

terminated in accordance with subsection (b) of this section, the tax imposed pursuant to such subsection is to apply.

(b) *Alternative tax.*—Subsection (b) of section 877 contains special rules for the determination of an alternative tax under section 1 or 1201(b) of the code in the case of nonresident alien individuals who are expatriate U.S. citizens to whom subsection (a) of this section applies. In determining taxable income for purposes of this alternative tax, paragraph (1) provides that the gross income includes the gross income derived from sources within the United States which is not effectively connected with the conduct of a trade or business within the United States plus the gross income derived from sources within and without the United States which is effectively connected with the conduct of a trade or business within the United States, except that the special source rules of subsection (c) of this section shall also apply. For this purpose the determination of the source of income is to be made under the rules of sections 861 through 863 of the code, as amended by section 2 of the bill, to the extent such rules are not inconsistent with the special source rules contained in subsection (c) of this section.

Under paragraph (2) deductions allowable under subtitle A of the code are to be deducted from the gross income so determined, but only if and to the extent that such deductions are connected with the gross income so determined, and the proper allocation and apportionment of deductions for this purpose is to be determined under regulations prescribed by the Secretary of the Treasury or his delegate. No deduction is allowed, however, for the capital loss carryover provided by section 1212(b) of the code. The following deductions are specifically allowed by paragraph (2), whether or not they are connected with income from sources within the United States or with income which is effectively connected with the conduct of a trade or business within the United States and whether or not the nonresident alien individual is engaged in trade or business within the United States:

(1) The deduction for theft and casualty losses of nonbusiness property, as allowed by section 165(c)(3), if such property is located in the United States at the time of loss;

(2) The deduction for charitable contributions and gifts, as provided by section 170 of the code;

(3) One personal exemption allowed by section 151 of the code, except that an expatriate citizen who is a resident of Canada or Mexico may take all the exemptions available to him under section 151; and

(4) The deduction for losses not connected with a trade or business if incurred in a transaction entered into for profit, as allowed by section 165(c)(2) of the code, but only if the profit on such transaction, had such transaction resulted in a profit, would be included in gross income pursuant to paragraph (1) of this subsection.

In applying the limitations under section 170(b) of the code for purposes of determining the alternative tax imposed pursuant to subsection (b) of this section, the adjusted gross income is to be determined under sections 62 and 170(b) of the code after taking into account the gross income determined under this subsection.