

of another country or (2) had the foreign corporation been created or organized under the law of another country and had its domicile in another country. In applying section 906(b)(1) to any foreign country or possession of the United States the laws of such country or possession are to be used for purposes of determining whether an individual is a resident of, or a corporation is domiciled for tax purposes in, such country or possession.

The amount of the foreign taxes which is to be taken into account for purposes of section 906(a), 873(a), or 882(c)(1)(A) is, if such amount cannot otherwise be specifically allocated to an item or class of income, generally to be that amount which bears the same ratio to the total income taxes payable to the foreign country of residence or domicile as the taxable income which is effectively connected with the conduct of a trade or business within the United States and is taxable by that foreign country for reasons other than the residence of the individual, or the domicile of the foreign corporation, therein bears to the total taxable income of such individual or corporation from all sources.

The application of section 906(b)(1) may be illustrated by the following example:

Example

M, a corporation organized under the law of foreign country Z, is engaged in trade or business within the United States during the taxable year through an office located in the United States. Upon the basis of the facts assumed, M Corporation is allowed to take into account under section 906(b)(1) in determining the credit against tax, or its deductions from income, the following amounts of foreign income taxes:

Gross income (all effectively connected with the conduct of a trade or business within the United States) having the following source under the laws of the United States:	
Sources within United States.....	\$50.00
Sources within country Y.....	50.00
Total gross income.....	100.00
Deductions allowable under the laws of the United States and country Z...	25.00
Country Y tax for purposes of sec. 906(a) or 882(c), assuming a 30-percent rate on gross income from Y sources (\$50 times 30 percent).....	15.00
Country Z tax imposed at a 50-percent rate on \$75 taxable income of M corporation solely because M corporation is created under the law of country Z.....	37.50
Total foreign income taxes taken into account for purposes of the foreign tax credit under sec. 906(a), or for purposes of deductions allowable under sec. 882(c) (country Y tax).....	15.00

Limitation on amount of credit

Paragraph (2) of section 906(b) provides in effect that, in determining under section 904 of the code the maximum foreign tax credit allowable (pursuant to section 906(a)) for any taxable year, (1) the taxable income from sources within a foreign country or possession for purposes of section 904(a)(1) is to be only the taxable income from such sources which is effectively connected with the conduct of a trade or business within the United States, (2) the taxable income from sources without the United States for purposes of section 904(a)(2) is to be only the taxable income from sources without the United States which