

from subpart F income under amended section 952(b), even though such dividends are subject to the tax imposed by amended section 881(a). Moreover if by reason of a treaty obligation of the United States the income from sources within the United States which is effectively connected with the conduct of a trade or business within the United States is not subject to the regular U.S. corporate rate of tax, such income is not excluded from subpart F income under amended section 952(b).

(i) *Gain from certain sales or exchanges of stock in certain foreign corporations.*—Subsection (i) of section 4 of the bill amends paragraph (4) of section 1248(d) of the code (relating to exclusions from earnings and profits of controlled foreign corporations for certain purposes). The amendment, which is effective with respect to sales or exchanges of stock occurring after December 31, 1966, continues the principle of the existing provision by providing that for taxable years beginning before January 1, 1967, income which is derived from sources within the United States by a foreign corporation engaged in trade or business in the United States and is includible in the gross income of such corporation is to be excluded from the earnings and profits of such corporation for purposes of determining the amount of tax imposed on a U.S. person pursuant to section 1248.

For taxable years beginning after December 31, 1966, income which is effectively connected with the conduct of a trade or business within the United States by a foreign corporation, whether derived from sources within or without the United States, and which is includible in the gross income of such corporation is to be excluded from its earnings and profits for purposes of applying section 1248 to a U.S. person. The exclusions provided by amended paragraph (4) are not to apply to any item of income which is exempt from U.S. tax, or is subject to a reduced rate of U.S. tax, by reason of a treaty obligation of the United States.

(j) *Declaration of estimated income tax by corporations.*—Subsection (j) of section 4 of the bill amends section 6016 of the code (relating to declarations of estimated income tax by corporations) by redesignating subsection (f) as subsection (g) and by inserting a new subsection (f). The amendment is effective for taxable years beginning after December 31, 1966. The new subsection (f) provides, in effect, that a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, must treat the tax imposed under section 881 as a tax imposed by section 11 in determining whether it must make a declaration of estimated tax and in determining the amount of the estimated tax.

Thus, in cases where the income subject to tax under section 881 has been withheld on pursuant to section 1442, as amended by section 4(c) of the bill, the credit under section 32 of the code for the tax withheld which is taken into account for purposes of section 6016 will effectively remove the section 881 tax from consideration for purposes of section 6016. If, however, any income subject to tax under section 881 has not been fully withheld on, the tax imposed by section 881 which is in excess of the credit allowed by section 32 will be taken into account in determining whether a declaration is required and will increase the estimated tax for the taxable year. On the other hand, if the tax imposed by section 881 is determined to be less than the credit allowed under section 32, such excess credit will be taken into