

SEC. 861. INCOME FROM SOURCES WITHIN THE UNITED STATES.

(a) **GROSS INCOME FROM SOURCES WITHIN UNITED STATES.**—The following items of gross income shall be treated as income from sources within the United States:

(1) **INTEREST.**—Interest from the United States, any Territory, any political subdivision of a Territory, or the District of Columbia, and interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise, not including—

[(A) interest on deposits with persons carrying on the banking business paid to persons not engaged in business within the United States,]

(A) *interest on amounts described in subsection (c) received by a nonresident alien individual or a foreign corporation, if such interest is not effectively connected with the conduct of a trade or business within the United States,*

(B) interest received from a resident alien individual, a resident foreign corporation, or a domestic corporation, when it is shown to the satisfaction of the Secretary or his delegate that less than 20 percent of the gross income of such resident payor or domestic corporation has been derived from sources within the United States, as determined under the provisions of this part, for the 3-year period ending with the close of the taxable year of such payor preceding the payment of such interest, or for such part of such period as may be applicable, [and]

(C) income derived by a foreign central bank of issue from bankers' acceptances[.], and

(D) *interest on deposits with a foreign branch of a domestic corporation, if such branch is engaged in the commercial banking business.*

(2) **DIVIDENDS.**—The amount received as dividends—

(A) from a domestic corporation other than a corporation entitled to the benefits of section 931, and other than a corporation less than 20 percent of whose gross income is shown to the satisfaction of the Secretary or his delegate to have been derived from sources within the United States, as determined under the provisions of this part, for the 3-year period ending with the close of the taxable year of such corporation preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence, or

(B) from a foreign corporation unless less than [50] 80 percent of the gross income *from all sources* of such foreign corporation for the 3-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was [derived from sources] *effectively connected with the conduct of a trade or business* within the United States [as determined under the provisions of this part]; but only in an amount which bears the same ratio to such dividends as the gross income of the corporation for such period [derived from sources] *which is effectively connected*