tion to be available. Also, the deduction is limited to 85 percent of the same proportion of the dividend as the foreign corporation's gross income, which is effectively connected with a U.S. trade or business, is of that corporation's total gross income from all sources.

Your committee added an amendment to the House bill which in certain situations provides a 100 percent dividends-received deduction to a domestic corporation for dividends received from a wholly owned foreign subsidiary which has a 100 percent effectively connected income. In such a situation a foreign corporation is subject to U.S. tax on all of its income, just as is a domestic corporation.

The bill also contains a transitional rule which makes it unnecessary to apply the effectively connected income concept when any of the years which is taken into account for the 50-percent test is a pre-1967 year. This rule provides that, for purposes of computing this deduction, all of a foreign corporation's U.S. source income, for any period before its first taxable year beginning after December 31, 1966, is to be considered to be effectively connected income.

Effective date.—These amendments apply for taxable years beginning after December 31, 1966.

d. Unrelated business taxable income of certain foreign charitable organizations (sec. 104(g) of the bill and sec. 512(a) of the code)

Under present law the unrelated business taxable income of foreign charities is subject to tax if it is derived from sources within the United States.

The bill conforms this provision to the effectively connected concept by providing that the unrelated business taxable income of a foreign charity is to be subject to tax only if it is effectively connected with the conduct of a trade or business in the United States.

This amendment applies for taxable years beginning after December 31, 1966.

e. Foreign corporations subject to personal holding company tax (sec. 104(h) of the bill and sec. 542(c), 543(b), and 545 (a) and (d) of the code)

Present law.—Under present law any foreign corporation with U.S. investment income, whether or not doing business here, may be taxed as a personal holding company unless all its outstanding stock is owned (directly and indirectly) by nonresident alien individuals and its U.S. source gross income is less than 50 percent of its total gross income for that year. If taxable as a personal holding company the foreign corporation is subject to a special 70-percent tax on its undistributed U.S. source personal holding company income in addition to the flat rate 30-percent tax (or possibly the regular corporate tax). Also, if a foreign corporation is determined to constitute a personal holding company and the foreign corporation has not filed a return or that which was filed was not a true and accurate return, the 70-percent personal holding company tax is assessed without allowance of the dividend paid deduction. In such cases, the combination of the regular 30-percent tax and the 70-percent personal holding company tax can constitute a tax of about 80 percent of the income of the foreign corporation.

Reason for provision.—The primary reason for applying the U.S. personal holding company tax to foreign corporations owned by non-