

Therefore, the fact that the board of directors of the foreign corporation meets in the U.S. office will not subject the worldwide sales income of that foreign corporation to U.S. taxation. On the other hand, the activities of the U.S. office need not necessarily be a major factor in the production of the income.

The requirement that the income must be derived from the usual business activities of the U.S. office, in effect, provides a de minimus exception. It is intended that this rule will exclude from U.S. tax jurisdiction all foreign income derived from casual sales. Thus, if the foreign corporation is engaged solely in a manufacturing business in the United States, the income derived by the U.S. plant as a result of an occasional foreign sale will not come within the ambit of the foreign source effectively connected rule where the sales operations for the products of the U.S. plant are located outside the United States. On the other hand, if a foreign corporation establishes a U.S. sales office to sell goods produced in Africa in the Western Hemisphere, occasional sales income derived from parts of the world other than the Western Hemisphere would not be excluded under this casual sales rule. In other words, the nature of the U.S. business would be the primary determinative factor for purposes of this exception.

(C) *Foreign Tax Credit*.—The act extends a foreign tax credit (sec. 906) to foreign source effectively connected income but only with respect to foreign taxes paid on non-U.S. source. A further discussion of this amendment is provided in the foreign tax credit portion of this summary.

(D) *Foreign Insurance Companies*.—In the case of a foreign corporation having a life insurance business in the United States, the act provides that income from sources without the United States is to be treated as effectively connected with the conduct of the business within the United States if the income is attributable to its U.S. life insurance business. This rule merely continues the treatment of existing law under which income of a foreign corporation from its U.S. life insurance business is subject to tax whether the income is from sources within or without the United States.

Effective date.—This amendment applies with respect to taxable years beginning after December 31, 1966. For purposes of determining whether foreign source sales income from a binding contract, entered into on or before February 24, 1966, is attributable to a U.S. office, none of the activities in the United States on or before that date, which were related to the negotiation or effectuation of the binding contract are to be taken into account. As a result in many cases the sales income from foreign sources under binding contracts entered into before February 25, 1966, will not come within the ambit of this provision.

3. TAXATION OF NONRESIDENT ALIENS

a. Income tax on nonresident alien individuals (Sec. 103(a) of the act and sec 871 of the code)

Prior law.—Prior law provided different tax treatment for nonresident alien individuals according to whether they were, or were not, engaged in a trade or business in the United States. Also, those not engaged in a trade or business in the United States were provided