

This amendment provides that none of the interest received from a foreign corporation is to be considered to be from U.S. sources unless at least 50 percent (rather than 20 percent as provided in the House bill) of the corporation's gross income for the three preceding years was effectively connected with the conduct of a trade or business in the United States. Also, the portion of the interest treated as being from U.S. sources is to be the same proportion of the interest which the effectively connected income of the foreign corporation during the immediately prior 3-year period is of its gross income from all sources for that period.

P. 90 (3) *Interest on deposits in foreign branch banks.*—The House bill provided that interest on deposits with foreign branch banks of U.S. corporations is to be treated as foreign source income and thus free of U.S. income tax when paid to nonresident aliens and foreign corporations. This amendment extends this treatment to foreign branch banks of U.S. partnerships.

P. 92 (4) *Foreign central banks and the Bank for International Settlements.*—The House bill exempted from U.S. tax interest on U.S. bank deposits received by foreign central banks of issue and the Bank for International Settlements unless the deposits are held in connection with general commercial transactions of these banks. The Senate amendment extends the provision of present law which exempts interest from U.S. Government obligations received by a foreign central bank of issue to such interest received by the Bank for International Settlements. Also, the definition of what constitutes a governmental obligation, for purposes of this exemption, was extended both with respect to foreign central banks of issue and the Bank for International Settlements to include obligations of agencies or instrumentalities of the United States.

Pp. 88–93 (5) Technical and clerical changes.

(b) Dividends. (Pp. 93–94.)

P. 93 (1) *Rules for determining source of dividends from foreign corporations.*—The Senate amended the source rule with respect to dividends paid by foreign corporations to provide that dividends received from a foreign corporation are to be considered as having a U.S. source only if 50 percent (House bill provided an 80-percent rule) of the corporation's gross income for the prior 3 years was effectively connected with the conduct of a trade or business in the United States.

Pp. 93–94 (2) Technical and clerical changes.

P. 94 (c) Personal services. (P. 94.)
Clerical change.

(d) Definitions. (Pp. 94–103.)