

is not effectively connected with the conduct of a trade or business within the United States and all income (whether or not derived from sources within the United States) which is effectively connected with the conduct of a trade or business within the United States.

Exclusions

Paragraph (2) of section 3(b) of the bill amends subparagraph (B) of section 872(b) (3) (relating to the exclusion from gross income of certain compensation of participants in certain exchange or training programs). Under existing law the exclusion from gross income applies only to compensation paid a qualifying nonresident alien individual by a "foreign employer," which term is defined under subparagraph (B) to include an office or place of business maintained in a foreign country or in a possession of the United States by a domestic corporation. The amendment made by this paragraph provides that an office or place of business maintained in a foreign country or in a possession of the United States by a domestic partnership or by an individual who is a citizen or resident of the United States is also within the meaning of the term "foreign employer." This amendment is consistent with the amendment of section 861(a) (3) (C) (ii) made by section 2(c) of the bill and with the provisions of section 864 (b) (1) (B), as added by section 2(d) of the bill.

Bond interest of residents of the Ryukyu Islands or the Trust Territory of the Pacific Islands

Paragraph (3) of section 3(b) of the bill adds a new paragraph (4) to section 872(b). This new paragraph excludes from the gross income of a nonresident alien individual any income derived by such individual from a series E or series H United States savings bond, if such individual acquired such bond while a resident of the Ryukyu Islands or the Trust Territory of the Pacific Islands.

(c) *Deductions.*—Paragraph (1) of section 3(c) of the bill amends section 873 of the code (relating to deductions allowed nonresident alien individuals). Paragraph (2) of section 3(c) of the bill amends section 154(3) of the code (relating to cross references with respect to deductions for personal exemptions), to provide the proper cross reference to section 873(b) (3), as amended by this section of the bill. These amendments are effective for taxable years beginning after December 31, 1966.

Under existing law nonresident alien individuals engaged in trade or business within the United States at any time during the taxable year are entitled to the deductions allowable under subtitle A (relating to income taxes) of the code, but only if and to the extent that such deductions are connected with income from sources within the United States. Deductions are allowed for the following items whether or not connected with income from sources within the United States: (1) Losses incurred in transactions entered into for profit, if any income from such transaction would have been subject to tax; (2) casualty or theft losses of property located in the United States; (3) charitable contributions made to certain U.S. charitable organizations other than charitable trusts; and (4) one personal exemption (except in the case of a resident of Canada or Mexico, who is allowed the regular personal exemptions).