

section (c) and inserting in lieu thereof the following new paragraph:

"(1) **INCOME CONNECTED WITH UNITED STATES BUSINESS.**—No deduction or withholding under subsection (a) shall be required in the case of any item of income (other than compensation for personal services) which is effectively connected with the conduct of a trade or business within the United States and on which a tax is imposed for the taxable year pursuant to section 871(b)(1).";

(4) by amending paragraph (4) of subsection (c) to read as follows:

"(4) **COMPENSATION OF CERTAIN ALIENS.**—Under regulations prescribed by the Secretary or his delegate, compensation for personal services may be exempted from deduction and withholding under subsection (a)."; and

(5) by striking out "amounts described in section 402(a)(2), section 403(a)(2), section 631(b) and (c), and section 1235, which are considered to be gains from the sale or exchange of capital assets," in paragraph (5) of subsection (c) and inserting in lieu thereof "gains described in section 402(a)(2), 403(a)(2), or 631(b) or (c), and gains on transfers described in section 1235," and by striking out "proceeds from such sale or exchange," in such paragraph and inserting in lieu thereof "amount payable,".

(h) **LIABILITY FOR WITHHELD TAX.**—Section 1461 (relating to return and payment of withheld tax) is amended to read as follows: "SEC. 1461. **LIABILITY FOR WITHHELD TAX.**

"Every person required to deduct and withhold any tax under this chapter is hereby made liable for such tax and is hereby indemnified against the claims and demands of any person for the amount of any payments made in accordance with the provisions of this chapter."

(i) **DECLARATION OF ESTIMATED INCOME TAX BY INDIVIDUALS.**—Section 6015 (relating to declaration of estimated income tax by individuals) is amended—

(1) by striking out that portion of subsection (a) which precedes paragraph (1) and inserting in lieu thereof the following:

"(a) **REQUIREMENT OF DECLARATION.**—Except as otherwise provided in subsection (i), every individual shall make a declaration of his estimated tax for the taxable year if—"

(2) by redesignating subsection (i) as subsection (j); and

(3) by inserting after subsection (h) the following new subsection:

"(i) **NONRESIDENT ALIEN INDIVIDUALS.**—No declaration shall be required to be made under this section by a nonresident alien individual unless—

"(1) withholding under chapter 24 is made applicable to the wages, as defined in section 3401(a), of such individual,

"(2) such individual has income (other than compensation for personal services subject to deduction and withholding under section 1441) which is effectively connected with the conduct of a trade or business within the United States, or

"(3) such individual is a resident of Puerto Rico during the entire taxable year."

(j) **GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY.**—The second sentence of paragraph (3) of section 1250(d) (relating to certain tax-free transactions) is amended to read as follows: "This paragraph shall not apply to—

"(A) a disposition to an organization (other than a cooperative described in sec-

tion 521) which is exempt from the tax imposed by this chapter, or

"(B) a transfer of property by a nonresident alien individual, a foreign estate or trust, or a foreign partnership, to a domestic corporation in exchange for stock or securities in such corporation in a transaction to which section 351 applies."

(k) **COLLECTION OF INCOME TAX AT SOURCE ON WAGES.**—Subsection (a) of section 3401 (relating to definition of wages for purposes of collection of income tax at source) is amended by striking out paragraphs (6) and (7) and inserting in lieu thereof the following:

"(6) for such services, performed by a nonresident alien individual, as may be designated by regulations prescribed by the Secretary or his delegate; or"

(l) **DEFINITION OF FOREIGN ESTATE OR TRUST.**—Section 7701(a)(31) (defining foreign estate or trust) is amended by striking out "from sources without the United States" and inserting in lieu thereof ", from sources without the United States which is not effectively connected with the conduct of a trade or business within the United States,".

(m) **CONFORMING AMENDMENT.**—The first sentence of section 932(a) (relating to citi-
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zens of possessions of the United States) is amended to read as follows: "Any individual who is a citizen of any possession of the United States (but not otherwise a citizen of the United States) and who is not a resident of the United States shall be subject to taxation under this subtitle in the same manner and subject to the same conditions as in the case of a nonresident alien individual."

(n) **EFFECTIVE DATES.**—

(1) The amendments made by this section (other than the amendments made by subsections (h) and (k)) shall apply with respect to taxable years beginning after December 31, 1966.

(2) The amendments made by subsection (h) shall apply with respect to payments occurring after December 31, 1966.

(3) The amendments made by subsection (k) shall apply with respect to remuneration paid after December 31, 1966.

SEC. 4. **FOREIGN CORPORATIONS.**

(a) **TAX ON INCOME NOT CONNECTED WITH UNITED STATES BUSINESS.**—Section 881 (relating to tax on foreign corporations not engaged in business in the United States) is amended to read as follows:

"SEC. 881. **INCOME OF FOREIGN CORPORATIONS NOT CONNECTED WITH UNITED STATES BUSINESS.**

"(a) **IMPOSITION OF TAX.**—There is hereby imposed for each taxable year a tax of 30 percent of the amount received from sources within the United States by a foreign corporation as—

"(1) interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, and other fixed or determinable annual or periodical gains, profits, and income,

"(2) gains described in section 631(b) or (c), and

"(3) amounts which under section 341, or under section 1232 (in the case of bonds or other evidences of indebtedness issued after September 28, 1965), are treated as gains from the sale or exchange of property which is not a capital asset,

but only to the extent the amount so re-