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

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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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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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.

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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 amentment, 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

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.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

~~SECTION 1. SHORT TITLE, ETC.~~

~~(a) SHORT TITLE.—This Act may be cited as the "Foreign Investors Tax Act of 1966".~~

~~(b) TABLE OF CONTENTS.—~~

~~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. 896. 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 931.~~
~~(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.~~

~~(c) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.~~

~~**SEC. 2. SOURCE OF INCOME.**~~

~~(a) INTEREST.—~~

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

~~"(A) interest on amounts described in subsection (c) received by a nonresident alien individual or a foreign corporation, if such interest is~~

~~not effectively connected with the conduct of a trade or business within the United States,".~~

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

~~"(c) INTEREST ON DEPOSITS, ETC.—For purposes of subsection (a) (1) (A), the amounts described in this subsection are—~~

~~"(1) deposits with persons carrying on the banking business,~~

~~"(2) deposits or withdrawable accounts with savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, but only to the extent that amounts paid or credited on such deposits or accounts are deductible under section 591 in computing the taxable income of such institutions, and~~

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

~~Effective with respect to amounts paid or credited after December 31, 1971, subsection (a) (1) (A) and this subsection shall cease to apply."~~

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

~~in lieu thereof ", and", and by adding at the end thereof the following new subparagraph:~~

~~"(D) interest on deposits with a foreign branch of a domestic corporation, if such branch is engaged in the commercial banking business."~~

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

~~(i) by striking out "shall not be included" and inserting in lieu thereof ", or from interest on deposits with persons carrying on the banking business, shall not be included";~~

~~(ii) by striking out "such obligations" and inserting in lieu thereof "such obligations or deposits";~~

~~(iii) by adding at the end thereof the following new sentence: "For purposes of the preceding sentence, the Bank for International Settlements shall be treated as a foreign central bank of issue with respect to interest on deposits with persons carrying on the banking business."; and~~

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

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

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

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

~~(b) DIVIDENDS.—~~

~~(1) Section 861 (a) (2) (B) (relating to dividends from sources within the United States) is amended to 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~~

~~of such period as the corporation has been in existence) was effectively connected with the conduct of a trade or business within the United States; but only in an amount which bears the same ratio to such dividends as the gross income of the corporation for such period which is effectively connected with the conduct of a trade or business within the United States bears to its gross income from all sources; but dividends from a foreign corporation shall, for purposes of subpart A of part III (relating to foreign tax credit), be treated as income from sources without the United States to the extent (and only to the extent) exceeding the amount which is 100/85ths of the amount of the deduction allowable under section 245 in respect of such dividends, or".~~

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

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

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

~~"(ii) an individual who is a citizen or resident of the United States, a domestic partnership, or a domestic corporation, if such labor or services are performed for an office or place of business maintained in a foreign country or in a possession of the United States by such individual, partnership, or corporation."~~

~~(d) Definitions.—Section 864 (relating to definitions) is amended—~~

~~(1) by striking out "For purposes of this part," and inserting in lieu thereof~~

~~"(a) Sale, Etc.—For purposes of this part,"; and~~

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

~~"(b) Trade or Business Within the United States.—For purposes of this part, part II, and chapter 3, the term 'trade or business within the United States' includes the performance of personal services within the United States at any time within the taxable year, but does not include—~~

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

~~"(A) for a nonresident alien individual, foreign partnership, or foreign corporation, not engaged in trade or business within the United States, or~~

~~"(B) for an office or place of business maintained in a foreign country or in a possession of the United States by an individual who is a citizen or resident of the United States or by a domestic partnership or a domestic corporation,~~

~~by a nonresident alien individual temporarily present in the United States for a period or periods not exceeding a total of 90 days during the taxable year and whose compensation for such services does not exceed in the aggregate $3,000.~~

~~"(2) TRADING IN SECURITIES OR COMMODITIES.—~~

~~"(A) STOCKS AND SECURITIES.—~~

~~"(i) Except in the case of a dealer in stocks or securities, trading in stocks or securities 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 agent has discretionary authority to make de-~~

~~cisions in effecting the transactions. This clause shall not apply in the case of a corporation (other than a corporation which is, or but for section 542 (c) (7) would be, a personal holding company) the principal business of which is trading in stocks or securities for its own account, if its principal office is in the United States.~~

~~"(ii) In the case of a person who is a dealer in stocks or securities, trading in stocks or securities for his own account through a resident broker, commission agent, custodian, or other independent agent.~~

~~"(B) Commodities.—~~

~~"(i) Except in the case of a dealer in commodities, 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 agent has discretionary authority to make decisions in effecting the transactions.~~

~~"(ii) In the case of a person who is a dealer in commodities, trading in commodities 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.~~

~~“(c) 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~~

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

~~"(i) consists of rents or royalties for the use of or for the privilege of using intangible property described in section 862 (a) (4) (including any gain or loss realized on the sale of such property) derived in the active conduct of such trade or business;~~

