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LEGISLATIVE HISTORY

OF

H.R. 13103

89th Congress

FOREIGN INVESTORS TAX ACT OF 1966

PUBLIC LAW 89-809

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

FIRST SESSION

PART 2



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Prepared by the Staff of the Committee on Ways and Means for the
use of the Committee on Ways and Means

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WASHINGTON : 1967

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INTRODUCTION

The legislative history of H.R. 13103 is a compilation of legislative history materials relating to the enactment of Public Law 89-809. The purpose of this history is to make readily available all of the public documents containing pertinent information relative to the enactment of the law.

This document sets forth in chronological order the action taken by Congress with respect to this law. For example, section 1 sets forth the public law; section 2, H.R. 5916 as introduced in the House of Representatives; section 3, an explanation by the Treasury Department of the act to remove tax barriers to foreign investment in the United States, which was inserted in the Congressional Record on March 8, 1965, by Chairman Wilbur D. Mills, and so on.

This document contains: (a) the hearings on H.R. 5916 before the Committee on Ways and Means on June 30 and July 1, 1965 (which include: H.R. 5916 as introduced in the House of Representatives; press release of the Committee on Ways and Means, dated June 18, 1965, announcing invitation for interested persons to submit written statements on H.R. 5916; and press release of the Committee on Ways and Means, dated June 24, 1965, announcing public hearings on H.R. 5916); (b) written statements by interested individuals and organizations on H.R. 11297 submitted to the Committee on Ways and Means (which include: H.R. 11297 as introduced in the House of Representatives on September 28, 1965, together with summary of principal provisions and comparative print showing changes which would be made in existing law); and (c) hearings on H.R. 13103 before the Committee on Ways and Means on March 7, 1966 (which include: press release of the Committee on Ways and Means, dated February 24, 1966, announcing the hearings on H.R. 13103 and H.R. 13103 as introduced in the House of Representatives).

The hearings held by the Senate Committee on Finance on H.R. 13103 are also contained in this document. Included in these hearings is H.R. 13103 as passed by the House of Representatives and referred to the Senate Committee on Finance.

Documents incorporated in the hearings and written statements mentioned above are not set out separately in this document; however, appropriate cross-references are made.

The material contained herein has been inserted in toto; therefore, the original pagination appears in all cases.

In order to facilitate the utilization of the House and Senate floor debates on H.R. 13103, this document contains an alphabetical listing of Members of Congress with cross-references to their remarks on the floor of the House or the Senate, as the case may be. In this connection, however, the page numbers refer to the pages of this document. The floor debates are taken from the Congressional Record for the

date indicated. The page numbers of the daily Congressional Record are bracketed.

During the course of its consideration of H.R. 13103, the Senate Committee on Finance added amendments to the bill, some of which were the substance of bills that were reported by the Committee on Ways and Means and in some cases, had been passed by the House of Representatives. One situation involves a Senate-passed bill that was reported by the Committee on Ways and Means. These bills appear in the appendix to this document along with the appropriate committee reports and House and Senate floor debates where appropriate.

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29. House floor debate on conference report.....	1883
30. Senate floor debate on conference report.....	1913
31. Senate Committee on Finance summary of Presidential Election Campaign Fund Act of 1966 (title III of Public Law 89-809).....	1977
32. Summary of the Foreign Investors Tax Act of 1966; Presidential Election Campaign Fund Act; and other amendments.....	1987
33. Press release, office of the White House press secretary (Fredericksburg, Tex.) dated November 13, 1966, statement by the President upon signing the Foreign Investors Tax Act of 1966—H.R. 13103..	2051

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I. H.R. 10, a bill to amend the Internal Revenue Code of 1954 to permit pension and profit-sharing plans to provide contributions or benefits on a non-discriminatory basis for certain self-employed individuals without special limitations on the amount of contributions (sec. 204 of Public Law 89-809).....	2057
II. H.R. 11765, income tax treatment of certain straddle transactions (sec. 210 of Public Law 89-809).....	2121
III. S. 1013, to clarify the components of, and to assist in the management of, the national debt and the tax structure (sec. 402 of Public Law 89-809).....	2151
IV. H.R. 18230, to amend the Internal Revenue Code of 1954 to provide that the term "purchase" for purposes of section 334(b)(2) is to include certain indirect purchases of stock through the purchase of the stock of another corporation (sec. 202 of Public Law 89-809) ..	2179

CHRONOLOGICAL HISTORY OF THE LEGISLATION

Date Fowler task force report presented to the President	Apr. 27, 1964.
House bill number	H.R. 5916.
Date bill introduced in House of Representatives	Mar. 8, 1965.
Dates of public hearings before the House Committee on Ways and Means (on H.R. 5916)	June 30 and July 1, 1965.
House bill number (superseding H.R. 5916)	H.R. 11297.
Date bill introduced in House of Representatives	Sept. 28, 1965.
House bill number (superseding H.R. 11297)	H.R. 13103.
Date bill introduced in House of Representatives	Feb. 28, 1966.
Date of public hearings before the House Committee on Ways and Means (on H.R. 13103)	Mar. 7, 1966.
Date bill reported by Committee on Ways and Means	Apr. 26, 1966.
House report number	H. Rept. No. 1450.
Date rule obtained—H. Res. 880, providing for a closed rule, waiving points of order against, 3 hours of debate, committee amendments, and one motion to recommit	June 7, 1966.
Date of House floor debate and final passage	June 15, 1966.
Rule: H. Res. 880 adopted by voice vote.	
Final passage: Passed by a voice vote.	
Dates of public hearings before the Senate Committee on Finance	Aug. 8, 9, and 10, 1966.
Date bill reported by Senate Committee on Finance	Oct. 11, 1966.
Senate report number	S. Rept. No. 1707.
Dates of Senate floor debate	Oct. 12 and 13, 1966.
Date bill passed the Senate	Oct. 13, 1966.
Final passage: Passed by a record vote—58 yeas, 18 nays, 24 not voting.	
Date conference report filed	Oct. 19, 1966.
Conference report number	Rept. No. 2327.
Date conference report presented to House of Representatives	Oct. 19, 1966.
Date conference report adopted by House of Representatives	Oct. 20, 1966.
Vote: 171 yeas, 46 nays, 221 not voting.	
Date conference report presented to and adopted by the Senate	Oct. 22, 1966.
Date signed by the President	Nov. 13, 1966.
Public law number	Public Law 89-809.

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES

A. HOUSE FLOOR DEBATE ON BILL

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Byrnes, John W. (Wisconsin)-----	854, 855
Curtis, Thomas B. (Missouri)-----	853-855
de la Garza, Eligio (Texas)-----	853-854
Gross, H. R. (Iowa)-----	852
Madden, Ray J. (Indiana)-----	849
Mills, Wilbur D. (Arkansas)-----	849-854, 855, 869
Smith, H. Allen (California)-----	849

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Aiken, George D. (Vermont)-----	1552-1554, 1557-1558, 1564, 1595
Bayh, Birch E. (Indiana)-----	1577-1578
Bennett, Wallace F. (Utah)-----	1582
Carlson, Frank (Kansas)-----	1568, 1573-1574, 1594
Cotton, Norris (New Hampshire)-----	1546-1547, 1555-1557, 1560, 1569-1571, 1595
Dirksen, Everett McKinley (Illinois)-----	1582, 1594, 1595
Dominick, Peter H. (Colorado)-----	1569
Ervin, Samuel J., Jr. (North Carolina)-----	1583
Fong, Hiram L. (Hawaii)-----	1588-1590
Gore, Albert (Tennessee)-----	1538, 1540-1541, 1560-1562, 1566, 1569-1570, 1574, 1577-1582
Griffin, Robert P. (Michigan)-----	1598
Hartke, Vance (Indiana)-----	1568-1569, 1571-1573, 1575, 1577-1578, 1583
Holland, Spessard L. (Florida)-----	1599
Javits, Jacob K. (New York)-----	1587-1588
Jordan, B. Everett (North Carolina)-----	1568
Lausche, Frank J. (Ohio)-----	1525-1526, 1528, 1532-1537, 1542-1544, 1547, 1549-1550, 1561, 1563-1565, 1569, 1583, 1593, 1595-1596
Long, Edward V. (Missouri)-----	1569
Long, Russell B. (Louisiana)-----	1523-1540, 1542-1543, 1547-1551, 1552-1566, 1569-1570, 1571, 1574-1578, 1583-1584, 1588, 1590, 1592-1593, 1594, 1596-1598, 1599-1600
McCarthy, Eugene J. (Minnesota)-----	1539-1540, 1564-1565, 1577
Magnuson, Warren G. (Washington)-----	1557
Mansfield, Mike (Montana)-----	1495, 1567, 1575-1576, 1583, 1588, 1594, 1600-1601
Morton, Thruston B. (Kentucky)-----	1537, 1598
Murphy, George (California)-----	1549, 1558-1560, 1576
Nelson, Gaylord (Wisconsin)-----	1548
Pastore, John O. (Rhode Island)-----	1551, 1552, 1553-1554, 1596-1598
Robertson, A. Willis (Virginia)-----	1592
Russell, Donald S. (South Carolina)-----	1569
Russell, Richard B. (Georgia)-----	1575
Scott, Hugh (Pennsylvania)-----	1546
Simpson, Milward L. (Wyoming)-----	1582, 1597
Smathers, George A. (Florida)-----	1599
Sparkman, John (Alabama)-----	1569
Stennis, John (Mississippi)-----	1569
Symington, Stuart (Missouri)-----	1554-1556
Talmadge, Herman E. (Georgia)-----	1537- 1538, 1542, 1568, 1590-1592, 1594, 1600
Thurmond, Strom (South Carolina)-----	1554, 1557-1558
Williams, John J. (Delaware)-----	1534, 1538, 1540, 1542-1547, 1550-1552, 1556, 1561-1564, 1566, 1574, 1582, 1592-1594, 1595-1597, 1599
Yarborough, Ralph W. (Texas)-----	1584-1587, 1590, 1592-1594, 1595
Young, Stephen M. (Ohio)-----	1552

C. HOUSE FLOOR DEBATE ON CONFERENCE REPORT

Members of the House

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(of this
document)

Battin, James F. (Montana)	1900
Bingham, Jonathan B. (New York)	1906
Byrnes, John W. (Wisconsin)	1905
Curtis, Thomas B. (Missouri)	1893, 1902-1904, 1907, 1908
Dingell, John D. (Michigan)	1902, 1904-1905
Fraser, Donald M. (Minnesota)	1907
Fulton, James G. (Pennsylvania)	1906-1907
Griffiths, Martha W. (Michigan)	1901
Harsha, William H. (Ohio)	1901
Joelson, Charles S. (New Jersey)	1905-1906
Keogh, Eugene J. (New York)	1899-1900, 1902
Long, Clarence D. (Maryland)	1902, 1904
MacGregor, Clark (Minnesota)	1899
Mills, Wilbur D. (Arkansas)	1885, 1892-1908
Rumsfeld, Donald (Illinois)	1903
Smith, Howard W. (Virginia)	1892-1894
Vivian, Weston E. (Michigan)	1907
Watson, Albert W. (South Carolina)	1900-1901

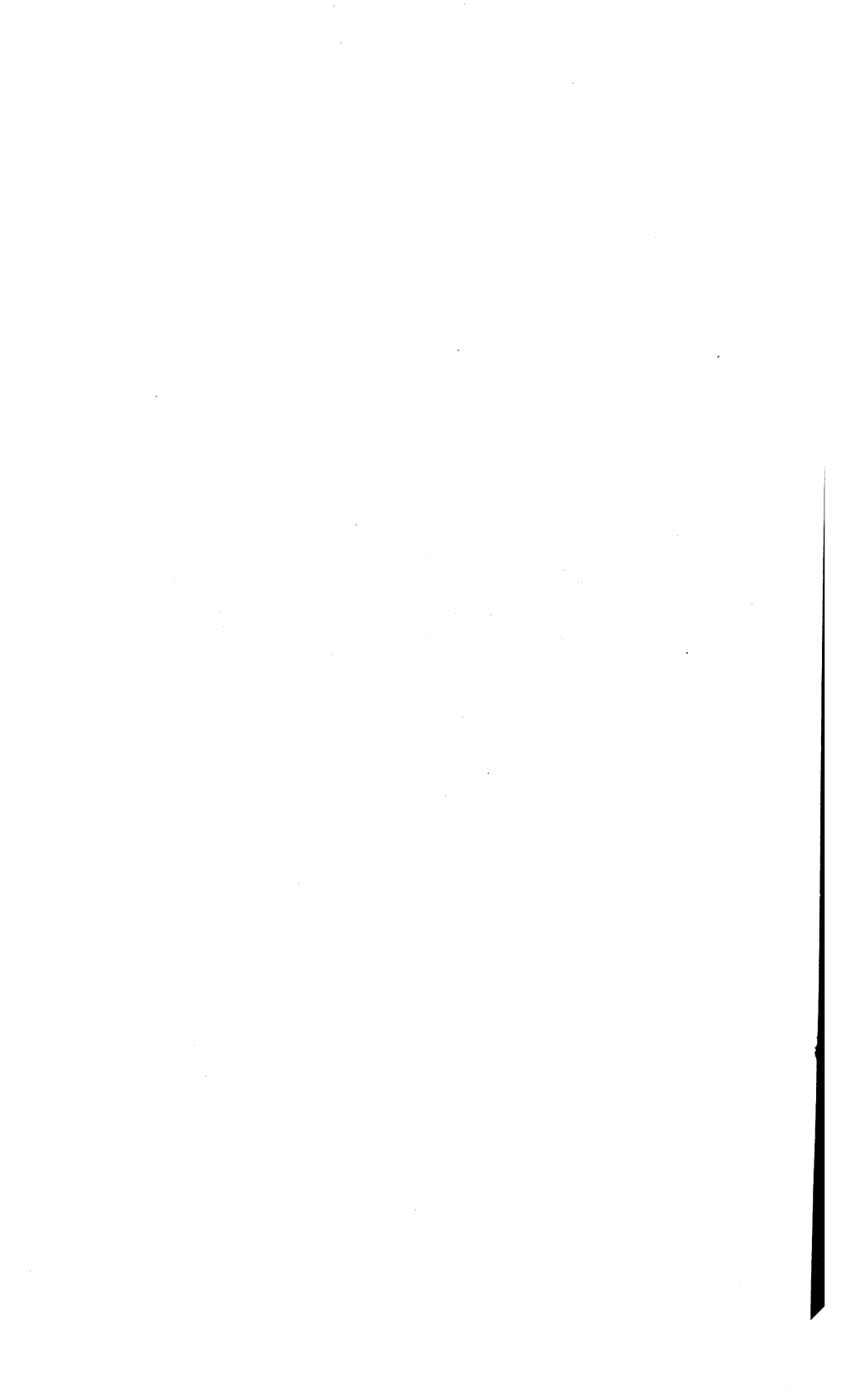
D. SENATE FLOOR DEBATE ON CONFERENCE REPORT

Members of the Senate

Byrd, Robert C. (West Virginia)	1967
Clark, Joseph S. (Pennsylvania)	1954-1955
Gore, Albert (Tennessee)	1918-1919, 1923, 1927, 1930, 1933-1935, 1937, 1943, 1952-1961, 1963-1964
Hickenlooper, Bourke B. (Iowa)	1959-1960
Holland, Spessard L. (Florida)	1917
Kuchel, Thomas H. (California)	1922
Lausche, Frank J. (Ohio)	1916, 1920-1922, 1932-1936, 1941-1942, 1944-1947, 1956-1961
Long, Russel B. (Louisiana)	1915, 1917-1918, 1920, 1922, 1923-1931, 1933-1934, 1936, 1941, 1943, 1946-1952, 1962-1965, 1968-1976.
McCarthy, Eugene J. (Minnesota)	1931, 1935
Mansfield, Michael J. (Montana)	1915-1923, 1955, 1959, 1961, 1962, 1964
Monroney, A. S. Mike (Oklahoma)	1955
Morse, Wayne (Oregon)	1917
Murphy, George (California)	1926-1928, 1965-1966
Pastore, John O. (Rhode Island)	1916-1917
Randolph, Jennings (West Virginia)	1967-1968
Smathers, George A. (Florida)	1920-1921, 1947-1954, 1957, 1966
Williams, John J. (Delaware)	1919-1920, 1930-1947, 1965

SECTION 22

**PRESS RELEASE OF THE SENATE COMMITTEE ON
FINANCE DATED OCTOBER 4, 1966, ANNOUNCING
THAT THE COMMITTEE ORDERS FOREIGN INVESTORS
TAX BILL REPORTED**



PRESS RELEASE

FOR IMMEDIATE RELEASE
OCTOBER 4, 1966

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 New Senate Office Bldg.

FINANCE COMMITTEE ORDERS FOREIGN INVESTORS
TAX BILL REPORTED

Senator Russell B. Long, Chairman of the Senate Committee on Finance, today announced that the Committee has ordered favorably reported, with amendments, H.R. 13103, the Foreign Investors Tax Act of 1966, a bill to revise the tax treatment of nonresident aliens and foreign corporations who invest in the United States.

The Committee amended the provisions of the House-passed bill in several respects and added a number of other amendments to it.

Amendments to Provisions of the House Bill:

(1) Estate Tax. - Bank deposits of nonresident aliens and foreign corporations would not become subject to the United States estate tax until 1972, rather than upon the date of enactment of the bill (conforming to the effective date in the bill for the income tax on the interest derived from these bank deposits).

(2) Foreign Income. - The "effectively connected" rule with regard to foreign source income is amended so as to exclude (a) income derived from a transaction in which the U.S. office was not a material factor, (b) income not derived from the usual business activities of the U.S. office (c) income not properly allocable to the U.S. office. Office would be defined as excluding certain agents. Additionally, the foreign tax credit provision was expanded to include domiciliary taxes attributable to the foreign source effectively connected income.

(3) Possessions-Banks. - Interest from U.S. Treasury obligations received by a bank located in a U.S. possession would be treated as effectively connected to a U.S. trade or business in order that they might deduct expenses incident to such income.

(4) Personal Holding Company. - The personal holding company provisions of the House bill exempting foreign corporations of all the stock of which is owned by non-resident aliens is amended. Under the amendment, in the case of foreign corporations with 10 percent or less U.S. ownership, the personal holding company tax would be assessed only on the corporation's income attributable to the U.S. shareholders interest.

(5) Foreign Tax Credit. - The exception provided by the bill with respect to the limitation on the allowable foreign tax credit applicable to interest income is amended to apply to a taxpayer directly or indirectly owning 10 percent (rather than 50 percent) of the corporation from which the interest is derived.

(6) Dividend Received Deduction. - The 100 percent dividend received deduction would be allowed a U.S. corporation whose wholly-owned foreign subsidiary is subject to U.S. tax on all of its income which is foreign source income effectively connected with the foreign subsidiary's U.S. business.

(7) Expatriation. - The special income tax rules of the bill referring to expatriates would apply for 10 years rather than 5 years as in the House bill.

(8) Technical Amendments. - The technical amendments to provisions in the House bill referred to in the Secretary of the Treasury's statement, together with certain other technical and conforming amendments were adopted.

Other Amendments:

(1) Interest Equalization. - Three amendments to the Interest Equalization Tax were approved:

(a) Euro-dollars. - The President would be given the authority to exempt from the interest equalization tax, U.S. dollar loans of more than one year made by the foreign branches of U.S. banks.

(b) Raw Material Source Loans. - Subsequent transfers of loans to assure raw material sources would be exempt from the interest equalization tax where the indebtedness is acquired without an intent on the part of the purchaser to sell it to other U.S. persons.

(c) Insurance Companies - Developed Countries. - The present exemption for reserve asset pools of U.S. insurance companies would also allow the establishment of reserve asset pools where a U.S. insurance company commences activities in a developed country or where a less-developed country is designated as a developed country.

(2) Participation Certificates. - Central Banks. The tax exemption on income from investment in Treasury obligations held by foreign central banks is extended to obligations of other Federal agencies.

(3) Foreign Currency Denominated Securities. - The debt management authority of the Secretary of the Treasury is expanded to allow the issuance of foreign currency denominated securities in the same range of maturities and interest rates as is authorized for regular dollar issues.

(4) Contingent Liabilities and Assets. - The text of S. 1013 was adopted requiring an annual report to Congress showing the contingent liabilities of the Federal Government, and assets of the Federal Government which are available to liquidate such liabilities.

(5) Cooperative Per-Unit Retains. - An amendment was adopted which provides that cooperatives and their patrons are to treat per-unit retain certificates in a manner similar to the treatment presently provided for patronage dividends. This in effect codifies the present Treasury regulations on this issue.

(6) Alumina Clay. - A depletion allowance of 23 percent is permitted for laterites, nepheline syerite, and clay to the extent that alumina and aluminum compounds are extracted therefrom and the cut-off point for determining the limitation on the depletion allowance for these minerals is fixed at the alumina stage. These changes apply only to domestic minerals.

(7) Medical Expenses. - Taxpayers 65 and over would be able to continue to deduct medical expenses without regard to the 3 percent and the one percent limitations presently scheduled to apply to such taxpayers beginning January 1, 1967. The provisions in the medicare law which would restrict the medical and drug expense deduction would be repealed.

(8) Prescribed Drugs - Medicare. - Prescribed drugs coverage would be added to Part B of Medicare. Estimated monthly cost of \$1 per beneficiary would be shared equally by government and beneficiary. Reimbursement would be made under schedule of allowances based upon generic drug prices.

(9) Straddles. - Writer of a straddle (a combination of an option to buy and an option to sell a certain number of shares of stock at a fixed price for a stated period of time) would have his income derived from the straddle premium attributable to the portion of the option which lapses taxed as a short-term capital gain, enabling him to offset the capital loss on the portion which is exercised.

(10) Excise Tax - Hearses. - The 7 percent automobile tax rather than the 10 percent truck excise tax would apply to hearses as it presently applies to ambulances and combination ambulance-hearses.

(11) Corporate Acquisition of Assets of Another Corporation. - A corporate acquisition would be tax-free where the assets of the acquired corporation were received through a combination out-right purchase of 40 percent of the corporation's stock and indirect purchase by the acquired corporation of 80 percent of the stock of a holding company which owns 40 percent of the stock of the acquired corporation.

(12) Clam and Oyster Shells. The depletion allowance for clam shells and oyster shells is increased from 5 to 15 percent when used for their calcium carbonate content. When used for road ballast or rip rap the 5 percent rate would continue to apply.

(13) Presidential Campaign Financing. - Provides for reimbursement of major political parties equally for expenses they incur in financing a Presidential campaign. Payments would be made from a fund made up of \$1 amounts designated by taxpayers on their tax returns. The amount available for reimbursement would be limited to \$1 for each vote cast for the major party candidates at the last Presidential election. Provision would also be made for reimbursing certain splinter parties.

(14) Swap Funds. - An amendment was approved, setting aside certain Treasury regulations proposing to tax exchanges of appreciated securities (or other property) for shares in a mutual fund.

(15) Shale, Clay and Slate as Lightweight Concrete Aggregates. - The text of S. 2745 was adopted, treating sintering or burning as a mining process for depletion allowance purposes in the case of shale, clay and slate used or sold for use as lightweight concrete aggregates.

(16) Rental Income in the Case of Personal Holding Company Tax. - This amendment would exclude from the category of rental income for purposes of the personal holding company tax income derived by a manufacturing concern from the leasing of products manufactured by it.

(17) Self-Employed - Earned Income. - The first \$6,600 of net profit from a trade or business in which both capital and personal services are material income-producing factors would be treated as earned income for purposes of measuring contributions to retirement plans by self-employed persons. Under present law, only the first \$2,500 is so treated.

(18) Self-Employed - Authors and Inventors. - The text of S. 1242 was approved as an amendment. Under it, royalty income of authors and inventor would be considered as earned income for purposes of measuring contributions by self-employed persons to retirement plans.

(19) Investment Credit - Possessions. - The investment credit would be permitted with respect to property used in the insular possessions, if neither the lessor or lessee with respect to such property claims exemption from U.S. income tax under Section 931 (income from sources within possessions of the United States).

SECTION 23
BILL AS REPORTED BY SENATE COMMITTEE
ON FINANCE

1171

Calendar No. 1675

89TH CONGRESS
2D SESSION

H. R. 13103

[Report No. 1707]

IN THE SENATE OF THE UNITED STATES

JUNE 16, 1966

Read twice and referred to the Committee on Finance

OCTOBER 11, 1966

Reported, under authority of the order of the Senate of October 11, 1966, by
Mr. LONG of Louisiana, with amendments

[Strike out all after the enacting clause and insert the part printed in italic]

AN ACT

To amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investment in the United States.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE, ETC.**

4 ~~(a) SHORT TITLE.~~ This Act may be cited as the "For-
5 eign Investors Tax Act of 1966".

1 (b) TABLE OF CONTENTS.—

Sec. 1. Short title, etc.

- (a) Short title.
- (b) Table of contents.
- (c) Amendment of 1954 Code.

Sec. 2. Source of income.

- (a) Interest.
- (b) Dividends.
- (c) Personal services.
- (d) Definitions.
- (e) Effective dates.

Sec. 3. Nonresident alien individuals.

- (a) Tax on nonresident alien individuals:

“Sec. 871. Tax on nonresident alien individuals.

“(a) Income not connected with United States business—20 percent tax.

“(b) Income connected with United States business—graduated rate of tax.

“(c) Participants in certain exchange or training programs.

“(d) Election to treat real property income as income connected with United States business.

“(e) Cross references.”

- (b) Gross income.

- (c) Deductions.

- (d) Allowance of deductions and credits.

- (e) Expatriation to avoid tax:

“Sec. 877. Expatriation to avoid tax.

“(a) In general.

“(b) Alternative tax.

“(c) Special rules of source.

“(d) Exception for loss of citizenship for certain causes.

“(e) Burden of proof.”

- (f) Partial exclusion of dividends.

- (g) Withholding of tax on nonresident aliens.

- (h) Liability for withheld tax.

- (i) Declaration of estimated income tax by individuals.

- (j) Gain from dispositions of certain depreciable realty.

- (k) Collection of income tax at source on wages.

- (l) Definition of foreign estate or trust.

- (m) Conforming amendment.

- (n) Effective dates.

Sec. 4. Foreign corporations.

- (a) Tax on income not connected with United States business:

“Sec. 881. Income of foreign corporations not connected with United States business.

“(a) Imposition of tax.

“(b) Doubling of tax.”

SEC. 4. Foreign corporations—Continued

(b) Tax on income connected with United States business:

“SEC. 882. Income of foreign corporations connected with United States business:

“(a) Normal tax and surtax:

“(b) Gross income:

“(c) Allowance of deductions and credits:

“(d) Election to treat real property income as income connected with United States business:

“(e) Returns of tax by agent:

“(f) Foreign corporations.”

(c) Withholding of tax on foreign corporations:

(d) Dividends received from certain foreign corporations:

(e) Unrelated business taxable income:

(f) Corporations subject to personal holding company tax:

(g) Amendments with respect to foreign corporations carrying on insurance business in United States:

(h) Subpart F income:

(i) Gain from certain sales or exchanges of stock in certain foreign corporations:

(j) Declaration of estimated income tax by corporations:

(k) Technical amendments:

(l) Effective dates:

SEC. 5. Special tax provisions:

(a) Income affected by treaty:

(b) Application of pre-1967 income tax provisions:

“SEC. 806. Application of pre-1967 income tax provisions:

“(a) Imposition of more burdensome taxes by foreign country:

“(b) Alleviation of more burdensome taxes:

“(c) Notification of Congress required:

“(d) Implementation by regulations.”

(c) Clerical amendments:

(d) Effective date:

SEC. 6. Foreign tax credit:

(a) Allowance of credit to certain nonresident aliens and foreign corporations:

(b) Alien residents of the United States or Puerto Rico:

SEC. 7. Amendment to preserve existing law on deductions under section 921:

(a) Deductions:

(b) Effective date:

SEC. 8. Estates of nonresidents not citizens:

(a) Rate of tax:

(b) Credits against tax:

(c) Property within the United States:

(d) Property without the United States:

(e) Definition of taxable estate:

Sec. 8. Estates of nonresidents not citizens—Continued

(f) Special methods of computing tax:

“Sec. 2107. Expatriation to avoid tax.

“(a) Rate of tax.

“(b) Gross estate.

“(c) Credits.

“(d) Exception for loss of citizenship for certain causes.

“(e) Burden of proof.

“Sec. 2108. Application of pre-1967 estate tax provisions:

“(a) Imposition of more burdensome tax by foreign country.

“(b) Alleviation of more burdensome tax.

“(c) Notification of Congress required.

“(d) Implementation by regulations.”

(g) Estate tax returns.

(h) Clerical amendment.

(i) Effective date.

Sec. 9. Tax on gifts of nonresidents not citizens.

(a) Imposition of tax.

(b) Transfers in general.

(c) Effective date.

Sec. 10. Treaty obligations.

1 ~~(c) AMENDMENT OF 1954 CODE.~~ Except as other-
2 wise expressly provided, whenever in this Act an amend-
3 ment or repeal is expressed in terms of an amendment to,
4 or repeal of, a section or other provision, the reference is to a
5 section or other provision of the Internal Revenue Code of
6 1954.

7 SEC. 2. SOURCE OF INCOME.

8 ~~(a) INTEREST.—~~

9 ~~(1) (A)~~ Subparagraph ~~(A)~~ of section 861(a)(1)-
10 ~~(relating to interest from sources within the United~~
11 ~~States)~~ is amended to read as follows:

12 “~~(A)~~ interest on amounts described in sub-
13 section ~~(c)~~ received by a nonresident alien indi-
14 vidual or a foreign corporation, if such interest is

1 not effectively connected with the conduct of a
2 trade or business within the United States.”.

