the income of an expatriate U.S. citizen pursuant to section 877(b), as added by section 3(e) of the bill. Citizens of possessions of the United States who are taxed pursuant to section 932 of the code, as amended by section 3(m) of the bill, and who therefore determine their taxes in the manner prescribed by amended section 871 or new section 877(b), are also entitled in accordance with this subsection to the exclusion provided by section 116(a). The amendments provided by section 3(f) of the bill are effective for taxable years beginning after December 31, 1966.

(*g*) *Withholding of tax on nonresident aliens.*—Subsection (g) of section 3 of the bill amends section 1441 of the code (relating to the withholding of tax on nonresident alien individuals). The amendment is effective for taxable years beginning after December 31, 1966.

Under existing section 1441, persons having the control, receipt, custody, disposal, or payment of certain enumerated items of gross income, such as dividends, interest, and rents, from sources within the United States are required to withhold a tax of 30 percent when such amounts are paid to or for nonresident alien individuals, or any partnership not engaged in trade or business within the United States and composed in whole, or in part, of nonresident alien individuals. A special tax of 14 percent is withheld in the case of certain scholarship and fellowship grants and certain expense reimbursements incident thereto.

Paragraph (1) of section 3(g) of the bill amends section 1441(b) to conform that section to the amendments of section 861 made by section 2(a)(1) of the bill. Thus, for example, interest on deposits in the United States with persons carrying on the banking business will not be subject to withholding under section 1441(a) if such interest is received by a nonresident alien individual or foreign corporation and is not effectively connected with the conduct of a trade or business within the United States. In the case of such interest paid after December 31, 1971, however, withholding will be required. Paragraph (2) of section 3(g) amends section 1441(b) to conform that section to section 871(a)(1), as amended by section 3(a) of the bill.

Paragraph (3) of section 3(g) adds a new paragraph (1 )to section 1441(c) in lieu of the existing paragraph (1) of such section. The new paragraph (1) provides that no withholding is required under section 1441(a) with respect to any income which is effectively connected with the conduct of a trade or business within the United States by the recipient individual, if for the taxable year of such recipient a tax is imposed on such income pursuant to section 871(b), as amended by section 3(a) of the bill.

This exception from withholding also applies to income from real property which, pursuant to an election under section 871(d), as amended by section 3(a) of the bill, is treated as income which is effectively connected with the conduct of a trade or business within the United States, but it does not apply to any income received as compensation for personal services, such income being subject to the provisions of amended section 1441(c)(4). It is anticipated that regulations prescribed by the Secretary or his delegate will provide for the furnishing of a statement or form to the withholding agent in order to identify income which is effectively connected with the