(*e*) *Unrelated business taxable income.*—Subsection (e) of section 4 of the bill amends section 512(a) of the code (relating to the definition of "unrelated business taxable income") to provide that, in the case of a foreign organization of the type described in section 511 of the code (relating to charitable, etc., organizations), the unrelated business taxable income includes only the unrelated business taxable income which is effectively connected with the conduct of a trade or business within the United States. The amendment is effective for taxable years beginning after December 31, 1966.

(*f*) *Corporations subject to personal holding company tax.*—Subsection (f) of section 4 of the bill amends section 542(c)(7) of the code (relating to foreign corporations not subject to the personal holding company tax) by deleting the 50-percent gross income test of existing paragraph (7)(A) and by making existing paragraph (7)(B), with certain modifications, paragraph (7). The amendment is effective for taxable years beginning after December 31, 1966. Under this amendment, the term "personal holding company" does not include a foreign corporation all of whose outstanding stock during the last half of the taxable year is owned by nonresident alien individuals directly or indirectly through foreign estates, foreign trusts, foreign partnerships, or other foreign corporations. For this purpose, stock will be considered as owned by nonresident alien individuals indirectly through foreign estates, foreign trusts, foreign partnerships, or foreign corporations if all of the beneficiaries (having an interest with an actuarial value of 5 percent or more), partners, or shareholders of such estates, trusts, partnerships, or corporations are nonresident alien individuals.

(*g*) *Amendments with respect to foreign corporations carrying on insurance business in United States.*—Subsection (g) of section 4 of the bill amends those provisions of subchapter L of chapter 1 of the code (relating to insurance companies) that apply to foreign corporations. The amendments are effective for taxable years beginning after December 31, 1966.

In general

Paragraph (1) of section 4(g) of the bill deletes present section 842 of the code (relating to computation of gross income) and adds a new section 842.

Existing section 842 provides that the gross income of a life insurance company subject to the tax imposed by section 802, and of the mutual marine, etc., insurance companies subject to the tax imposed by section 831, is not to be determined in the manner provided in sections 861 through 864 of the code, relating to the determination of sources of income.

CODE SECTION 842. FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS

New section 842 replaces all of the existing provisions in parts I, II, and III of subchapter L which designate when and to what extent a foreign insurance company will be subject to the tax imposed pursuant to those parts. The coordinating amendments to conform to this change are embodied in the other paragraphs of section 4(g)