

contingent amount, or if this contingent amount exceeds 50 percent of the total amount paid in any 1 year, the total amount will be taxed to the extent this amount represented gain realized on the sale of the property. For or other intangible property is used. This provision is to apply to gains derived from sales made after October 4, 1966. The provisions of existing law will continue to apply to transfers of patents made prior to that date.

In the case of a nonresident alien's net U.S. source capital gains (other than those specifically included in the list as taxable at the 30-percent rate) which are not effectively connected with the conduct of a trade or business within the United States, the bill provides that no U.S. tax is to be imposed unless the nonresident alien has been present in the United States for at least 183 days during the taxable year. Present law provides a 90-day test. For purposes of applying the 183-day test an alien will be treated as being on a calendar year basis unless he has previously established a different taxable year. The requirement of present law which taxes capital gains when the alien is physically present in the United States at the time of realization is dropped entirely.

(B) *Income effectively connected with the conduct of U.S. business.*—Income of a nonresident alien individual that is effectively connected with the conduct of a trade or business in the United States, under your committee's bill is taxable at the regular U.S. graduated rates applicable to individuals. Thus, this income will be taxed the same as under existing law although the category itself is more limited since it only applies to income which is effectively connected to a U.S. trade or business instead of including all U.S. source income of an alien with such a trade or business. For purposes of determining whether or not income is effectively connected with the conduct of a trade or business in the United States, the rules discussed above in connection with the definition of effectively connected income (No. A-2 pt. b, above) apply.

(C) *Miscellaneous types of income receiving special treatment.*—Under present law certain types of income are provided special treatment. The bill as approved by your committee and the House revises and extends these categories as indicated below.

(i) *Participants in exchange programs.*—The bill retains the rule in present law which treats nonresident aliens temporarily in the United States as part of a cultural exchange or training program as engaged in a trade or business in the United States even though they are actually not so engaged. The provision is modified to provide in such cases that this type of income is effectively connected to a U.S. trade or business. The effect of treating these categories of income as effectively connected to a U.S. trade or business (or under present law as derived from a U.S. trade or business) is to impose the regular U.S. income tax on these aliens on the taxable portion of their scholarship or fellowship grants and certain other amounts incident to these grants. In this computation one exemption (except in the case of residents of contiguous countries) and the deductions allocable to this income are allowed. In the absence of this special provision, these aliens would be taxed on these grants (and amounts incident thereto) at the flat 30 percent rate. In most