(d) provides that the election provided by paragraph (1), and any revocation thereof, is to be made in accordance with the regulations to be issued by the Secretary of the Treasury or his delegate.

(e) *Cross references.*—Subsection (e) of section 871 contains a list of cross references to certain other sections of the code.

SECTION 3 OF BILL—CONTINUED

Conforming amendment

Paragraph (2) of section 3(a) of the bill amends section 1 of the code (relating to tax on individuals) by redesignating subsection (d) as subsection (e) and by adding a new subsection (d). The new subsection provides that the tax imposed under subsection (a) of section 1 applies to nonresident alien individuals only to the extent so provided by section 871(b) or 877. The amendment is effective for taxable years beginning after December 31, 1966.

(b) *Gross income.*—Subsection (b) of section 3 of the bill amends section 872 of the code (relating to gross income of a nonresident alien individual), effective for taxable years beginning after December 31, 1966. Under existing law, the gross income of a nonresident alien individual includes only gross income from sources within the United States. Certain items of income are expressly excluded from gross income under existing section 872(b).

General rule

Paragraph (1) of section 3(b) of the bill amends section 872(a) to provide that the gross income of a nonresident alien individual includes only that income from sources within the United States which