

(l) *Definition of foreign estate or trust.*—Subsection (l) of section 3 of the bill contains a conforming amendment of section 7701(a)(31) of the code (defining foreign estate or trust). The amendment is effective for taxable years beginning after December 31, 1966. Existing paragraph (31) defines a foreign estate or trust as an estate or trust the income of which from sources without the United States is not includible in gross income under subtitle A. This is correlated with existing section 872(a) of the code, which provides that the gross income of a nonresident alien individual includes only the gross income from sources within the United States. A conforming amendment in the definition of a foreign estate or trust is necessary, since under section 872(a)(2), as amended by section 3(b)(1) of the bill, a nonresident alien individual must include in gross income the income from sources without the United States which is effectively connected with the conduct of a trade or business within the United States.

(m) *Conforming amendment.*—Subsection (m) of section 3 of the bill contains a conforming amendment to section 932(a) of the code (relating to citizens of possessions of the United States). The amendment is effective for taxable years beginning after December 31, 1966. As amended, section 932(a) continues the substance of existing law by providing that citizens of a possession of the United States, other than Puerto Rico, who are not otherwise citizens of the United States, are to be taxed in the same manner as nonresident alien individuals.

(n) *Effective dates.*—Subsection (n) of section 3 of the bill provides the effective dates for the several provisions of such section. Paragraph (1) provides that the provisions of section 3, other than the amendments made by subsections (h) and (k), apply with respect to taxable years beginning after December 31, 1966. Paragraph (2) provides that the amendments made by subsection (h) (relating to liability for taxes withheld under ch. 3) apply with respect to payments occurring after December 31, 1966. Paragraph (3) provides that the amendments made by subsection (k) (relating to withholding on wages under ch. 24) apply to remuneration paid after December 31, 1966. By reason of the provisions of section 861(c), as added by section 2(a)(1)(B) of the bill, amended section 861(a)(1)(A) and new section 861(c) will cease to apply with respect to amounts paid or credited after December 31, 1971.

SECTION 4 OF BILL. FOREIGN CORPORATIONS

(a) *Tax on income not connected with United States business.*—Subsection (a) of section 4 of the bill amends section 881 of the code. The amendment is effective for taxable years beginning after December 31, 1966. Existing section 881 applies only to foreign corporations not engaged in trade or business in the United States at any time during the taxable year. Such corporations are presently subject to a flat tax of 30 percent on all fixed or determinable annual or periodical income derived from sources within the United States and on amounts described in section 631(b) and (c) of the code (relating to certain disposals of timber, coal, or iron ore) which are considered to be gains from the sale or exchange of capital assets and are derived from sources within the United States.