

United States but has an agent in the United States, the corporation's return which is required by section 6012 of the code is to be made by such agent.

SECTION 4 OF BILL—CONTINUED

(c) *Withholding of tax on foreign corporations.*—Subsection (c) of section 4 of the bill amends section 1442 of the code (relating to withholding of tax on foreign corporations), effective with respect to taxable years beginning after December 31, 1966. Under existing law a foreign corporation not engaged in trade or business within the United States is generally subject to the withholding of tax under chapter 3 of the code in the same manner as a nonresident alien individual; and, subject to specified rules, such corporation is also subject to the withholding of tax under section 1451 (relating to interest on tax-free covenant bonds). A foreign corporation engaged in trade or business within the United States is presently not subject to withholding of tax under such sections.

CODE SECTION 1442. WITHHOLDING OF TAX ON FOREIGN CORPORATIONS

(a) *General rule.*—Subsection (a) of section 1442, as amended by section 4(c) of the bill, places foreign corporations engaged in a trade or business within the United States in the same status as nonresident alien individuals engaged in trade or business within the United States with respect to the withholding of tax provided by section 1441.

Thus, foreign corporations engaged in a trade or business within the United States will be subject to withholding at the 30-percent rate of tax only on items of income from sources within the United States designated in section 1441(b), as amended by section 3(g) of the bill, which are not effectively connected with the conduct of a trade or business within the United States. Income (other than income for services) which is effectively connected with the conduct of a trade or business within the United States is not subject to withholding of tax under section 1442(a) if a tax is imposed on such income for the taxable year of the recipient pursuant to amended section 882(a)(1), or, if applicable, pursuant to amended section 842. By reason of amended section 1441(c)(4), income for services performed by a foreign corporation may be exempted from withholding under section 1442(a) pursuant to regulations prescribed by the Secretary of the Treasury or his delegate. No change is made in section 1451, with the result that only a foreign corporation not engaged in a trade or business in the United States is subject to the withholding of tax under such section from interest on tax-free covenant bonds, whether or not such interest is effectively connected with the conduct of a trade or business within the United States.

(b) *Exemption.*—Subsection (b) of section 1442 provides that, subject to such terms and conditions as may be provided by regulations, a foreign corporation engaged in trade or business within the United States at some time during the taxable year may be exempted from withholding under subsection (a) if the Secretary of the Treasury or his delegate determines that the withholding requirements of subsection (a) impose an undue administrative burden and that the collection of the flat 30-percent tax imposed by amended section 881