~~"(ii) consists of dividends or interest, or gain or loss from the sale or exchange of stock or notes, bonds, or other evidences of indebtedness, and either is derived in the active conduct of a banking, financing, or similar business within the United States or is received by a corporation the principal business of which is trading in stock or securities for its own account; or~~

~~"(iii) is derived from the sale (without the United States) through such office or fixed place of business of personal property described~~

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

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

~~"(C) In the case of a foreign corporation taxable under part I of subchapter L, any income from sources without the United States which is attributable to its United States business shall be treated as effectively connected with the conduct of a trade or business within the United States.~~

~~"(D) 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 if it either—~~

~~"(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.~~

~~**SEC. 3. 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, emoluments, and other fixed or determinable annual or periodical gains, profits, and income,~~

~~"(B) gains described in section 402(a)(2), 403(a)(2), or 631 (b) or (c), and gains on transfers described in section 1235, and~~

~~"(C) amounts which under section 341, or under section 1232 (in the case of bonds or other evidences of indebtedness issued after September 28, 1965), are treated as gains from the sale or exchange of property which is not a capital asset,~~

~~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 acount in determining the tax under paragraph (1) or subsection (b)~~

~~shall not be taken into account in determining the tax under this paragraph. For purposes of the 183-day requirement of this paragraph, a nonresident alien individual not engaged in trade or business within the United States who has not established a taxable year for any prior period shall be treated as having a taxable year which is the calendar year.~~

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

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

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

~~"(c) PARTICIPANTS IN CERTAIN EXCHANGE OR TRAINING PROGRAMS.—For purposes of this section, a nonresident alien individual who (without regard to this subsection) is not engaged in trade or business within the~~

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

~~"(d) ELECTION TO TREAT REAL PROPERTY INCOME AS INCOME CONNECTED WITH UNITED STATES BUSINESS.—~~

~~"(1) IN GENERAL.—A nonresident alien individual who during the taxable year derives any income—~~

~~"(A) from real property held for the production of income and located in the United States, or from any interest in such real property, including (i) gains from the sale or exchange of such real property or an interest therein, (ii) rents or royalties from mines, wells, or other natural deposits, and (iii) gains described in section 631(b) or (c), and~~

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

~~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) 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)."~~

~~(2) Section 1 (relating to tax on individuals) is amended by redesignating subsection (d) as subsection (e), and by inserting after subsection (c) the following new subsection:~~

~~"(d) NONRESIDENT ALIENS.—In the case of a nonresident alien individual, the tax imposed by subsection (a) shall apply only as provided by section 871 or 877."~~

~~(b) GROSS INCOME.—~~

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

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

~~"(a) GENERAL RULE.—In the case of a nonresident alien individual, gross income includes only—~~

~~"(1) gross income which is derived from sources within the United States and which is not effectively connected with the conduct of a trade or business within the United States, and~~

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

~~(2) Subparagraph (B) of section 872(b)(3) (relating to compensation of participants in certain exchange or training programs) is amended by striking out "by a domestic corporation" and inserting in lieu thereof "by a domestic corporation, a domestic partnership, or an individual who is a citizen or resident of the United States".~~

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

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

~~savings bond, if such individual acquired such bond while a resident of the Ryukyu Islands or the Trust Territory of the Pacific Islands."~~

~~(c) DEDUCTIONS.—~~

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

~~"SEC. 873. DEDUCTIONS.~~

~~"(a) GENERAL RULE.—In the case of a nonresident alien individual, the deductions shall be allowed only for purposes of section 871 (b) and (except as provided by subsection (b)) only if and to the extent that they are connected with income which is effectively connected with the conduct of a trade or business within the United States; and the proper apportionment and allocation of the deductions for this purpose shall be determined as provided in regulations prescribed by the Secretary or his delegate.~~

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

~~"(1) LOSSES.—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 located within the United States.~~

~~“(2) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions and gifts allowed by section 170.~~

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

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

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

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

~~“(a) RETURN PREREQUISITE TO ALLOWANCE.—A nonresident alien individual shall receive the benefit of the deductions and credits allowed to him 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 (sec. 6001 and following, relating to procedure and administration), including therein all the information which the Secretary or his delegate may deem necessary for the calculation of such deductions and credits. This subsection shall not be construed to deny the credits provided by sections 31 and 32 for tax withheld at source or the credit provided by section 39 for certain uses of gasoline and lubricating oil."~~

~~(c) EXPATRIATION TO AVOID TAX.—~~

~~(1) Subpart A of part II of subchapter N of chapter 1 (relating to nonresident alien individuals) is amended by redesignating section 877 as section 878, and by inserting after section 876 the following new section:~~

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

~~"(a) IN GENERAL.—Every nonresident alien individual who at any time after March 8, 1965, and within the 5-year period immediately preceding the close of the taxable year 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 B, shall be taxable for such taxable year in the manner provided in subsection (b) if the tax imposed pursuant to such subsection exceeds the tax~~

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

~~"(b) ALTERNATIVE TAX.—A nonresident alien individual described in subsection (a) shall be taxable for the taxable year as provided in section 1 or section 1201(b), except that—~~