3 ~~(B)~~ Section 861 is amended by adding at the end
4 thereof the following new subsection:

5 “~~(c)~~ INTEREST ON DEPOSITS, ETC.—For purposes of
6 subsection ~~(a) (1) (A)~~, the amounts described in this sub-
7 section are—

8 “~~(1)~~ deposits with persons carrying on the bank-
9 ing business,

10 “~~(2)~~ deposits or withdrawable accounts with sav-
11 ings institutions chartered and supervised as savings
12 and loan or similar associations under Federal or State
13 law, but only to the extent that amounts paid or credited
14 on such deposits or accounts are deductible under section
15 591 in computing the taxable income of such institu-
16 tions, and

17 “~~(3)~~ amounts held by an insurance company under
18 an agreement to pay interest thereon.

19 Effective with respect to amounts paid or credited after
20 December 31, 1971, subsection ~~(a) (1) (A)~~ and this sub-
21 section shall cease to apply.”

22 ~~(2)~~ Section 861 ~~(a) (1)~~ is amended by striking out
23 “and” at the end of subparagraph ~~(B)~~, by striking out
24 the period at the end of subparagraph ~~(C)~~ and inserting

1 in lieu thereof “, and”; and by adding at the end thereof
 2 the following new subparagraph:

3 “(D) interest on deposits with a foreign branch
 4 of a domestic corporation, if such branch is engaged
 5 in the commercial banking business.”

6 (3) (A) Section 895 (relating to income derived
 7 by a foreign central bank of issue from obligations of
 8 the United States) is amended—

9 (i) by striking out “shall not be included” and
 10 inserting in lieu thereof “, or from interest on de-
 11 posits with persons carrying on the banking busi-
 12 ness, shall not be included”;

13 (ii) by striking out “such obligations” and in-
 14 serting in lieu thereof “such obligations or deposits”;

15 (iii) by adding at the end thereof the following
 16 new sentence: “For purposes of the preceding sen-
 17 tence, the Bank for International Settlements shall
 18 be treated as a foreign central bank of issue with
 19 respect to interest on deposits with persons carrying
 20 on the banking business.”; and

1 ~~(iv)~~ by striking out the heading and inserting
2 in lieu thereof the following:

3 "SEC. 895. INCOME DERIVED BY A FOREIGN CENTRAL
4 BANK OF ISSUE FROM OBLIGATIONS OF THE
5 UNITED STATES OR FROM BANK DEPOSITS."

6 ~~(B)~~ The table of sections for subpart C of part II
7 of subchapter N of chapter 1 is amended by striking out
8 the item relating to section 895 and inserting in lieu
9 thereof the following:

"Sec. 897. Income derived by a foreign central bank of issue from obligations of the United States or from bank deposits."

10 ~~(b) DIVIDENDS.~~—

11 ~~(1) Section 861(a)(2)(B) (relating to dividends~~
12 ~~from sources within the United States) is amended to~~
13 ~~read as follows:~~

“(B) from a foreign corporation unless less than 80 percent of the gross income from all sources of such foreign corporation for the 3-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part

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."

1 ~~(c)~~ PERSONAL SERVICES.—Section 861(a)(3)(C)
 2 ~~(ii)~~ (relating to income from personal services) is amended
 3 to read as follows:

4 ~~“(ii)~~ an individual who is a citizen or
 5 resident of the United States, a domestic part-
 6 nership, or a domestic corporation, if such
 7 labor or services are performed for an office
 8 or place of business maintained in a foreign
 9 country or in a possession of the United States
 10 by such individual, partnership, or corpora-
 11 tion.”

12 ~~(d)~~ DEFINITIONS.—Section 864 (relating to defini-
 13 tions) is amended—

14 ~~(1)~~ by striking out “For purposes of this part,”
 15 and inserting in lieu thereof

16 ~~“(a) SALE, ETC.~~ For purposes of this part,”; and

17 ~~(2)~~ by adding at the end thereof the following
 18 new subsections:

19 ~~“(b) TRADE OR BUSINESS WITHIN THE UNITED~~
 20 STATES.—For purposes of this part, part II, and chapter 3,
 21 the term ‘trade or business within the United States’ in-
 22 cludes the performance of personal services within the United
 23 States at any time within the taxable year, but does not in-
 24 clude—

1 ~~“(1) PERFORMANCE OF PERSONAL SERVICES FOR~~
 2 FOREIGN EMPLOYER.—The performance of personal
 3 services—

4 ~~“(A) for a nonresident alien individual, foreign~~
 5 partnership, or foreign corporation, not engaged in
 6 trade or business within the United States; or

7 ~~“(B) for an office or place of business main-~~
 8 tained in a foreign country or in a possession of the
 9 United States by an individual who is a citizen or
 10 resident of the United States or by a domestic
 11 partnership or a domestic corporation,
 12 by a nonresident alien individual temporarily present in
 13 the United States for a period or periods not exceeding
 14 a total of 90 days during the taxable year and whose
 15 compensation for such services does not exceed in the
 16 aggregate \$3,000.

17 ~~“(2) TRADING IN SECURITIES OR COMMODITIES.—~~

18 ~~“(A) STOCKS AND SECURITIES.—~~

19 ~~“(i) Except in the case of a dealer in~~
 20 stocks or securities, trading in stocks or secu-
 21 rities for the taxpayer's own account, whether
 22 by the taxpayer or his employees or through a
 23 resident broker, commission agent, custodian,
 24 or other agent, and whether or not any such
 25 agent has discretionary authority to make de-

1 cisions in effecting the transactions. This clause
 2 shall not apply in the case of a corporation
 3 (other than a corporation which is, or but for
 4 section 542(c)-(7) would be, a personal hold-
 5 ing company) the principal business of which
 6 is trading in stocks or securities for its own
 7 account, if its principal office is in the United
 8 States.

9 “(ii) In the case of a person who is a
 10 dealer in stocks or securities, trading in stocks
 11 or securities for his own account through a
 12 resident broker, commission agent, custodian,
 13 or other independent agent.

14 “(B) COMMODITIES.—

15 “(i) Except in the case of a dealer in com-
 16 modities, trading in commodities for the tax-
 17 payer's own account, whether by the taxpayer
 18 or his employees or through a resident broker,
 19 commission agent, custodian, or other agent,
 20 and whether or not any such agent has discre-
 21 tionary authority to make decisions in effecting
 22 the transactions.

23 “(ii) In the case of a person who is a
 24 dealer in commodities, trading in commodities
 25 for his own account through a resident broker,

commission agent, custodian, or other independent agent.

“(iii) Clauses (i) and (ii) apply only if the commodities are of a kind customarily dealt in on an organized commodity exchange and if the transaction is of a kind customarily consummated at such place.

“(C) LIMITATION.—Subparagraphs (A) (ii) and (B) (ii) shall apply only if, at no time during the taxable year, the taxpayer has an office or place of business in the United States through which or by the direction of which the transactions in stocks or securities, or in commodities, as the case may be, are affected.

“(e) EFFECTIVELY CONNECTED INCOME, ETC.—

“(1) GENERAL RULE.—For purposes of this title—

“(A) In the case of a nonresident alien individual or a foreign corporation engaged in trade or business within the United States during the taxable year, the rules set forth in paragraphs (2), (3), and (4) shall apply in determining the income, gain, or loss which shall be treated as effectively connected with the conduct of a trade or business within the United States.

“(B) Except as provided in section 871(d) or

section 882(d), in the case of a nonresident alien individual or a foreign corporation not engaged in trade or business within the United States during the taxable year, no income, gain, or loss shall be treated as effectively connected with the conduct of a trade or business within the United States.

~~“(2) PERIODICALS, ETC., INCOME FROM SOURCES WITHIN UNITED STATES FACTORS.~~ In determining whether income from sources within the United States of the types described in section 871(a)(1) or section 881(a), or whether gain or loss from sources within the United States from the sale or exchange of capital assets, is effectively connected with the conduct of a trade or business within the United States, the factors taken into account shall include whether—

~~“(A) the income, gain, or loss is derived from assets used in or held for use in the conduct of such trade or business, or~~

~~“(B) the activities of such trade or business were a material factor in the realization of the income, gain, or loss.~~

In determining whether an asset is used in or held for use in the conduct of such trade or business or whether the activities of such trade or business were a material

factor in realizing an item of income, gain, or loss, due regard shall be given to whether or not such asset or such income, gain, or loss was accounted for through such trade or business. In applying this paragraph and paragraph ~~(4)~~, interest referred to in section 861(a) ~~(1)-(A)~~ shall be considered income from sources within the United States.

~~“(3) OTHER INCOME FROM SOURCES WITHIN UNITED STATES.—~~All income, gain, or loss from sources within the United States ~~(other than income, gain, or loss to which paragraph (2) applies)~~ shall be treated as effectively connected with the conduct of a trade or business within the United States.

~~“(4) INCOME FROM SOURCES WITHOUT UNITED STATES.—~~

~~“(A) Except as provided in subparagraph (B) and (C),~~ no income, gain, or loss from sources without the United States shall be treated as effectively connected with the conduct of a trade or business within the United States.

~~“(B) Income, gain, or loss from sources without the United States shall be treated as effectively connected with the conduct of a trade or business~~

1 within the United States by a nonresident alien
 2 individual of a foreign corporation if such person
 3 has an office or other fixed place of business within
 4 the United States to which such income, gain, or
 5 loss is attributable and such income, gain, or loss—

6 “(i) consists of rents or royalties for the
 7 use of or for the privilege of using intangible
 8 property described in section 862(a)-(4) (in-
 9 cluding any gain or loss realized on the sale of
 10 such property) derived in the active conduct
 11 of such trade or business;

12 “(ii) consists of dividends or interest, or
 13 gain or loss from the sale or exchange of stock
 14 or notes, bonds, or other evidences of indebted-
 15 ness, and either is derived in the active conduct
 16 of a banking, financing, or similar business
 17 within the United States or is received by a
 18 corporation the principal business of which is
 19 trading in stock or securities for its own ac-
 20 count; or

21 “(iii) is derived from the sale (without
 22 the United States) through such office or fixed
 23 place of business of personal property described

1 in section 1221(1), except that this clause
 2 shall not apply if the property is sold for use,
 3 consumption, or disposition outside the United
 4 States and an office or other fixed place of busi-
 5 ness of the taxpayer outside the United States
 6 participated materially in such sale.

7 In the case of a sale described in clause (iii), the
 8 income which shall be treated as attributable to the
 9 office or other fixed place of business within the
 10 United States shall not exceed the income which
 11 would be derived from sources within the United
 12 States if the sale were made in the United States.

13 “(C) In the case of a foreign corporation tax-
 14 able under part I of subchapter L, any income from
 15 sources without the United States which is attrib-
 16 utable to its United States business shall be treated
 17 as effectively connected with the conduct of a trade
 18 or business within the United States.

19 “(D) No income, gain, or loss from sources
 20 without the United States shall be treated as effec-
 21 tively connected with the conduct of a trade or
 22 business within the United States if it either—

23 “(i) consists of dividends, interest, or

royalties paid by a foreign corporation in which the taxpayer owns (within the meaning of section 958(a)), or is considered as owning (by applying the ownership rules of section 958(b)), more than 50 percent of the total combined voting power of all classes of stock entitled to vote, or

“(ii) is subpart F income within the meaning of section 952(a).”

~~(c) EFFECTIVE DATES.—~~

~~(1)~~ The amendments made by subsections ~~(a)~~, ~~(c)~~, and ~~(d)~~ shall apply with respect to taxable years beginning after December 31, 1966; except that in applying section 864(c)(4)(B)(iii) of the Internal Revenue Code of 1954 (as added by subsection ~~(d)~~) with respect to a binding contract entered into on or before February 24, 1966, activities in the United States on or before such date in negotiating or carrying out such contract shall not be taken into account.

~~(2)~~ The amendments made by subsection ~~(b)~~ shall apply with respect to amounts received after December 31, 1966.

1 **SEC. 2. NONRESIDENT ALIEN INDIVIDUALS.**

2 ~~(a) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—~~

3 ~~(1) Section 871 (relating to tax on nonresident~~
4 ~~alien individuals) is amended to read as follows:~~

5 **“SEC. 871. TAX ON NONRESIDENT ALIEN INDIVIDUALS.**

6 **“(a) INCOME NOT CONNECTED WITH UNITED STATES**
7 **BUSINESS—30 PERCENT TAX.—**

8 **“(1) INCOME OTHER THAN CAPITAL GAINS.—**There
9 is hereby imposed for each taxable year a tax of 30 per-
10 cent of the amount received from sources within the
11 United States by a nonresident alien individual as—

12 **“(A) interest, dividends, rents, salaries, wages,**
13 **premiums, annuities, compensations, remunerations,**
14 **emoluments, and other fixed or determinable an-**
15 **nuual or periodical gains, profits, and income,**

16 **“(B) gains described in section 402 (a) (2),**
17 **403 (a) (2), or 631 (b) or (c), and gains on**
18 **transfers described in section 1235, and**

19 **“(C) amounts which under section 341, or**
20 **under section 1232 (in the case of bonds or other**
21 **evidences of indebtedness issued after September 28,**
22 **1965), are treated as gains from the sale or ex-**
23 **change of property which is not a capital asset,**
24 **but only to the extent the amount so received is not effec-**

tively connected with the conduct of a trade or business within the United States.

“(2) CAPITAL GAINS OF ALIENS PRESENT IN THE UNITED STATES 183 DAYS OR MORE.—In the case of a nonresident alien individual present in the United States for a period or periods aggregating 183 days or more during the taxable year, there is hereby imposed for such year a tax of 30 percent of the amount by which his gains, derived from sources within the United States, from the sale or exchange at any time during such year of capital assets exceed his losses, allocable to sources within the United States, from the sale or exchange at any time during such year of capital assets. For purposes of this paragraph, gains and losses shall be taken into account only if, and to the extent that, they would be recognized and taken into account if such gains and losses were effectively connected with the conduct of a trade or business within the United States, except that such gains and losses shall be determined without regard to section 1202 (relating to deduction for capital gains) and such losses shall be determined without the benefits of the capital loss carryover provided in section 1212. Any gain or loss which is taken into account in determining the tax under paragraph (1) or subsection (b)

1 shall not be taken into account in determining the tax
 2 under this paragraph. For purposes of the 183-day re-
 3 quirement of this paragraph, a nonresident alien individ-
 4 ual not engaged in trade or business within the United
 5 States who has not established a taxable year for any
 6 prior period shall be treated as having a taxable year
 7 which is the calendar year.

8 ~~“(b) INCOME CONNECTED WITH UNITED STATES~~
 9 ~~BUSINESS—GRADUATED RATE OF TAX.—~~

10 ~~“(1) IMPOSITION OF TAX.—~~A nonresident alien
 11 individual engaged in trade or business within the
 12 United States during the taxable year shall be taxable
 13 as provided in section 1 or 1201(b) on his taxable
 14 income which is effectively connected with the conduct
 15 of a trade or business within the United States.

16 ~~“(2) DETERMINATION OF TAXABLE INCOME.—~~In
 17 determining taxable income for purposes of paragraph
 18 ~~(1)~~, gross income includes only gross income which is
 19 effectively connected with the conduct of a trade or
 20 business within the United States.

21 ~~“(c) PARTICIPANTS IN CERTAIN EXCHANGE OR~~
 22 ~~TRAINING PROGRAMS.—~~For purposes of this section, a non-
 23 resident alien individual who ~~(without regard to this sub-~~
 24 ~~section)~~ is not engaged in trade or business within the

1 United States and who is temporarily present in the United
 2 States as a nonimmigrant under subparagraph (F) or (J)
 3 of section 101(a)(15) of the Immigration and Nationality
 4 Act, as amended (8 U.S.C. 1101(a)(15) (F) or (J)),
 5 shall be treated as a nonresident alien individual engaged in
 6 trade or business within the United States, and any income
 7 described in section 1441(b) (1) or (2) which is received
 8 by such individual shall, to the extent derived from sources
 9 within the United States, be treated as effectively connected
 10 with the conduct of a trade or business within the United
 11 States.

12 “(d) ELECTION TO TREAT REAL PROPERTY INCOME
 13 AS INCOME CONNECTED WITH UNITED STATES BUSI-
 14 NESS.—

15 “(1) IN GENERAL.—A nonresident alien individ-
 16 ual who during the taxable year derives any income—

17 “(A) from real property held for the produc-
 18 tion of income and located in the United States,
 19 or from any interest in such real property, includ-
 20 ing (i) gains from the sale or exchange of such
 21 real property or an interest therein, (ii) rents or
 22 royalties from mines, wells, or other natural deposits,
 23 and (iii) gains described in section 631(b) or (c),
 24 and

1 ~~“(B)~~ which, but for this subsection, would not
 2 be treated as income which is effectively connected
 3 with the conduct of a trade or business within the
 4 United States;

5 may elect for such taxable year to treat all such income
 6 as income which is effectively connected with the con-
 7 duct of a trade or business within the United States.
 8 In such case, such income shall be taxable as provided
 9 in subsection ~~(b)~~-(1) whether or not such individual
 10 is engaged in trade or business within the United States
 11 during the taxable year. An election under this para-
 12 graph for any taxable year shall remain in effect for
 13 all subsequent taxable years, except that it may be re-
 14 voked with the consent of the Secretary or his delegate
 15 with respect to any taxable year.

16 ~~“(2)~~ ELECTION AFTER REVOCATION.—If an elec-
 17 tion has been made under paragraph ~~(1)~~ and such elec-
 18 tion has been revoked, a new election may not be made
 19 under such paragraph for any taxable year before the
 20 5th taxable year which begins after the first taxable
 21 year for which such revocation is effective, unless the
 22 Secretary or his delegate consents to such new election.

23 ~~“(3)~~ FORM AND TIME OF ELECTION AND REVO-
 24 CATION.—An election under paragraph ~~(1)~~, and any
 25 revocation of such an election, may be made only in

1 such manner and at such time as the Secretary or his
2 delegate may by regulations prescribe.

3 ~~“(e) CROSS REFERENCES.—~~

“~~(1) For tax treatment of certain amounts distributed by the United States to nonresident alien individuals, see section 402(a)(4).~~

“~~(2) for taxation of nonresident alien individuals who are expatriate United States citizens, see section 877.~~

“~~(3) For doubling of tax on citizens of certain foreign countries, see section 891.~~

“~~(4) For reinstatement of pre-1967 income tax provisions in the case of residents of certain foreign countries, see section 896.~~

“~~(5) For withholding of tax at source on nonresident alien individuals, see section 1441.~~

“~~(6) For the requirement of making a declaration of estimated tax by certain nonresident alien individuals, see section 6015(i).~~

“~~(7) For taxation of gains realized upon certain transfers to domestic corporations, see section 1250 (d)(3).”~~

4 ~~“(2) Section 1 (relating to tax on individuals) is~~
5 ~~amended by redesignating subsection (d) as subsection~~
6 ~~(e), and by inserting after subsection (e) the follow-~~
7 ~~ing new subsection:~~

8 ~~“(d) NONRESIDENT ALIENS.—In the case of a non-~~
9 ~~resident alien individual, the tax imposed by subsection (a)~~
10 ~~shall apply only as provided by section 871 or 877.”~~

11 ~~“(b) GROSS INCOME.—~~

12 ~~“(1) Subsection (a) of section 872 (relating to~~

1 gross income of nonresident alien individuals) is amended
2 to read as follows:

3 “(a) GENERAL RULE.—In the case of a nonresident
4 alien individual, gross income includes only—

5 “(1) gross income which is derived from sources
6 within the United States and which is not effectively
7 connected with the conduct of a trade or business within
8 the United States; and

9 “(2) gross income which is effectively connected
10 with the conduct of a trade or business within the
11 United States.”

12 ~~(2) Subparagraph (B) of section 872(b)(3) (re-~~
13 ~~lating to compensation of participants in certain ex-~~
14 ~~change or training programs) is amended by striking~~
15 ~~out “by a domestic corporation” and inserting in lieu~~
16 ~~thereof “by a domestic corporation, a domestic partner-~~
17 ~~ship, or an individual who is a citizen or resident of the~~
18 ~~United States”.~~

19 ~~(3) Subsection (b) of section 872 (relating to~~
20 ~~exclusions from gross income) is amended by adding at~~
21 ~~the end thereof the following new paragraph:~~

22 “(4) BOND INTEREST OF RESIDENTS OF THE
23 RYUKYU ISLANDS OR THE TRUST TERRITORY OF THE
24 PACIFIC ISLANDS.—Income derived by a nonresident
25 alien individual from a series E or series H United States

1 savings bond, if such individual acquired such bond while
 2 a resident of the Ryukyu Islands or the Trust Territory
 3 of the Pacific Islands.”

4 ~~(c)~~ DEDUCTIONS.—

5 ~~(1)~~ Section 873 (relating to deductions allowed to
 6 nonresident alien individuals) is amended to read as
 7 follows:

8 “SEC. 873. DEDUCTIONS.

9 “(a) GENERAL RULE.—In the case of a nonresident
 10 alien individual, the deductions shall be allowed only for
 11 purposes of section 871(b) and (except as provided by sub-
 12 section (b)) only if and to the extent that they are con-
 13 nected with income which is effectively connected with the
 14 conduct of a trade or business within the United States; and
 15 the proper apportionment and allocation of the deductions
 16 for this purpose shall be determined as provided in regula-
 17 tions prescribed by the Secretary or his delegate.

18 “(b) EXCEPTIONS.—The following deductions shall be
 19 allowed whether or not they are connected with income
 20 which is effectively connected with the conduct of a trade
 21 or business within the United States:

22 “(1) LOSSES.—The deduction, for losses of prop-
 23 erty not connected with the trade or business if arising
 24 from certain casualties or theft, allowed by section

1 165(e)(3), but only if the loss is of property located
2 within the United States.

3 ~~“(2) CHARITABLE CONTRIBUTIONS.—~~The deduc-
4 tion for charitable contributions and gifts allowed by
5 section 170.

6 ~~“(3) PERSONAL EXEMPTION.—~~The deduction for
7 personal exemptions allowed by section 151, except that
8 in the case of a nonresident alien individual who is not a
9 resident of a contiguous country only one exemption
10 shall be allowed under section 151.

11 ~~“(e) CROSS REFERENCES.—~~

~~“(1) For disallowance of standard deduction, see sec-
 tion 142(b)(1).~~

~~“(2) For rule that certain foreign taxes are not to be
 taken into account in determining deduction or credit,
 see section 906(b)(1).”~~

12 ~~“(2) Section 154(3) (relating to cross references~~
13 ~~in respect of deductions for personal exemptions) is~~
14 ~~amended to read as follows:~~

~~“(3) For exemptions of nonresident aliens, see section
 873(b)(3).”~~

15 ~~“(d) ALLOWANCE OF DEDUCTIONS AND CREDITS.—~~
16 ~~Subsection (a) of section 874 (relating to filing of returns)~~
17 ~~is amended to read as follows:~~

18 ~~“(a) RETURN PREREQUISITE TO ALLOWANCE.—A~~
19 ~~nonresident alien individual shall receive the benefit of the~~
20 ~~deductions and credits allowed to him in this subtitle only~~

1 by filing or causing to be filed with the Secretary or his
 2 delegate a true and accurate return, in the manner prescribed
 3 in subtitle F (sec. 6001 and following, relating to procedure
 4 and administration), including therein all the information
 5 which the Secretary or his delegate may deem necessary
 6 for the calculation of such deductions and credits. This sub-
 7 section shall not be construed to deny the credits provided
 8 by sections 31 and 32 for tax withheld at source or the credit
 9 provided by section 39 for certain uses of gasoline and
 10 lubricating oil."

11 ~~(c) EXPATRIATION TO AVOID TAX.—~~

12 (1) Subpart A of part II of subchapter N of chap-
 13 ter 1 (relating to nonresident alien individuals) is
 14 amended by redesignating section 877 as section 878,
 15 and by inserting after section 876 the following new
 16 section:

17 **~~"SEC. 877. EXPATRIATION TO AVOID TAX.~~**

18 ~~"(a) IN GENERAL.—~~Every nonresident alien individ-
 19 ual who at any time after March 8, 1965, and within the 5-
 20 year period immediately preceding the close of the taxable
 21 year lost United States citizenship, unless such loss did not
 22 have for one of its principal purposes the avoidance of taxes
 23 under this subtitle or subtitle B, shall be taxable for such
 24 taxable year in the manner provided in subsection (b) if the
 25 tax imposed pursuant to such subsection exceeds the tax

1 which, without regard to this section, is imposed pursuant to
2 section 871.

3 “(b) ~~ALTERNATIVE TAX.~~—A nonresident alien individ-
4 ual described in subsection (a) shall be taxable for the tax-
5 able year as provided in section 1 or section 1201(b),
6 except that—

7 “(1) the gross income shall include only the gross
8 income described in section 872(a) (as modified by
9 subsection (c) of this section), and

10 “(2) the deductions shall be allowed if and to the
11 extent that they are connected with the gross income
12 included under this section, except that the capital loss
13 carryover provided by section 1212(b) shall not be
14 allowed; and the proper allocation and apportionment of
15 the deductions for this purpose shall be determined as
16 provided under regulations prescribed by the Secretary
17 or his delegate.

18 For purposes of paragraph (2), the deductions allowed by
19 section 873(b) shall be allowed; and the deduction (for
20 losses not connected with the trade or business if incurred in
21 transactions entered into for profit) allowed by section
22 165(c)(2) shall be allowed, but only if the profit, if such
23 transaction had resulted in a profit, would be included in
24 gross income under this section.

25 “(c) ~~SPECIAL RULES OF SOURCE.~~—For purposes of

1 subsection (b), the following items of gross income shall
2 be treated as income from sources within the United States:

3 “(1) SALE OF PROPERTY.—Gains on the sale or
4 exchange of property (other than stock or debt obliga-
5 tions) located in the United States.

6 “(2) STOCK OR DEBT OBLIGATIONS.—Gains on the
7 sale or exchange of stock issued by a domestic corpora-
8 tion or debt obligations of United States persons or of
9 the United States, a State or political subdivision thereof,
10 or the District of Columbia.

11 “(d) EXCEPTION FOR LOSS OF CITIZENSHIP FOR CER-
12 TAIN CAUSES.—Subsection (a) shall not apply to a non-
13 resident alien individual whose loss of United States citizen-
14 ship resulted from the application of section 301(b), 350, or
15 355 of the Immigration and Nationality Act, as amended
16 (8 U.S.C. 1401(b), 1482, or 1487).

17 “(e) BURDEN OF PROOF.—If the Secretary or his dele-
18 gate establishes that it is reasonable to believe that an indi-
19 vidual's loss of United States citizenship would, but for this
20 section, result in a substantial reduction for the taxable year
21 in the taxes on his probable income for such year, the burden
22 of proving for such taxable year that such loss of citizen-
23 ship did not have for one of its principal purposes the
24 avoidance of taxes under this subtitle or subtitle B shall be
25 on such individual.”

~~(2)~~ The table of sections for subpart A of part II of subchapter N of chapter 1 ~~(relating to nonresident alien individuals)~~ is amended by striking out the item relating to section 877 and inserting in lieu thereof the following:

“Sec. 877. Expatriation to avoid tax.

“Sec. 878. Foreign educational, charitable, and certain other exempt organizations.”

~~(f)~~ PARTIAL EXCLUSION OF DIVIDENDS.—Subsection ~~(d)~~ of section 116 ~~(relating to certain nonresident aliens ineligible for exclusion)~~ is amended to read as follows:

“(d) CERTAIN NONRESIDENT ALIENS INELIGIBLE FOR EXCLUSION.—In the case of a nonresident alien individual, subsection ~~(a)~~ shall apply only—

“(1) in determining the tax imposed for the taxable year pursuant to section 871(b)(1) and only in respect of dividends which are effectively connected with the conduct of a trade or business within the United States, or

“(2) in determining the tax imposed for the taxable year pursuant to section 877(b).”

~~(g)~~ WITHHOLDING OF TAX ON NONRESIDENT ALIENS.—Section 1441 ~~(relating to withholding of tax on nonresident aliens)~~ is amended—

~~(1)~~ by striking out “(except interest on deposits with persons carrying on the banking business paid to

persons not engaged in business in the United States)" in subsection (b);

(2) striking out "and amounts described in section 402 (a) (2)" and all that follows in the first sentence of subsection (b) and inserting in lieu thereof "and gains described in section 402 (a) (2), 403 (a) (2), or 631 (b) or (c), and gains on transfers described in section 1235.";

(3) by striking out paragraph (1) of subsection (c) and inserting in lieu thereof the following new paragraph:

"(1) INCOME CONNECTED WITH UNITED STATES BUSINESS.—No deduction or withholding under subsection (a) shall be required in the case of any item of income (other than compensation for personal services) which is effectively connected with the conduct of a trade or business within the United States and on which a tax is imposed for the taxable year pursuant to section 871 (b) (1).";

(4) by amending paragraph (4) of subsection (c) to read as follows:

"(4) COMPENSATION OF CERTAIN ALIENS.—Under regulations prescribed by the Secretary or his delegate, compensation for personal services may be ex-

1 empted from deduction and withholding under subsection
2 ~~-(a)-~~.”; and

3 ~~-(5)~~ by striking out “amounts described in section
4 402(a)(2), section 403(a)(2), section 631 (b) and
5 (c), and section 1235, which are considered to be gains
6 from the sale or exchange of capital assets,” in para-
7 graph ~~-(5)~~ of subsection ~~-(c)~~ and inserting in lieu there-
8 of “gains described in sections 402(a)(2), 403(a)(2),
9 or 631 (b) or (c), and gains on transfers described in
10 section 1235,” and by striking out “proceeds from such
11 sale or exchange,” in such paragraph and inserting in
12 lieu thereof “amount payable.”

13 ~~-(h)~~ **LIABILITY FOR WITHHELD TAX.**—Section 1461
14 ~~-(relating to return and payment of withheld tax)~~ is amended
15 to read as follows:

16 **“SEC. 1461. LIABILITY FOR WITHHELD TAX.**

17 “Every person required to deduct and withhold any tax
18 under this chapter is hereby made liable for such tax and is
19 hereby indemnified against the claims and demands of any
20 person for the amount of any payments made in accordance
21 with the provisions of this chapter.”

