

(c) **WITHHOLDING OF TAX ON FOREIGN CORPORATIONS.**—Section 1442 (relating to withholding of tax on foreign corporations) is amended to read as follows:

“SEC. 1442. WITHHOLDING OF TAX ON FOREIGN CORPORATIONS.

“(a) **GENERAL RULE.**—In the case of foreign corporations subject to taxation under this subtitle, there shall be deducted and withheld at the source in the same manner and on the same items of income as is provided in section 1441 or section 1451 a tax equal to 30 percent thereof; except that, in the case of interest described in section 1451 (relating to tax-free covenant bonds), the deduction and withholding shall be at the rate specified therein. For purposes of the preceding sentence, the reference in section 1441(c)(1) to section 871(b)(1) shall be treated as referring to section 842 or section 882 (a) as the case may be.

“(b) **EXEMPTION.**—Subject to such terms and conditions as may be provided by regulations prescribed by the Secretary or his delegate, subsection (a) shall not apply in the case of a foreign corporation engaged in trade or business within the United States if the Secretary or his delegate determines that the requirements of subsection (a) imposes an undue administrative burden and that the collection of the tax imposed by section 881 on such corporation will not be jeopardized by the exemption.”

(d) **DIVIDENDS RECEIVED FROM CERTAIN FOREIGN CORPORATIONS.**—Subsection (a) of section 245 (relating to the allowance of a deduction in respect of dividends received from a foreign corporation) is amended—

(1) by striking out “and has derived 50 percent or more of its gross income from sources within the United States,” in that portion of subsection (a) which precedes paragraph (1) and by inserting in lieu thereof “and if 50 percent or more of the gross income of such corporation from all sources for such period is effectively connected with the conduct of a trade or business within the United States.”;

(2) by striking out “from sources within the United States” in paragraph (1) and inserting in lieu thereof “which is effectively connected with the conduct of a trade or business within the United States”;

(3) by striking out “from sources within the United States” in paragraph (2) and inserting in lieu thereof “, which is effectively connected with the conduct of a trade or business within the United States.”; and

(4) by adding after paragraph (2) the following new sentence:

“For purposes of this subsection, the gross income of the foreign taxable corporation for any period before the first taxable year beginning after December 31, 1966, which is effectively connected with the conduct of a trade or business within the United States is an amount equal to the gross income for such period from sources within the United States.”

(e) **UNRELATED BUSINESS TAXABLE INCOME.**—The last sentence of section 512 (a) (relating to definition) is amended to read as follows: “In the case of an organization described in section 511 which is a foreign organization, the unrelated business taxable income shall be its unrelated business taxable income which is effectively connected with the conduct of a trade or business within the United States.”

(f) **CORPORATIONS SUBJECT TO PERSONAL HOLDING COMPANY TAX.**—Paragraph (7) of section 542(c) (relating to corporations not subject to the personal holding company tax) is amended to read as follows:

“(7) a foreign corporation, if all of its stock outstanding during the last half of the taxable year is owned by nonresident alien individuals, whether directly or indirectly through foreign estates, foreign trusts, foreign partnerships, or other foreign corporations;”.

(g) **AMENDMENTS WITH RESPECT TO FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS IN UNITED STATES.**—

(1) Section 842 (relating to computation of gross income) is amended to read as follows:

“SEC. 842. FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS.

“If a foreign corporation carrying on an insurance business within the United States would qualify under part I, II, or III of this subchapter for the taxable year if (without regard to income not effectively connected with the conduct of any trade or business within the United States) it were a domestic corporation, such corporation shall be taxable under such part on its income effectively connected with its conduct of any trade or business within the United States. With respect to the remainder of its income, which is from sources within the