~~"(1) the gross income shall include only the gross income described in section 872(a) (as modified by subsection (c) of this section), and~~

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

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

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

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

~~"(1) SALE OF PROPERTY.—Gains on the sale or exchange of property (other than stock or debt obligations) located in the United States.~~

~~"(2) STOCK OR DEBT OBLIGATIONS.—Gains on the sale or exchange of stock issued by a domestic corporation or debt obligations of United States persons or of the United States, a State or political subdivision thereof, or the District of Columbia.~~

~~"(d) EXCEPTION FOR LOSS OF CITIZENSHIP FOR CERTAIN CAUSES.—Subsection (a) shall not apply to a nonresident alien individual whose loss of United States citizenship resulted from the application of section 301(b), 350, or 355 of the Immigration and Nationality Act, as amended (8 U.S.C. 1401(b), 1482, or 1487).~~

~~"(e) BURDEN OF PROOF.—If the Secretary or his delegate establishes that it is reasonable to believe that an individual's loss of United States citizenship would, but for this section, result in a substantial reduction for the taxable year in the taxes on his probable income for such year, the burden of proving for such taxable year that such loss of citizenship did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle B shall be 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-~~

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

~~(5) by striking out “amounts described in section 402 (a) (2), section 403 (a) (2), section 631 (b) and (c), and section 1235, which are considered to be gains from the sale or exchange of capital assets,” in paragraph (5) of subsection (c) and inserting in lieu thereof “gains described in sections 402 (a) (2), 403 (a) (2), or 631 (b) or (c), and gains on transfers described in section 1235,”, and by striking out “proceeds from such sale or exchange,” in such paragraph and inserting in lieu thereof “amount payable,”.~~

~~(h) 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 person for the amount of any payments made in accordance with the provisions of this chapter.”~~

~~(i) DECLARATION OF ESTIMATED INCOME TAX BY INDIVIDUALS.—Section 6015 (relating to declaration of estimated income tax by individuals) is amended—~~

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

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

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

~~(3) by inserting after subsection (h) the following new subsection:~~

~~"(i) NONRESIDENT ALIEN INDIVIDUALS.—No declaration shall be required to be made under this section by a nonresident alien individual unless—~~

~~"(1) withholding under chapter 24 is made applicable to the wages, as defined in section 3401 (a), of such individual,~~

~~"(2) such individual has income (other than compensation for personal services subject to deduction and withholding under section 1441) which is effectively connected with the conduct of a trade or business within the United States, or~~

~~"(3) such individual is a resident of Puerto Rico during the entire taxable year."~~

~~(j) GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY.—The second sentence of paragraph (3) of section 1250(d) (relating to certain tax-free transactions) is amended to read as follows: "This paragraph shall not apply to—~~

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

~~"(B) a transfer of property by a nonresident alien individual, a foreign estate or trust, or a foreign partnership, to a domestic corporation in exchange for stock or securities in such corporation in a transaction to which section 351 applies."~~

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

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

~~"(6) for such services, performed by a nonresident alien individual, as may be designated by regulations prescribed by the Secretary or his delegate; or".~~

~~(l) DEFINITION OF FOREIGN ESTATE OR TRUST.—Section 7701(a)(31) (defining foreign estate or trust) is amended by striking out "from sources without the United States" and inserting in lieu thereof ", from sources without the United States which is not effectively connected with the conduct of a trade or business within the United States,".~~

~~(m) CONFORMING AMENDMENT.—The first sentence of section 932(a) (relating to citizens of possessions of the United States) is amended to read as follows: "Any individual who is a citizen of any possession of the United States (but not otherwise a citizen of the United States) and who is not a resident of the United States shall be subject to taxation under this subtitle in the same manner and subject to the same conditions as in the case of a nonresident alien individual."~~

~~(n) EFFECTIVE DATES.—~~

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

~~(k)) shall apply with respect to taxable years beginning after December 31, 1966.~~

~~(2) The amendments made by subsection (h) shall apply with respect to payments occurring after December 31, 1966.~~

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

~~**SEC. 4. FOREIGN CORPORATIONS.**~~

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

~~**"SEC. 881. INCOME OF FOREIGN CORPORATIONS NOT CONNECTED WITH UNITED STATES BUSINESS.**~~

~~"(a) IMPOSITION OF TAX.—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 foreign corporation as—~~

~~"(1) interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, and other fixed or determinable annual or periodical gains, profits, and income,~~

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

~~"(3) amounts which under section 341, or under~~

~~section 1232 (in the case of bonds or other evidences of indebtedness issued after September 28, 1965), are treated as gains from the sale or exchange of property which is not a capital asset,~~

~~but only to the extent the amount so received is not effectively connected with the conduct of a trade or business within the United States.~~

~~"(b) DOUBLING OF TAX.—~~

~~**"For doubling of tax on corporations of certain foreign countries, see section 891."**~~

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

~~(1) Section 882 (relating to tax on resident foreign corporations) is amended to read as follows:~~