1 ~~(i) DECLARATION OF ESTIMATED INCOME TAX BY~~
 2 ~~INDIVIDUALS.—Section 6015 (relating to declaration of esti-~~
 3 ~~mated income tax by individuals) is amended—~~

4 ~~(1)~~ by striking out that portion of subsection ~~(a)~~
 5 which precedes paragraph ~~(1)~~ and inserting in lieu
 6 thereof the following:

7 ~~“(a) REQUIREMENT OF DECLARATION.—Except as~~
 8 otherwise provided in subsection ~~(i)~~, every individual shall
 9 make a declaration of his estimated tax for the taxable year
 10 if—”;

11 ~~(2)~~ by redesignating subsection ~~(i)~~ as subsection
 12 ~~(j)~~; and

13 ~~(3)~~ by inserting after subsection ~~(h)~~ the follow-
 14 ing new subsection:

15 ~~“(i) NONRESIDENT ALIEN INDIVIDUALS.—No dec-~~
 16 laration shall be required to be made under this section by a
 17 nonresident alien individual unless—

18 ~~“(1)~~ withholding under chapter 24 is made appli-
 19 cable to the wages, as defined in section 3401 ~~(a)~~, of
 20 such individual,

1 ~~“(2) such individual has income (other than com-~~
 2 ~~pensation for personal services subject to deduction and~~
 3 ~~withholding under section 1441) which is effectively~~
 4 ~~connected with the conduct of a trade or business within~~
 5 ~~the United States, or~~

6 ~~“(3) such individual is a resident of Puerto Rico~~
 7 ~~during the entire taxable year.”~~

8 ~~(j) GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-~~
 9 ~~CIABLE REALTY.—The second sentence of paragraph (3)~~
 10 ~~of section 1250(d) (relating to certain tax-free transactions)~~
 11 ~~is amended to read as follows: “This paragraph shall not~~
 12 ~~apply to—~~

13 ~~“(A) a disposition to an organization (other~~
 14 ~~than a cooperative described in section 521) which~~
 15 ~~is exempt from the tax imposed by this chapter, or~~

16 ~~“(B) a transfer of property by a nonresident~~
 17 ~~alien individual, a foreign estate or trust, or a for-~~
 18 ~~ign partnership, to a domestic corporation in ex-~~
 19 ~~change for stock or securities in such corporation~~
 20 ~~in a transaction to which section 351 applies.”~~

21 ~~(k) COLLECTION OF INCOME TAX AT SOURCE ON~~
 22 ~~WAGES.—Subsection (a) of section 3401 (relating to defini-~~
 23 ~~tion of wages for purposes of collection of income tax at~~

1 source) is amended by striking out paragraphs (6) and (7)
 2 and inserting in lieu thereof the following:

3 “(6) for such services, performed by a nonresident
 4 alien individual, as may be designated by regulations
 5 prescribed by the Secretary or his delegate; or”.

6 ~~(1)~~ DEFINITION OF FOREIGN ESTATE OR TRUST.—

7 Section 7701(a) ~~(31)~~ (defining foreign estate or trust) is
 8 amended by striking out “from sources without the United
 9 States” and inserting in lieu thereof “, from sources without
 10 the United States which is not effectively connected with
 11 the conduct of a trade or business within the United States,”.

12 ~~(m)~~ CONFORMING AMENDMENT.—The first sentence
 13 of section 932(a) (relating to citizens of possessions of the
 14 United States) is amended to read as follows: “Any in-
 15 dividual who is a citizen of any possession of the United
 16 States (but not otherwise a citizen of the United States)
 17 and who is not a resident of the United States shall be sub-
 18 ject to taxation under this subtitle in the same manner and
 19 subject to the same conditions as in the case of a nonresident
 20 alien individual.”

21 ~~(n)~~ EFFECTIVE DATES.—

22 ~~(1)~~ The amendments made by this section (other
 23 than the amendments made by subsections ~~(h)~~ and

1 ~~(k)~~ shall apply with respect to taxable years begin-
 2 ning after December 31, 1966.

3 ~~(2)~~ The amendments made by subsection ~~(h)~~ shall
 4 apply with respect to payments occurring after Decem-
 5 ber 31, 1966.

6 ~~(3)~~ The amendments made by subsection ~~(k)~~ shall
 7 apply with respect to remuneration paid after December
 8 31, 1966.

9 **SEC. 4. FOREIGN CORPORATIONS.**

10 ~~(a)~~ **TAX ON INCOME NOT CONNECTED WITH UNITED**
 11 **STATES BUSINESS.**—Section 881 (relating to tax on foreign
 12 corporations not engaged in business in the United States
 13 is amended to read as follows:

14 **“SEC. 881. INCOME OF FOREIGN CORPORATIONS NOT CON-**
 15 **NECTED WITH UNITED STATES BUSINESS.**

16 ~~(a)~~ **IMPOSITION OF TAX.**—There is hereby imposed
 17 for each taxable year a tax of 30 percent of the amount
 18 received from sources within the United States by a foreign
 19 corporation as—

20 ~~“(1)~~ interest, dividends, rents, salaries, wages, pre-
 21 miums, annuities, compensations, remunerations, emolu-
 22 ments, and other fixed or determinable annual or peri-
 23 odical gains, profits, and income,

24 ~~“(2)~~ gains described in section 631 ~~(b)~~ or ~~(c)~~, and

25 ~~“(3)~~ amounts which under section 341, or under

1 section 1232 (in the case of bonds or other evidences of
 2 indebtedness issued after September 28, 1965), are
 3 treated as gains from the sale or exchange of property
 4 which is not a capital asset,
 5 but only to the extent the amount so received is not effec-
 6 tively connected with the conduct of a trade or business
 7 within the United States.

8 ~~“(b) DOUBLING OF TAX.—~~

**“For doubling of tax on corporations of certain for-
 eign countries, see section 891.”**

9 ~~“(b) TAX ON INCOME CONNECTED WITH UNITED~~
 10 ~~STATES BUSINESS.—~~

11 ~~“(1) Section 882 (relating to tax on resident for-~~
 12 ~~foreign corporations) is amended to read as follows:~~

13 ~~“SEC. 882. INCOME OF FOREIGN CORPORATIONS CON-~~
 14 ~~NECTED WITH UNITED STATES BUSINESS.~~

15 ~~“(a) NORMAL TAX AND SURTAX.—~~

16 ~~“(1) IMPOSITION OF TAX.—A foreign corporation~~
 17 ~~engaged in trade or business within the United States~~
 18 ~~during the taxable year shall be taxable as provided in~~
 19 ~~section 11 or 1201(a) on its taxable income which is~~
 20 ~~effectively connected with the conduct of a trade or busi-~~
 21 ~~ness within the United States.~~

22 ~~“(2) DETERMINATION OF TAXABLE INCOME.—In~~
 23 ~~determining taxable income for purposes of paragraph~~

1 ~~(1)~~, gross income includes only gross income which is
 2 effectively connected with the conduct of a trade or
 3 business within the United States.

4 ~~“(b) GROSS INCOME.—In the case of a foreign corpora-~~
 5 ~~tion, gross income includes only—~~

6 ~~“(1) gross income which is derived from sources~~
 7 ~~within the United States and which is not effectively~~
 8 ~~connected with the conduct of a trade or business with-~~
 9 ~~in the United States; and~~

10 ~~“(2) gross income which is effectively connected~~
 11 ~~with the conduct of a trade or business within the~~
 12 ~~United States.~~

13 ~~“(c) ALLOWANCE OF DEDUCTIONS AND CREDITS.—~~

14 ~~“(1) ALLOCATION OF DEDUCTIONS.—~~

15 ~~“(A) GENERAL RULE.—In the case of a for-~~
 16 ~~ign corporation, the deductions shall be allowed~~
 17 ~~only for purposes of subsection (a) and (except as~~
 18 ~~provided by subparagraph (B)) only if and to the~~
 19 ~~extent that they are connected with income which~~
 20 ~~is effectively connected with the conduct of a trade~~
 21 ~~or business within the United States; and the proper~~
 22 ~~apportionment and allocation of the deductions for~~
 23 ~~this purpose shall be determined as provided in~~

1 regulations prescribed by the Secretary or his
2 delegate.

3 ~~“(B) CHARITABLE CONTRIBUTIONS.~~—The de-
4 duction for charitable contributions and gifts pro-
5 vided by section 170 shall be allowed whether or
6 not connected with income which is effectively con-
7 nected with the conduct of a trade or business
8 within the United States.

9 ~~“(2) DEDUCTIONS AND CREDITS ALLOWED ONLY~~
10 ~~IF RETURN FILED.~~—A foreign corporation shall receive
11 the benefit of the deductions and credits allowed to it
12 in this subtitle only by filing or causing to be filed with
13 the Secretary or his delegate a true and accurate return,
14 in the manner prescribed in subtitle F, including therein
15 all the information which the Secretary or his delegate
16 may deem necessary for the calculation of such deduc-
17 tions and credits. This paragraph shall not be construed
18 to deny the credit provided by section 32 for tax with-
19 held at source or the credit provided by section 39 for
20 certain uses of gasoline and lubricating oil.

21 ~~“(3) FOREIGN TAX CREDIT.~~—Except as provided
22 by section 906, foreign corporations shall not be allowed
23 the credit against the tax for taxes of foreign countries

1 and possessions of the United States allowed by section
2 901.

3 ~~“(4) CROSS REFERENCE.—~~

“For rule that certain foreign taxes are not to be
taken into account in determining deduction or credit,
see section 906(b)(1).

4 ~~“(d) ELECTION TO TREAT REAL PROPERTY INCOME~~
5 ~~AS INCOME CONNECTED WITH UNITED STATES BUSI-~~
6 ~~NESS.—~~

7 ~~“(1) IN GENERAL.—A foreign corporation which~~
8 ~~during the taxable year derives any income—~~

9 ~~“(A) from real property located in the United~~
10 ~~States, or from any interest in such real property,~~
11 ~~including (i) gains from the sale or exchange of~~
12 ~~real property or an interest therein, (ii) rents or~~
13 ~~royalties from mines, wells, or other natural de-~~
14 ~~posits, and (iii) gains described in section 631 (b)~~
15 ~~or (c), and~~

16 ~~“(B) which, but for this subsection, would not~~
17 ~~be treated as income effectively connected with the~~
18 ~~conduct of a trade or business within the United~~
19 ~~States,~~

20 may elect for such taxable year to treat all such income
21 as income which is effectively connected with the con-
22 duct of a trade or business within the United States. In

such case, such income shall be taxable as provided in subsection (a)(1) whether or not such corporation is engaged in trade or business within the United States during the taxable year. An election under this paragraph for any taxable year shall remain in effect for all subsequent taxable years, except that it may be revoked with the consent of the Secretary or his delegate with respect to any taxable year.

“(2) ELECTION AFTER REVOCATION, ETC.—Paragraphs (2) and (3) of section 871(d) shall apply in respect of elections under this subsection in the same manner and to the same extent as they apply in respect of elections under section 871(d).”

“(c) RETURNS OF TAX BY AGENT.—If any foreign corporation has no office or place of business in the United States but has an agent in the United States, the return required under section 6012 shall be made by the agent.”

(2)(A) Subsection (c) of section 11 (relating to exceptions from tax on corporations) is amended by inserting “or” at the end of paragraph 2), by striking out “, or” at the end of paragraph (3) and inserting a period in lieu thereof, and by striking out paragraph (4).

1 ~~(B)~~ Section 11 ~~(relating to tax on corporations)~~ is
 2 amended by adding at the end thereof the following
 3 new subsection:

4 ~~“(f)~~ FOREIGN CORPORATIONS.—In the case of a foreign
 5 corporation, the tax imposed by subsection ~~(a)~~ shall apply
 6 only as provided by section 882.”

7 ~~(2)~~ The table of sections for subpart B of part II
 8 of subchapter N of chapter 1 is amended by striking out
 9 the items relating to sections 881 and 882 and inserting
 10 in lieu thereof the following:

 “Sec. 881. Income of foreign corporations not connected
 with United States business.

 “Sec. 882. Income of foreign corporations connected with
 United States business.”

11 ~~(e)~~ WITHHOLDING OF TAX ON FOREIGN CORPORA-
 12 TIONS.—Section 1442 ~~(relating to withholding of tax on~~
 13 foreign corporations) is amended to read as follows:

14 “SEC. 1442. WITHHOLDING OF TAX ON FOREIGN CORPO-
 15 RATIONS.

16 ~~“(a)~~ GENERAL RULE.—In the case of foreign corpora-
 17 tions subject to taxation under this subtitle, there shall be
 18 deducted and withheld at the source in the same manner and
 19 on the same items of income as is provided in section 1441
 20 or section 1451 a tax equal to 30 percent thereof; except
 21 that, in the case of interest described in section 1451 ~~(relat-~~

ing to tax-free covenant bonds), the deduction and with-
 holding shall be at the rate specified therein. For purposes
 of the preceding sentence, the reference in section 1441(e)
 (1) to section 871(b)(1) shall be treated as referring to
 section 842 or section 882(a), as the case may be.

“(b) EXEMPTION.—Subject to such terms and condi-
 tions as may be provided by regulations prescribed by the
 Secretary or his delegate, subsection (a) shall not apply in
 the case of a foreign corporation engaged in trade or business
 within the United States if the Secretary or his delegate de-
 termines that the requirements of subsection (a) imposes an
 undue administrative burden and that the collection of the
 tax imposed by section 881 on such corporation will not be
 jeopardized by the exemption.”

(d) DIVIDENDS RECEIVED FROM CERTAIN FOREIGN
 CORPORATIONS.—Subsection (a) of section 245 (relating to
 the allowance of a deduction in respect of dividends received
 from a foreign corporation) is amended—

(1) by striking out “and has derived 50 percent
 or more of its gross income from sources within the
 United States,” in that portion of subsection (a) which
 precedes paragraph (1) and by inserting in lieu thereof
 “and if 50 percent or more of the gross income of such

1 corporation from all sources for such period is effectively
 2 connected with the conduct of a trade or business within
 3 the United States,";

4 ~~(2)~~ by striking out "from sources within the United
 5 States" in paragraph ~~(1)~~ and inserting in lieu thereof
 6 "which is effectively connected with the conduct of a
 7 trade or business within the United States";

8 ~~(3)~~ by striking out "from sources within the United
 9 States" in paragraph ~~(2)~~ and inserting in lieu thereof
 10 "which is effectively connected with the conduct of a
 11 trade or business within the United States,"; and

12 ~~(4)~~ by adding after paragraph ~~(2)~~ the following
 13 new sentence:

14 "For purposes of this subsection, the gross income of the
 15 foreign corporation for any period before the first taxable
 16 year beginning after December 31, 1966, which is effec-
 17 tively connected with the conduct of a trade or business
 18 within the United States is an amount equal to the gross
 19 income for such period from sources within the United
 20 States."

21 ~~(c) UNRELATED BUSINESS TAXABLE INCOME.~~ The
 22 last sentence of section 512(a) ~~(relating to definition)~~ is
 23 amended to read as follows: "In the case of an organiza-
 24 tion described in section 511 which is a foreign organiza-
 25 tion, the unrelated business taxable income shall be its un-

1 related business taxable income which is effectively connected
2 with the conduct of a trade or business within the United
3 States.”

4 ~~(f) CORPORATION SUBJECT TO PERSONAL HOLDING~~
5 ~~COMPANY TAX.~~ Paragraph ~~(7)~~ of section 542(e) ~~(re-~~
6 ~~lating to corporations not subject to the personal holding~~
7 ~~company tax)~~ is amended to read as follows:

8 “~~(7)~~ a foreign corporation, if all of its stock out-
9 standing during the last half of the taxable year is owned
10 by nonresident alien individuals, whether directly or in-
11 directly through foreign estates, foreign trusts, foreign
12 partnerships, or other foreign corporations;”.

13 ~~(g) AMENDMENTS WITH RESPECT TO FOREIGN COR-~~
14 ~~PORATIONS CARRYING ON INSURANCE BUSINESS IN~~
15 ~~UNITED STATES.~~

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

18 **“SEC. 842. FOREIGN CORPORATIONS CARRYING ON INSUR-**
19 **ANCE BUSINESS.**

20 “If a foreign corporation carrying on an insurance busi-
21 ness within the United States would qualify under part I,
22 II, or III of this subchapter for the taxable year if ~~(without~~
23 ~~regard to income not effectively connected with the conduct~~
24 ~~of any trade or business within the United States)~~ it were
25 a domestic corporation, such corporation shall be taxable

1 under such part on its income effectively connected with its
 2 conduct of any trade or business within the United States.
 3 With respect to the remainder of its income, which is from
 4 sources within the United States, such a foreign corpora-
 5 tion shall be taxable as provided in section 881."

6 (2) The table of sections for part IV of subchapter
 7 L of chapter 1 is amended by striking out the item re-
 8 lating to section 842 and inserting in lieu thereof the
 9 following:

"Sec. 842. Foreign corporations carrying on insurance busi-
 ness,"

10 (3) Section 819 (relating to foreign life insurance
 11 companies) is amended—

12 (A) by striking out subsections (a) and (d)
 13 and by redesignating subsections (b) and (c) as
 14 subsections (a) and (b);

15 (B) by striking out "In the case of any com-
 16 pany described in subsection (a)," in subsection
 17 (a)(1) (as redesignated by subparagraph (A))
 18 and inserting in lieu thereof "In the case of any
 19 foreign corporation taxable under this part,"

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

1 ~~(D)~~ by adding at the end of subsection ~~(a)~~
 2 ~~(as redesignated by subparagraph (A))~~ the fol-
 3 lowing new paragraph:

4 ~~“(3) REDUCTION OF SECTION 881 TAX.~~—In the
 5 ease of any foreign corporation taxable under this part,
 6 there shall be determined—

7 ~~“(A)~~ the amount which would be subject to
 8 tax under section 881 if the amount taxable under
 9 such section were determined without regard to sec-
 10 tions 103 and 894, and

11 ~~“(B)~~ the amount of the reduction provided
 12 by paragraph ~~(1)~~.

13 The tax under section 881 ~~(determined without regard~~
 14 to this paragraph) shall be reduced ~~(but not below~~
 15 zero) by an amount which is the same proportion of
 16 such tax as the amount referred to in subparagraph ~~(B)~~
 17 is of the amount referred to in subparagraph ~~(A)~~; but
 18 such reduction in tax shall not exceed the increase in
 19 tax under this part by reason of the reduction provided
 20 by paragraph ~~(1)~~.”,

21 ~~(E)~~ by striking out “for purposes of subsec-
 22 tion ~~(a)~~” each place it appears in subsection ~~(b)~~
 23 ~~(as redesignated by subparagraph (A))~~ and insert-

1 ing in lieu thereof "with respect to a foreign
2 corporation";

3 ~~(F)~~ by striking out "foreign life insurance
4 company" each place it appears in such subsection
5 ~~(b)~~ and inserting in lieu thereof "foreign corpora-
6 tion";

7 ~~(G)~~ by striking out "subsection ~~(b)~~(2)~~(A)~~"
8 each place it appears in such subsection ~~(b)~~ and
9 inserting in lieu thereof "subsection ~~(a)~~(2)~~(A)~~";

10 ~~(H)~~ by striking out "subsection ~~(b)~~(2)~~(B)~~"
11 in paragraph ~~(2)~~(B)(ii) of such subsection ~~(b)~~
12 and inserting in lieu thereof "subsection ~~(a)~~(2)
13 ~~(B)~~"; and

14 ~~(I)~~ by adding at the end thereof the following
15 new subsection:

16 "~~(c)~~ CROSS REFERENCE.—

**"For taxation of foreign corporations carrying on
life insurance business within the United States, see
section 842."**

17 ~~(4)~~ Section 821 (relating to tax on mutual insur-
18 ance companies to which part II applies) is amended—

19 ~~(A)~~ by striking out subsection ~~(c)~~ and by
20 redesignating subsections ~~(f)~~ and ~~(g)~~ as sub-
21 sections ~~(c)~~ and ~~(f)~~; and

22 ~~(B)~~ by adding at the end of subsection ~~(f)~~

1 ~~(as redesignated by subparagraph (A)) the fol-~~
 2 ~~lowing:~~

“(3) For taxation of foreign corporations carrying on an insurance business within the United States, see section 842.”

3 ~~(5) Section 822 (relating to determination of tax-~~
 4 ~~able investment income) is amended by striking out~~
 5 ~~subsection (c) and by redesignating subsection (f) as~~
 6 ~~subsection (e).~~

7 ~~(6) Section 831 (relating to tax on certain other~~
 8 ~~insurance companies) is amended—~~

9 ~~(A) by striking out subsection (b) and by re-~~
 10 ~~designating subsection (c) as subsection (b), and~~

11 ~~(B) by amending subsection (d) to read as~~
 12 ~~follows:~~

13 **“(e) CROSS REFERENCES.—**

“(1) For alternative tax in case of capital gains, see section 1201(a).

“(2) For taxation of foreign corporations carrying on an insurance business within the United States, see section 842.”

14 ~~(7) Section 832 (relating to insurance company~~
 15 ~~taxable income) is amended by striking out subsection~~
 16 ~~(d) and by redesignating subsection (e) as subsection~~
 17 ~~(d).~~

18 ~~(8) The second sentence of section 841 (relating~~

to credit for foreign taxes) is amended by striking out
 “sentence,” and inserting in lieu thereof “sentence (and
 for purposes of applying section 906 with respect to a
 foreign corporation subject to tax under this sub-
 chapter),”.

~~(h) SUBPART F INCOME.~~—Section 952(b) ~~(relating~~
 to exclusion of United States income) is amended to read as
 follows:

“(b) EXCLUSION OF UNITED STATES INCOME.—In
 the case of a controlled foreign corporation, subpart F in-
 come does not include any item of income from sources
 within the United States which is effectively connected
 with the conduct by such corporation of a trade or business
 within the United States unless such item is exempt from
 taxation ~~(or is subject to a reduced rate of tax)~~ pursuant
 to a treaty obligation of the United States.”

~~(i) GAIN FROM CERTAIN SALES OR EXCHANGES OF~~
~~STOCK IN CERTAIN FOREIGN CORPORATIONS.~~—Paragraph
 (4) of section 1248(d) ~~(relating to exclusions from earn-~~
~~ings and profits)~~ is amended to read as follows:

“(4) UNITED STATES INCOME.—Any item in-
 cludible in gross income of the foreign corporation under
 this chapter—

1 “(A) for any taxable year beginning before
2 January 1, 1967, as income derived from sources
3 within the United States of a foreign corporation
4 engaged in trade or business within the United
5 States; or

6 “(B) for any taxable year beginning after
7 December 31, 1966, as income effectively con-
8 nected with the conduct by such corporation of a
9 trade or business within the United States.

10 This paragraph shall not apply with respect to any
11 item which is exempt from taxation (or is subject to
12 a reduced rate of tax) pursuant to a treaty obligation
13 of the United States.”

14 ~~(j)~~ DECLARATION OF ESTIMATED INCOME TAX BY
15 CORPORATIONS.—Section 6016 (relating to declarations of
16 estimated income tax by corporations) is amended by redес-
17 ignating subsection (f) as subsection (g) and by inserting
18 after subsection (e) the following new subsection:

19 “(f) CERTAIN FOREIGN CORPORATIONS.—For pur-
20 poses of this section and section 6655, in the case of a foreign
21 corporation subject to taxation under section 11 or 1201(a),
22 or under subchapter L of chapter 1, the tax imposed by
23 section 881 shall be treated as a tax imposed by section 11.”

1 ~~(k)~~ TECHNICAL AMENDMENTS.—

2 (1) Section 884 is amended to read as follows:

“SEC. 884. CROSS REFERENCES.

“~~(1)~~ For special provisions relating to unrelated business income of foreign educational, charitable, and certain other exempt organizations, see section 512(a).

“~~(2)~~ For special provisions relating to foreign corporations carrying on an insurance business within the United States, see section 842.

“~~(3)~~ For rules applicable in determining whether any foreign corporation is engaged in trade or business within the United States, see section 864(b).

“~~(4)~~ For reinstatement of pre-1967 income tax provisions in the case of corporations of certain foreign countries, see section 896.

“~~(5)~~ For allowance of credit against the tax in case of a foreign corporation having income effectively connected with the conduct of a trade or business within the United States, see section 906.

“~~(6)~~ For withholding at source of tax on income of foreign corporations, see section 1442.”

3 ~~(2)~~ Section 953(b) ~~(3)~~ (F) is amended by striking
4 out “832(b)(5)” and inserting in lieu thereof
5 “832(c)(5)”.

6 ~~(3)~~ Section 1249(a) is amended by striking out
7 “Except as provided in subsection (c), gain” and in-
8 serting in lieu thereof “Gain”.

9 ~~(1)~~ EFFECTIVE DATES.—The amendments made by
10 this section ~~(other than subsection (i))~~ shall apply with
11 respect to taxable years beginning after December 31, 1966.
12 The amendment made by subsection (i) shall apply with

1 respect to sales or exchanges occurring after December 31,
2 1966.

3 **SEC. 5. SPECIAL TAX PROVISIONS.**

4 ~~“(a) INCOME AFFECTED BY TREATY.—~~Section 894 (re-
5 lating to income exempt under treaties) is amended to read
6 as follows:

7 **“SEC. 894. INCOME AFFECTED BY TREATY.**

8 **“(a) INCOME EXEMPT UNDER TREATY.**—Income of
9 any kind, to the extent required by any treaty obligation of
10 the United States, shall not be included in gross income and
11 shall be exempt from taxation under this subtitle.

12 **“(b) PERMANENT ESTABLISHMENT IN UNITED**
13 **STATES.**—For purposes of applying any exemption from, or
14 reduction of, any tax provided by any treaty to which the
15 United States is a party with respect to income which is not
16 effectively connected with the conduct of a trade or business
17 within the United States, a nonresident alien individual or a
18 foreign corporation shall be deemed not to have a permanent
19 establishment in the United States at any time during the
20 taxable year. This subsection shall not apply in respect of
21 the tax computed under section 877(b).”

22 **(b) APPLICATION OF PRE-1967 INCOME TAX PROVI-**
23 **SIONS.**—Subpart C of part II of subchapter N of chapter 1

1 (~~relating to miscellaneous provisions applicable to nonresi-~~
 2 ~~dent aliens and foreign corporations~~) is amended by adding
 3 at the end thereof the following new section:

4 **"SEC. 896. APPLICATION OF PRE-1967 INCOME TAX PRO-**
 5 **VISIONS.**

6 **"(a) IMPOSITION OF MORE BURDENSOME TAXES BY**
 7 **FOREIGN COUNTRY.**—Whenever the President finds that—
 8 **"(1)** under the laws of any foreign country, con-
 9 sidering the tax system of such foreign country, citizens
 10 of the United States not residents of such foreign coun-
 11 try or domestic corporations are being subjected to more
 12 burdensome taxes, on any item of income received by
 13 such citizens or corporations from sources within such
 14 foreign country, than taxes imposed by the provisions of
 15 this subtitle on similar income derived from sources
 16 within the United States by residents or corporations of
 17 such foreign country,

18 **"(2)** such foreign country, when requested by the
 19 United States to do so, has not acted to revise or reduce
 20 such taxes so that they are no more burdensome than
 21 taxes imposed by the provisions of this subtitle on similar
 22 income derived from sources within the United States by
 23 residents or corporations of such foreign country, and

24 **"(3)** it is in the public interest to apply pre-1967
 25 tax provisions in accordance with the provisions of this

1 section to residents or corporations of such foreign
2 country,

3 the President shall proclaim that the tax on such similar in-
4 come derived from sources within the United States by resi-
5 dents or corporations of such foreign country shall, for tax-
6 able years beginning after such proclamation, be determined
7 under this subtitle without regard to amendments made to
8 this subchapter and chapter 3 on or after the date of enact-
9 ment of this section.

10 “(b) ALLEVIATION OF MORE BURDENSOME TAXES.—

11 Whenever the President finds that the laws of any foreign
12 country with respect to which the President has made a proe-
13 lamation under subsection (a) have been modified so that
14 citizens of the United States not residents of such foreign
15 country or domestic corporations are no longer subject to
16 more burdensome taxes on such item of income derived by
17 such citizens or corporations from sources within such foreign
18 country, he shall proclaim that the tax on such similar in-
19 come derived from sources within the United States by
20 residents or corporations of such foreign country shall, for
21 any taxable year beginning after such proclamation, be de-
22 termined under this subtitle without regard to subsection
23 (a).

24 “(c) NOTIFICATION OF CONGRESS REQUIRED.—No
25 proclamation shall be issued by the President pursuant to

1 this section unless, at least 30 days prior to such procla-
 2 mation, he has notified the Senate and the House of Repre-
 3 sentatives of his intention to issue such proclamation.

4 ~~“(d) IMPLEMENTATION BY REGULATIONS.—The Sec-~~
 5 ~~retary or his delegate shall prescribe such regulations as he~~
 6 ~~deems necessary or appropriate to implement this section.”~~

7 ~~“(e) CLERICAL AMENDMENTS.—The table of sections~~
 8 ~~for subpart C of part II of subchapter N of chapter 1 is~~
 9 ~~amended—~~

10 ~~(1) by striking out the item relating to section 894~~
 11 ~~and inserting in lieu thereof~~

~~“Sec. 894. Income affected by treaty.”;~~

12 ~~(2) by adding at the end of such table the following:~~

~~“Sec. 896. Application of pre-1967 income tax provisions.”~~

13 ~~(d) EFFECTIVE DATE.—The amendments made by this~~
 14 ~~section (other than subsection (e)) shall apply with respect~~
 15 ~~to taxable years beginning after December 31, 1966.~~

16 ~~(e) ELECTIONS BY NONRESIDENT UNITED STATES~~
 17 ~~CITIZENS WHO ARE SUBJECT TO FOREIGN COMMUNITY~~
 18 ~~PROPERTY LAWS.—~~

19 ~~(1) Part III of subchapter N of chapter 1 (relat-~~
 20 ~~ing to income from sources without the United States)~~

1 is amended by adding at the end thereof the following
 2 new subpart:

3 **"Subpart H—Income of Certain Nonresident United States**
 4 **Citizens Subject to Foreign Community Property Laws**

"Sec 981. Elections as to treatment of income subject to
 foreign community property laws.

