

corporation if for the taxable year such corporation chooses the benefits of the foreign tax credit allowable pursuant to section 906(a). Pursuant to the provisions of paragraph (4) the benefits of section 902 with respect to the dividends received are allowed to foreign corporations choosing to take the foreign tax credit under section 901, and the gross-up requirement of section 78 is made applicable with respect to the taxes deemed paid under section 902(a) (1) by reason of such credit. These provisions apply, however, only if the dividends which are described in section 902(a) and received by the foreign corporation which is subject to the tax imposed pursuant to amended section 882(a) are effectively connected with the conduct of a trade or business within the United States by such recipient foreign corporation.

In applying section 902(a) to such foreign corporation owning at least 10 percent of the voting stock of the foreign corporation paying the dividends, the foreign corporation paying the dividends will be deemed under section 902(b) to have paid foreign income taxes by reason of the receipt of any dividends from another foreign corporation 50 percent or more of whose voting stock it owns. It is not necessary to make any determination as to whether the dividends paid by such other foreign corporation are effectively connected with the conduct of a trade or business within the United States.

SECTION 6 OF BILL—CONTINUED

Clerical or conforming amendments

Paragraph (2) of section 6(a) of the bill adds new section 906 to the table of sections for subpart A of part III of subchapter N of chapter 1.

Paragraph (3) of section 6(a) makes a conforming amendment in section 874(c) of the code (relating to the allowance of the foreign tax credit to nonresident alien individuals). Under existing section 874(c) a nonresident alien individual who is not described in section 876 of the code is never allowed the foreign tax credit under section 901.

Paragraph (4) of section 6 (a) amends subsection (b) of section 901 of the code (relating to the amount allowed as a credit) by redesignating paragraph (4) as paragraph (5) and by inserting a new paragraph (4) which provides that the amount of the foreign tax credit allowed under section 901(a) in the case of a nonresident alien individual not described in section 876 of the code or of a foreign corporation is to be determined under new section 906. Since a nonresident alien individual who is a bona fide resident of Puerto Rico during the entire taxable year is, by reason of section 876, not subject to the tax imposed pursuant to section 871(b), such alien's foreign tax credit is not determined pursuant to new section 906. The credit against tax allowed in the case of such an alien described in section 876 is the amount allowed under existing section 901(b) (3) of the code.

Paragraph (5) of section 6(a) makes a conforming amendment in paragraph (5) of section 901(b), as so redesignated.

Effective date

Paragraph (6) of section 6(a) provides that the amendments made by section 6(a) are to apply with respect to taxable years beginning after December 31, 1966. This paragraph also provides that, in ap-