

is effectively connected with the conduct of a trade or business within the United States, and (3) the entire taxable income for purposes of section 904(a) is to be only the taxpayer's total taxable income which is subject to tax for the taxable year pursuant to section 871(b) or 882(a), as amended by the bill. None of the income for the taxable year which is subject to the tax imposed by section 871(a) or 881, as amended by the bill, is to be taken into account for purposes of applying section 904. In applying the provisions of section 904 to the credit allowable pursuant to section 906, no amount of excess tax paid may be carried from or to any taxable year beginning before January 1, 1967, and no such taxable year is to be taken into account. The application of section 906(b)(2) may be illustrated by the following example:

Example

The facts are the same as those given in the example illustrating the provisions of paragraph (1) of section 906(b). Foreign country Z does not allow a credit against its tax for the amount of the United States income tax. Assuming that M corporation has elected to take a foreign tax credit and apply the overall limitation of section 904(a)(2), the limitation on the amount of the credit allowed pursuant to section 906 for the taxable year is determined as follows:

Gross income for purposes of U.S. tax	\$100.00
Deductions allowable under sec. 882(c)	25.00
Taxable income for purposes of sec. 882(a)	75.00
Taxable income from sources without the United States, pro rata allocation of deductions being assumed (\$75 times \$50/\$100)	37.50
U.S. tax under sec. 882(a) before foreign tax credit (surtax exemption under sec. 11(d) of the code being disregarded for simplification) (\$75 times 48 percent)	36.00
Limitation on foreign tax credit: \$36 times \$37.50/\$75 equals \$18, but not to exceed creditable tax of \$15	15.00
U.S. tax payable	21.00

Tax against which credit may be taken

Paragraph (3) of section 906(b) provides that the credit allowed pursuant to section 906(a) is to be allowed only against the U.S. tax imposed pursuant to amended section 871(b) or 882(a) on the taxable income which is effectively connected with the conduct of a trade or business within the United States. For example, if in the above example under section 906(b)(1), M Corporation had any income from sources within the United States for the taxable year which was not effectively connected with the conduct of a trade or business within the United States and was subject to the tax imposed under amended section 881(a), such tax could not be reduced by the credit allowed pursuant to section 906(a) and such tax (and income) could not be taken into account in determining the limitation provided in section 904(a) on the amount of the foreign tax credit allowable for the taxable year against the tax imposed pursuant to amended section 882(a).

Treatment as a domestic corporation

Paragraph (4) of section 906(b) provides that, for purposes of sections 902(a) and 78 of the code, a foreign corporation receiving dividends described in section 902(a) is to be treated as a domestic