5 **"SEC. 981. ELECTION AS TO TREATMENT OF INCOME SUB-**
 6 **JECT TO FOREIGN COMMUNITY PROPERTY**
 7 **LAWS.**

8 **"(a) GENERAL RULE.**—In the case of any taxable year
 9 beginning after December 31, 1966, if—

10 **"(1)** an individual is **(A)** a citizen of the United
 11 States, **(B)** a bona fide resident of a foreign country
 12 or countries during the entire taxable year, and **(C)**
 13 married at the close of the taxable year to a spouse who is
 14 a nonresident alien during the entire taxable year, and
 15 **"(2)** such individual and his spouse elect to have
 16 subsection **(b)** apply to their community income under
 17 foreign community property laws,

18 then subsection **(b)** shall apply to such income of such indi-
 19 vidual and such spouse for the taxable year and for all sub-
 20 sequent taxable years for which the requirements of para-

1 graph ~~(1)~~ are met, unless the Secretary or his delegate
 2 consents to a termination of the election.

3 “~~(b)~~ TREATMENT OF COMMUNITY INCOME.—For any
 4 taxable year to which an election made under subsection ~~(a)~~
 5 applies, the community income under foreign community
 6 property laws of the husband and wife making the election
 7 shall be treated as follows:

8 “~~(1)~~ Earned income (within the meaning of the
 9 first sentence of section 911(b)), other than trade or
 10 business income and a partner's distributive share of
 11 partnership income, shall be treated as the income of the
 12 spouse who rendered the personal services.

13 “~~(2)~~ Trade or business income, and a partner's
 14 distributive share of partnership income, shall be treated
 15 as provided in section 1402(a)(5).

16 “~~(3)~~ Community income not described in para-
 17 graph ~~(1)~~ or ~~(2)~~ which is derived from the separate
 18 property (as determined under the applicable foreign
 19 community property law) of one spouse shall be treated
 20 as the income of such spouse.

21 “~~(4)~~ All other such community income shall be
 22 treated as provided in the applicable foreign community
 23 property law.

1 ~~“(c) ELECTION FOR PRE-1967 YEARS.—~~

2 ~~“(1) ELECTION.—~~If an individual meets the re-
 3 quirements of subsection ~~(a)(1) (A) and (C)~~ for any
 4 taxable year beginning before January 1, 1967, and if
 5 such individual and the spouse referred to in subsection
 6 ~~(a)(1)(C)~~ elect under this subsection, then paragraph
 7 ~~(2)~~ of this subsection shall apply to their community in-
 8 come under foreign community property laws for all
 9 open taxable years beginning before January 1, 1967
 10 ~~(whether under this chapter, the corresponding provi-~~
 11 ~~sions of the Internal Revenue Code of 1939, or the cor-~~
 12 ~~responding provisions of prior revenue laws)~~, for which
 13 the requirements of subsection ~~(a)(1) (A) and (C)~~
 14 are met.

15 ~~“(2) EFFECT OF ELECTION.—~~For any taxable
 16 year to which an election made under this subsection
 17 applies, the community income under foreign community
 18 property laws of the husband and wife making the
 19 election shall be treated as provided by subsection ~~(b)~~,
 20 except that the other community income described in
 21 paragraph ~~(4)~~ of subsection ~~(b)~~ shall be treated as the
 22 income of the spouse who, for such taxable year, had
 23 gross income under paragraphs ~~(1)~~, ~~(2)~~, and ~~(3)~~ of

subsection (b); plus separate gross income, greater than that of the other spouse.

“(d) TIME FOR MAKING ELECTIONS; PERIOD OF LIMITATIONS; ETC.—

“(1) TIME.—An election under subsection (a) or (c) for a taxable year may be made at any time while such year is still open, and shall be made in such manner as the Secretary or his delegate shall by regulations prescribe.

“(2) EXTENSION OF PERIOD FOR ASSESSING DEFICIENCIES AND MAKING REFUNDS.—If any taxable year to which an election under subsection (a) or (c) applies is open at the time such election is made, the period for assessing a deficiency against, and the period for filing claim for credit or refund of any overpayment by, the husband and wife for such taxable year, to the extent such deficiency or overpayment is attributable to such an election, shall not expire before 1 year after the date of such election.

“(3) ALIEN SPOUSE NEED NOT JOIN IN SUBSECTION (c) ELECTION IN CERTAIN CASES.—If the Secretary or his delegate determines—

“(A) that an election under subsection (c) would not affect the liability for Federal income

1 tax of the spouse referred to in subsection ~~(a) (1)~~
 2 ~~(C)~~ for any taxable year, or

3 ~~“(B) that the effect on such liability for tax~~
 4 ~~cannot be ascertained and that to deny the election~~
 5 ~~to the citizen of the United States would be inequita-~~
 6 ~~ble and cause undue hardship,~~

7 such spouse shall not be required to join in such election,
 8 and paragraph ~~(2)~~ of this subsection shall not apply
 9 with respect to such spouse.

10 ~~“(4) INTEREST.—To the extent that any overpay-~~
 11 ~~ment or deficiency for a taxable year is attributable to~~
 12 ~~an election made under this section, no interest shall be~~
 13 ~~allowed or paid for any period before the day which is 1~~
 14 ~~year after the date of such election.~~

15 ~~“(c) DEFINITIONS AND SPECIAL RULES.—For pur-~~
 16 ~~poses of this section—~~

17 ~~“(1) DEDUCTIONS.—Deductions shall be treated in~~
 18 ~~a manner consistent with the manner provided by this~~
 19 ~~section for the income to which they relate.~~

20 ~~“(2) OPEN YEARS.—A taxable year of a citizen~~
 21 ~~of the United States and his spouse shall be treated as~~
 22 ~~‘open’ if the period for assessing a deficiency against~~
 23 ~~such citizen for such year has not expired before the~~

1 date of the election under subsection (a) or (e), as the
2 ease may be.

3 ~~“(3) ELECTIONS IN CASE OF DECEDENTS.—If a~~
4 husband or wife is deceased his election under this sec-
5 tion may be made by his executor, administrator, or
6 other person charged with his property.

7 ~~“(4) DEATH OF SPOUSE DURING TAXABLE~~
8 ~~YEAR.—In applying subsection (a)(1)(C), and in de-~~
9 ~~termining under subsection (e)(2) which spouse has~~
10 ~~the greater income for a taxable year, if a husband or~~
11 ~~wife dies the taxable year of the surviving spouse shall~~
12 ~~be treated as ending on the date of such death.”~~

13 ~~(2) The table of subparts for such part III is~~
14 ~~amended by adding at the end thereof the following:~~

Subpart H. Income of certain nonresident United States
citizens subject to foreign community prop-
erty laws.”

15 ~~(3) Section 911(d) (relating to earned income~~
16 ~~from sources without the United States) is amended—~~

17 ~~(A) by striking out “For administrative” and~~
18 ~~inserting in lieu thereof the following: “(1) For ad-~~
19 ~~ministrative”; and~~

20 ~~(B) by adding at the end thereof the following:~~

~~“(2) For elections as to treatment of income subject
to foreign community property laws, see section 981.”~~

1 **SEC. 6. FOREIGN TAX CREDIT.**

2 ~~(a)~~ **ALLOWANCE OF CREDIT TO CERTAIN NONRES-**
 3 **DENT ALIENS AND FOREIGN CORPORATIONS.—**

4 ~~(1)~~ Subpart A of part III of subchapter N of chap-
 5 ter 1 ~~(relating to foreign tax credit)~~ is amended by
 6 adding at the end thereof the following new section:

7 **“SEC. 906. NONRESIDENT ALIEN INDIVIDUALS AND FOR-**
 8 **EIGN CORPORATIONS.**

9 ~~“(a)~~ **ALLOWANCE OF CREDIT.**—A nonresident alien
 10 individual or a foreign corporation engaged in trade or
 11 business within the United States during the taxable year
 12 shall be allowed a credit under section 901 for the amount
 13 of any income, war profits, and excess profits taxes paid or
 14 accrued during the taxable year ~~(or deemed, under section~~
 15 ~~902, paid or accrued during the taxable year)~~ to any foreign
 16 country or possession of the United States with respect to
 17 income effectively connected with the conduct of a trade or
 18 business within the United States.

19 ~~“(b)~~ **SPECIAL RULES.—**

20 ~~“(1)~~ For purposes of subsection ~~(a)~~ and for pur-
 21 poses of determining the deductions allowable under
 22 sections 873 ~~(a)~~ and 882 ~~(c)~~, in determining the amount
 23 of any tax paid or accrued to any foreign country or

possession there shall not be taken into account any amount of tax to the extent the tax so paid or accrued is imposed with respect to income which would not be taxed by such foreign country or possession but for the fact that—

~~“(A) in the case of a nonresident alien individual, such individual is a citizen or resident of such foreign country or possession; or~~

~~“(B) in the case of a foreign corporation, such corporation was created or organized under the law of such foreign country or possession or is domiciled for tax purposes in such country or possession.~~

~~“(2) For purposes of subsection (a), in applying section 904 the taxpayer’s taxable income shall be treated as consisting only of the taxable income effectively connected with the taxpayer’s conduct of a trade or business within the United States.~~

~~“(3) The credit allowed pursuant to subsection (a) shall not be allowed against any tax imposed by section 871(a) (relating to income of nonresident alien individual not connected with United States business) or 881 (relating to income of foreign corporations not connected with United States business).~~

~~“(4) For purposes of sections 902(a) and 78, a~~

foreign corporation choosing the benefits of this subpart which receives dividends shall, with respect to such dividends, be treated as a domestic corporation."

(2) The table of sections for such subpart A is amended by adding at the end thereof the following:

"Sec. 906. Nonresident alien individuals and foreign corporations."

(3) Section 874(e) is amended by striking out

"(e) FOREIGN TAX CREDIT NOT ALLOWED.—A nonresident" and inserting in lieu thereof the following:

"(e) FOREIGN TAX CREDIT.—Except as provided in section 906, a nonresident".

(4) Subsection (b) of section 901 (relating to amount allowed) is amended by redesignating paragraph (4) as paragraph (5), and by inserting after paragraph (3) the following new paragraph:

"(4) NONRESIDENT ALIEN INDIVIDUALS AND FOREIGN CORPORATIONS.—In the case of any nonresident alien individual not described in section 876 and in the case of any foreign corporation, the amount determined pursuant to section 906; and".

(5) Paragraph (5) (as redesignated) of section 901(b) is amended by striking out "or (3)," and inserting in lieu thereof "(3), or (4),".

1 ~~(6)~~ The amendments made by this subsection shall
 2 apply with respect to taxable years beginning after
 3 December 31, 1966. In applying section 904 of the
 4 Internal Revenue Code of 1954 with respect to section
 5 906 of such Code, no amount may be carried from or to
 6 any taxable year beginning before January 1, 1967, and
 7 no such year shall be taken into account.

8 ~~(b)~~ ALIEN RESIDENTS OF THE UNITED STATES OR
 9 PUERTO RICO.—

10 ~~(1)~~ Paragraph ~~(3)~~ of section 901~~(b)~~ (relating
 11 to amount of foreign tax credit allowed in case of alien
 12 resident of the United States or Puerto Rico) is amended
 13 by striking out “, if the foreign country of which such
 14 alien resident is a citizen or subject, in imposing such
 15 taxes, allows a similar credit to citizens of the United
 16 States residing in such country”.

17 ~~(2)~~ Section 901 is amended by redesignating sub-
 18 sections ~~(c)~~ and ~~(d)~~ as subsections ~~(d)~~ and ~~(e)~~, and
 19 by inserting after subsection ~~(b)~~ the following new
 20 subsection:

21 “(c) SIMILAR CREDIT REQUIRED FOR CERTAIN ALIEN
 22 RESIDENTS.—Whenever the President finds that—

23 “(1) a foreign country, in imposing income, war
 24 profits, and excess profits taxes, does not allow to

1 citizens of the United States residing in such foreign
 2 country a credit for any such taxes paid or accrued to
 3 the United States or any foreign country, as the case
 4 may be, similar to the credit allowed under subsection
 5 ~~(b) (3)~~,

6 “~~(2)~~ such foreign country, when requested by the
 7 United States to do so, has not acted to provide such a
 8 similar credit to citizens of the United States residing
 9 in such foreign country, and

10 “~~(3)~~ it is in the public interest to allow the credit
 11 under subsection ~~(b) (3)~~ to citizens or subjects of such
 12 foreign country only if it allows such a similar credit to
 13 citizens of the United States residing in such foreign
 14 country,

15 the President shall proclaim that, for taxable years begin-
 16 ning while the proclamation remains in effect, the credit
 17 under subsection ~~(b) (3)~~ shall be allowed to citizens or
 18 subjects of such foreign country only if such foreign country,
 19 in imposing income, war profits, and excess profits taxes,
 20 allows to citizens of the United States residing in such foreign
 21 country such a similar credit.”

22 ~~(3)~~ Section 2014 (relating to credit for foreign
 23 death taxes) is amended by striking out the second sen-

1 tence of subsection (a); and by adding at the end of
2 such section the following new subsection:

3 “(h) ~~SIMILAR CREDIT REQUIRED FOR CERTAIN ALIEN~~
4 ~~RESIDENTS.~~—Whenever the President finds that—

5 “(1) a foreign country, in imposing estate, inherit-
6 ance, legacy, or succession taxes, does not allow to citi-
7 zens of the United States resident in such foreign coun-
8 try at the time of death a credit similar to the credit
9 allowed under subsection (a);

10 “(2) such foreign country, when requested by the
11 United States to do so, has not acted to provide such a
12 similar credit in the case of citizens of the United States
13 resident in such foreign country at the time of death; and

14 “(3) it is in the public interest to allow the credit
15 under subsection (a) in the case of citizens or subjects
16 of such foreign country only if it allows such a similar
17 credit in the case of citizens of the United States resident
18 in such foreign country at the time of death;

19 the President shall proclaim that, in the case of citizens or
20 subjects of such foreign country dying while the proclamation
21 remains in effect, the credit under subsection (a) shall be al-
22 lowed only if such foreign country allows such a similar
23 credit in the case of citizens of the United States resident in
24 such foreign country at the time of death.”

25 (4) The amendments made by this subsection

1 ~~(other than paragraph (3))~~ shall apply with respect
 2 to taxable years beginning after December 31, 1966.
 3 The amendment made by paragraph (3) shall apply
 4 with respect to estates of decedents dying after the date
 5 of the enactment of this Act.

6 ~~(c) FOREIGN TAX CREDIT AN CASE OF CERTAIN~~
 7 ~~OVERSEAS OPERATIONS FUNDING SUBSIDIARIES.—~~

8 ~~(1) Section 904(f) (2) (relating to application of~~
 9 ~~limitations on foreign tax credit in case of certain inter-~~
 10 ~~est income) is amended—~~

11 ~~(A) by striking out “or” at the end of sub-~~
 12 ~~paragraph (C),~~

13 ~~(B) by striking out the period at the end of~~
 14 ~~subparagraph (D) and inserting in lieu thereof~~
 15 ~~“; or”, and~~

16 ~~(C) by adding at the end thereof the following~~
 17 ~~new subparagraph:~~

18 ~~“(E) received by an overseas operations fund-~~
 19 ~~ing subsidiary on obligations of a related foreign~~
 20 ~~corporation.”~~

21 ~~(2) Section 904(f) is amended by adding at the~~
 22 ~~end thereof the following new paragraph:~~

23 ~~“(5) DEFINITIONS FOR PURPOSES OF PARA-~~
 24 ~~GRAPH (1) (E). For purposes of paragraph (1)-~~
 25 ~~(E).—~~

1 ~~“(A) the term ‘overseas operations funding~~
 2 ~~subsidiary’ means a domestic corporation which (i)~~
 3 ~~is a member of an affiliated group (within the~~
 4 ~~meaning of section 1504) and is not the common~~
 5 ~~parent corporation; and (ii) was formed and is~~
 6 ~~availed of for the principal purpose of raising funds~~
 7 ~~outside the United States through public offerings to~~
 8 ~~foreign persons and of using such funds to finance~~
 9 ~~the operations in foreign countries of one or more~~
 10 ~~related foreign corporations; and~~

11 ~~“(B) a foreign corporation is, with respect to~~
 12 ~~an overseas operations funding subsidiary, a related~~
 13 ~~foreign corporation if the affiliated group of which~~
 14 ~~such subsidiary is a member owns 50 percent or~~
 15 ~~more of the voting stock of such foreign corporation~~
 16 ~~either directly or through ownership of the voting~~
 17 ~~stock of another foreign corporation.”~~

18 ~~(3) The amendments made by paragraphs (1) and~~
 19 ~~(2) shall apply to interest received after December 31,~~
 20 ~~1965, in taxable years ending after such date.~~

1 **SEC. 7. AMENDMENT TO PRESERVE EXISTING LAW ON**
 2 **DEDUCTIONS UNDER SECTION 931.**

3 ~~“(a) DEDUCTIONS.—~~ Subsection ~~(d)~~ of section 931 ~~(re-~~
 4 lating to deductions) is amended to read as follows:

5 ~~“(d) DEDUCTIONS.—~~

6 ~~“(1) GENERAL RULE.—~~ Except as otherwise pro-
 7 vided in this subsection and subsection ~~(c)~~, in the case
 8 of persons entitled to the benefits of this section the
 9 deductions shall be allowed only if and to the extent
 10 that they are connected with income from sources within
 11 the United States; and the proper apportionment and
 12 allocation of the deductions with respect to sources of
 13 income within and without the United States shall be
 14 determined as provided in part I, under regulations
 15 prescribed by the Secretary or his delegate.

16 ~~“(2) EXCEPTIONS.—~~ The following deductions shall
 17 be allowed whether or not they are connected with in-
 18 come from sources within the United States:

19 ~~“(A) The deduction, for losses not connected~~
 20 with the trade or business if incurred in transactions

entered into for profit, allowed by section 165(c)
 (2), but only if the profit, if such transaction had
 resulted in a profit, would be taxable under this
 subtitle.

“(B) The deduction, for losses of property not
 connected with the trade or business if arising from
 certain casualties or theft, allowed by section 165
 (c)(3), but only if the loss is of property within
 the United States.

“(C) The deduction for charitable contribu-
 tions and gifts allowed by section 170.

“(3) DEDUCTION DISALLOWED.—

“For disallowance of standard deduction, see section
 142(b)(2).”

(b) EFFECTIVE DATE.—The amendment made by this
 section shall apply with respect to taxable years beginning
 after December 31, 1966.

SEC. 8. ESTATES OF NONRESIDENTS NOT CITIZENS.

(a) RATE OF TAX.—Subsection (a) of section 2101
 (relating to tax imposed in case of estates of nonresidents
 not citizens) is amended to read as follows:

“(a) RATE OF TAX.—Except as provided in section
 2107, a tax computed in accordance with the following table
 is hereby imposed on the transfer of the taxable estate, de-

- 1 terminated as provided in section 2106, of every decedent non-
 2 resident not a citizen of the United States:

"If the taxable estate tax is: The tax shall be:

Not over \$100,000-----	5% of the taxable estate.
Over \$100,000 but not over \$500,000-----	\$5,000, plus 10% of excess over \$100,000.
Over \$500,000 but not over \$1,000,000-----	\$15,000, plus 15% of excess over \$500,000.
Over \$1,000,000 but not over \$2,000,000-----	\$120,000, plus 20% of excess over \$1,000,000.
Over \$2,000,000-----	\$220,000, plus 25% of excess over \$2,000,000.

- 3 ~~(b)~~ CREDITS AGAINST TAX.—Section 2102 ~~(relating~~
 4 ~~to credits allowed against estate tax)~~ is amended to read as
 5 follows:

6 **"SEC. 2102. CREDITS AGAINST TAX.**

- 7 **"(a) IN GENERAL.**—The tax imposed by section 2101
 8 shall be credited with the amounts determined in accordance
 9 with sections 2011 to 2013, inclusive ~~(relating to State death~~
 10 ~~taxes, gift tax, and tax on prior transfers)~~, subject to the
 11 special limitation provided in subsection ~~(b)~~.

- 12 **"(b) SPECIAL LIMITATION.**—The maximum credit
 13 allowed under section 2011 against the tax imposed by sec-
 14 tion 2101 for State death taxes paid shall be an amount
 15 which bears the same ratio to the credit computed as pro-
 16 vided in section 2011 ~~(b)~~ as the value of the property, as

1 determined for purposes of this chapter, upon which State
 2 death taxes were paid and which is included in the gross
 3 estate under section 2103 bears to the value of the total gross
 4 estate under section 2103. For purposes of this subsection,
 5 the term 'State death taxes' means the taxes described in
 6 section 2011(a)."

7 ~~(c) PROPERTY WITHIN THE UNITED STATES.—~~Sec-
 8 tion 2104 ~~(relating to property within the United States)~~ is
 9 amended by adding at the end thereof the following new
 10 subsection:

11 ~~"(c) DEBT OBLIGATIONS.—~~For purposes of this sub-
 12 chapter, debt obligations of—

13 ~~"(1) a United States person, or~~

14 ~~"(2) the United States, a State or any political~~
 15 ~~subdivision thereof, or the District of Columbia,~~

16 ~~owned by a nonresident not a citizen of the United States~~
 17 ~~shall be deemed property within the United States. This~~
 18 ~~subsection shall not apply to a debt obligation of a domestic~~
 19 ~~corporation if any interest on such obligation, were such in-~~
 20 ~~terest received by the decedent at the time of his death,~~
 21 ~~would be treated by reason of section 861(a)(1)(B) as~~
 22 ~~income from sources without the United States."~~

1 ~~(d) PROPERTY WITHOUT THE UNITED STATES.~~ Sub-
 2 section ~~(b)~~ of section 2105 ~~(relating to bank deposits)~~ is
 3 amended to read as follows:

4 ~~“(b) DEPOSITS IN CERTAIN FOREIGN BRANCHES.—~~
 5 For purposes of this subchapter, deposits with a foreign
 6 branch of a domestic corporation, if such branch is engaged
 7 in the commercial banking business, shall not be deemed
 8 property within the United States.”

9 ~~(e) DEFINITION OF TAXABLE ESTATE.~~ Paragraph
 10 ~~(3)~~ of section 2106 ~~(a)~~ ~~(relating to deduction of exemption~~
 11 ~~from gross estate)~~ is amended to read as follows:

12 ~~“(3) EXEMPTION.—~~

13 ~~“(A) GENERAL RULE.—~~An exemption of
 14 \$30,000.

15 ~~“(B) RESIDENTS OF POSSESSIONS OF THE~~
 16 UNITED STATES.—In the case of a decedent who is
 17 considered to be a ‘nonresident not a citizen of the
 18 United States’ under the provisions of section 2209,
 19 the exemption shall be the greater of ~~(i)~~ \$30,000,
 20 or ~~(ii)~~ that proportion of the exemption authorized
 21 by section 2052 which the value of that part of the
 22 decedent’s gross estate which at the time of his

1 death is situated in the United States bears to the
2 value of his entire gross estate wherever situated.”

3 ~~(f) SPECIAL METHODS OF COMPUTING TAX.~~ Sub-
4 chapter B of chapter 11 (relating to estates of nonresidents
5 not citizens) is amended by adding at the end thereof the
6 following new sections:

7 **“SEC. 2107. EXPATRIATION TO AVOID TAX.**

8 ~~“(a) RATE OF TAX.~~ A tax computed in accordance
9 with the table contained in section 2001 is hereby imposed
10 on the transfer of the taxable estate, determined as provided
11 in section 2106, of every decedent nonresident not a citizen
12 of the United States dying after the date of enactment of this
13 section, if after March 8, 1965, and within the 10-year period
14 ending with the date of death such decedent lost United
15 States citizenship, unless such loss did not have for one of its
16 principal purposes the avoidance of taxes under this subtitle
17 or subtitle A.

18 ~~“(b) GROSS ESTATE.~~ For purposes of the tax imposed
19 by subsection (a), the value of the gross estate of every
20 decedent to whom subsection (a) applies shall be determined
21 as provided in section 2103, except that—

22 ~~“(1) if such decedent owned (within the meaning~~
23 ~~of section 958(a)) at the time of his death 10 percent~~
24 ~~or more of the total combined voting power of all~~

1 classes of stock entitled to vote of a foreign corporation,
2 and

3 “~~(2)~~ if such decedent owned ~~(within the mean-~~
4 ~~ing of section 958(a))~~, or is considered to have owned
5 ~~(by applying the ownership rules of section 958(b))~~,
6 at the time of his death, more than 50 percent of the
7 total combined voting power of all classes of stock en-
8 titled to vote of such foreign corporation;

9 then that proportion of the fair market value of the stock of
10 such foreign corporation owned ~~(within the meaning of sec-~~
11 ~~tion 958(a))~~ by such decedent at the time of his death,
12 which the fair market value of any assets owned by such for-
13 eign corporation and situated in the United States, at the time
14 of his death, bears to the total fair market value of all assets
15 owned by such foreign corporation at the time of his death,
16 shall be included in the gross estate of such decedent. For
17 purposes of the preceding sentence, a decedent shall be
18 treated as owning stock of a foreign corporation at the time
19 of his death if, at the time of a transfer, by trust or otherwise,
20 within the meaning of sections 2035 to 2038, inclusive, he
21 owned such stock.

22 “(c) CREDITS.—The tax imposed by subsection (a)
23 shall be credited with the amounts determined in accordance
24 with section 2102.

1 “(d) ~~EXCEPTION FOR LOSS OF CITIZENSHIP FOR CER-~~
 2 ~~TAIN CAUSES.~~ Subsection (a) shall not apply to the trans-
 3 fer of the estate of a decedent whose loss of United States
 4 citizenship resulted from the application of section 301(b),
 5 350, or 355 of the Immigration and Nationality Act, as
 6 amended (8 U.S.C. 1401(b), 1482, or 1487).

7 “(e) ~~BURDEN OF PROOF.~~ If the Secretary or his dele-
 8 gate establishes that it is reasonable to believe that an indi-
 9 vidual's loss of United States citizenship would, but for this
 10 section, result in a substantial reduction in the estate, in-
 11 heritance, legacy, and succession taxes in respect of the
 12 transfer of his estate, the burden of proving that such loss of
 13 citizenship did not have for one of its principal purposes the
 14 avoidance of taxes under this subtitle or subtitle A shall be
 15 on the executor of such individual's estate.

16 “~~SEC. 2108. APPLICATION OF PRE-1967 ESTATE TAX PRO-~~
 17 ~~VISIONS.~~

18 “(a) ~~IMPOSITION OF MORE BURDENSOME TAX BY~~
 19 ~~FOREIGN COUNTRY.~~ Whenever the President finds that—

20 “(1) under the laws of any foreign country, con-
 21 sidering the tax system of such foreign country, a more
 22 burdensome tax is imposed by such foreign country on
 23 the transfer of estates of decedents who were citizens of
 24 the United States and not residents of such foreign
 25 country than the tax imposed by this subchapter on the

1 transfer of estates of decedents who were residents of
2 such foreign country,

3 ~~“(2) such foreign country, when requested by the~~
4 ~~United States to do so, has not acted to revise or reduce~~
5 ~~such tax so that it is no more burdensome than the tax~~
6 ~~imposed by this subchapter on the transfer of estates~~
7 ~~of decedents who were residents of such foreign country,~~
8 ~~and~~

9 ~~“(3) it is in the public interest to apply pre-1967~~
10 ~~tax provisions in accordance with this section to the~~
11 ~~transfer of estates of decedents who were residents of~~
12 ~~such foreign country,~~

13 the President shall proclaim that the tax on the transfer of
14 the estate of every decedent who was a resident of such for-
15 eign country at the time of his death shall, in the case of
16 decedents dying after the date of such proclamation, be
17 determined under this subchapter without regard to amend-
18 ments made to sections 2101 ~~(relating to tax imposed),~~
19 2102 ~~(relating to credits against tax),~~ 2106 ~~(relating to~~
20 ~~taxable estate),~~ and 6018 ~~(relating to estate tax returns)~~
21 on or after the date of enactment of this section.

22 ~~“(b) ALLEVIATION OF MORE BURDENSOME TAX.—~~
23 ~~Whenever the President finds that the laws of any foreign~~
24 ~~country with respect to which the President has made a proe-~~

1 lamation under subsection (a) have been modified so that
 2 the tax on the transfer of estates of decedents who were
 3 citizens of the United States and not residents of such
 4 foreign country is no longer more burdensome than the
 5 tax imposed by this subchapter on the transfer of estates
 6 of decedents who were residents of such foreign country;
 7 he shall proclaim that the tax on the transfer of the estate
 8 of every decedent who was a resident of such foreign coun-
 9 try at the time of his death shall, in the case of decedents
 10 dying after the date of such proclamation, be determined
 11 under this subchapter without regard to subsection (a).

12 ~~“(e) NOTIFICATION OF CONGRESS REQUIRED.—No~~
 13 ~~proclamation shall be issued by the President pursuant to~~
 14 ~~this section unless, at least 30 days prior to such proclama-~~
 15 ~~tion, he has notified the Senate and the House of Repre-~~
 16 ~~sentatives of his intention to issue such proclamation.~~

17 ~~“(d) IMPLEMENTATION BY REGULATIONS.—The Sec-~~
 18 ~~retary or his delegate shall prescribe such regulations as may~~
 19 ~~be necessary or appropriate to implement this section.”~~

20 ~~“(g) ESTATE TAX RETURNS.—Paragraph (2) of sec-~~
 21 ~~tion 6018 (a) (relating to estates of nonresidents not citi-~~
 22 ~~zens) is amended by striking out “\$2,000” and inserting in~~
 23 ~~lieu thereof “\$30,000”.~~

24 ~~“(h) CLERICAL AMENDMENTS.—The table of sections for~~
 25 ~~subchapter B of chapter 11 (relating to estates of nonresi-~~

1 dents not citizens) is amended by adding at the end thereof
 2 the following:

"Sec. 2107. Expatriation to avoid tax.