~~**"SEC. 882. INCOME OF FOREIGN CORPORATIONS CONNECTED WITH UNITED STATES BUSINESS.**~~

~~"(a) NORMAL TAX AND SURTAX.—~~

~~"(1) IMPOSITION OF TAX.—A foreign corporation engaged in trade or business within the United States during the taxable year shall be taxable as provided in section 11 or 1201(a) on its taxable income which is effectively connected with the conduct of a trade or business within the United States.~~

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

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

~~"(b) GROSS INCOME.—In the case of a foreign corporation, gross income includes only—~~

~~"(1) gross income which is derived from sources within the United States and which is not effectively connected with the conduct of a trade or business within the United States, and~~

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

~~"(c) ALLOWANCE OF DEDUCTIONS AND CREDITS.—~~

~~"(1) ALLOCATION OF DEDUCTIONS.—~~

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

~~regulations prescribed by the Secretary or his 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. This paragraph 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.~~

~~"(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).**~~

~~"(d) ELECTION TO TREAT REAL PROPERTY INCOME AS INCOME CONNECTED WITH UNITED STATES BUSINESS.—~~

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

~~"(A) from real property located in the United States, or from any interest in such real property, including (i) gains from the sale or exchange of real property or an interest therein, (ii) rents or royalties from mines, wells, or other natural deposits, and (iii) gains described in section 631 (b) or (c), and~~

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

~~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 (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).~~

~~"(e) 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).~~

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

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

~~(3) The table of sections for subpart B of part II of subchapter N of chapter 1 is amended by striking out the items relating to sections 881 and 882 and inserting 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."~~

~~(c) WITHHOLDING OF TAX ON FOREIGN CORPORATIONS.—Section 1442 (relating to withholding of tax on foreign corporations) is amended to read as follows:~~

~~**"SEC. 1442. WITHHOLDING OF TAX ON FOREIGN CORPORATIONS.**~~

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

~~ing to tax-free covenant bonds), the deduction and withholding shall be at the rate specified therein. For purposes of the preceding sentence, the reference in section 1441 (c) (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 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 corporation engaged in trade or business within the United States if the Secretary or his delegate determines 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~~

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

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

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

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

~~"For purposes of this subsection, the gross income of the foreign corporation for any period before the first taxable year beginning after December 31, 1966, which is effectively connected with the conduct of a trade or business within the United States is an amount equal to the gross income for such period from sources within the United States."~~

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

~~related business taxable income which is effectively connected with the conduct of a trade or business within the United States."~~

~~(f) CORPORATION SUBJECT TO PERSONAL HOLDING COMPANY TAX.—Paragraph (7) of section 542(c) (relating to corporations not subject to the personal holding company tax) is amended to read as follows:~~

~~"(7) a foreign corporation, 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;".~~

~~(g) AMENDMENTS WITH RESPECT TO FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS IN UNITED STATES.—~~

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

~~"SEC. 842. FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS.~~

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

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

~~(2) The table of sections for part IV of subchapter L of chapter 1 is amended by striking out the item relating to section 842 and inserting in lieu thereof the following:~~

~~"Sec. 842. Foreign corporations carrying on insurance business."~~

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

~~(A) by striking out subsections (a) and (d) and by redesignating subsections (b) and (c) as subsections (a) and (b),~~

~~(B) by striking out "In the case of any company described in subsection (a)," in subsection (a)(1) (as redesignated by subparagraph (A)) and inserting in lieu thereof "In the case of any foreign corporation taxable under this part,",~~

~~(C) by striking out "subsection (c)" in the last sentence of subsection (a)(2) (as redesignated by subparagraph (A)) and inserting in lieu thereof "subsection (b)",~~

~~(D) by adding at the end of subsection (a) (as redesignated by subparagraph (A)) the following new paragraph:~~

~~"(3) REDUCTION OF SECTION 881 TAX.—In the case of any foreign corporation taxable under this part, there shall be determined—~~

~~"(A) the amount which would be subject to tax under section 881 if the amount taxable under such section were determined without regard to sections 103 and 894, and~~

~~"(B) the amount of the reduction provided by paragraph (1).~~

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

~~(E) by striking out "for purposes of subsection (a)" each place it appears in subsection (b) (as redesignated by subparagraph (A)) and insert-~~

~~ing in lieu thereof "with respect to a foreign corporation",~~

~~(F) by striking out "foreign life insurance company" each place it appears in such subsection (b) and inserting in lieu thereof "foreign corporation",~~

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

~~(H) by striking out "subsection (b)(2)(B)" in paragraph (2)(B)(ii) of such subsection (b) and inserting in lieu thereof "subsection (a)(2)(B)", and~~

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

~~"(c) CROSS REFERENCE.—~~

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

~~(4) Section 821 (relating to tax on mutual insurance companies to which part II applies) is amended—~~

~~(A) by striking out subsection (c) and by redesignating subsections (f) and (g) as subsections (c) and (f), and~~

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

~~(as redesignated by subparagraph (A)) the following:~~

> ~~**"(3) For taxation of foreign corporations carrying on an insurance business within the United States, see section 842."**~~

