nected with the conduct of its insurance business carried on in the United States.

For purposes of determining whether or not income of a foreign life insurance company is effectively connected with the conduct of its U.S. life insurance business, the annual statement of its U.S. business on the form approved by the National Association of Insurance Commissioners will usually be followed. Also, certain foreign casualty insurance companies use this form to indicate their U.S. business connected investment income, and it is expected that this statement will continue to be utilized to reflect the effectively connected income of these companies. It is noted that all the income effectively connected with the foreign life insurance company's U.S. life insurance business, from whatever source derived, comes within the ambit of this provision. This a continuation of existing law.

It has been pointed out that the special rule in prior law referred to above with respect to foreign life insurance companies—where these companies held a lower ratio of surplus for their U.S. business than that held by the average domestic companies—could have lead to what in effect would have been a double tax. To meet this problem the act adds a paragraph to the provision described above which has the effect of reducing the income subject to the flat 30-percent tax (or lower treaty rate) by the amount by which the deductions under this special provision are reduced as the result of the application of the Secretary's ratio. This is accomplished by allowing a credit against the 30-percent tax (or lower treaty rate) for the tax levied on the hypothetical income attributed to the U.S. life insurance company business.

Effective date.—These amendments apply with respect to taxable years beginning after December 31, 1966.

g. Subpart F income (sec. 104(j) of the act and sec. 952(b) of the code)

Prior law.—Under existing law certain portions of the undistributed income of a controlled foreign corporation are taxed currently to its U.S. shareholders having a 10 percent or greater voting interest. This undistributed income so taxed is termed "subpart F income." In determining "subpart F income," there was, under prior law, an exclusion for income of a foreign corporation from U.S. sources which already was taxed by the United States because the corporation was engaged in trade or business in the United States. Prior law was interpreted in the income tax regulations as not excluding from "subpart F" income, income exempt from U.S. tax, or subject to a reduced rate of tax, in accordance with a treaty.

Explanation of provision.—The act amends prior law to provide that in determining "subpart F income" there is to be excluded only those items of income effectively connected with the conduct of a trade or business within the United States. It also makes it clear that "subpart F income" includes items exempt from U.S. tax or subject to a reduced rate of tax pursuant to a treaty.

Effective date.—This amendment applies with respect to taxable years beginning after December 31, 1966.

h. Gain from certain sales or exchanges of stock in certain foreign corporations (sec. 104(k) of the act and sec. 1248(d) of the code)

Prior law.—Prior law treated the gain realized by a 10-percent U.S. shareholder from the sale or exchange of stock of certain for-