"Sec. 2108. Application of pre-1967 estate tax provisions."

3 ~~(i)~~ **EFFECTIVE DATE.**—The amendments made by this
 4 section shall apply with respect to estates of decedents dying
 5 after the date of the enactment of this Act.

6 **SEC. 9. TAX ON GIFTS OF NONRESIDENTS NOT CITIZENS.**

7 ~~(a)~~ **IMPOSITION OF TAX.**—Subsection ~~(a)~~ of section
 8 2501 ~~(relating to general rule for imposition of tax)~~ is
 9 amended to read as follows:

10 ~~"(a)~~ **TAXABLE TRANSFERS.**—

11 ~~"(1)~~ **GENERAL RULE.**—For the calendar year
 12 1955 and each calendar year thereafter a tax, computed
 13 as provided in section 2502, is hereby imposed on the
 14 transfer of property by gift during such calendar year by
 15 any individual, resident or nonresident.

16 ~~"(2)~~ **TRANSFERS OF INTANGIBLE PROPERTY.**—

17 Except as provided in paragraph ~~(3)~~, paragraph ~~(1)~~
 18 shall not apply to the transfer of intangible property by
 19 a nonresident not a citizen of the United States.

20 ~~"(3)~~ **EXCEPTIONS.**—Paragraph ~~(2)~~ shall not
 21 apply in the case of a donor who at any time after
 22 March 8, 1965, and within the 10-year period ending

1 with the date of transfer lost United States citizenship
 2 unless—

3 “(A) such donor’s loss of United States citi-
 4 zenship resulted from the application of section
 5 301(b), 350, or 355 of the Immigration and Na-
 6 tionality Act, as amended (8 U.S.C. 1401(b),
 7 1482, or 1487) or

8 “(B) such loss did not have for one of its prin-
 9 cipal purposes the avoidance of taxes under this
 10 subtitle or subtitle A.

11 “(4) BURDEN OF PROOF.—If the Secretary or his
 12 delegate establishes that it is reasonable to believe that
 13 an individual’s loss of United States citizenship would,
 14 but for paragraph (3), result in a substantial reduction
 15 for the calendar year in the taxes on the transfer of
 16 property by gift, the burden of proving that such loss
 17 of citizenship did not have for one of its principal pur-
 18 poses the avoidance of taxes under this subtitle or subtitle
 19 A shall be on such individual.”

20 (b) TRANSFERS IN GENERAL.—Subsection (b) of sec-
 21 tion 2511 (relating to situs rule for stock in a corporation)
 22 is amended to read as follows:

23 “(b) INTANGIBLE PROPERTY.—For purposes of this
 24 chapter, in the case of a nonresident not a citizen of the

1 United States who is excepted from the application of section
2 2501(a)(2)—

3 “(1) shares of stock issued by a domestic corpora-
4 tion, and

5 “(2) debt obligations of—

6 “(A) a United States person, or

7 “(B) the United States, a State or any political
8 subdivision thereof, or the District of Columbia,

9 which are owned by such nonresident shall be deemed to be
10 property situated within the United States.”

11 ~~(c) EFFECTIVE DATE.~~—The amendments made by this
12 section shall apply with respect to the calendar year 1967
13 and all calendar years thereafter.

14 **SEC. 10. TREATY OBLIGATIONS.**

15 No amendment made by this Act shall apply in any case
16 where its application would be contrary to any treaty obliga-
17 tion of the United States. For purposes of the preceding
18 sentence, the extension of a benefit provided by any amend-
19 ment made by this Act shall not be deemed to be contrary
20 to a treaty obligation of the United States.

21 **SECTION 1. TABLE OF CONTENTS, ETC.**

22 (a) *TABLE OF CONTENTS.*—

Sec. 1. Table of contents, etc.

(a) *Table of contents.*

(b) *Amendment of 1954 Code.*

TITLE I—FOREIGN INVESTORS TAX ACT

Sec. 102. Source of income.

- (a) *Interest.*
- (b) *Dividends.*
- (c) *Personal services.*
- (d) *Definitions.*
- (e) *Effective dates.*

Sec. 103. Nonresident alien individuals.

- (a) *Tax on nonresident alien individuals.*
- (b) *Gross income.*
- (c) *Deductions.*
- (d) *Allowance of deductions and credits.*
- (e) *Beneficiaries of estates and trusts.*
- (f) *Expatriation to avoid tax.*
- (g) *Partial exclusion of dividends.*
- (h) *Withholding of tax on nonresident aliens.*
- (i) *Liability for withheld tax.*
- (j) *Declaration of estimated income tax by individuals.*
- (k) *Collection of income tax at source on wages.*
- (l) *Definitions of foreign estate or trust.*
- (m) *Conforming amendment.*
- (n) *Effective dates.*

Sec. 104. Foreign corporations.

- (a) *Tax on income not connected with United States business.*
- (b) *Tax on income connected with United States business.*
- (c) *Withholding of tax on foreign corporations.*
- (d) *Dividends received from certain foreign corporations.*
- (e) *Dividends received from certain wholly-owned foreign subsidiaries.*
- (f) *Distributions of certain foreign corporations.*
- (g) *Unrelated business taxable income.*
- (h) *Corporations subject to personal holding company tax.*
- (i) *Amendments with respect to foreign corporations carrying on insurance business in United States.*
- (j) *Subpart F income.*
- (k) *Gain from certain sales or exchanges of stock in certain foreign corporations.*
- (l) *Declaration of estimated income tax by corporations.*
- (m) *Technical amendments.*
- (n) *Effective dates.*

Sec. 105. Special tax provisions.

- (a) *Income affected by treaty.*
- (b) *Adjustment of tax because of burdensome or discriminatory foreign taxes.*
- (c) *Clerical amendments.*
- (d) *Effective date.*
- (e) *Elections by nonresident United States citizens who are subject to foreign community property laws.*
- (f) *Presumptive date of payment for tax withheld under chapter 3.*

TITLE I—FOREIGN INVESTORS TAX ACT—Continued

Sec. 106. Foreign tax credit.

- (a) Allowance of credit to certain nonresident aliens and foreign corporations.
- (b) Alien residents of the United States or Puerto Rico.
- (c) Foreign tax credit in respect of interest received from foreign subsidiaries.

Sec. 107. Amendments to preserve existing law on deductions under section 931.

- (a) Deductions.
- (b) Effective date.

Sec. 108. Estates of nonresidents not citizens.

- (a) Rate of tax.
- (b) Credits against tax.
- (c) Property within the United States.
- (d) Property without the United States.
- (e) Definition of taxable estate.
- (f) Special methods of computing tax.
- (g) Estate tax returns.
- (h) Clerical amendment.
- (i) Effective date.

Sec. 109. Tax on gifts of nonresidents not citizens.

- (a) Imposition of tax.
- (b) Transfers in general.
- (c) Effective date.

Sec. 110. Treaty obligations.

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE

Sec. 201. Application of Investment Credit to Property Used in Possessions of the United States.

- (a) Property used by domestic corporations, etc.
- (b) Effective date.

Sec. 202. Deduction of medical expenses of individuals age 65 or over.

- (a) Repeal of amendments made by social security amendments of 1965.
- (b) Cost of medical insurance.
- (c) Effective date.

Sec. 203. Basis of property received on liquidation of subsidiary.

- (a) Definition of purchase.
- (b) Period of acquisition.
- (c) Distribution of installment obligations.
- (d) Effective dates.

Sec. 204. Transfers of stock and securities to corporations controlled by transferors.

- (a) Transfers to investment companies.
- (b) Effective date.

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE
CODE—Continued

- Sec. 205. Minimum amount treated as earned income for retirement plans of certain self-employed individuals.*
- (a) Increase to \$6,600.
 - (b) Effective date.
- Sec. 206. Treatment of certain income of authors, inventors, etc., as earned income for retirement plan purposes.*
- (a) Income from disposition of property created by taxpayer.
 - (b) Effective date.
- Sec. 207. Exclusion of certain rents from personal holding company income.*
- (a) Rents from leases of certain tangible personal property.
 - (b) Technical amendments.
 - (c) Effective date.
- Sec. 208. Percentage depletion rate for certain clay bearing alumina.*
- (a) 23 percent rate.
 - (b) Treatment processes.
 - (c) Effective date.
- Sec. 209. Percentage depletion rate for clam and oyster shells.*
- (a) 15 percent rate.
 - (b) Effective date.
- Sec. 210. Sintering and burning of shale, clay, and slate used as lightweight aggregates.*
- (a) Treatment processes.
 - (b) Effective date.
- Sec. 211. Straddles.*
- (a) Treatment as short-term capital gain.
 - (b) Effective date.
- Sec. 212. Tax treatment of per-unit retain allocations.*
- (a) Tax treatment of cooperatives.
 - (b) Tax treatment by patrons.
 - (c) Definitions.
 - (d) Information reporting.
 - (e) Effective dates.
 - (f) Transition rule.
- Sec. 213. Excise tax rate on ambulances and hearses.*
- (a) Classification as automobiles.
 - (b) Effective date.
- Sec. 214. Applicability of exclusion from interest equalization tax of certain loans to assure raw materials sources.*
- (a) Exception to exclusion.
 - (b) Technical amendments.
 - (c) Effective date.
- Sec. 215. Exclusion from interest equalization tax for certain acquisitions by insurance companies.*
- (a) New companies and companies operating in former less developed countries.
 - (b) Effective date.

**TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE
CODE—Continued**

Sec. 216. Exclusion from interest equalization tax of certain acquisitions by foreign branches of domestic banks.

(a) *Authority for modification of executive orders.*

(b) *Effective date.*

**TITLE III—PRESIDENTIAL ELECTION CAMPAIGN FUND
ACT**

Sec. 301. Short title.

Sec. 302. Authority for designation of \$1 of income tax payments to presidential election campaign fund.

Sec. 303. Presidential election campaign fund.

(a) *Establishment.*

(b) *Transfers to the fund.*

(c) *Payments from fund.*

(d) *Transfers to general fund.*

Sec. 304. Establishment of advisory board.

Sec. 305. Appropriations authorized.

TITLE IV—MISCELLANEOUS PROVISIONS

Sec. 401. Treasury notes payable in foreign currency.

Sec. 402. Reports to clarify to national debt and tax structure.

Sec. 403. Coverage of expenses of certain drugs under supplementary medical insurance benefits.

1 (b) **AMENDMENT OF 1954 CODE.**—Except as otherwise
2 expressly provided, wherever in titles I, II, and III, of this
3 Act an amendment or repeal is expressed in terms of an
4 amendment to, or repeal of, a section or other provision, the
5 reference is to a section or other provision of the Internal
6 Revenue Code of 1954.

7 **TITLE I—FOREIGN INVESTORS**
8 **TAX ACT**

9 **SEC. 101. SHORT TITLE.**

10 This title may be cited as the “Foreign Investors Tax Act
11 of 1966”.

12 **SEC. 102. SOURCE OF INCOME.**

13 (a) **INTEREST.**—

14 (1)(A) Subparagraph (A) of section 861(a)(1)

1 *(relating to interest from sources within the United*
 2 *States) is amended to read as follows:*

3 *“(A) interest on amounts described in sub-*
 4 *section (c) received by a nonresident alien indi-*
 5 *vidual or a foreign corporation, if such interest is*
 6 *not effectively connected with the conduct of a trade*
 7 *or business within the United States,”.*

8 *(B) Section 861 is amended by adding at the end*
 9 *thereof the following new subsection:*

10 *“(c) INTEREST ON DEPOSITS, ETC.—For purposes of*
 11 *subsection (a)(1)(A), the amounts described in this sub-*
 12 *section are—*

13 *“(1) deposits with persons carrying on the bank-*
 14 *ing business,*

15 *“(2) deposits or withdrawable accounts with sav-*
 16 *ings institutions chartered and supervised as savings*
 17 *and loan or similar associations under Federal or State*
 18 *law, but only to the extent that amounts paid or credited*
 19 *on such deposits or accounts are deductible under section*
 20 *591 (determined without regard to section 265) in com-*
 21 *puting the taxable income of such institutions, and*

22 *“(3) amounts held by an insurance company under*
 23 *an agreement to pay interest thereon.*

24 *Effective with respect to amounts paid or credited after*

1 *December 31, 1971, subsection (a)(1)(A) and this sub-*
2 *section shall cease to apply."*

3 *(2) Section 861(a)(1) is amended by striking out*
4 *subparagraphs (B) and (C) and inserting in lieu*
5 *thereof the following:*

6 *"(B) interest received from a resident alien*
7 *individual or a domestic corporation, when it is*
8 *shown to the satisfaction of the Secretary or his dele-*
9 *gate that less than 20 percent of the gross income*
10 *from all sources of such individual or such corpora-*
11 *tion has been derived from sources within the United*
12 *States, as determined under the provisions of this*
13 *part, for the 3-year period ending with the close of*
14 *the taxable year of such individual or such corpora-*
15 *tion preceding the payment of such interest, or for*
16 *such part of such period as may be applicable,*

17 *"(C) interest received from a foreign corpo-*
18 *ration (other than interest paid or credited after*
19 *December 31, 1971, by a domestic branch of a*
20 *foreign corporation, if such branch is engaged in*
21 *the commercial banking business), when it is shown*
22 *to the satisfaction of the Secretary or his delegate that*
23 *less than 50 percent of the gross income from all*
24 *sources of such foreign corporation for the 3-year*

1 *period ending with the close of its taxable year pre-*
2 *ceding the payment of such interest (or for such part*
3 *of such period as the corporation has been in exist-*
4 *ence) was effectively connected with the conduct of*
5 *a trade or business within the United States,*

6 *“(D) in the case of interest received from a*
7 *foreign corporation (other than interest paid or*
8 *credited after December 31, 1971, by a domestic*
9 *branch of a foreign corporation, if such branch*
10 *is engaged in the commercial banking business) 50*
11 *percent or more of the gross income of which from*
12 *all sources for the 3-year period ending with the*
13 *close of its taxable year preceding the payment of*
14 *such interest (or for such part of such period as*
15 *the corporation has been in existence) was effectively*
16 *connected with the conduct of a trade or business*
17 *within the United States, an amount of such interest*
18 *which bears the same ratio to such interest as the*
19 *gross income of such foreign corporation for such*
20 *period which was not effectively connected with the*
21 *conduct of a trade or business within the United*
22 *States bears to its gross income from all sources,*

23 *“(E) income derived by a foreign central bank*
24 *of issue from bankers' acceptances, and*

1 “(F) interest on deposits with a foreign branch
2 of a domestic corporation or a domestic partnership,
3 if such branch is engaged in the commercial banking
4 business.”

5 (3) Section 861 (relating to income from sources
6 within the United States) is amended by adding after
7 subsection (c) (as added by paragraph (1)(B)) the
8 following new subsection:

9 “(d) SPECIAL RULES FOR APPLICATION OF PARA-
10 GRAPHS (1)(B), (1)(C), (1)(D), AND (2)(B) OF
11 SUBSECTION (a).—

12 “(1) NEW ENTITIES.—For purposes of paragraphs
13 (1)(B), (1)(C), (1)(D), and (2)(B) of subsection
14 (a), if the resident alien individual, domestic corpora-
15 tion, or foreign corporation, as the case may be, has no
16 gross income from any source for the 3-year period
17 (or part thereof) specified, the 20 percent test or the 50
18 percent test, as the case may be, shall be applied with
19 respect to the taxable year of the payor in which payment
20 of the interest or dividends, as the case may be, is made.

21 “(2) TRANSITION RULE.—For purposes of para-
22 graphs (1)(C), (1)(D), and (2)(B) of subsection
23 (a), the gross income of the foreign corporation for
24 any period before the first taxable year beginning after

1 *December 31, 1966, which is effectively connected with*
 2 *the conduct of a trade or business within the United*
 3 *States is an amount equal to the gross income for such*
 4 *period from sources within the United States.”*

5 (4)(A) Section 895 (relating to income derived
 6 by a foreign central bank of issue from obligations of
 7 the United States) is amended to read as follows:

8 **“SEC. 895. INCOME DERIVED BY A FOREIGN CENTRAL**
 9 **BANK OF ISSUE FROM OBLIGATIONS OF**
 10 **THE UNITED STATES OR FROM BANK DE-**
 11 **POSITS.**

12 *“Income derived by a foreign central bank of issue from*
 13 *obligations of the United States or of any agency or in-*
 14 *strumentality thereof (including beneficial interests, participa-*
 15 *tions, and other instruments issued under section 302(c) of*
 16 *the Federal National Mortgage Association Charter Act*
 17 *(12 U.S.C. 1717)) which are owned by such foreign central*
 18 *bank of issue, or derived from interest on deposits with persons*
 19 *carrying on the banking business, shall not be included in gross*
 20 *income and shall be exempt from taxation under this subtitle*
 21 *unless such obligations or deposits are held for, or used in con-*
 22 *nection with, the conduct of commercial banking functions or*
 23 *other commercial activities. For purposes of the preceding*
 24 *sentence the Bank for International Settlements shall be*
 25 *treated as a foreign central bank of issue.”*

1 *(B) The table of sections for subpart C of part II*
 2 *of subchapter N of chapter 1 is amended by striking out*
 3 *the item relating to section 895 and inserting in lieu*
 4 *thereof the following:*

*"Sec. 895. Income derived by a foreign central bank of issue
 from obligations of the United States or from
 bank deposits."*

5 *(b) DIVIDENDS.—Section 861(a)(2)(B) (relating to*
 6 *dividends from sources within the United States) is amended*
 7 *to read as follows:*

8 *"(B) from a foreign corporation unless less*
 9 *than 50 percent of the gross income from all*
 10 *sources of such foreign corporation for the 3-year*
 11 *period ending with the close of its taxable year pre-*
 12 *ceding the declaration of such dividends (or for such*
 13 *part of such period as the corporation has been in*
 14 *existence) was effectively connected with the con-*
 15 *duct of a trade or business within the United States;*
 16 *but only in an amount which bears the same ratio to*
 17 *such dividends as the gross income of the corpora-*
 18 *tion for such period which was effectively con-*
 19 *necting with the conduct of a trade or business within*
 20 *the United States bears to its gross income from all*
 21 *sources; but dividends (other than dividends for*
 22 *which a deduction is allowable under section*
 23 *245(b)) from a foreign corporation shall, for pur-*

1 *poses of subpart A of part III (relating to foreign*
 2 *tax credit), be treated as income from sources with-*
 3 *out the United States to the extent (and only to the*
 4 *extent) exceeding the amount which is 100/85ths*
 5 *of the amount of the deduction allowable under sec-*
 6 *tion 245 in respect of such dividends, or”.*

7 *(c) PERSONAL SERVICES.—Section 861(a)(3)(C)*
 8 *(ii) (relating to income from personal services) is amended*
 9 *to read as follows:*

10 *“(ii) an individual who is a citizen or*
 11 *resident of the United States, a domestic part-*
 12 *nership, or a domestic corporation, if such*
 13 *labor or services are performed for an office*
 14 *or place of business maintained in a foreign*
 15 *country or in a possession of the United States*
 16 *by such individual, partnership, or corpora-*
 17 *tion.”*

18 *(d) DEFINITIONS.—Section 864 (relating to defini-*
 19 *tions) is amended—*

20 *(1) by striking out “For purposes of this part,”*
 21 *and inserting in lieu thereof*

22 *“(a) SALE, ETC.—For purposes of this part,”; and*

1 (2) by adding at the end thereof the following
2 new subsections:

3 “(b) *TRADE OR BUSINESS WITHIN THE UNITED*
4 *STATES.*—For purposes of this part, part II, and chapter 3,
5 the term ‘trade or business within the United States’ in-
6 cludes the performance of personal services within the United
7 States at any time within the taxable year, but does not
8 include—

9 “(1) *PERFORMANCE OF PERSONAL SERVICES FOR*
10 *FOREIGN EMPLOYER.*—The performance of personal
11 services—

12 “(A) for a nonresident alien individual,
13 foreign partnership, or foreign corporation, not en-
14 gaged in trade or business within the United States,
15 or

16 “(B) for an office or place of business main-
17 tained in a foreign country or in a possession of the
18 United States by an individual who is a citizen or
19 resident of the United States or by a domestic
20 partnership or a domestic corporation,
21 by a nonresident alien individual temporarily present in
22 the United States for a period or periods not exceeding

1 a total of 90 days during the taxable year and whose
2 compensation for such services does not exceed in the
3 aggregate \$3,000.

4 “(2) *TRADING IN SECURITIES OR COMMODITIES.*—

5 “(A) *STOCKS AND SECURITIES.*—

6 “(i) *IN GENERAL.*—Trading in stocks or
7 securities through a resident broker, commission
8 agent, custodian, or other independent agent.

9 “(ii) *TRADING FOR TAXPAYER’S OWN*
10 *ACCOUNT.*—Trading in stocks or securities for
11 the taxpayer’s own account, whether by the tax-
12 payer or his employees or through a resident
13 broker, commission agent, custodian, or other
14 agent, and whether or not any such employee or
15 agent has discretionary authority to make deci-
16 sions in effecting the transactions. This clause
17 shall not apply in the case of a dealer in stocks
18 or securities, or in the case of a corporation
19 (other than a corporation which is, or but for
20 section 542(c)(7) or 543(b)(1)(C) would be,
21 a personal holding company) the principal busi-
22 ness of which is trading in stocks or securities
23 for its own account, if its principal office is in
24 the United States.

“(B) *COMMODITIES*.—

“(i) *IN GENERAL*.—Trading in commodities through a resident broker, commission agent, custodian, or other independent agent.

“(ii) *TRADING FOR TAXPAYER’S OWN ACCOUNT*.—Trading in commodities for the taxpayer’s own account, whether by the taxpayer or his employees or through a resident broker, commission agent, custodian, or other agent, and whether or not any such employee or agent has discretionary authority to make decisions in effecting the transactions. This clause shall not apply in the case of a dealer in commodities.

“(iii) *LIMITATION*.—Clauses (i) and (ii) shall apply only if the commodities are of a kind customarily dealt in on an organized commodity exchange and if the transaction is of a kind customarily consummated at such place.

“(C) *LIMITATION*.—Subparagraphs (A)(i) and (B)(i) shall apply only if, at no time during the taxable year, the taxpayer has an office or other fixed place of business in the United States through which

1 or by the direction of which the transactions in
2 stocks or securities, or in commodities, as the case
3 may be, are effected.

4 “(c) *EFFECTIVELY CONNECTED INCOME, ETC.*—

5 “(1) *GENERAL RULE.*—For purposes of this title—

6 “(A) In the case of a nonresident alien indi-
7 vidual or a foreign corporation engaged in trade or
8 business within the United States during the taxable
9 year, the rules set forth in paragraphs (2), (3),
10 and (4) shall apply in determining the income,
11 gain, or loss which shall be treated as effectively con-
12 nected with the conduct of a trade or business within
13 the United States.

14 “(B) Except as provided in section 871(d) or
15 sections 882(d) and (e), in the case of a nonresi-
16 dent alien individual or a foreign corporation not
17 engaged in trade or business within the United States
18 during the taxable year, no income, gain, or loss shall
19 be treated as effectively connected with the conduct
20 of a trade or business within the United States.

21 “(2) *PERIODICAL, ETC., INCOME FROM SOURCES*
22 *WITHIN UNITED STATES—FACTORS.*—In determining
23 whether income from sources within the United States
24 of the types described in section 871(a)(1) or section
25 881(a), or whether gain or loss from sources within

1 *the United States from the sale or exchange of capital*
 2 *assets, is effectively connected with the conduct of a*
 3 *trade or business within the United States, the factors*
 4 *taken into account shall include whether—*

5 *“(A) the income, gain, or loss is derived from*
 6 *assets used in or held for use in the conduct of such*
 7 *trade or business, or*

8 *“(B) the activities of such trade or business*
 9 *were a material factor in the realization of the in-*
 10 *come, gain, or loss.*

11 *In determining whether an asset is used in or held for*
 12 *use in the conduct of such trade or business or whether*
 13 *the activities of such trade or business were a material*
 14 *factor in realizing an item of income, gain, or loss, due*
 15 *regard shall be given to whether or not such asset or*
 16 *such income, gain, or loss was accounted for through*
 17 *such trade or business. In applying this paragraph and*
 18 *paragraph (4), interest referred to in section 861(a)*
 19 *(1)(A) shall be considered income from sources within*
 20 *the United States.*

21 *“(3) OTHER INCOME FROM SOURCES WITHIN*
 22 *UNITED STATES.—All income, gain, or loss from sources*
 23 *within the United States (other than income, gain, or*
 24 *loss to which paragraph (2) applies) shall be treated*

1 *as effectively connected with the conduct of a trade or*
 2 *business within the United States.*

3 “(4) *INCOME FROM SOURCES WITHOUT UNITED*
 4 *STATES.—*

5 “(A) *Except as provided in subparagraphs*
 6 *(B) and (C), no income, gain, or loss from sources*
 7 *without the United States shall be treated as effec-*
 8 *tively connected with the conduct of a trade or*
 9 *business within the United States.*

10 “(B) *Income, gain, or loss from sources with-*
 11 *out the United States shall be treated as effectively*
 12 *connected with the conduct of a trade or business*
 13 *within the United States by a nonresident alien*
 14 *individual or a foreign corporation if such person*
 15 *has an office or other fixed place of business within*
 16 *the United States to which such income, gain, or*
 17 *loss is attributable and such income, gain, or loss—*

18 “(i) *consists of rents or royalties for the*
 19 *use of or for the privilege of using intangible*
 20 *property described in section 862(a)(4) (in-*
 21 *cluding any gain or loss realized on the sale of*
 22 *such property) derived in the active conduct*
 23 *of such trade or business;*

24 “(ii) *consists of dividends or interest, or*

1 *gain or loss from the sale or exchange of stock*
 2 *or notes, bonds, or other evidences of indebted-*
 3 *ness, and either is derived in the active conduct*
 4 *of a banking, financing, or similar business*
 5 *within the United States or is received by a*
 6 *corporation the principal business of which is*
 7 *trading in stocks or securities for its own ac-*
 8 *count; or*

9 “(iii) *is derived from the sale (without*
 10 *the United States) through such office or other*
 11 *fixed place of business of personal property de-*
 12 *scribed in section 1221(1), except that this*
 13 *clause shall not apply if the property is sold for*
 14 *use, consumption, or disposition outside the*
 15 *United States and an office or other fixed place of*
 16 *business of the taxpayer outside the United States*
 17 *participated materially in such sale.*

18 “(C) *In the case of a foreign corporation tax-*
 19 *able under part I of subchapter L, any income from*
 20 *sources without the United States which is attrib-*
 21 *utable to its United States business shall be treated*
 22 *as effectively connected with the conduct of a trade*
 23 *or business within the United States.*

24 “(D) *No income from sources without the*

1 *United States shall be treated as effectively connected*
 2 *with the conduct of a trade or business within the*
 3 *United States if it either—*

4 *“(i) consists of dividends, interest, or*
 5 *royalties paid by a foreign corporation in which*
 6 *the taxpayer owns (within the meaning of*
 7 *section 958(a)), or is considered as owning*
 8 *(by applying the ownership rules of section*
 9 *958(b)), more than 50 percent of the total*
 10 *combined voting power of all classes of stock*
 11 *entitled to vote, or*

12 *“(ii) is subpart F income within the mean-*
 13 *ing of section 952(a).*

14 *“(5) RULES FOR APPLICATION OF PARAGRAPH*
 15 *(4)(B).—For purposes of subparagraph (B) of para-*
 16 *graph (4)—*

17 *“(A) in determining whether a nonresident*
 18 *alien individual or a foreign corporation has an of-*
 19 *fice or other fixed place of business, an office or other*
 20 *fixed place of business of an agent shall be disre-*
 21 *garded unless such agent (i) has the authority to ne-*
 22 *gotiate and conclude contracts in the name of the*
 23 *nonresident alien individual or foreign corporation*
 24 *and regularly exercises that authority or has a stock*
 25 *of merchandise from which he regularly fills orders*

1 *on behalf of such individual or foreign corporation,*
 2 *and (ii) is not a general commission agent, broker,*
 3 *or other agent of independent status acting in the*
 4 *ordinary course of his business,*

5 *“(B) income, gain, or loss shall not be con-*
 6 *sidered as attributable to an office or other fixed*
 7 *place of business within the United States unless such*
 8 *office or fixed place of business is a material factor*
 9 *in the production of such income, gain, or loss and*
 10 *such office or fixed place of business regularly carries*
 11 *on activities of the type from which such income,*
 12 *gain, or loss is derived, and*

13 *“(C) the income, gain, or loss which shall be*
 14 *attributable to an office or other fixed place of busi-*
 15 *ness within the United States shall be the income,*
 16 *gain, or loss properly allocable thereto, but, in the*
 17 *case of a sale described in clause (iii) of such sub-*
 18 *paragraph, the income which shall be treated as at-*
 19 *tributable to an office or other fixed place of business*
 20 *within the United States shall not exceed the income*
 21 *which would be derived from sources within the*
 22 *United States if the sale were made in the United*
 23 *States.”*

24 *(e) EFFECTIVE DATES.—*

25 *(1) The amendments made by subsections (a),*

(c), and (d) shall apply with respect to taxable years beginning after December 31, 1966; except that in applying section 864(c)(4)(B)(iii) of the Internal Revenue Code of 1954 (as added by subsection (d)) with respect to a binding contract entered into on or before February 24, 1966, activities in the United States on or before such date in negotiating or carrying out such contract shall not be taken into account.

(2) The amendments made by subsection (b) shall apply with respect to amounts received after December 31, 1966.

SEC. 103. NONRESIDENT ALIEN INDIVIDUALS.