~~(5) Section 822 (relating to determination of taxable investment income) is amended by striking out subsection (c) 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),".~~

~~(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 income 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 earnings and profits) is amended to read as follows:~~

~~"(4) UNITED STATES INCOME.—Any item includible in gross income of the foreign corporation under this chapter—~~

~~"(A) for any taxable year beginning before January 1, 1967, as income derived from sources within the United States of a foreign corporation engaged in trade or business within the United States, or~~

~~"(B) for any taxable year beginning after December 31, 1966, as income effectively connected with the conduct by such corporation of a trade or business within the United States.~~

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

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

~~"(f) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."~~

~~(k) TECHNICAL AMENDMENTS.—~~

~~(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."**~~

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

~~(3) Section 1249(a) is amended by striking out "Except as provided in subsection (c), gain" and inserting in lieu thereof "Gain".~~

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

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

~~SEC. 5. SPECIAL TAX PROVISIONS.~~

~~(a) INCOME AFFECTED BY TREATY.—Section 894 (relating to income exempt under treaties) is amended to read as follows:~~

~~"SEC. 894. INCOME AFFECTED BY TREATY.~~

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

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

~~(b) APPLICATION OF PRE-1967 INCOME TAX PROVISIONS.—Subpart C of part II of subchapter N of chapter 1~~

~~(relating to miscellaneous provisions applicable to nonresident aliens and foreign corporations) is amended by adding at the end thereof the following new section:~~

~~"SEC. 896. APPLICATION OF PRE-1967 INCOME TAX PROVISIONS.~~

~~"(a) IMPOSITION OF MORE BURDENSOME TAXES BY FOREIGN COUNTRY.—Whenever the President finds that—~~

~~"(1) under the laws of any foreign country, considering the tax system of such foreign country, citizens of the United States not residents of such foreign country or domestic corporations are being subjected to more burdensome taxes, on any item of income received by such citizens or corporations from sources within such foreign country, than taxes imposed by the provisions of this subtitle on similar income derived from sources within the United States by residents or corporations of such foreign country,~~

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

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

~~section to residents or corporations of such foreign country,~~

~~the President shall proclaim that the tax on such similar income derived from sources within the United States by residents or corporations of such foreign country shall, for taxable years beginning after such proclamation, be determined under this subtitle without regard to amendments made to this subchapter and chapter 3 on or after the date of enactment of this section.~~

~~"(b) Alleviation of More Burdensome Taxes.—Whenever the President finds that the laws of any foreign country with respect to which the President has made a proclamation under subsection (a) have been modified so that citizens of the United States not residents of such foreign country or domestic corporations are no longer subject to more burdensome taxes on such item of income derived by such citizens or corporations from sources within such foreign country, he shall proclaim that the tax on such similar income derived from sources within the United States by residents or corporations of such foreign country shall, for any taxable year beginning after such proclamation, be determined under this subtitle without regard to subsection (a).~~

~~"(c) Notification of Congress Required.—No proclamation shall be issued by the President pursuant to~~

~~this section unless, at least 30 days prior to such proclamation, he has notified the Senate and the House of Representatives of his intention to issue such proclamation.~~

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

~~(c) CLERICAL AMENDMENTS.—The table of sections for subpart G of part II of subchapter N of chapter 1 is amended—~~

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

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

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

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

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

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

~~(1) Part III of subchapter N of chapter 1 (relating to income from sources without the United States)~~

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

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

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

~~"SEC. 981. ELECTION AS TO TREATMENT OF INCOME SUBJECT TO FOREIGN COMMUNITY PROPERTY LAWS.~~

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

~~"(1) an individual is (A) a citizen of the United States, (B) a bona fide resident of a foreign country or countries during the entire taxable year, and (C) married at the close of the taxable year to a spouse who is a nonresident alien during the entire taxable year, and~~

~~"(2) such individual and his spouse elect to have subsection (b) apply to their community income under foreign community property laws,~~

~~then subsection (b) shall apply to such income of such individual and such spouse for the taxable year and for all subsequent taxable years for which the requirements of para-~~

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

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

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

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

~~"(3) Community income not described in paragraph (1) or (2) which is derived from the separate property (as determined under the applicable foreign community property law) of one spouse shall be treated as the income of such spouse.~~

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

~~"(c) Election for Pre-1967 Years.—~~

~~"(1) Election.—If an individual meets the requirements of subsection (a) (1) (A) and (C) for any taxable year beginning before January 1, 1967, and if such individual and the spouse referred to in subsection (a) (1) (C) elect under this subsection, then paragraph (2) of this subsection shall apply to their community income under foreign community property laws for all open taxable years beginning before January 1, 1967 (whether under this chapter, the corresponding provisions of the Internal Revenue Code of 1939, or the corresponding provisions of prior revenue laws), for which the requirements of subsection (a) (1) (A) and (C) are met.~~

~~"(2) Effect of election.—For any taxable year to which an election made under this subsection applies, the community income under foreign community property laws of the husband and wife making the election shall be treated as provided by subsection (b), except that the other community income described in paragraph (4) of subsection (b) shall be treated as the income of the spouse who, for such taxable year, had 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~~

