

of the bill. Under new section 842, only those foreign corporations carrying on an insurance business in the United States are subject to the provisions of subchapter L which, were they domestic corporations, would qualify for the taxable year under part I, II, or III of such subchapter without taking into account their income not effectively connected with the conduct of a trade or business within the United States.

Each such corporation which would so qualify for the taxable year under either part I, II, or III of subchapter L shall be taxable for such year under that part on its entire taxable income (whether derived from sources within or without the United States) which is effectively connected with its conduct of any trade or business (whether or not its insurance business) within the United States. In determining such taxable income, only allowable deductions which are connected with income which is effectively connected with the conduct of a trade or business within the United States are to be allowed.

Any income derived by such foreign corporation from sources within the United States which is not effectively connected with the conduct of any trade or business in the United States is taxed for such year as provided in section 881, as amended by section 4(a) of the bill.

Each such foreign corporation which would not so qualify for the taxable year under part I, II, or III of subchapter L, and all foreign insurance companies not carrying on an insurance business in the United States, shall be taxable as provided in amended section 881 or 882 with respect to other foreign corporations. In determining whether income is derived from sources within or without the United States for purposes of applying subchapter L, as amended by the bill, the provisions of sections 861 through 864 of the code shall apply. In determining for purposes of subchapter L whether a foreign corporation is carrying on an insurance business in the United States, and whether income is effectively connected with the conduct of a trade or business within the United States, section 864 (b) and (c), as added by section 2(d) of the bill, shall apply.

SECTION 4 OF BILL—CONTINUED

Clerical amendment

Paragraph (2) of section 4(g) of the bill amends the table of sections for part IV of subchapter L of chapter 1.

Life insurance companies

Paragraph (3) of section 4(g) of the bill provides various amendments of section 819 of the code (relating to foreign life insurance companies). Subparagraph (A) of paragraph (3) deletes subsections (a) (relating to foreign life insurance companies carrying on a life insurance business in the United States) and (d) (relating to foreign life insurance companies not carrying on an insurance business within the United States) from section 819 and redesignates subsections (b) and (c) of such section as subsections (a) and (b). Subparagraphs (B) through (H), except for subparagraph (D), of paragraph (3) make clerical changes in section 819 to conform it to the amendment made by subparagraph (A). Subparagraph (I) of para-