(a) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—

(1) Section 871 (relating to tax on nonresident alien individuals) is amended to read as follows:

“SEC. 871. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

“(a) INCOME NOT CONNECTED WITH UNITED STATES BUSINESS—30 PERCENT TAX.—

“(1) INCOME OTHER THAN CAPITAL GAINS.—

There is hereby imposed for each taxable year a tax of 30 percent of the amount received from sources within the United States by a nonresident alien individual as—

“(A) interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations,

1 *emoluments, and other fixed or determinable annual*
2 *or periodical gains, profits, and income,*

3 *“(B) gains described in section 402(a)(2),*
4 *403(a)(2), or 631 (b) or (c), and gains on*
5 *transfers described in section 1235 made on or*
6 *before October 4, 1966,*

7 *“(C) in the case of bonds or other evidences of*
8 *indebtedness issued after September 28, 1965,*
9 *amounts which under section 1232 are considered as*
10 *gains from the sale or exchange of property which*
11 *is not a capital asset, and*

12 *“(D) gains from the sale or exchange after*
13 *October 4, 1966, of patents, copyrights, secret proc-*
14 *esses and formulas, good will, trademarks, trade*
15 *brands, franchises, and other like property, or of*
16 *any interest in any such property, to the extent such*
17 *gains are from payments which are contingent on*
18 *the productivity, use, or disposition of the property*
19 *or interest sold or exchanged, or from payments*
20 *which are treated as being so contingent under sub-*
21 *section (e),*

22 *but only to the extent the amount so received is not effec-*
23 *tively connected with the conduct of a trade or business*
24 *within the United States.*

1 “(2) *CAPITAL GAINS OF ALIENS PRESENT IN THE*
2 *UNITED STATES 183 DAYS OR MORE.*—In the case of a
3 nonresident alien individual present in the United States
4 for a period or periods aggregating 183 days or more
5 during the taxable year, there is hereby imposed for such
6 year a tax of 30 percent of the amount by which his
7 gains, derived from sources within the United States,
8 from the sale or exchange at any time during such year
9 of capital assets exceed his losses, allocable to sources
10 within the United States, from the sale or exchange at
11 any time during such year of capital assets. For pur-
12 poses of this paragraph, gains and losses shall be taken
13 into account only if, and to the extent that, they would
14 be recognized and taken into account if such gains and
15 losses were effectively connected with the conduct of a
16 trade or business within the United States, except that
17 such gains and losses shall be determined without regard
18 to section 1202 (relating to deduction for capital gains)
19 and such losses shall be determined without the benefits
20 of the capital loss carryover provided in section 1212.
21 Any gain or loss which is taken into account in deter-
22 mining the tax under paragraph (1) or subsection (b)
23 shall not be taken into account in determining the tax
24 under this paragraph. For purposes of the 183-day re-
25 quirement of this paragraph, a nonresident alien individ-

1 *ual not engaged in trade or business within the United*
 2 *States who has not established a taxable year for any*
 3 *prior period shall be treated as having a taxable year*
 4 *which is the calendar year.*

5 “(b) *INCOME CONNECTED WITH UNITED STATES*
 6 *BUSINESS—GRADUATED RATE OF TAX.—*

7 “(1) *IMPOSITION OF TAX.—A nonresident alien*
 8 *individual engaged in trade or business within the*
 9 *United States during the taxable year shall be taxable*
 10 *as provided in section 1 or 1201(b) on his taxable income*
 11 *which is effectively connected with the conduct of a trade*
 12 *or business within the United States.*

13 “(2) *DETERMINATION OF TAXABLE INCOME.—In*
 14 *determining taxable income for purposes of paragraph*
 15 *(1), gross income includes only gross income which is*
 16 *effectively connected with the conduct of a trade or*
 17 *business within the United States.*

18 “(c) *PARTICIPANTS IN CERTAIN EXCHANGE OR*
 19 *TRAINING PROGRAMS.—For purposes of this section, a non-*
 20 *resident alien individual who (without regard to this sub-*
 21 *section) is not engaged in trade or business within the*
 22 *United States and who is temporarily present in the United*
 23 *States as a nonimmigrant under subparagraph (F) or (J)*
 24 *of section 101(a)(15) of the Immigration and Nationality*
 25 *Act, as amended (8 U.S.C. 1101(a)(15) (F) or (J)),*

1 shall be treated as a nonresident alien individual engaged in
 2 trade or business within the United States, and any income
 3 described in section 1441(b) (1) or (2) which is received
 4 by such individual shall, to the extent derived from sources
 5 within the United States, be treated as effectively connected
 6 with the conduct of a trade or business within the United
 7 States.

8 “(d) *ELECTION TO TREAT REAL PROPERTY INCOME*
 9 *AS INCOME CONNECTED WITH UNITED STATES BUSI-*
 10 *NESS.*—

11 “(1) *IN GENERAL.*—A nonresident alien individ-
 12 ual who during the taxable year derives any income—

13 “(A) from real property held for the produc-
 14 tion of income and located in the United States,
 15 or from any interest in such real property, in-
 16 cluding (i) gains from the sale or exchange of such
 17 real property or an interest therein, (ii) rents or
 18 royalties from mines, wells, or other natural deposits,
 19 and (iii) gains described in section 631 (b) or (c),
 20 and

21 “(B) which, but for this subsection, would not
 22 be treated as income which is effectively connected
 23 with the conduct of a trade or business within the
 24 United States,
 25 may elect for such taxable year to treat all such income

as income which is effectively connected with the conduct of a trade or business within the United States. In such case, such income shall be taxable as provided in subsection (b)(1) whether or not such individual is engaged in trade or business within the United States during the taxable year. An election under this paragraph for any taxable year shall remain in effect for all subsequent taxable years, except that it may be revoked with the consent of the Secretary or his delegate with respect to any taxable year.

“(2) *ELECTION AFTER REVOCATION.*—If an election has been made under paragraph (1) and such election has been revoked, a new election may not be made under such paragraph for any taxable year before the 5th taxable year which begins after the first taxable year for which such revocation is effective, unless the Secretary or his delegate consents to such new election.

“(3) *FORM AND TIME OF ELECTION AND REVOCATION.*—An election under paragraph (1), and any revocation of such an election, may be made only in such manner and at such time as the Secretary or his delegate may by regulations prescribe.

“(e) *GAINS FROM SALE OR EXCHANGE OF CERTAIN INTANGIBLE PROPERTY.*—For purposes of subsection (a)

1 (1)(D), and for purposes of sections 881(a)(4), 1441(b),
 2 and 1442(a)—

3 “(1) *PAYMENTS TREATED AS CONTINGENT ON*
 4 *USE, ETC.*—If more than 50 percent of the gain for
 5 any taxable year from the sale or exchange of any patent,
 6 copyright, secret process or formula, good will, trade-
 7 mark, trade brand, franchise, or other like property, or
 8 of any interest in any such property, is from payments
 9 which are contingent on the productivity, use, or dis-
 10 position of such property or interest, all of the gain for
 11 the taxable year from the sale or exchange of such prop-
 12 erty or interest shall be treated as being from payments
 13 which are contingent on the productivity, use, or dispo-
 14 sition of such property or interest.

15 “(2) *SOURCE RULE.*—In determining whether
 16 gains described in subsection (a)(1)(D) and section
 17 881(a)(4) are received from sources within the United
 18 States, such gains shall be treated as rentals or royalties
 19 for the use of, or privilege of using, property or an
 20 interest in property.

21 “(f) *CERTAIN ANNUITIES RECEIVED UNDER QUALI-*
 22 *FIED PLANS.*—For purposes of this section, gross income does
 23 not include any amount received as an annuity under a quali-
 24 fied annuity plan described in section 403(a)(1), or from

1 a qualified trust described in section 401(a) which is exempt
2 from tax under section 501(a), if—

3 “(1) all of the personal services by reason of which
4 such annuity is payable were either (A) personal serv-
5 ices performed outside the United States by an individual
6 who, at the time of performance of such personal serv-
7 ices, was a nonresident alien, or (B) personal services
8 described in section 864(b)(1) performed within the
9 United States by such individual, and

10 “(2) at the time the first amount is paid as such
11 annuity under such annuity plan, or by such trust, 90
12 percent or more of the employees for whom contributions
13 or benefits are provided under such annuity plan, or
14 under the plan or plans of which such trust is a part,
15 are citizens or residents of the United States.”

16 “(g) *CROSS REFERENCES.*—

“(1) For tax treatment of certain amounts distributed by the United States to nonresident alien individuals, see section 402(a)(4).

“(2) For taxation of nonresident alien individuals who are expatriate United States citizens, see section 877.

“(3) For doubling of tax on citizens of certain foreign countries, see section 891.

“(4) For adjustment of tax in case of nationals or residents of certain foreign countries, see section 896.

“(5) For withholding of tax at source on nonresident alien individuals, see section 1441.

“(6) For the requirement of making a declaration of estimated tax by certain nonresident alien individuals, see section 6015(i).”

17 (2) Section 1 (relating to tax on individuals) is

1 amended by redesignating subsection (d) as subsection
 2 (e), and by inserting after subsection (c) the follow-
 3 ing new subsection:

4 “(d) *NONRESIDENT ALIENS*.—In the case of a non-
 5 resident alien individual, the tax imposed by subsection (a)
 6 shall apply only as provided by section 871 or 877.”

7 (b) *GROSS INCOME*.—

8 (1) Subsection (a) of section 872 (relating to
 9 gross income of nonresident alien individuals) is
 10 amended to read as follows:

11 “(a) *GENERAL RULE*.—In the case of a nonresident
 12 alien individual, gross income includes only—

13 “(1) gross income which is derived from sources
 14 within the United States and which is not effectively
 15 connected with the conduct of a trade or business within
 16 the United States, and

17 “(2) gross income which is effectively connected
 18 with the conduct of a trade or business within the
 19 United States.”

20 (2) Subparagraph (B) of section 872(b)(3) (re-
 21 lating to compensation of participants in certain ex-
 22 change or training programs) is amended by striking
 23 out “by a domestic corporation” and inserting in lieu
 24 thereof “by a domestic corporation, a domestic partner-

1 *ship, or an individual who is a citizen or resident of the*
 2 *United States”.*

3 (3) Subsection (b) of section 872 (relating to
 4 *exclusions from gross income)* is amended by adding at
 5 *the end thereof the following new paragraph:*

6 “(4) CERTAIN BOND INCOME OF RESIDENTS OF
 7 *THE RYUKYU ISLANDS OR THE TRUST TERRITORY OF*
 8 *THE PACIFIC ISLANDS.—Income derived by a nonresi-*
 9 *dent alien individual from a series E or series H United*
 10 *States savings bond, if such individual acquired such*
 11 *bond while a resident of the Ryukyu Islands or the Trust*
 12 *Territory of the Pacific Islands.”*

13 (c) DEDUCTIONS.—

14 (1) Section 873 (relating to deductions allowed to
 15 *nonresident alien individuals)* is amended to read as
 16 *follows:*

17 “SEC. 873. DEDUCTIONS.

18 “(a) GENERAL RULE.—In the case of a nonresident
 19 *alien individual, the deductions shall be allowed only for*
 20 *purposes of section 871(b) and (except as provided by sub-*
 21 *section (b)) only if and to the extent that they are con-*
 22 *nected with income which is effectively connected with the*
 23 *conduct of a trade or business within the United States; and*

1 the proper apportionment and allocation of the deductions
2 for this purpose shall be determined as provided in regula-
3 tions prescribed by the Secretary or his delegate.

4 “(b) *EXCEPTIONS.*—The following deductions shall be
5 allowed whether or not they are connected with income
6 which is effectively connected with the conduct of a trade
7 or business within the United States:

8 “(1) *LOSSES.*—The deduction, for losses of prop-
9 erty not connected with the trade or business if arising
10 from certain casualties or theft, allowed by section
11 165(c)(3), but only if the loss is of property located
12 within the United States.

13 “(2) *CHARITABLE CONTRIBUTIONS.*—The deduc-
14 tion for charitable contributions and gifts allowed by
15 section 170.

16 “(3) *PERSONAL EXEMPTION.*—The deduction for
17 personal exemptions allowed by section 151, except that
18 in the case of a nonresident alien individual who is not a
19 resident of a contiguous country only one exemption
20 shall be allowed under section 151.

1 “(c) *CROSS REFERENCES.*—

 “(1) *For disallowance of standard deduction, see section 142(b)(1).*

 “(2) *For rule that certain foreign taxes are not to be taken into account in determining deduction or credit, see section 906(b)(1).*”

2 (2) *Section 154(3) (relating to cross references*
3 *in respect of deductions for personal exemptions) is*
4 *amended to read as follows:*

 “(3) *For exemptions of nonresident aliens, see section 873(b)(3).*”

5 “(d) *ALLOWANCE OF DEDUCTIONS AND CREDITS.*—

6 *Subsection (a) of section 874 (relating to filing of returns)*
7 *is amended to read as follows:*

8 “(a) *RETURN PREREQUISITE TO ALLOWANCE.*—A
9 *nonresident alien individual shall receive the benefit of the*
10 *deductions and credits allowed to him in this subtitle only*
11 *by filing or causing to be filed with the Secretary or his*
12 *delegate a true and accurate return, in the manner prescribed*
13 *in subtitle F (sec. 6001 and following, relating to procedure*
14 *and administration), including therein all the information*
15 *which the Secretary or his delegate may deem necessary*
16 *for the calculation of such deductions and credits. This sub-*

1 *section shall not be construed to deny the credits provided*
 2 *by sections 31 and 32 for tax withheld at source or the credit*
 3 *provided by section 39 for certain uses of gasoline and*
 4 *lubricating oil."*

5 (e) *BENEFICIARIES OF ESTATES AND TRUSTS.—*

6 (1) *Section 875 (relating to partnerships) is*
 7 *amended to read as follows:*

8 **"SEC. 875. PARTNERSHIPS; BENEFICIARIES OF ESTATES**
 9 **AND TRUSTS.**

10 *"For purposes of this subtitle—*

11 *"(1) a nonresident alien individual or foreign cor-*
 12 *poration shall be considered as being engaged in a trade*
 13 *or business within the United States if the partnership*
 14 *of which such individual or corporation is a member is*
 15 *so engaged, and*

16 *"(2) a nonresident alien individual or foreign cor-*
 17 *poration which is a beneficiary of an estate or trust which*
 18 *is engaged in any trade or business within the United*
 19 *States shall be treated as being engaged in such trade or*
 20 *business within the United States."*

21 (2) *The table of sections for subpart A of part II*
 22 *of subchapter N of chapter 1 is amended by striking out*
 23 *the item relating to section 875 and inserting in lieu*
 24 *thereof the following:*

"Sec. 875. Partnerships; beneficiaries of estates and trusts."

1 (f) *EXPATRIATION TO AVOID TAX.*—

2 (1) *Subpart A of part II of subchapter N of chap-*
 3 *ter 1 (relating to nonresident alien individuals) is*
 4 *amended by redesignating section 877 as section 878,*
 5 *and by inserting after section 876 the following new*
 6 *section:*

7 “*SEC. 877. EXPATRIATION TO AVOID TAX.*

8 “(a) *IN GENERAL.*—*Every nonresident alien individual*
 9 *who at any time after March 8, 1965, and within the 10-*
 10 *year period immediately preceding the close of the taxable*
 11 *year lost United States citizenship, unless such loss did not*
 12 *have for one of its principal purposes the avoidance of taxes*
 13 *under this subtitle or subtitle B, shall be taxable for such*
 14 *taxable year in the manner provided in subsection (b) if the*
 15 *tax imposed pursuant to such subsection exceeds the tax*
 16 *which, without regard to this section, is imposed pursuant to*
 17 *section 871.*

18 “(b) *ALTERNATIVE TAX.*—*A nonresident alien individ-*
 19 *ual described in subsection (a) shall be taxable for the tax-*
 20 *able year as provided in section 1 or section 1201(b),*
 21 *except that—*

22 “(1) *the gross income shall include only the gross*
 23 *income described in section 872(a) (as modified by*
 24 *subsection (c) of this section), and*

25 “(2) *the deductions shall be allowed if and to the*

1 *extent that they are connected with the gross income*
 2 *included under this section, except that the capital loss*
 3 *carryover provided by section 1212(b) shall not be*
 4 *allowed; and the proper allocation and apportionment of*
 5 *the deductions for this purpose shall be determined as*
 6 *provided under regulations prescribed by the Secretary*
 7 *or his delegate.*

8 *For purposes of paragraph (2), the deductions allowed by*
 9 *section 873(b) shall be allowed; and the deduction (for*
 10 *losses not connected with the trade or business if incurred in*
 11 *transactions entered into for profit) allowed by section*
 12 *165(c)(2) shall be allowed, but only if the profit, if such*
 13 *transaction had resulted in a profit, would be included in*
 14 *gross income under this section.*

15 *“(c) SPECIAL RULES OF SOURCE.—For purposes of*
 16 *subsection (b), the following items of gross income shall*
 17 *be treated as income from sources within the United States:*

18 *“(1) SALE OF PROPERTY.—Gains on the sale or*
 19 *exchange of property (other than stock or debt obliga-*
 20 *tions) located in the United States.*

21 *“(2) STOCK OR DEBT OBLIGATIONS.—Gains on the*
 22 *sale or exchange of stock issued by a domestic corpora-*
 23 *tion or debt obligations of United States persons or of*

1 *the United States, a State or political subdivision thereof,*
 2 *or the District of Columbia.*

3 “(d) *EXCEPTION FOR LOSS OF CITIZENSHIP FOR CER-*
 4 *TAIN CAUSES.*—Subsection (a) shall not apply to a non-
 5 *resident alien individual whose loss of United States citizen-*
 6 *ship resulted from the application of section 301(b), 350, or*
 7 *355 of the Immigration and Nationality Act, as amended*
 8 *(8 U.S.C. 1401(b), 1482, or 1487).*

9 “(e) *BURDEN OF PROOF.*—If the Secretary or his dele-
 10 *gate establishes that it is reasonable to believe that an indi-*
 11 *vidual's loss of United States citizenship would, but for this*
 12 *section, result in a substantial reduction for the taxable year*
 13 *in the taxes on his probable income for such year, the burden*
 14 *of proving for such taxable year that such loss of citizen-*
 15 *ship did not have for one of its principal purposes the*
 16 *avoidance of taxes under this subtitle or subtitle B shall be*
 17 *on such individual.”*

18 (2) *The table of sections for subpart A of part II*
 19 *of subchapter N of chapter 1 is amended by striking out*
 20 *the item relating to section 877 and inserting in lieu*
 21 *thereof the following:*

“Sec. 877. Expatriation to avoid tax.

“Sec. 878. Foreign educational, charitable, and certain other
 exempt organizations.”

1 (g) *PARTIAL EXCLUSION OF DIVIDENDS.*—Subsection
 2 (d) of section 116 (relating to certain nonresident aliens
 3 ineligible for exclusion) is amended to read as follows:

4 “(d) *CERTAIN NONRESIDENT ALIENS INELIGIBLE*
 5 *FOR EXCLUSION.*—In the case of a nonresident alien indi-
 6 vidual, subsection (a) shall apply only—

7 “(1) in determining the tax imposed for the tax-
 8 able year pursuant to section 871(b)(1) and only in
 9 respect of dividends which are effectively connected with
 10 the conduct of a trade or business within the United
 11 States, or

12 “(2) in determining the tax imposed for the tax-
 13 able year pursuant to section 877(b).”

14 (h) *WITHHOLDING OF TAX ON NONRESIDENT*
 15 *ALIENS.*—Section 1441 (relating to withholding of tax on
 16 nonresident aliens) is amended—

17 (1) by striking out “, or of any partnership not
 18 engaged in trade or business within the United States and
 19 composed in whole or in part of nonresident aliens,” in
 20 subsection (a) and inserting in lieu thereof “or of any
 21 foreign partnership”;

22 (2) by striking out “(except interest on deposits
 23 with persons carrying on the banking business paid to
 24 persons not engaged in business in the United States)”
 25 in subsection (b);

(3) by striking out “and amounts described in section 402(a)(2)” and all that follows in the first sentence of subsection (b) and inserting in lieu thereof “gains described in section 402(a)(2), 403(a)(2), or 631(b) or (c), amounts subject to tax under section 871(a)(1)(C), gains subject to tax under section 871(a)(1)(D), and gains on transfers described in section 1235 made on or before October 4, 1966.”;

(4) by adding at the end of subsection (b) the following new sentence:

“In the case of a nonresident alien individual who is a member of a domestic partnership, the items of income referred to in subsection (a) shall be treated as referring to items specified in this subsection included in his distributive share of the income of such partnership.”;

(5) by striking out paragraph (1) of subsection (c) and inserting in lieu thereof the following new paragraph:

“(1) *INCOME CONNECTED WITH UNITED STATES BUSINESS.*—No deduction or withholding under subsection (a) shall be required in the case of any item of income (other than compensation for personal services) which is effectively connected with the conduct of a trade or business within the United States and which

1 is included in the gross income of the recipient under
2 section 871(b)(2) for the taxable year.”;

3 (6) by amending paragraph (4) of subsection (c)
4 to read as follows:

5 “(4) COMPENSATION OF CERTAIN ALIENS.—Un-
6 der regulations prescribed by the Secretary or his dele-
7 gate, compensation for personal services may be ex-
8 empted from deduction and withholding under subsection
9 (a).”;

10 (7) by striking out “amounts described in section
11 402(a)(2), section 403(a)(2), section 631 (b) and
12 (c), and section 1235, which are considered to be gains
13 from the sale or exchange of capital assets,” in para-
14 graph (5) of subsection (c) and inserting in lieu thereof
15 “gains described in section 402(a)(2), 403(a)(2), or
16 631 (b) or (c), gains subject to tax under section 871
17 (a)(1)(D), and gains on transfers described in section
18 1235 made on or before October 4, 1966,” and by
19 striking out “proceeds from such sale or exchange,” in
20 such paragraph and inserting in lieu thereof “amount
21 payable,”;

22 (8) by adding at the end of subsection (c) the fol-
23 lowing new paragraph:

24 “(7) CERTAIN ANNUITIES RECEIVED UNDER
25 QUALIFIED PLANS.—No deduction or withholding under

subsection (a) shall be required in the case of any amount received as an annuity if such amount is, under section 871(f), exempt from the tax imposed by section 871 (a)."; and

(9) by redesignating subsection (d) as (e), and by inserting after subsection (c) the following new subsection:

"(d) *EXEMPTION OF CERTAIN FOREIGN PARTNERSHIPS.*—Subject to such terms and conditions as may be provided by regulations prescribed by the Secretary or his delegate, subsection (a) shall not apply in the case of a foreign partnership engaged in trade or business within the United States if the Secretary or his delegate determines that the requirements of subsection (a) impose an undue administrative burden and that the collection of the tax imposed by section 871(a) on the members of such partnership who are nonresident alien individuals will not be jeopardized by the exemption."

(i) *LIABILITY FOR WITHHELD TAX.*—Section 1461 (relating to return and payment of withheld tax) is amended to read as follows:

"SEC. 1461. *LIABILITY FOR WITHHELD TAX.*

"Every person required to deduct and withhold any tax under this chapter is hereby made liable for such tax and is hereby indemnified against the claims and demands of any

1 person for the amount of any payments made in accordance
2 with the provisions of this chapter.”

3 (j) *DECLARATION OF ESTIMATED INCOME TAX BY*
4 *INDIVIDUALS.*—Section 6015 (relating to declaration of esti-
5 mated income tax by individuals) is amended—

6 (1) by striking out that portion of subsection (a)
7 which precedes paragraph (1) and inserting in lieu
8 thereof the following:

9 “(a) *REQUIREMENT OF DECLARATION.*—Except as
10 otherwise provided in subsection (i), every individual shall
11 make a declaration of his estimated tax for the taxable year
12 if—”;

13 (2) by redesignating subsection (i) as subsection
14 (j); and

15 (3) by inserting after subsection (h) the follow-
16 ing new subsection:

17 “(i) *NONRESIDENT ALIEN INDIVIDUALS.*—No dec-
18 laration shall be required to be made under this section by a
19 nonresident alien individual unless—

20 “(1) withholding under chapter 24 is made appli-
21 cable to the wages, as defined in section 3401(a), of
22 such individual,

23 “(2) such individual has income (other than com-
24 pensation for personal services subject to deduction and
25 withholding under section 1441) which is effectively

1 *connected with the conduct of a trade or business within*
 2 *the United States, or*

3 *“(3) such individual is a resident of Puerto Rico*
 4 *during the entire taxable year.”*

5 *(k) COLLECTION OF INCOME TAX AT SOURCE ON*
 6 *WAGES.—Subsection (a) of section 3401 (relating to defini-*
 7 *tion of wages for purposes of collection of income tax at*
 8 *source) is amended by striking out paragraphs (6) and (7)*
 9 *and inserting in lieu thereof the following:*

10 *“(6) for such services, performed by a nonresident*
 11 *alien individual, as may be designated by regulations*
 12 *prescribed by the Secretary or his delegate; or”.*

13 *(l) DEFINITIONS OF FOREIGN ESTATE OR TRUST.—*

14 *(1) Section 7701(a)(31) (defining foreign estate*
 15 *or trust) is amended by striking out “from sources with-*
 16 *out the United States” and inserting in lieu thereof*
 17 *“, from sources without the United States which is not*
 18 *effectively connected with the conduct of a trade or busi-*
 19 *ness within the United States.”.*

20 *(2) Section 1493 (defining foreign trust for pur-*
 21 *poses of chapter 5) is repealed.*

22 *(m) CONFORMING AMENDMENT.—The first sentence*
 23 *of section 932(a) (relating to citizens of possessions of the*
 24 *United States) is amended to read as follows: “Any in-*

1 *dividual who is a citizen of any possession of the United*
 2 *States (but not otherwise a citizen of the United States)*
 3 *and who is not a resident of the United States shall be sub-*
 4 *ject to taxation under this subtitle in the same manner and*
 5 *subject to the same conditions as in the case of a nonresident*
 6 *alien individual."*

7 *(n) EFFECTIVE DATES.—*

8 *(1) The amendments made by this section (other*
 9 *than the amendments made by subsections (h), (i), and*
 10 *(k)) shall apply with respect to taxable years beginning*
 11 *after December 31, 1966.*

12 *(2) The amendments made by subsection (h) shall*
 13 *apply with respect to payments made in taxable years*
 14 *of recipients beginning after December 31, 1966.*

15 *(3) The amendments made by subsection (i) shall*
 16 *apply with respect to payments occurring after Decem-*
 17 *ber 31, 1966.*

18 *(4) The amendments made by subsection (k) shall*
 19 *apply with respect to remuneration paid after Decem-*
 20 *ber 31, 1966.*

21 **SEC. 104. FOREIGN CORPORATIONS.**

22 *(a) TAX ON INCOME NOT CONNECTED WITH*
 23 *UNITED STATES BUSINESS.—Section 881 (relating to tax*
 24 *on foreign corporations not engaged in business in the United*
 25 *States) is amended to read as follows:*

1 "SEC. 881. TAX ON INCOME OF FOREIGN CORPORATIONS
 2 NOT CONNECTED WITH UNITED STATES
 3 BUSINESS.

4 "(a) IMPOSITION OF TAX.—There is hereby imposed
 5 for each taxable year a tax of 30 percent of the amount
 6 received from sources within the United States by a foreign
 7 corporation as—

8 "(1) interest, dividends, rents, salaries, wages, pre-
 9 miums, annuities, compensations, remunerations, emolu-
 10 ments, and other fixed or determinable annual or
 11 periodical gains, profits, and income,

12 "(2) gains described in section 631 (b) or (c),

13 "(3) in the case of bonds or other evidences of
 14 indebtedness issued after September 28, 1965, amounts
 15 which under section 1232 are considered as gains from
 16 the sale or exchange of property which is not a capital
 17 asset, and

18 "(4) gains from the sale or exchange after October
 19 4, 1966, of patents, copyrights, secret processes and
 20 formulas, good will, trademarks, trade brands, fran-
 21 chises, and other like property, or of any interest in
 22 any such property, to the extent such gains are from
 23 payments which are contingent on the productivity, use,
 24 or disposition of the property or interest sold or ex-

1 *changed, or from payments which are treated as being*
 2 *so contingent under section 871(e),*
 3 *but only to the extent the amount so received is not effec-*
 4 *tively connected with the conduct of a trade or business*
 5 *within the United States.*

6 **“(b) DOUBLING OF TAX.—**

“For doubling of tax on corporations of certain foreign countries, see section 891.”

7 **(b) TAX ON INCOME CONNECTED WITH UNITED**
 8 **STATES BUSINESS.—**

9 *(1) Section 882 (relating to tax on resident for-*
 10 *ign corporations) is amended to read as follows:*

11 **“SEC. 882. TAX ON INCOME OF FOREIGN CORPORATIONS**
 12 **CONNECTED WITH UNITED STATES BUSI-**
 13 **NESS.**

14 **“(a) NORMAL TAX AND SURTAX.—**

15 **“(1) IMPOSITION OF TAX.—***A foreign corporation*
 16 *engaged in trade or business within the United States*
 17 *during the taxable year shall be taxable as provided in*
 18 *section 11 or 1201(a) on its taxable income which is*
 19 *effectively connected with the conduct of a trade or busi-*
 20 *ness within the United States.*

21 **“(2) DETERMINATION OF TAXABLE INCOME.—***In*
 22 *determining taxable income for purposes of paragraph*
 23 *(1), gross income includes only gross income which is*

1 *effectively connected with the conduct of a trade or busi-*
2 *ness within the United States.*

3 “(b) *GROSS INCOME.*—*In the case of a foreign corpora-*
4 *tion, gross income includes only—*

5 “(1) *gross income which is derived from sources*
6 *within the United States and which is not effectively*
7 *connected with the conduct of a trade or business with-*
8 *in the United States, and*

9 “(2) *gross income which is effectively connected*
10 *with the conduct of a trade or business within the United*
11 *States.*

12 “(c) *ALLOWANCE OF DEDUCTIONS AND CREDITS.*—

13 “(1) *ALLOCATION OF DEDUCTIONS.*—

14 “(A) *GENERAL RULE.*—*In the case of a for-*
15 *ign corporation, the deductions shall be allowed*
16 *only for purposes of subsection (a) and (except as*
17 *provided by subparagraph (B)) only if and to the*
18 *extent that they are connected with income which*
19 *is effectively connected with the conduct of a trade*
20 *or business within the United States; and the proper*
21 *apportionment and allocation of the deductions for*
22 *this purpose shall be determined as provided in*
23 *regulations prescribed by the Secretary or his*
24 *delegate.*

“(B) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions and gifts provided by section 170 shall be allowed whether or not connected with income which is effectively connected with the conduct of a trade or business within the United States.

