

is to be the same proportion of the dividend or interest which the effectively connected income of the foreign corporation during the immediately prior 3-year period is of its gross income from all sources for that period. Thus, when compared to present law, the effect of these amendments is to decrease the amount of dividends and interest likely to remain subject to U.S. tax.

The bill also contains a transitional rule providing that, in applying the new 50-percent test, any gross income of the foreign corporation from U.S. sources, for any period before the first taxable year beginning after December 31, 1966, is treated as effectively connected income. Your committee also amended the House bill to provide a special rule for determining the source of interest or dividends paid by newly incorporated corporations.

Effective date.—These amendments are effective with respect to dividends received after December 31, 1966.

e. Compensation for personal services (secs. 102(c) and (d) of the bill and secs. 861(a)(3)(C)(ii) and 864(b)(1) of the code)

Present law.—Present law provides that payments of compensation for services performed in the United States generally are treated as U.S. source income. An exception to this rule is provided for compensation received by a nonresident alien where certain conditions are met. Thus, payments for personal services received by a nonresident alien are treated as foreign source income if (1) he was temporarily present in the United States for not over 90 days during the year; (2) the compensation does not exceed \$3,000; and (3) the services are performed for a foreign employer not engaged in a trade or business in the United States or for a domestic corporation if the services are performed for an office or place of business it maintains in a foreign country or U.S. possession. Also, present law provides that the rendering of personal services in the cases described above is not to constitute engaging in a trade or business in the United States.

Reasons for provision.—Temporary personal services of the type described above on occasion may be rendered not only for a domestic corporation having an office or place of business abroad but also for a U.S. citizen, resident or for a domestic partnership where the citizen, resident or partnership has an office abroad. Your committee agrees with the House that the performance of temporary services in the United States subject to the same conditions as described above should be exempt from tax where the business abroad is that of a U.S. citizen, resident or partnership, just as it is in the case of a domestic corporation.

Explanation of provision.—For the reasons given above, the bill amends the source rule of present law relating to personal service income to provide that income from services performed by a nonresident alien temporarily present in the United States for not over 90 days in a year, if not in excess of \$3,000, is to be treated as foreign source income (and not subject to U.S. tax) not only in cases where the employer is a foreign person or a domestic corporation but also where the employer is a U.S. citizen or resident or a domestic partnership. Similar changes are also made in the definition of a "trade or business within the United States" to provide that this term does not include personal services performed for employers who are U.S. citizens or