

(g) **UNRELATED BUSINESS TAXABLE INCOME.**—The last sentence of section 512(a) (relating to definition) is amended to read as follows: "In the case of an organization described in section 511 which is a foreign organization, the unrelated business taxable income shall be its unrelated business taxable income which is effectively connected with the conduct of a trade or business within the United States."

(h) **CORPORATIONS SUBJECT TO PERSONAL HOLDING COMPANY TAX.**—

(1) Paragraph (7) of section 542(c) (relating to corporations not subject to personal holding company tax) is amended to read as follows:

"(7) a foreign corporation (other than a corporation which has income to which section 543(a) (7) applies for the taxable year), if all of its stock outstanding during the last half of the taxable year is owned by non-resident alien individuals, whether directly or indirectly through foreign estates, foreign trusts, foreign partnerships, or other foreign corporations;"

(2) Section 543(b) (1) (relating to definition of ordinary gross income) is amended—

(A) by striking out "and" at the end of subparagraph (A),

(B) by striking out the period at the end of subparagraph (B) and inserting in lieu thereof ", and", and

(C) by inserting after subparagraph (B) the following new subparagraph:

"(C) in the case of a foreign corporation all of the outstanding stock of which during the last half of the taxable year is owned by nonresident alien individuals (whether directly or indirectly through foreign estates, foreign trusts, foreign partnerships, or other foreign corporations), all items of income which would, but for this subparagraph, constitute personal holding company income under any paragraph of subsection (a) other than paragraph (7) thereof."

(3) Section 545 (relating to definition of undistributed personal holding company income) is amended—

(A) by striking out subsection (a) and inserting in lieu thereof the following:

"(a) **DEFINITION.**—For purposes of this part, the term 'undistributed personal holding company income' means the taxable income of a personal holding company adjusted in the manner provided in subsections (b), (c), and (d), minus the dividends paid deduction as defined in section 561. In the case of a personal holding company which is a foreign corporation, not more than 10 percent in value of the outstanding stock of which is owned (within the meaning of section 958(a)) during the last half of the taxable year by United States persons, the term 'undistributed personal holding company income' means the amount determined by multiplying the undistributed personal holding company income (determined without regard to this sentence) by the percentage in value of its outstanding stock which is the greatest percentage in value of its outstanding stock so owned by United States persons on any one day during such period."; and

(B) by adding at the end thereof the following new subsection:

"(d) **CERTAIN FOREIGN CORPORATIONS.**—In the case of a foreign corporation all of the outstanding stock of which during the last half of the taxable year is owned by non-resident alien individuals (whether directly or indirectly through foreign estates, foreign

trusts, foreign partnerships, or other foreign corporations), the taxable income for purposes of subsection (a) shall be the income which constitutes personal holding company income under section 543(a) (7), reduced by the deductions attributable to such income, and adjusted, with respect to such income, in the manner provided in subsection (b)."

(4) (A) Subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end thereof the following new section:

"SEC. 6683. **FAILURE OF FOREIGN CORPORATION TO FILE RETURN OF PERSONAL HOLDING COMPANY TAX.**

"Any foreign corporation which—

"(1) is a personal holding company for any taxable year, and

"(2) fails to file or to cause to be filed with the Secretary or his delegate a true and

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accurate return of the tax imposed by section 541,

shall, in addition to other penalties provided by law, pay a penalty equal to 10 percent of the taxes imposed by chapter 1 (including the tax imposed by section 541) on such foreign corporation for such taxable year."

(B) The table of sections for such subchapter B is amended by adding at the end thereof the following new item:

"Sec. 6683. Failure of foreign corporation to file return of personal holding company tax."

(i) **AMENDMENTS WITH RESPECT TO FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS IN UNITED STATES.**—

(1) Section 842 (relating to computation of gross income) is amended to read as follows:

"SEC. 842. **FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS.**

"If a foreign corporation carrying on an insurance business within the United States would qualify under part I, II, or III of this subchapter for the taxable year if (without regard to income not effectively connected with the conduct of any trade or business within the United States) it were a domestic corporation, such corporation shall be taxable under such part on its income effectively connected with its conduct of any trade or business within the United States. With respect to the remainder of its income, which is from sources within the United States, such a foreign corporation shall be taxable as provided in section 881."

(2) The table of sections for part IV of subchapter L of chapter 1 is amended by striking out the item relating to section 842 and inserting in lieu thereof the following:

"Sec. 842. Foreign corporations carrying on insurance business."

(3) Section 819 (relating to foreign life insurance companies) as amended—

(A) by striking out subsections (a) and (d) and by redesignating subsections (b) and (c) as subsections (a) and (b),

(B) by striking out "In the case of any company described in subsection (a)," in subsection (a) (1) (as redesignated by subparagraph (A)) and inserting in lieu thereof "In the case of any foreign corporation taxable under this part,"

(C) by striking out "subsection (c)" in the last sentence of subsection (a) (2) (as redesignated by subparagraph (A)) and inserting in lieu thereof "subsection (b)",