“(2) DEDUCTIONS AND CREDITS ALLOWED ONLY IF RETURN FILED.—A foreign corporation shall receive the benefit of the deductions and credits allowed to it in this subtitle only by filing or causing to be filed with the Secretary or his delegate a true and accurate return, in the manner prescribed in subtitle F, including therein all the information which the Secretary or his delegate may deem necessary for the calculation of such deductions and credits. The preceding sentence shall not apply for purposes of the tax imposed by section 541 (relating to personal holding company tax), and shall not be construed to deny the credit provided by section 32 for tax withheld at source or the credit provided by section 39 for certain uses of gasoline and lubricating oil.

“(3) FOREIGN TAX CREDIT.—Except as provided by section 906, foreign corporations shall not be allowed the credit against the tax for taxes of foreign countries and possessions of the United States allowed by section 901.

1 “(4) CROSS REFERENCE.—

“For rule that certain foreign taxes are not to be taken into account in determining deduction or credit, see section 906(b)(1).

2 “(d) ELECTION TO TREAT REAL PROPERTY INCOME
3 AS INCOME CONNECTED WITH UNITED STATES BUSI-
4 NESS.—

5 “(1) IN GENERAL.—A foreign corporation which
6 during the taxable year derives any income—

7 “(A) from real property located in the United
8 States, or from any interest in such real property,
9 including (i) gains from the sale or exchange of
10 real property or an interest therein, (ii) rents or
11 royalties from mines, wells, or other natural de-
12 posits, and (iii) gains described in section 631 (b)
13 or (c), and

14 “(B) which, but for this subsection, would not
15 be treated as income effectively connected with the
16 conduct of a trade or business within the United
17 States,

18 may elect for such taxable year to treat all such income
19 as income which is effectively connected with the con-
20 duct of a trade or business within the United States. In
21 such case, such income shall be taxable as provided in
22 subsection (a)(1) whether or not such corporation is
23 engaged in trade or business within the United States

during the taxable year. An election under this paragraph for any taxable year shall remain in effect for all subsequent taxable years, except that it may be revoked with the consent of the Secretary or his delegate with respect to any taxable year.

“(2) *ELECTION AFTER REVOCATION, ETC.*—Paragraphs (2) and (3) of section 871(d) shall apply in respect of elections under this subsection in the same manner and to the same extent as they apply in respect of elections under section 871(d).

“(e) *INTEREST ON UNITED STATES OBLIGATIONS RECEIVED BY BANKS ORGANIZED IN POSSESSIONS.*—In the case of a corporation created or organized in, or under the law of, a possession of the United States which is carrying on the banking business in a possession of the United States, interest on obligations of the United States shall—

“(1) for purposes of this subpart, be treated as income which is effectively connected with the conduct of a trade or business within the United States, and

“(2) shall be taxable as provided in subsection (a)(1) whether or not such corporation is engaged in trade or business within the United States during the taxable year.

1 “(f) *RETURNS OF TAX BY AGENT.*—If any foreign
2 corporation has no office or place of business in the United
3 States but has an agent in the United States, the return
4 required under section 6012 shall be made by the agent.”

5 (2)(A) Subsection (e) of section 11 (relating to
6 exceptions from tax on corporations) is amended by in-
7 serting “or” at the end of paragraph (2), by striking
8 out “, or” at the end of paragraph (3) and inserting
9 a period in lieu thereof, and by striking out paragraph
10 (4).

11 (B) Section 11 (relating to tax on corporations) is
12 amended by adding at the end thereof the following
13 new subsection:

14 “(f) *FOREIGN CORPORATIONS.*—In the case of a foreign
15 corporation, the tax imposed by subsection (a) shall apply
16 only as provided by section 882.”

17 (3) The table of sections for subpart B of part II
18 of subchapter N of chapter 1 is amended by striking out
19 the items relating to sections 881 and 882 and inserting
20 in lieu thereof the following:

“Sec. 881. Tax on income of foreign corporations not con-
nected with United States business.

“Sec. 882. Tax on income of foreign corporations connected
with United States business.”

1 (c) *WITHHOLDING OF TAX ON FOREIGN CORPORA-*
 2 *TIONS.—Section 1442 (relating to withholding of tax on*
 3 *foreign corporations) is amended to read as follows:*

4 “*SEC. 1442. WITHHOLDING OF TAX ON FOREIGN CORPO-*
 5 *RATIONS.*”

6 “(a) *GENERAL RULE.—In the case of foreign corpora-*
 7 *tions subject to taxation under this subtitle, there shall be*
 8 *deducted and withheld at the source in the same manner and*
 9 *on the same items of income as is provided in section 1441*
 10 *or section 1451 a tax equal to 30 percent thereof; except*
 11 *that, in the case of interest described in section 1451 (relat-*
 12 *ing to tax-free covenant bonds), the deduction and with-*
 13 *holding shall be at the rate specified therein. For purposes*
 14 *of the preceding sentence, the references in section 1441(b)*
 15 *to sections 871(a)(1) (C) and (D) shall be treated as re-*
 16 *ferring to sections 881(a) (3) and (4), the reference in*
 17 *section 1441(c)(1) to section 871(b)(1) shall be treated*
 18 *as referring to section 842 or section 882(a), as the case*
 19 *may be, and the reference in section 1441(c)(5) to section*
 20 *871(a)(1)(D) shall be treated as referring to section*
 21 *881(a)(4).*”

22 “(b) *EXEMPTION.—Subject to such terms and condi-*
 23 *tions as may be provided by regulations prescribed by the*
 24 *Secretary or his delegate, subsection (a) shall not apply in*
 25 *the case of a foreign corporation engaged in trade or business*

1 *within the United States if the Secretary or his delegate de-*
 2 *termines that the requirements of subsection (a) impose an*
 3 *undue administrative burden and that the collection of the*
 4 *tax imposed by section 881 on such corporation will not be*
 5 *jeopardized by the exemption."*

6 *(d) DIVIDENDS RECEIVED FROM CERTAIN FOREIGN*
 7 *CORPORATIONS.—Subsection (a) of section 245 (relating to*
 8 *the allowance of a deduction in respect of dividends received*
 9 *from a foreign corporation) is amended—*

10 *(1) by striking out "and has derived 50 percent*
 11 *or more of its gross income from sources within the*
 12 *United States," in that portion of subsection (a) which*
 13 *precedes paragraph (1) and by inserting in lieu thereof*
 14 *"and if 50 percent or more of the gross income of such*
 15 *corporation from all sources for such period is effectively*
 16 *connected with the conduct of a trade or business within*
 17 *the United States,";*

18 *(2) by striking out "from sources within the United*
 19 *States" in paragraph (1) and inserting in lieu thereof*
 20 *"which is effectively connected with the conduct of a*
 21 *trade or business within the United States";*

22 *(3) by striking out "from sources within the United*
 23 *States" in paragraph (2) and inserting in lieu thereof*
 24 *", which is effectively connected with the conduct of a*
 25 *trade or business within the United States,"; and*

1 (4) by adding after paragraph (2) the following
2 new sentence:

3 *“For purposes of this subsection, the gross income of the*
4 *foreign corporation for any period before the first taxable*
5 *year beginning after December 31, 1966, which is effec-*
6 *tively connected with the conduct of a trade or business*
7 *within the United States is an amount equal to the gross*
8 *income for such period from sources within the United*
9 *States.”*

10 (e) *DIVIDENDS RECEIVED FROM CERTAIN WHOLLY-*
11 *OWNED FOREIGN SUBSIDIARIES.—*

12 (1) *Section 245 (relating to dividends received*
13 *from certain foreign corporations) is amended by re-*
14 *designating subsection (b) as (c), and by inserting after*
15 *subsection (a) the following new subsection:*

16 *“(b) CERTAIN DIVIDENDS RECEIVED FROM WHOLLY*
17 *OWNED FOREIGN SUBSIDIARIES.—*

18 *“(1) IN GENERAL.—In the case of dividends de-*
19 *scribed in paragraph (2) received from a foreign cor-*
20 *poration by a domestic corporation which, for its taxable*
21 *year in which such dividends are received, owns (di-*
22 *rectly or indirectly) all of the outstanding stock of such*
23 *foreign corporation, there shall be allowed as a deduction*
24 *(in lieu of the deduction provided by subsection (a)) an*
25 *amount equal to 100 percent of such dividends.*

1 “(2) *ELIGIBLE DIVIDENDS.*—Paragraph (1) shall
2 apply only to dividends which are paid out of the earn-
3 ings and profits of a foreign corporation for a taxable
4 year during which—

5 “(A) all of its outstanding stock is owned (di-
6 rectly or indirectly) by the domestic corporation to
7 which such dividends are paid; and

8 “(B) all of its gross income from all sources
9 is effectively connected with the conduct of a trade or
10 business within the United States.

11 “(3) *EXCEPTION.*—Paragraph (1) shall not apply
12 to any dividends if an election under section 1562 is
13 effective for either—

14 “(A) the taxable year of the domestic corpora-
15 tion in which such dividends are received, or

16 “(B) the taxable year of the foreign corpora-
17 tion out of the earnings and profits of which such
18 dividends are paid.”

19 (2) Subsection (a) of such section 245 is amended
20 by adding at the end thereof (after the sentence added
21 by subsection (d)(4)) the following new sentence: “For
22 purposes of paragraph (2), there shall not be taken into
23 account any taxable year within such uninterrupted pe-
24 riod if, with respect to dividends paid out of the earnings

1 *and profits of such year, the deduction provided by*
 2 *subsection (b) would be allowable."*

3 (3) *Subsection (c) of such section 245 (as redesign-*
 4 *ated by paragraph (1)) is amended by striking out*
 5 *"subsection (a)" and inserting in lieu thereof "subsections*
 6 *(a) and (b)".*

7 (f) *DISTRIBUTIONS OF CERTAIN FOREIGN CORPORA-*
 8 *TIONS.—Section 301(b)(1)(C) (relating to certain cor-*
 9 *porate distributees of foreign corporations) is amended—*

10 (1) *by striking out "gross income from sources*
 11 *within the United States" in clause (i) and inserting in*
 12 *lieu thereof "gross income which is effectively connected*
 13 *with the conduct of a trade or business within the United*
 14 *States";*

15 (2) *by striking out "gross income from sources with-*
 16 *out the United States" in clause (ii) and inserting in*
 17 *lieu thereof "gross income which is not effectively con-*
 18 *connected with the conduct of a trade or business within*
 19 *the United States"; and*

20 (3) *by adding at the end thereof the following new*
 21 *sentences: "For purposes of clause (i), the gross income*
 22 *of a foreign corporation for any period before its first*
 23 *taxable year beginning after December 31, 1966, which*
 24 *is effectively connected with the conduct of a trade or*
 25 *business within the United States is an amount equal*

1 *to the gross income for such period from sources within*
 2 *the United States. For purposes of clause (ii), the*
 3 *gross income of a foreign corporation for any period*
 4 *before its first taxable year beginning after December*
 5 *31, 1966, which is not effectively connected with the*
 6 *conduct of a trade or business within the United States*
 7 *is an amount equal to the gross income for such period*
 8 *from sources without the United States."*

9 *(g) UNRELATED BUSINESS TAXABLE INCOME.—The*
 10 *last sentence of section 512(a) (relating to definition) is*
 11 *amended to read as follows: "In the case of an organiza-*
 12 *tion described in section 511 which is a foreign organiza-*
 13 *tion, the unrelated business taxable income shall be its*
 14 *unrelated business taxable income which is effectively con-*
 15 *nected with the conduct of a trade or business within the*
 16 *United States."*

17 *(h) CORPORATIONS SUBJECT TO PERSONAL HOLD-*
 18 *ING COMPANY TAX.—*

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

22 *"(7) a foreign corporation (other than a corpora-*
 23 *tion which has income to which section 543(a)(7) ap-*
 24 *plies for the taxable year), if all of its stock outstanding*

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;”.

(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—

1 (A) by striking out subsection (a) and insert-
2 ing in lieu thereof the following:

3 “(a) *DEFINITION.*—For purposes of this part, the term
4 ‘undistributed personal holding company income’ means the
5 taxable income of a personal holding company adjusted in
6 the manner provided in subsections (b), (c), and (d), minus
7 the dividends paid deduction as defined in section 561. In
8 the case of a personal holding company which is a foreign
9 corporation, not more than 10 percent in value of the out-
10 standing stock of which is owned (within the meaning of
11 section 958(a)) during the last half of the taxable year by
12 United States persons, the term ‘undistributed personal hold-
13 ing company income’ means the amount determined by multi-
14 plying the undistributed personal holding company income
15 (determined without regard to this sentence) by the percent-
16 age in value of its outstanding stock which is the greatest per-
17 centage in value of its outstanding stock so owned by United
18 States persons on any one day during such period.”; and

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

21 “(d) *CERTAIN FOREIGN CORPORATIONS.*—In the case
22 of a foreign corporation all of the outstanding stock of which
23 during the last half of the taxable year is owned by nonresi-
24 dent alien individuals (whether directly or indirectly through

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

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

11 **'SEC. 6683. FAILURE OF FOREIGN CORPORATION TO FILE**
 12 **RETURN OF PERSONAL HOLDING COMPANY**
 13 **TAX.**

14 *"Any foreign corporation which—*

15 *"(1) is a personal holding company for any tax-*
 16 *able year, and*

17 *"(2) fails to file or to cause to be filed with the*
 18 *Secretary or his delegate a true and accurate return of*
 19 *the tax imposed by section 541,*

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

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

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

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

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

9 "SEC. 842. FOREIGN CORPORATIONS CARRYING ON IN-
 10 SURANCE BUSINESS.

11 *"If a foreign corporation carrying on an insurance busi-*
 12 *ness within the United States would qualify under part I,*
 13 *II, or III of this subchapter for the taxable year if (without*
 14 *regard to income not effectively connected with the conduct*
 15 *of any trade or business within the United States) it were*
 16 *a domestic corporation, such corporation shall be taxable*
 17 *under such part on its income effectively connected with its*
 18 *conduct of any trade or business within the United States.*
 19 *With respect to the remainder of its income, which is from*
 20 *sources within the United States, such a foreign corpora-*
 21 *tion shall be taxable as provided in section 881."*

22 (2) The table of sections for part IV of subchapter

1 *L of chapter 1 is amended by striking out the item re-*
 2 *lating to section 842 and inserting in lieu thereof the*
 3 *following:*

“Sec. 842. Foreign corporations carrying on insurance busi-
ness.”

4 *(3) Section 819 (relating to foreign life insurance*
 5 *companies) is amended—*

6 *(A) by striking out subsections (a) and (d)*
 7 *and by redesignating subsections (b) and (c) as*
 8 *subsections (a) and (b),*

9 *(B) by striking out “In the case of any com-*
 10 *pany described in subsection (a),” in subsection*
 11 *(a)(1) (as redesignated by subparagraph (A))*
 12 *and inserting in lieu thereof “In the case of any*
 13 *foreign corporation taxable under this part,”*

14 *(C) by striking out “subsection (c)” in the*
 15 *last sentence of subsection (a)(2) (as redesignated*
 16 *by subparagraph (A)) and inserting in lieu thereof*
 17 *“subsection (b),”*

18 *(D) by adding at the end of subsection (a)*
 19 *(as redesignated by subparagraph (A)) the fol-*
 20 *lowing new paragraph:*

21 *“(3) REDUCTION OF SECTION 881 TAX.—In the*
 22 *case of any foreign corporation taxable under this part,*
 23 *there shall be determined—*

1 “(A) the amount which would be subject to
2 tax under section 881 if the amount taxable under
3 such section were determined without regard to sec-
4 tions 103 and 894, and

5 “(B) the amount of the reduction provided
6 by paragraph (1).

7 The tax under section 881 (determined without regard
8 to this paragraph) shall be reduced (but not below
9 zero) by an amount which is the same proportion of
10 such tax as the amount referred to in subparagraph (B)
11 is of the amount referred to in subparagraph (A); but
12 such reduction in tax shall not exceed the increase in
13 tax under this part by reason of the reduction provided
14 by paragraph (1).”,

15 (E) by striking out “for purposes of subsec-
16 tion (a)” each place it appears in subsection (b)
17 (as redesignated by subparagraph (A)) and insert-
18 ing in lieu thereof “with respect to a foreign
19 corporation”,

20 (F) by striking out “foreign life insurance
21 company” each place it appears in such subsection
22 (b) and inserting in lieu thereof “foreign corpora-
23 tion”,

1 (G) by striking out "subsection (b)(2)(A)"
 2 each place it appears in such subsection (b) and
 3 inserting in lieu thereof "subsection (a)(2)(A)",

4 (H) by striking out "subsection (b)(2)(B)"
 5 in paragraph (2)(B)(ii) of such subsection (b)
 6 and inserting in lieu thereof "subsection (a)(2)
 7 (B)", and

8 (I) by adding at the end thereof the following
 9 new subsection:

10 **"(c) CROSS REFERENCE.—**

"For taxation of foreign corporations carrying on life insurance business within the United States, see section 842."

11 (4) Section 821 (relating to tax on mutual insur-
 12 ance companies to which part II applies) is amended—

13 (A) by striking out subsection (e) and by
 14 redesignating subsections (f) and (g) as sub-
 15 sections (e) and (f), and

16 (B) by adding at the end of subsection (f)
 17 (as redesignated by subparagraph (A)) the fol-
 18 lowing:

"(3) For taxation of foreign corporations carrying on an insurance business within the United States, see section 842."

19 (5) Section 822 (relating to determination of tax-
 20 able investment income) is amended by striking out

subsection (e) and by redesignating subsection (f) as subsection (e).

(6) Section 831 (relating to tax on certain other insurance companies) is amended—

(A) by striking out subsection (b) and by redesignating subsection (c) as subsection (b), and

(B) by amending subsection (d) to read as follows:

“(c) **CROSS REFERENCES.**—

“(1) For alternative tax in case of capital gains, see section 1201(a).

“(2) For taxation of foreign corporations carrying on an insurance business within the United States, see section 842.”

(7) Section 832 (relating to insurance company taxable income) is amended by striking out subsection (d) and by redesignating subsection (e) as subsection (d).

(8) The second sentence of section 841 (relating to credit for foreign taxes) is amended by striking out “sentence,” and inserting in lieu thereof “sentence (and for purposes of applying section 906 with respect to a foreign corporation subject to tax under this subchapter),”.

(j) **SUBPART F INCOME.**—Section 952(b) (relating

1 to exclusion of United States income) is amended to read
2 as follows:

3 “(b) *EXCLUSION OF UNITED STATES INCOME.*—In
4 the case of a controlled foreign corporation, subpart F in-
5 come does not include any item of income from sources
6 within the United States which is effectively connected
7 with the conduct by such corporation of a trade or business
8 within the United States unless such item is exempt from
9 taxation (or is subject to a reduced rate of tax) pursuant
10 to a treaty obligation of the United States.”

11 “(k) *GAIN FROM CERTAIN SALES OR EXCHANGES*
12 *OF STOCK IN CERTAIN FOREIGN CORPORATIONS.*—Para-
13 graph (4) of section 1248(d) (relating to exclusions from
14 earnings and profits) is amended to read as follows:

15 “(4) *UNITED STATES INCOME.*—Any item in-
16 cludible in gross income of the foreign corporation under
17 this chapter—

18 “(A) for any taxable year beginning before
19 January 1, 1967, as income derived from sources
20 within the United States of a foreign corporation
21 engaged in trade or business within the United
22 States, or

23 “(B) for any taxable year beginning after
24 December 31, 1966, as income effectively con-

1 nected with the conduct by such corporation of a
2 trade or business within the United States.

3 This paragraph shall not apply with respect to any
4 item which is exempt from taxation (or is subject to
5 a reduced rate of tax) pursuant to a treaty obligation
6 of the United States.”

7 (l) *DECLARATION OF ESTIMATED INCOME TAX BY*
8 *CORPORATIONS.*—Section 6016 (relating to declarations of
9 estimated income tax by corporations) is amended by redesc-
10 ignating subsection (f) as subsection (g) and by inserting
11 after subsection (e) the following new subsection:

12 “(f) *CERTAIN FOREIGN CORPORATIONS.*—For pur-
13 poses of this section and section 6655, in the case of a foreign
14 corporation subject to taxation under section 11 or 1201(a),
15 or under subchapter L of chapter 1, the tax imposed by
16 section 881 shall be treated as a tax imposed by section 11.”

17 (m) *TECHNICAL AMENDMENTS.*—

18 (1) Section 884 is amended to read as follows:

19 “SEC. 884. *CROSS REFERENCES.*

 “(1) For special provisions relating to unrelated busi-
 ness income of foreign educational, charitable, and cer-
 tain other exempt organizations, see section 512(a).

 “(2) For special provisions relating to foreign corpo-
 rations carrying on an insurance business within the
 United States, see section 842.

 “(3) For rules applicable in determining whether any
 foreign corporation is engaged in trade or business within
 the United States, see section 864(b).

 “(4) For adjustment of tax in case of corporations of
 certain foreign countries, see section 896.

“(5) For allowance of credit against the tax in case of a foreign corporation having income effectively connected with the conduct of a trade or business within the United States, see section 906.

“(6) For withholding at source of tax on income of foreign corporations, see section 1442.”

1 (2) Section 953(b)(3)(F) is amended by strik-
2 ing out “832(b)(5)” and inserting in lieu thereof
3 “832(c)(5)”.

4 (3) Section 1249(a) is amended by striking out
5 “Except as provided in subsection (c), gain” and in-
6 serting in lieu thereof “Gain”.

7 (n) *EFFECTIVE DATES.*—The amendments made by
8 this section (other than subsection (k)) shall apply with
9 respect to taxable years beginning after December 31, 1966.
10 The amendment made by subsection (k) shall apply with
11 respect to sales or exchanges occurring after December 31,
12 1966.

13 SEC. 105. SPECIAL TAX PROVISIONS.

14 (a) *INCOME AFFECTED BY TREATY.*—Section 894 (re-
15 lating to income exempt under treaties) is amended to read
16 as follows:

17 “SEC. 894. INCOME AFFECTED BY TREATY.

18 “(a) *INCOME EXEMPT UNDER TREATY.*—Income of
19 any kind, to the extent required by any treaty obligation of
20 the United States, shall not be included in gross income and
21 shall be exempt from taxation under this subtitle.

1 “(b) *PERMANENT ESTABLISHMENT IN UNITED*
 2 *STATES.*—For purposes of applying any exemption from, or
 3 reduction of, any tax provided by any treaty to which the
 4 United States is a party with respect to income which is not
 5 effectively connected with the conduct of a trade or business
 6 within the United States, a nonresident alien individual or a
 7 foreign corporation shall be deemed not to have a permanent
 8 establishment in the United States at any time during the
 9 taxable year. This subsection shall not apply in respect of
 10 the tax computed under section 877(b).”

11 (b) *ADJUSTMENT OF TAX BECAUSE OF BURDENSOME*
 12 *OR DISCRIMINATORY FOREIGN TAXES.*—Subpart C of part
 13 II of subchapter N of chapter 1 (relating to miscellaneous
 14 provisions applicable to nonresident aliens and foreign corpo-
 15 rations) is amended by adding at the end thereof the follow-
 16 ing new section:

17 “SEC. 896. *ADJUSTMENT OF TAX ON NATIONALS, RESI-*
 18 *DENTS, AND CORPORATIONS OF CERTAIN*
 19 *FOREIGN COUNTRIES.*

20 “(a) *IMPOSITION OF MORE BURDENSOME TAXES BY*
 21 *FOREIGN COUNTRY.*—Whenever the President finds that—
 22 “(1) under the laws of any foreign country, con-
 23 sidering the tax system of such foreign country, citizens
 24 of the United States not residents of such foreign coun-

1 *try or domestic corporations are being subjected to more*
 2 *burdensome taxes, on any item of income received by*
 3 *such citizens or corporations from sources within such*
 4 *foreign country, than taxes imposed by the provisions of*
 5 *this subtitle on similar income derived from sources*
 6 *within the United States by residents or corporations of*
 7 *such foreign country,*

8 *“(2) such foreign country, when requested by the*
 9 *United States to do so, has not acted to revise or reduce*
 10 *such taxes so that they are no more burdensome than*
 11 *taxes imposed by the provisions of this subtitle on similar*
 12 *income derived from sources within the United States by*
 13 *residents or corporations of such foreign country, and*

14 *“(3) it is in the public interest to apply pre-1967*
 15 *tax provisions in accordance with the provisions of this*
 16 *subsection to residents or corporations of such foreign*
 17 *country,*

18 *the President shall proclaim that the tax on such similar in-*
 19 *come derived from sources within the United States by resi-*
 20 *dents or corporations of such foreign country shall, for tax-*
 21 *able years beginning after such proclamation, be determined*
 22 *under this subtitle without regard to amendments made to*
 23 *this subchapter and chapter 3 on or after the date of enact-*
 24 *ment of this section.*

1 “(b) *IMPOSITION OF DISCRIMINATORY TAXES BY*
2 *FOREIGN COUNTRY.*—*Whenever the President finds that—*

3 “(1) *under the laws of any foreign country, citizens*
4 *of the United States or domestic corporations (or any*
5 *class of such citizens or corporations) are, with respect to*
6 *any item of income, being subjected to a higher effective*
7 *rate of tax than are nationals, residents, or corporations*
8 *of such foreign country (or a similar class of such na-*
9 *tionals, residents, or corporations) under similar cir-*
10 *cumstances;*

11 “(2) *such foreign country, when requested by the*
12 *United States to do so, has not acted to eliminate such*
13 *higher effective rate of tax; and*

14 “(3) *it is in the public interest to adjust, in accord-*
15 *ance with the provisions of this subsection, the effective*
16 *rate of tax imposed by this subtitle on similar income of*
17 *nationals, residents, or corporations of such foreign*
18 *country (or such similar class of such nationals, resi-*
19 *dents, or corporations),*

20 *the President shall proclaim that the tax on similar income*
21 *of nationals, residents, or corporations of such foreign country*
22 *(or such similar class of such nationals, residents, or corpo-*
23 *rations) shall, for taxable years beginning after such proc-*
24 *lamation, be adjusted so as to cause the effective rate of tax*

1 imposed by this subtitle on such similar income to be sub-
 2 stantially equal to the effective rate of tax imposed by such
 3 foreign country on such item of income of citizens of the
 4 United States or domestic corporations (or such class of
 5 citizens or corporations). In implementing a proclamation
 6 made under this subsection, the effective rate of tax imposed by
 7 this subtitle on an item of income may be adjusted by the dis-
 8 allowance, in whole or in part, of any deduction, credit, or
 9 exemption which would otherwise be allowed with respect to
 10 that item of income or by increasing the rate of tax otherwise
 11 applicable to that item of income.

12 “(c) ALLEVIATION OF MORE BURDENSOME OR DIS-
 13 CRIMINATORY TAXES.—Whenever the President finds that—

14 “(1) the laws of any foreign country with respect
 15 to which the President has made a proclamation under
 16 subsection (a) have been modified so that citizens of the
 17 United States not residents of such foreign country or
 18 domestic corporations are no longer subject to more bur-
 19 densome taxes on the item of income derived by such
 20 citizens or corporations from sources within such foreign
 21 country, or

22 “(2) the laws of any foreign country with respect
 23 to which the President has made a proclamation under
 24 subsection (b) have been modified so that citizens of the
 25 United States or domestic corporations (or any class of

1 *such citizens or corporations) are no longer subject to*
 2 *a higher effective rate of tax on the item of income.*
 3 *he shall proclaim that the tax imposed by this subtitle on the*
 4 *similar income of nationals, residents, or corporations of*
 5 *such foreign country shall, for any taxable year beginning*
 6 *after such proclamation, be determined under this subtitle*
 7 *without regard to such subsection.*

8 “(d) *NOTIFICATION OF CONGRESS REQUIRED.*—No
 9 *proclamation shall be issued by the President pursuant to*
 10 *this section unless, at least 30 days prior to such procla-*
 11 *mation, he has notified the Senate and the House of Repre-*
 12 *sentatives of his intention to issue such proclamation.*

13 “(e) *IMPLEMENTATION BY REGULATIONS.*—The Sec-
 14 *retary or his delegate shall prescribe such regulations as he*
 15 *deems necessary or appropriate to implement this section.”*

16 (c) *CLERICAL AMENDMENTS.*—The table of sections
 17 *for subpart C of part II of subchapter N of chapter 1 is*
 18 *amended—*

19 (1) *by striking out the item relating to section 894*
 20 *and inserting in lieu thereof*

“Sec. 894. *Income affected by treaty.*”;

21 (2) *by adding at the end of such table the following:*

“Sec. 896. *Adjustment of tax on nationals, residents, and*
corporations of certain foreign countries.”

22 (d) *EFFECTIVE DATE.*—The amendments made by this

1 section (other than subsections (e) and (f)) shall apply
 2 with respect to taxable years beginning after December 31,
 3 1966.

