

mutual insurance companies not carrying on an insurance business in the United States) and redesignates subsections (f) and (g) of such section as subsections (e) and (f). Subparagraph (B) of paragraph (4) adds a new paragraph (3), containing a cross reference to section 842, to newly designated section 821(f).

Paragraph (5) of section 4(g) of the bill amends section 822 (relating to the determination of taxable investment income) by striking out subsection (e) (relating to foreign mutual insurance companies carrying on an insurance business in the United States) and by redesignating subsection (f) as subsection (e).

*Other insurance companies*

Paragraph (6) of section 4(g) of the bill amends section 831 of the code (relating to tax on mutual marine, etc., insurance companies) by striking out subsection (b) (relating to foreign mutual marine, etc., insurance companies not carrying on an insurance business in the United States), by redesignating subsection (c) as subsection (b), and by redesignating subsection (d) as subsection (c) and adding therein a cross reference to section 842.

Paragraph (7) of section 4(g) amends section 832 (relating to insurance company taxable income) by striking out subsection (d) (relating to foreign mutual marine, etc., insurance companies carrying on an insurance business in the United States) and by redesignating subsection (e) as subsection (d).

*Provisions of general application*

Paragraph (8) of section 4(g) amends section 841 (relating to credit for foreign taxes) by making the definition of "taxable income" contained therein apply in the case of foreign corporations subject to tax under subchapter L which are entitled to the foreign tax credit determined as provided in section 906 of the code, as added by section 6(a) of the bill.

(h) *Subpart F income.*—Subsection (h) of section 4 of the bill amends section 952(b) of the code (relating to the exclusion of U.S. source income from subpart F income). The amendment is effective for taxable years beginning after December 31, 1966. Existing section 952(b) provides that income derived from sources within the United States by a controlled foreign corporation engaged in trade or business in the United States is excluded from subpart F income if such income from U.S. sources is includible in gross income of such corporation under any provisions (other than secs. 951 through 964) of chapter 1 of the code. The purpose of existing section 952(b) is to exclude from the application of sections 951 through 964 income which is otherwise subject to U.S. income tax under section 11 or 1201(a) by reason of being derived from sources in the United States.

Amended section 952(b) retains the principle of existing section 952(b) by providing that income from sources within the United States which is effectively connected with the conduct of a trade or business within the United States is excluded from subpart F income. Thus, for example, dividends received from sources within the United States by a foreign corporation engaged in trade or business within the United States, which are not effectively connected with the conduct of a trade or business within the United States are not excluded