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

~~"(B) that the effect on such liability for tax cannot be ascertained and that to deny the election to the citizen of the United States would be inequitable and cause undue hardship,~~

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

~~"(4) Interest.—To the extent that any overpayment or deficiency for a taxable year is attributable to an election made under this section, no interest shall be allowed or paid for any period before the day which is 1 year after the date of such election.~~

~~"(c) Definitions and Special Rules.—For purposes of this section—~~

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

~~"(2) Open years.—A taxable year of a citizen of the United States and his spouse shall be treated as 'open' if the period for assessing a deficiency against such citizen for such year has not expired before the~~

~~date of the election under subsection (a) or (c), as the 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."~~

~~SEC. 6. FOREIGN TAX CREDIT.~~

~~(a) ALLOWANCE OF CREDIT TO CERTAIN NONRESIDENT ALIENS AND FOREIGN CORPORATIONS.—~~

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

~~"SEC. 906. NONRESIDENT ALIEN INDIVIDUALS AND FOREIGN CORPORATIONS.~~

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

~~"(b) SPECIAL RULES.—~~

~~"(1) For purposes of subsection (a) and for purposes of determining the deductions allowable under sections 873(a) and 882(c), in determining the amount 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 (c) is amended by striking out "(c) FOREIGN TAX CREDIT NOT ALLOWED.—A nonresident" and inserting in lieu thereof the following:~~

~~"(c) 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),".~~

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

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

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

~~(2) Section 901 is amended by redesignating subsections (c) and (d) as subsections (d) and (e), and by inserting after subsection (b) the following new subsection:~~

~~"(c) SIMILAR CREDIT REQUIRED FOR CERTAIN ALIEN RESIDENTS.—Whenever the President finds that—~~

~~"(1) a foreign country, in imposing income, war profits, and excess profits taxes, does not allow to~~

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

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

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

~~the President shall proclaim that, for taxable years beginning while the proclamation remains in effect, the credit under subsection (b) (3) shall be allowed to citizens or subjects of such foreign country only if such foreign country, in imposing income, war profits, and excess profits taxes, allows to citizens of the United States residing in such foreign country such a similar credit."~~

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

~~tence of subsection (a), and by adding at the end of such section the following new subsection:~~

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

~~"(1) a foreign country, in imposing estate, inheritance, legacy, or succession taxes, does not allow to citizens of the United States resident in such foreign country at the time of death a credit similar to the credit allowed under subsection (a),~~

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

~~"(3) it is in the public interest to allow the credit under subsection (a) in the case of citizens or subjects of such foreign country only if it allows such a similar credit in the case of citizens of the United States resident in such foreign country at the time of death,~~

~~the President shall proclaim that, in the case of citizens or subjects of such foreign country dying while the proclamation remains in effect, the credit under subsection (a) shall be allowed only if such foreign country allows such a similar credit in the case of citizens of the United States resident in such foreign country at the time of death."~~

~~(4) The amendments made by this subsection~~

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

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

~~(1) Section 904(f)(2) (relating to application of limitations on foreign tax credit in case of certain interest income) is amended—~~

~~(A) by striking out "or" at the end of subparagraph (C),~~

~~(B) by striking out the period at the end of subparagraph (D) and inserting in lieu thereof ", or", and~~

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

~~"(E) received by an overseas operations funding subsidiary on obligations of a related foreign corporation."~~

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

~~"(5) DEFINITIONS FOR PURPOSES OF PARAGRAPH (1)(E).—For purposes of paragraph (1)(E).—~~

~~"(A) the term 'overseas operations funding subsidiary' means a domestic corporation which (i) is a member of an affiliated group (within the meaning of section 1504) and is not the common parent corporation, and (ii) was formed and is availed of for the principal purpose of raising funds outside the United States through public offerings to foreign persons and of using such funds to finance the operations in foreign countries of one or more related foreign corporations, and~~

~~"(B) a foreign corporation is, with respect to an overseas operations funding subsidiary, a related foreign corporation if the affiliated group of which such subsidiary is a member owns 50 percent or more of the voting stock of such foreign corporation either directly or through ownership of the voting stock of another foreign corporation."~~

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

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

~~(a) DEDUCTIONS.—Subsection (d) of section 931 (relating to deductions) is amended to read as follows:~~

~~"(d) DEDUCTIONS.—~~

~~"(1) GENERAL RULE.—Except as otherwise provided in this subsection and subsection (e), in the case of persons entitled to the benefits of this section the deductions shall be allowed only if and to the extent that they are connected with income from sources within the United States; and the proper apportionment and allocation of the deductions with respect to sources of income within and without the United States shall be determined as provided in part I, under regulations prescribed by the Secretary or his delegate.~~

~~"(2) EXCEPTIONS.—The following deductions shall be allowed whether or not they are connected with income from sources within the United States:~~

~~"(A) The deduction, for losses not connected 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 contributions 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-~~