4 (e) *ELECTIONS BY NONRESIDENT UNITED STATES*
 5 *CITIZENS WHO ARE SUBJECT TO FOREIGN COMMUNITY*
 6 *PROPERTY LAWS.*—

7 (1) *Part III of subchapter N of chapter 1 (relat-*
 8 *ing to income from sources without the United States)*
 9 *is amended by adding at the end thereof the following*
 10 *new subpart:*

11 “*Subpart H—Income of Certain Nonresident United States*
 12 *Citizens Subject to Foreign Community Property Laws*

“*Sec. 981. Elections as to treatment of income subject to*
foreign community property laws.

13 “*SEC. 981. ELECTION AS TO TREATMENT OF INCOME SUB-*
 14 *JECT TO FOREIGN COMMUNITY PROPERTY*
 15 *LAWS.*

16 “(a) *GENERAL RULE.*—*In the case of any taxable year*
 17 *beginning after December 31, 1966, if—*

18 “(1) *an individual is (A) a citizen of the United*
 19 *States, (B) a bona fide resident of a foreign country*
 20 *or countries during the entire taxable year, and (C)*
 21 *married at the close of the taxable year to a spouse who is*
 22 *a nonresident alien during the entire taxable year, and*

23 “(2) *such individual and his spouse elect to have*

1 subsection (b) apply to their community income under
 2 foreign community property laws,
 3 then subsection (b) shall apply to such income of such indi-
 4 vidual and such spouse for the taxable year and for all sub-
 5 sequent taxable years for which the requirements of para-
 6 graph (1) are met, unless the Secretary or his delegate
 7 consents to a termination of the election.

8 “(b) *TREATMENT OF COMMUNITY INCOME.*—For any
 9 taxable year to which an election made under subsection (a)
 10 applies, the community income under foreign community
 11 property laws of the husband and wife making the election
 12 shall be treated as follows:

13 “(1) *Earned income* (within the meaning of the
 14 first sentence of section 911(b)), other than trade or
 15 business income and a partner’s distributive share of
 16 partnership income, shall be treated as the income of the
 17 spouse who rendered the personal services.

18 “(2) *Trade or business income*, and a partner’s
 19 distributive share of partnership income, shall be treated
 20 as provided in section 1402(a)(5).

21 “(3) *Community income not described in para-*
 22 *graph (1) or (2) which is derived from the separate*
 23 *property (as determined under the applicable foreign*
 24 *community property law) of one spouse shall be treated*
 25 *as the income of such spouse.*

1 “(4) *All other such community income shall be*
 2 *treated as provided in the applicable foreign community*
 3 *property law.*

4 “(c) *ELECTION FOR PRE-1967 YEARS.—*

5 “(1) *ELECTION.—If an individual meets the re-*
 6 *quirements of subsections (a)(1) (A) and (C) for any*
 7 *taxable year beginning before January 1, 1967, and if*
 8 *such individual and the spouse referred to in subsection*
 9 *(a)(1)(C) elect under this subsection, then paragraph*
 10 *(2) of this subsection shall apply to their community in-*
 11 *come under foreign community property laws for all*
 12 *open taxable years beginning before January 1, 1967*
 13 *(whether under this chapter, the corresponding provi-*
 14 *sions of the Internal Revenue Code of 1939, or the cor-*
 15 *responding provisions of prior revenue laws), for which*
 16 *the requirements of subsection (a)(1) (A) and (C)*
 17 *are met.*

18 “(2) *EFFECT OF ELECTION.—For any taxable*
 19 *year to which an election made under this subsection*
 20 *applies, the community income under foreign community*
 21 *property laws of the husband and wife making the*
 22 *election shall be treated as provided by subsection (b),*
 23 *except that the other community income described in*
 24 *paragraph (4) of subsection (b) shall be treated as the*
 25 *income of the spouse who, for such taxable year, had*

1 gross income under paragraphs (1), (2), and (3) of
 2 subsection (b), plus separate gross income, greater than
 3 that of the other spouse.

4 “(d) TIME FOR MAKING ELECTIONS; PERIOD OF
 5 LIMITATIONS; ETC.—

6 “(1) TIME.—An election under subsection (a) or
 7 (c) for a taxable year may be made at any time while
 8 such year is still open, and shall be made in such man-
 9 ner as the Secretary or his delegate shall by regulations
 10 prescribe.

11 “(2) EXTENSION OF PERIOD FOR ASSESSING DE-
 12 FICIENCIES AND MAKING REFUNDS.—If any taxable
 13 year to which an election under subsection (a) or (c)
 14 applies is open at the time such election is made, the
 15 period for assessing a deficiency against, and the period
 16 for filing claim for credit or refund of any overpayment
 17 by, the husband and wife for such taxable year, to the
 18 extent such deficiency or overpayment is attributable to
 19 such an election, shall not expire before 1 year after
 20 the date of such election.

21 “(3) ALIEN SPOUSE NEED NOT JOIN IN SUBSEC-
 22 TION (c) ELECTION IN CERTAIN CASES.—If the Secre-
 23 tary or his delegate determines—

24 “(A) that an election under subsection (c)
 25 would not affect the liability for Federal income

1 *tax of the spouse referred to in subsection (a)(1)*
 2 *(C) for any taxable year, or*

3 *“(B) that the effect on such liability for tax*
 4 *cannot be ascertained and that to deny the election*
 5 *to the citizen of the United States would be inequita-*
 6 *ble and cause undue hardship,*

7 *such spouse shall not be required to join in such election,*
 8 *and paragraph (2) of this subsection shall not apply*
 9 *with respect to such spouse.*

10 *“(4) INTEREST.—To the extent that any overpay-*
 11 *ment or deficiency for a taxable year is attributable to*
 12 *an election made under this section, no interest shall be*
 13 *allowed or paid for any period before the day which is 1*
 14 *year after the date of such election.*

15 *“(e) DEFINITIONS AND SPECIAL RULES.—For pur-*
 16 *poses of this section—*

17 *“(1) DEDUCTIONS.—Deductions shall be treated in*
 18 *a manner consistent with the manner provided by this*
 19 *section for the income to which they relate.*

20 *“(2) OPEN YEARS.—A taxable year of a citizen*
 21 *of the United States and his spouse shall be treated as*
 22 *‘open’ if the period for assessing a deficiency against*
 23 *such citizen for such year has not expired before the*
 24 *date of the election under subsection (a) or (c), as the*
 25 *case may be.*

“(3) *ELECTIONS IN CASE OF DECEDENTS.*—If a husband or wife is deceased his election under this section may be made by his executor, administrator, or other person charged with his property.

“(4) DEATH OF SPOUSE DURING TAXABLE YEAR.—In applying subsection (a)(1)(C), and in determining under subsection (c)(2) which spouse has the greater income for a taxable year, if a husband or wife dies the taxable year of the surviving spouse shall be treated as ending on the date of such death.”

(2) The table of subparts for such part III is amended by adding at the end thereof the following:

"Subpart H. Income of certain nonresident United States citizens subject to foreign community property laws."

(3) Section 911(d) (relating to earned income from sources without the United States) is amended—

(A) by striking out "For administrative" and inserting in lieu thereof the following: "(1) For administrative"; and

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

“(2) For elections as to treatment of income subject to foreign community property laws, see section 981.”

(f) PRESUMPTIVE DATE OF PAYMENT FOR TAX
WITHHELD UNDER CHAPTER 3.—

(1) Section 6513(b) (relating to time tax is consid-

ered paid in the case of prepaid income tax) is amended
to read as follows:

“(b) *PREPAID INCOME TAX*.—For purposes of section
6511 or 6512—

“(1) Any tax actually deducted and withheld at
the source during any calendar year under chapter 24
shall, in respect of the recipient of the income, be deemed
to have been paid by him on the 15th day of the fourth
month following the close of his taxable year with respect
to which such tax is allowable as a credit under section
31.

“(2) Any amount paid as estimated income tax for
any taxable year shall be deemed to have been paid on
the last day prescribed for filing the return under sec-
tion 6012 for such taxable year (determined without
regard to any extension of time for filing such return).

“(3) Any tax withheld at the source under chapter
3 shall, in respect of the recipient of the income, be
deemed to have been paid by such recipient on the last
day prescribed for filing the return under section 6012
for the taxable year (determined without regard to any
extension of time for filing) with respect to which such
tax is allowable as a credit under section 1462. For
this purpose, any exemption granted under section 6012

1 *from the requirement of filing a return shall be disre-*
 2 *garded."*

3 (2) *Section 6513(c) (relating to return and pay-*
 4 *ment of Social Security taxes and income tax withhold-*
 5 *ing) is amended—*

6 (A) *by striking out "chapter 21 or 24" and*
 7 *inserting in lieu thereof "chapter 3, 21, or 24"; and*

8 (B) *by striking out "remuneration" in para-*
 9 *graph (2) and inserting in lieu thereof "remunera-*
 10 *tion or other amount".*

11 (3) *Section 6501(b) (relating to time returns*
 12 *deemed filed) is amended—*

13 (A) *by striking out "chapter 21 or 24" in para-*
 14 *graphs (1) and (2) and inserting in lieu thereof*
 15 *"chapter 3, 21, or 24"; and*

16 (B) *by inserting after "taxes" in the heading*
 17 *of paragraph (2) "and tax imposed by chapter 3".*

18 (4) *The amendments made by this subsection shall*
 19 *take effect on the date of the enactment of this Act.*

20 **SEC. 106. FOREIGN TAX CREDIT.**

21 (a) **ALLOWANCE OF CREDIT TO CERTAIN NONRESI-**
 22 **DENT ALIENS AND FOREIGN CORPORATIONS.—**

23 (1) *Subpart A of part III of subchapter N of*
 24 *chapter 1 (relating to foreign tax credit) is amended*

1 by adding at the end thereof the following new section:

2 “SEC. 906. NONRESIDENT ALIEN INDIVIDUALS AND FOR-
3 EIGN CORPORATIONS.

4 “(a) ALLOWANCE OF CREDIT.—A nonresident alien
5 individual or a foreign corporation engaged in trade or
6 business within the United States during the taxable year
7 shall be allowed a credit under section 901 for the amount
8 of any income, war profits, and excess profits taxes paid or
9 accrued during the taxable year (or deemed, under section
10 902, paid or accrued during the taxable year) to any foreign
11 country or possession of the United States with respect to
12 income effectively connected with the conduct of a trade or
13 business within the United States.

14 “(b) SPECIAL RULES.—

15 “(1) For purposes of subsection (a) and for pur-
16 poses of determining the deductions allowable under sec-
17 tions 873(a) and 882(c), in determining the amount of
18 any tax paid or accrued to any foreign country or posses-
19 sion there shall not be taken into account any amount of
20 tax to the extent the tax so paid or accrued is imposed
21 with respect to income from sources within the United
22 States which would not be taxed by such foreign country
23 or possession but for the fact that—

1 “(A) in the case of a nonresident alien indi-
2 vidual, such individual is a citizen or resident of such
3 foreign country or possession, or

4 “(B) in the case of a foreign corporation, such
5 corporation was created or organized under the law
6 of such foreign country or possession or is domiciled
7 for tax purposes in such country or possession.

8 “(2) For purposes of subsection (a), in applying
9 section 904 the taxpayer’s taxable income shall be treated
10 as consisting only of the taxable income effectively con-
11 nected with the taxpayer’s conduct of a trade or business
12 within the United States.

13 “(3) The credit allowed pursuant to subsection (a)
14 shall not be allowed against any tax imposed by section
15 871(a) (relating to income of nonresident alien individ-
16 ual not connected with United States business) or 881
17 (relating to income of foreign corporations not connected
18 with United States business).

19 “(4) For purposes of sections 902(a) and 78, a
20 foreign corporation choosing the benefits of this subpart
21 which receives dividends shall, with respect to such divi-
22 dends, be treated as a domestic corporation.”

1 (2) *The table of sections for such subpart A is*
 2 *amended by adding at the end thereof the following:*

"Sec. 906. Nonresident alien individuals and foreign corporations."

3 (3) *Section 874(c) is amended by striking out*
 4 *"(c) FOREIGN TAX CREDIT NOT ALLOWED.—A non-*
 5 *resident" and inserting in lieu thereof the following:*

6 *"(c) FOREIGN TAX CREDIT.—Except as provided in*
 7 *section 906, a nonresident".*

8 (4) *Subsection (b) of section 901 (relating to*
 9 *amount allowed) is amended by redesignating para-*
 10 *graph (4) as paragraph (5), and by inserting after*
 11 *paragraph (3) the following new paragraph:*

12 *"(4) NONRESIDENT ALIEN INDIVIDUALS AND FOR-*
 13 *EIGN CORPORATIONS.—In the case of any nonresident*
 14 *alien individual not described in section 876 and in the*
 15 *case of any foreign corporation, the amount determined*
 16 *pursuant to section 906; and".*

17 (5) *Paragraph (5) (as redesignated) of section*
 18 *901(b) is amended by striking out "or (3)," and in-*
 19 *serting in lieu thereof "(3), or (4),".*

20 (6) *The amendments made by this subsection shall*
 21 *apply with respect to taxable years beginning after*
 22 *December 31, 1966. In applying section 904 of the*
 23 *Internal Revenue Code of 1954 with respect to section*

1 906 of such Code, no amount may be carried from or to
 2 any taxable year beginning before January 1, 1967, and
 3 no such year shall be taken into account.

4 (b) *ALIEN RESIDENTS OF THE UNITED STATES OR*
 5 *PUERTO RICO.*—

6 (1) Paragraph (3) of section 901(b) (relating
 7 to amount of foreign tax credit allowed in case of alien
 8 resident of the United States or Puerto Rico) is amended
 9 by striking out “, if the foreign country of which such
 10 alien resident is a citizen or subject, in imposing such
 11 taxes, allows a similar credit to citizens of the United
 12 States residing in such country”.

13 (2) Section 901 is amended by redesignating sub-
 14 sections (c) and (d) as subsections (d) and (e), and
 15 by inserting after subsection (b) the following new
 16 subsection:

17 “(c) *SIMILAR CREDIT REQUIRED FOR CERTAIN ALIEN*
 18 *RESIDENTS.*—Whenever the President finds that—

19 “(1) a foreign country, in imposing income, war
 20 profits, and excess profits taxes, does not allow to
 21 citizens of the United States residing in such foreign
 22 country a credit for any such taxes paid or accrued to
 23 the United States or any foreign country, as the case

1 *may be, similar to the credit allowed under subsection*
 2 *(b)(3),*

3 *“(2) such foreign country, when requested by the*
 4 *United States to do so, has not acted to provide such a*
 5 *similar credit to citizens of the United States residing*
 6 *in such foreign country, and*

7 *“(3) it is in the public interest to allow the credit*
 8 *under subsection (b)(3) to citizens or subjects of such*
 9 *foreign country only if it allows such a similar credit to*
 10 *citizens of the United States residing in such foreign*
 11 *country,*

12 *the President shall proclaim that, for taxable years begin-*
 13 *ning while the proclamation remains in effect, the credit*
 14 *under subsection (b)(3) shall be allowed to citizens or*
 15 *subjects of such foreign country only if such foreign country,*
 16 *in imposing income, war profits, and excess profits taxes,*
 17 *allows to citizens of the United States residing in such foreign*
 18 *country such a similar credit.”*

19 *(3) Section 2014 (relating to credit for foreign*
 20 *death taxes) is amended by striking out the second sen-*
 21 *tence of subsection (a), and by adding at the end of*
 22 *such section the following new subsection:*

23 *“(h) SIMILAR CREDIT REQUIRED FOR CERTAIN*
 24 *ALIEN RESIDENTS.—Whenever the President finds that—*

25 *“(1) a foreign country, in imposing estate, inherit-*

1 *ance, legacy, or succession taxes, does not allow to citi-*
 2 *zens of the United States resident in such foreign coun-*
 3 *try at the time of death a credit similar to the credit*
 4 *allowed under subsection (a),*

5 *“(2) such foreign country, when requested by the*
 6 *United States to do so has not acted to provide such a*
 7 *similar credit in the case of citizens of the United States*
 8 *resident in such foreign country at the time of death, and*

9 *“(3) it is in the public interest to allow the credit*
 10 *under subsection (a) in the case of citizens or subjects*
 11 *of such foreign country only if it allows such a similar*
 12 *credit in the case of citizens of the United States resident*
 13 *in such foreign country at the time of death,*

14 *the President shall proclaim that, in the case of citizens or*
 15 *subjects of such foreign country dying while the proclamation*
 16 *remains in effect, the credit under subsection (a) shall be al-*
 17 *lowed only if such foreign country allows such a similar*
 18 *credit in the case of citizens of the United States resident in*
 19 *such foreign country at the time of death.”*

20 *(4) The amendments made by this subsection*
 21 *(other than paragraph (3)) shall apply with respect*
 22 *to taxable years beginning after December 31, 1966.*
 23 *The amendment made by paragraph (3) shall apply*
 24 *with respect to estates of decedents dying after the date*
 25 *of the enactment of this Act.*

1 *(c) FOREIGN TAX CREDIT IN RESPECT OF INTEREST*
 2 *RECEIVED FROM FOREIGN SUBSIDIARIES.—*

3 *(1) Section 904(f)(2) (relating to application of*
 4 *limitations on foreign tax credit in case of certain interest*
 5 *income) is amended—*

6 *(A) by striking out subparagraph (C) and*
 7 *inserting in lieu thereof the following:*

8 *“(C) received from a corporation in which the*
 9 *taxpayer (or one or more includible corporations in*
 10 *an affiliated group, as defined in section 1504, of*
 11 *which the taxpayer is a member) owns, directly or*
 12 *indirectly, at least 10 percent of the voting stock,”.*

13 *(B) by adding at the end thereof the following*
 14 *new sentence:*

15 *“For purposes of subparagraph (C); stock owned, di-*
 16 *rectly or indirectly, by or for a foreign corporation*
 17 *shall be considered as being proportionately owned by*
 18 *its shareholders.”*

19 *(2) The amendments made by paragraph (1) shall*
 20 *apply to interest received after December 31, 1965,*
 21 *in taxable years ending after such date.*

1 SEC. 107. AMENDMENT TO PRESERVE EXISTING LAW ON
 2 DEDUCTIONS UNDER SECTION 931.

3 (a) DEDUCTIONS.—Subsection (d) of section 931 (re-
 4 lating to deductions) is amended to read as follows:

5 “(d) DEDUCTIONS.—

6 “(1) GENERAL RULE.—Except as otherwise pro-
 7 vided in this subsection and subsection (e), in the case
 8 of persons entitled to the benefits of this section the
 9 deductions shall be allowed only if and to the extent
 10 that they are connected with income from sources within
 11 the United States; and the proper apportionment and
 12 allocation of the deductions with respect to sources of
 13 income within and without the United States shall be
 14 determined as provided in part I, under regulations
 15 prescribed by the Secretary or his delegate.

16 “(2) EXCEPTIONS.—The following deductions shall
 17 be allowed whether or not they are connected with in-
 18 come from sources within the United States:

19 “(A) The deduction, for losses not connected
 20 with the trade or business if incurred in transactions
 21 entered into for profit, allowed by section 165(c)

1 (2), but only if the profit, if such transaction had
2 resulted in a profit, would be taxable under this
3 subtitle.

4 “(B) The deduction, for losses of property not
5 connected with the trade or business if arising from
6 certain casualties or theft, allowed by section 165
7 (c)(3), but only if the loss is of property within
8 the United States.

9 “(C) The deduction for charitable contribu-
10 tions and gifts allowed by section 170.

11 “(3) DEDUCTION DISALLOWED.—

 “*For disallowance of standard deduction, see section 142(b)(2).*”

12 (b) *EFFECTIVE DATE.*—The amendment made by this
13 section shall apply with respect to taxable years beginning
14 after December 31, 1966.

15 **SEC. 108. ESTATES OF NONRESIDENTS NOT CITIZENS.**

16 (a) *RATE OF TAX.*—Subsection (a) of section 2101
17 (relating to tax imposed in case of estates of nonresidents
18 not citizens) is amended to read as follows:

19 “(a) *RATE OF TAX.*—Except as provided in section
20 2107, a tax computed in accordance with the following table
21 is hereby imposed on the transfer of the taxable estate, de-

- 1 *terminated as provided in section 2106, of every decedent non-*
 2 *resident not a citizen of the United States:*

"If the taxable estate is:

The tax shall be:

<i>Not over \$100,000-----</i>	<i>5% of the taxable estate.</i>
<i>Over \$100,000 but not over</i> <i>\$500,000-----</i>	<i>\$5,000, plus 10% of excess over</i> <i>\$100,000.</i>
<i>Over \$500,000 but not over</i> <i>\$1,000,000-----</i>	<i>\$45,000, plus 15% of excess over</i> <i>\$500,000.</i>
<i>Over \$1,000,000 but not over</i> <i>\$2,000,000-----</i>	<i>\$120,000, plus 20% of excess over</i> <i>\$1,000,000.</i>
<i>Over \$2,000,000-----</i>	<i>\$320,000, plus 25% of excess over</i> <i>\$2,000,000."</i>

- 3 *(b) CREDITS AGAINST TAX.—Section 2102 (relating*
 4 *to credits allowed against estate tax) is amended to read as*
 5 *follows:*

6 ***"SEC. 2102. CREDITS AGAINST TAX.***

- 7 *"(a) IN GENERAL.—The tax imposed by section 2101*
 8 *shall be credited with the amounts determined in accordance*
 9 *with sections 2011 to 2013, inclusive (relating to State death*
 10 *taxes, gift tax, and tax on prior transfers), subject to the*
 11 *special limitation provided in subsection (b).*

- 12 *"(b) SPECIAL LIMITATION.—The maximum credit*
 13 *allowed under section 2011 against the tax imposed by sec-*
 14 *tion 2101 for State death taxes paid shall be an amount*
 15 *which bears the same ratio to the credit computed as pro-*
 16 *vided in section 2011(b) as the value of the property, as*
 17 *determined for purposes of this chapter, upon which State*

1 death taxes were paid and which is included in the gross
 2 estate under section 2103 bears to the value of the total gross
 3 estate under section 2103. For purposes of this subsection,
 4 the term 'State death taxes' means the taxes described in
 5 section 2011(a)."

6 (c) *PROPERTY WITHIN THE UNITED STATES.*—Sec-
 7 tion 2104 (relating to property within the United States) is
 8 amended by adding at the end thereof the following new
 9 subsection:

10 "(c) *DEBT OBLIGATIONS.*—For purposes of this sub-
 11 chapter, debt obligations of—

12 "(1) a United States person, or

13 "(2) the United States, a State or any political
 14 subdivision thereof, or the District of Columbia.

15 owned and held by a nonresident not a citizen of the United
 16 States shall be deemed property within the United States.
 17 With respect to estates of decedents dying after December 31,
 18 1971, deposits with a domestic branch of a foreign corpora-
 19 tion, if such branch is engaged in the commercial banking
 20 business, shall, for purposes of this subchapter, be deemed
 21 property within the United States. This subsection shall not
 22 apply to a debt obligation to which section 2105(b) applies or
 23 to a debt obligation of a domestic corporation if any interest on
 24 such obligation, were such interest received by the decedent
 25 at the time of his death, would be treated by reason of sec-

tion 861(a)(1)(B) as income from sources without the United States.”

(d) *PROPERTY WITHOUT THE UNITED STATES.*—Subsection (b) of section 2105 (relating to bank deposits) is amended to read as follows:

“(b) *CERTAIN BANK DEPOSITS, ETC.*—For purposes of this subchapter—

“(1) amounts described in section 861(c) if any interest thereon, were such interest received by the decedent at the time of his death, would be treated by reason of section 861(a)(1)(A) as income from sources without the United States, and

“(2) deposits with a foreign branch of a domestic corporation or domestic partnership, if such branch is engaged in the commercial banking business, shall not be deemed property within the United States.”

(e) *DEFINITION OF TAXABLE ESTATE.*—Paragraph (3) section 2106(a) (relating to deduction of exemption from gross estate) is amended to read as follows:

“(3) *EXEMPTION.*—

“(A) *GENERAL RULE.*—An exemption of \$30,000.

“(B) *RESIDENTS OF POSSESSIONS OF THE UNITED STATES.*—In the case of a decedent who is

considered to be a 'nonresident not a citizen of the United States' under the provisions of section 2209, the exemption shall be the greater of (i) \$30,000, or (ii) that proportion of the exemption authorized by section 2052 which the value of that part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated."

(f) *SPECIAL METHODS OF COMPUTING TAX.*—Subchapter B of chapter 11 (relating to estates of nonresidents not citizens) is amended by adding at the end thereof the following new sections:

"SEC. 2107. EXPATRIATION TO AVOID TAX.

"(a) *RATE OF TAX.*—A tax computed in accordance with the table contained in section 2001 is hereby imposed on the transfer of the taxable estate, determined as provided in section 2106, of every decedent nonresident not a citizen of the United States dying after the date of enactment of this section, if after March 8, 1965, and within the 10-year period ending with the date of death such decedent lost United States citizenship, unless such loss did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle A.

"(b) *GROSS ESTATE.*—For purposes of the tax imposed

1 by subsection (a), the value of the gross estate of every
 2 decedent to whom subsection (a) applies shall be determined
 3 as provided in section 2103, except that—

4 “(1) if such decedent owned (within the meaning
 5 of section 958(a)) at the time of his death 10 percent
 6 or more of the total combined voting power of all classes
 7 of stock entitled to vote of a foreign corporation, and

8 “(2) if such decedent owned (within the meaning
 9 of section 958(a)), or is considered to have owned
 10 (by applying the ownership rules of section 958(b)),
 11 at the time of his death, more than 50 percent of the
 12 total combined voting power of all classes of stock en-
 13 titled to vote of such foreign corporation,

14 then that proportion of the fair market value of the stock of
 15 such foreign corporation owned (within the meaning of sec-
 16 tion 958(a)) by such decedent at the time of his death,
 17 which the fair market value of any assets owned by such for-
 18 eign corporation and situated in the United States, at the time
 19 of his death, bears to the total fair market value of all assets
 20 owned by such foreign corporation at the time of his death,
 21 shall be included in the gross estate of such decedent. For
 22 purposes of the preceding sentence, a decedent shall be
 23 treated as owning stock of a foreign corporation at the time

1 of his death if, at the time of a transfer, by trust or otherwise,
 2 within the meaning of sections 2035 to 2038, inclusive, he
 3 owned such stock.

4 “(c) *CREDITS*.—The tax imposed by subsection (a) shall
 5 be credited with the amounts determined in accordance with
 6 section 2102.

7 “(d) *EXCEPTION FOR LOSS OF CITIZENSHIP FOR CER-*
 8 *TAIN CAUSES*.—Subsection (a) shall not apply to the trans-
 9 fer of the estate of a decedent whose loss of United States
 10 citizenship resulted from the application of section 301(b),
 11 350, or 355 of the Immigration and Nationality Act, as
 12 amended (8 U.S.C. 1401 (b), 1482, or 1487).

13 “(e) *BURDEN OF PROOF*.—If the Secretary or his dele-
 14 gate establishes that it is reasonable to believe that an indi-
 15 vidual's loss of United States citizenship would, but for this
 16 section, result in a substantial reduction in the estate, in-
 17 heritance, legacy, and succession taxes in respect of the
 18 transfer of his estate, the burden of proving that such loss of
 19 citizenship did not have for one of its principal purposes the
 20 avoidance of taxes under this subtitle or subtitle A shall be
 21 on the executor of such individual's estate.

22 “SEC. 2108. *APPLICATION OF PRE-1967 ESTATE TAX PRO-*
 23 *VISIONS*.

24 “(a) *IMPOSITION OF MORE BURDENSOME TAX BY*
 25 *FOREIGN COUNTRY*.—Whenever the President finds that—

1 “(1) under the laws of any foreign country, con-
2 sidering the tax system of such foreign country, a more
3 burdensome tax is imposed by such foreign country on
4 the transfer of estates of decedents who were citizens of
5 the United States and not residents of such foreign
6 country than the tax imposed by this subchapter on the
7 transfer of estates of decedents who were residents of
8 such foreign country,

9 “(2) such foreign country, when requested by the
10 United States to do so, has not acted to revise or reduce
11 such tax so that it is no more burdensome than the tax
12 imposed by this subchapter on the transfer of estates
13 of decedents who were residents of such foreign country,
14 and

15 “(3) it is in the public interest to apply pre-1967
16 tax provisions in accordance with this section to the
17 transfer of estates of decedents who were residents of
18 such foreign country,
19 the President shall proclaim that the tax on the transfer of
20 the estate of every decedent who was a resident of such for-
21 eign country at the time of his death shall, in the case of
22 decedents dying after the date of such proclamation, be
23 determined under this subchapter without regard to amend-
24 ments made to sections 2101 (relating to tax imposed),
25 2102 (relating to credits against tax), 2106 (relating to

1 *taxable estate), and 6018 (relating to estate tax returns)*
 2 *on or after the date of enactment of this section.*

3 “(b) *ALLEVIATION OF MORE BURDENSOME TAX.—*
 4 *Whenever the President finds that the laws of any foreign*
 5 *country with respect to which the President has made a pro-*
 6 *clamation under subsection (a) have been modified so that*
 7 *the tax on the transfer of estates of decedents who were*
 8 *citizens of the United States and not residents of such*
 9 *foreign country is no longer more burdensome than the*
 10 *tax imposed by this subchapter on the transfer of estates*
 11 *of decedents who were residents of such foreign country,*
 12 *he shall proclaim that the tax on the transfer of the*
 13 *estate of every decedent who was a resident of such*
 14 *foreign country at the time of his death shall, in the case*
 15 *of decedents dying after the date of such proclamation, be*
 16 *determined under this subchapter without regard to sub-*
 17 *section (a).*

18 “(c) *NOTIFICATION OF CONGRESS REQUIRED.—No*
 19 *proclamation shall be issued by the President pursuant to*
 20 *this section unless, at least 30 days prior to such proclama-*
 21 *tion, he has notified the Senate and the House of Repre-*
 22 *sentatives of his intention to issue such proclamation.*

23 “(d) *IMPLEMENTATION BY REGULATIONS.—The Sec-*
 24 *retary or his delegate shall prescribe such regulations as may*
 25 *be necessary or appropriate to implement this section.”*