

States. The tax of 30 perent is imposed under section 881 on the gross amount of the dividend income. The gain realized from the sale of stock is not subject to U.S. income tax.

*Deductions and credits allowed only if return filed*

Paragraph (2) of section 882(c) continues the substance of the rule contained in section 882(c)(1) of existing law that a foreign corporation is to receive the benefit of the allowable deductions only by filing a true and accurate return of its total income (including income subject to tax under section 881(a)); a technical amendment has been provided, however, to make clear that the return must also include the income derived from sources without the United States which is effectively connected with the conduct of a trade or business within the United States. This rule has also been extended to apply to credits against tax, such as the foreign tax credit, other than the credit provided by section 32 for tax withheld at the source or the credit provided by section 39 for certain users of gasoline and lubricating oil. As so amended, section 882(c)(2) is consistent with section 874(a) of the code, as amended by section 3(d) of the bill.

*Foreign tax credit*

Paragraph (3) of section 882(c) provides that a foreign corporation will not be allowed the foreign tax credit allowed under section 901 of the code, except to the extent provided by section 906 of the code, as added by section 6(a) of the bill. Under existing law a foreign corporation is not allowed a foreign tax credit.

*Cross reference*

Paragraph (4) of section 882(c) contains a cross reference to section 906(b)(1) of the code, as added by section 6(a) of the bill, relating to the limitation on the amount of the credit under section 906(a) or, if applicable, the amount of any deduction under section 882(c), for income taxes paid or accrued to any foreign country or possession of the United States.

(d) *Election to treat real property income as income connected with United States business.*—Subsection (d) of section 882 permits a foreign corporation deriving real property income from sources within the United States which is not effectively connected with the conduct of a trade or business within the United States to elect to treat such income as income which is effectively connected with the conduct of a trade or business within the United States; the income which is so treated is taxable in accordance with the provisions of section 882(a). The election is available to all foreign corporations, whether or not engaged in trade or business within the United States during the taxable year for which the election is made or during taxable years for which the election is in effect. The provisions relating to the applicability of such an election, as well as the manner of making or revoking the election, are identical to the provisions of section 871(d), as amended by section 3(a) of the bill. See the discussion of amended section 871(d).

(e) *Returns of tax by agent.*—Subsection (e) of section 882 continues the rule of existing section 882(d) of the code, which provides that, if a foreign corporation has no office or place of business in the