~~termined as provided in section 2106, of every decedent non-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~~	~~$45,000, 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~~	~~$320,000, plus 25% of excess over $2,000,000.~~

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

~~"SEC. 2102. CREDITS AGAINST TAX.~~

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

~~"(b) SPECIAL LIMITATION.—The maximum credit allowed under section 2011 against the tax imposed by section 2101 for State death taxes paid shall be an amount which bears the same ratio to the credit computed as provided in section 2011 (b) as the value of the property, as~~

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

~~(c) PROPERTY WITHIN THE UNITED STATES.—Section 2104 (relating to property within the United States) is amended by adding at the end thereof the following new subsection:~~

~~"(c) DEBT OBLIGATIONS.—For purposes of this subchapter, debt obligations of—~~

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

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

~~owned by a nonresident not a citizen of the United States shall be deemed property within the United States. This subsection shall not apply to a debt obligation of a domestic corporation if any interest on such obligation, were such interest received by the decedent at the time of his death, would be treated by reason of section 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) DEPOSITS IN CERTAIN FOREIGN BRANCHES.—For purposes of this subchapter, deposits with a foreign branch of a domestic corporation, 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) of 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 by subsection (a), the value of the gross estate of every decedent to whom subsection (a) applies shall be determined as provided in section 2103, except that—~~

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

~~classes of stock entitled to vote of a foreign corporation, and~~

~~“(2) if such decedent owned (within the meaning of section 958(a)), or is considered to have owned (by applying the ownership rules of section 958(b)), at the time of his death, more than 50 percent of the total combined voting power of all classes of stock entitled to vote of such foreign corporation,~~

~~then that proportion of the fair market value of the stock of such foreign corporation owned (within the meaning of section 958(a)) by such decedent at the time of his death, which the fair market value of any assets owned by such foreign corporation and situated in the United States, at the time of his death, bears to the total fair market value of all assets owned by such foreign corporation at the time of his death, shall be included in the gross estate of such decedent. For purposes of the preceding sentence, a decedent shall be treated as owning stock of a foreign corporation at the time of his death if, at the time of a transfer, by trust or otherwise, within the meaning of sections 2035 to 2038, inclusive, he owned such stock.~~

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

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~~"(d) Exception for Loss of Citizenship for Certain Causes.—Subsection (a) shall not apply to the transfer of the estate of a decedent whose loss of United States citizenship resulted from the application of section 301 (b), 350, or 355 of the Immigration and Nationality Act, as amended (8 U.S.C. 1401 (b), 1482, or 1487).~~

~~"(e) Burden of Proof.—If the Secretary or his delegate establishes that it is reasonable to believe that an individual's loss of United States citizenship would, but for this section, result in a substantial reduction in the estate, inheritance, legacy, and succession taxes in respect of the transfer of his estate, the burden of proving that such loss of citizenship did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle A shall be on the executor of such individual's estate.~~

~~**"SEC. 2108. APPLICATION OF PRE-1967 ESTATE TAX PROVISIONS.**~~

~~"(a) Imposition of More Burdensome Tax by Foreign Country.—Whenever the President finds that—~~

~~"(1) under the laws of any foreign country, considering the tax system of such foreign country, a more burdensome tax is imposed by such foreign country on the transfer of estates of decedents who were citizens of the United States and not residents of such foreign country than the tax imposed by this subchapter on the~~

~~transfer of estates of decedents who were residents of such foreign country,~~

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

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

~~the President shall proclaim that the tax on the transfer of the estate of every decedent who was a resident of such foreign country at the time of his death shall, in the case of decedents dying after the date of such proclamation, be determined under this subchapter without regard to amendments made to sections 2101 (relating to tax imposed), 2102 (relating to credits against tax), 2106 (relating to taxable estate), and 6018 (relating to estate tax returns) on or after the date of enactment of this section.~~

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

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

~~"(c) NOTIFICATION OF CONGRESS REQUIRED.—No proclamation shall be issued by the President pursuant to this section unless, at least 30 days prior to such proclamation, he has notified the Senate and the House of Representatives of his intention to issue such proclamation.~~

~~"(d) IMPLEMENTATION BY REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary or appropriate to implement this section."~~

~~(g) ESTATE TAX RETURNS.—Paragraph (2) of section 6018 (a) (relating to estates of nonresidents not citizens) is amended by striking out "$2,000" and inserting in lieu thereof "$30,000".~~

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

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

~~"Sec. 2107. Expatriation to avoid tax.~~
~~"Sec. 2108. Application of pre-1967 estate tax provisions."~~

~~(i) Effective Date.—The amendments made by this section shall apply with respect to estates of decedents dying after the date of the enactment of this Act.~~

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

~~(a) Imposition of Tax.—Subsection (a) of section 2501 (relating to general rule for imposition of tax) is amended to read as follows:~~

~~"(a) Taxable Transfers.—~~

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

~~"(2) Transfers of intangible property.—Except as provided in paragraph (3), paragraph (1) shall not apply to the transfer of intangible property by a nonresident not a citizen of the United States.~~

