

not to be available for taxes imposed by a country solely on the basis that it has jurisdiction to tax the individual on his worldwide income because he is a citizen or resident of that country or a corporation on its worldwide income because it is created, incorporated, or domiciled there. As indicated above it is the opinion of your committee that it is not necessary to the effectuation of the purposes of the bill that the foreign tax credit provision be limited in the manner provided in the House bill.

The credit is allowed under the existing foreign tax credit provision and is subject to the existing "per country" or "overall" limitation. The "per country" limitation restricts the credit to the proportion of the U.S. tax which the taxpayer's taxable income from sources within the particular country bears to his entire taxable income for the year. Similarly the "overall" limitation restricts the credit to the proportion of the U.S. tax which the taxpayer's taxable income, from sources without the United States, bears to his entire taxable income for the year. In determining the credit allowable to a nonresident alien individual or a foreign corporation under these limitations, the individual's or corporation's taxable income is to include only the taxable income effectively connected with the taxpayer's conduct of a trade or business within the United States. Moreover, the credit is not allowable against U.S. taxes imposed at the flat 30-percent rate on income not effectively connected with the conduct of a trade or business in the United States.

Under some circumstances, present law treats a portion of the foreign taxes paid by certain foreign subsidiaries of a domestic corporation as having been paid by the domestic corporation for purposes of computing its foreign tax credit. The bill accords this same treatment to foreign corporations, but its application is limited to income effectively connected with the conduct of a trade or business within the United States.

*Effective date.*—These amendments apply for taxable years beginning after December 31, 1966. In applying the foreign tax credit carryback and carryover provisions of present law to nonresident aliens and foreign corporations no amount may be carried to or from a taxable year beginning before January 1, 1967.

*e. Similar credit requirement (sec. 106(b) (2) and (3) of the bill and secs. 901(c) and 2104(a) and new (h) of the code)*

*Present law.*—Under present law, the foreign tax credit for income, etc., or death taxes are allowable to an alien who is a resident of the United States (or Puerto Rico) only if the foreign country in which the alien is a citizen or subject, in imposing its income, etc., or death taxes, allows a similar credit to citizens of the United States residing in such country.

*Reason for provision.*—The present law acts to deny the credit to alien residents of the United States who are citizens of countries which may be following foreign policies which are adverse to the United States. Such countries may be unconcerned as to our tax treatment of refugees from their country who become residents of the United States. The fact that the United States may deny a credit to refugees from their country, in fact, might encourage them not to provide a foreign tax credit or exemption in their laws for any residents of their country who may be U.S. citizens. Your committee agrees with the House that