

1 of such period as the corporation has been in exist-
2 ence) was effectively connected with the conduct of
3 a trade or business within the United States; but
4 only in an amount which bears the same ratio to
5 such dividends as the gross income of the corpora-
6 tion for such period which is effectively connected
7 with the conduct of a trade or business within the
8 United States bears to its gross income from all
9 sources; but dividends from a foreign corporation
10 shall, for purposes of subpart A of part III (relating
11 to foreign tax credit), be treated as income from
12 sources without the United States to the extent (and
13 only to the extent) exceeding the amount which is
14 100/85ths of the amount of the deduction allowable
15 under section 245 in respect of such dividends, or”.

16 (2) Section 861(a)(2) is amended by adding after
17 subparagraph (C) the following:

18 “For purposes of subparagraph (B), the gross income
19 of the foreign corporation for any period before the first
20 taxable year beginning after December 31, 1966, which
21 is effectively connected with the conduct of a trade or
22 business within the United States is an amount equal
23 to the gross income for such period from sources within
24 the United States.”