

gaged in trade or business in the United States at any time during the taxable year and have income for such taxable year which is effectively connected with the conduct of a trade or business within the United States and is subject to tax pursuant to section 871(b) or 882(a), as amended by the bill.

A nonresident alien individual who is a bona fide resident of Puerto Rico during the entire taxable year; that is, an alien to whom section 876 of the code applies, is not allowed a foreign tax credit pursuant to section 906. A citizen of a possession of the United States who is taxable pursuant to section 932(a) of the code, as amended by section 3(m) of the bill, in the same manner as a nonresident alien individual is subject to tax pursuant to section 871(b), as amended by the bill, and is allowed a foreign tax credit pursuant to section 906.

The amount of the credit under section 906 is based on the income, war profits, and excess profits taxes, and taxes included in the term "income, war profits, and excess profits taxes" by reason of section 903 of the code, paid or accrued during the taxable year to a foreign country or possession of the United States on or with respect to income which is effectively connected with the conduct of a trade or business within the United States. The credit is also allowed with respect to such foreign taxes which are deemed paid or accrued during the taxable year under section 902 of the code if the dividends received upon which the section 902 credit is based are effectively connected with the conduct of a trade or business within the United States by the recipient of the dividends.

(b) *Special rules.*—Subsection (b) of section 906 contains special rules concerning the allowance of the foreign tax credit to nonresident alien individuals and foreign corporations pursuant to section 906. It also provides a rule for determining the amount of foreign income taxes for which such persons may claim a deduction in determining the taxable income which, pursuant to amended section 871(b) or 882(a), is subject to the tax imposed by section 1 or 11. This subsection does not apply to a nonresident alien individual to whom section 876 of the code applies.

*Foreign taxes for which credit or deduction is not allowed*

Paragraph (1) of section 906(b) provides that a credit against tax, or a deduction from gross income under amended section 873(a) or 882(a) (1) (A), is not to be allowed for income, war profits, or excess profits taxes paid or accrued to a foreign country or possession of the United States on income which is effectively connected with the conduct of a trade or business within the United States if the taxes so imposed are imposed solely by reason of the fact that the nonresident alien individual is a citizen or resident of that country or possession or that the foreign corporation is created or organized under the law of that country or possession or has its domicile for tax purposes there.

This provision, in effect, requires that the taxes paid or accrued to a foreign country or possession which taxes the worldwide income of the alien individual or foreign corporation be disregarded for purposes of the foreign tax credit, or of the deduction under section 873(a) or 882(c) (1) (A), if such country or possession would not have taxed such income (1) had the alien individual been a citizen and resident