

1 “(F) interest on deposits with a foreign branch
2 of a domestic corporation or a domestic partnership,
3 if such branch is engaged in the commercial banking
4 business.”

5 (3) Section 861 (relating to income from sources
6 within the United States) is amended by adding after
7 subsection (c) (as added by paragraph (1)(B)) the
8 following new subsection:

9 “(d) SPECIAL RULES FOR APPLICATION OF PARA-
10 GRAPHS (1)(B), (1)(C), (1)(D), AND (2)(B) OF
11 SUBSECTION (a).—

12 “(1) NEW ENTITIES.—For purposes of paragraphs
13 (1)(B), (1)(C), (1)(D), and (2)(B) of subsection
14 (a), if the resident alien individual, domestic corpora-
15 tion, or foreign corporation, as the case may be, has no
16 gross income from any source for the 3-year period
17 (or part thereof) specified, the 20 percent test or the 50
18 percent test, as the case may be, shall be applied with
19 respect to the taxable year of the payor in which payment
20 of the interest or dividends, as the case may be, is made.

21 “(2) TRANSITION RULE.—For purposes of para-
22 graphs (1)(C), (1)(D), and (2)(B) of subsection
23 (a), the gross income of the foreign corporation for
24 any period before the first taxable year beginning after