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

~~with the date of transfer lost United States citizenship unless—~~

~~"(A) such donor's loss of United States citizenship resulted from the application of section 301(b), 350, or 355 of the Immigration and Nationality Act, as amended (8 U.S.C. 1401(b), 1482, or 1487) or~~

~~"(B) such loss did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle A.~~

~~"(4) BURDEN OF PROOF.—If the Secretary or his delegate establishes that it is reasonable to believe that an individual's loss of United States citizenship would, but for paragraph (3), result in a substantial reduction for the calendar year in the taxes on the transfer of property by gift, the burden of proving that such loss of citizenship did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle A shall be on such individual."~~

~~(b) TRANSFERS IN GENERAL.—Subsection (b) of section 2511 (relating to situs rule for stock in a corporation) is amended to read as follows:~~

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

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

~~"(1) shares of stock issued by a domestic corporation, and~~

~~"(2) debt obligations of—~~

~~"(A) a United States person, or~~

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

~~which are owned by such nonresident shall be deemed to be property situated within the United States."~~

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

~~**SEC. 10. TREATY OBLIGATIONS.**~~

~~No amendment made by this Act shall apply in any case where its application would be contrary to any treaty obligation of the United States. For purposes of the preceding sentence, the extension of a benefit provided by any amendment made by this Act shall not be deemed to be contrary to a treaty obligation of the United States.~~

SECTION 1. TABLE OF CONTENTS, ETC.

(a) TABLE OF CONTENTS.—

TITLE I—FOREIGN INVESTORS TAX ACT

TITLE I—FOREIGN INVESTORS TAX ACT—Continued

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE—Continued *(b) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, wherever in titles I, II, and III, of this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.*

TITLE I—FOREIGN INVESTORS TAX ACT

SEC. 101. SHORT TITLE.

This title may be cited as the "Foreign Investors Tax Act of 1966".

SEC. 102. SOURCE OF INCOME.

(a) INTEREST.—

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

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

"(A) interest on amounts described in subsection (c) received by a nonresident alien individual or a foreign corporation, if such interest is not effectively connected with the conduct of a trade or business within the United States,".

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

"(c) INTEREST ON DEPOSITS, ETC.—For purposes of subsection (a)(1)(A), the amounts described in this subsection are—

"(1) deposits with persons carrying on the banking business,

"(2) deposits or withdrawable accounts with savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, but only to the extent that amounts paid or credited on such deposits or accounts are deductible under section 591 (determined without regard to section 265) in computing the taxable income of such institutions, and

"(3) amounts held by an insurance company under an agreement to pay interest thereon.

Effective with respect to amounts paid or credited after

December 31, 1971, subsection (a)(1)(A) and this subsection shall cease to apply."

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

"(B) interest received from a resident alien individual or a domestic corporation, when it is shown to the satisfaction of the Secretary or his delegate that less than 20 percent of the gross income from all sources of such individual or such corporation has been derived from sources within the United States, as determined under the provisions of this part, for the 3-year period ending with the close of the taxable year of such individual or such corporation preceding the payment of such interest, or for such part of such period as may be applicable,

"(C) interest received from a foreign corporation (other than interest paid or credited after December 31, 1971, by a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business), when it is shown to the satisfaction of the Secretary or his delegate that less than 50 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 payment of such interest (or for such part of such period as the corporation has been in existence) was effectively connected with the conduct of a trade or business within the United States,

"(D) in the case of interest received from a foreign corporation (other than interest paid or credited after December 31, 1971, by a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business) 50 percent or more of the gross income of which from all sources for the 3-year period ending with the close of its taxable year preceding the payment of such interest (or for such part of such period as the corporation has been in existence) was effectively connected with the conduct of a trade or business within the United States, an amount of such interest which bears the same ratio to such interest as the gross income of such foreign corporation for such period which was not effectively connected with the conduct of a trade or business within the United States bears to its gross income from all sources,

"(E) income derived by a foreign central bank of issue from bankers' acceptances, and

"(F) interest on deposits with a foreign branch of a domestic corporation or a domestic partnership, if such branch is engaged in the commercial banking business."

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

"(d) SPECIAL RULES FOR APPLICATION OF PARAGRAPHS (1)(B), (1)(C), (1)(D), AND (2)(B) OF SUBSECTION (a).—

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

"(2) TRANSITION RULE.—For purposes of paragraphs (1)(C), (1)(D), and (2)(B) of subsection (a), the gross income of the foreign corporation for any period before the first taxable year beginning after

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

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

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

"Income derived by a foreign central bank of issue from obligations of the United States or of any agency or instrumentality thereof (including beneficial interests, participations, and other instruments issued under section 302(c) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1717)) which are owned by such foreign central bank of issue, or derived from interest on deposits with persons carrying on the banking business, shall not be included in gross income and shall be exempt from taxation under this subtitle unless such obligations or deposits are held for, or used in connection with, the conduct of commercial banking functions or other commercial activities. For purposes of the preceding sentence the Bank for International Settlements shall be treated as a foreign central bank of issue."

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

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

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

"(B) from a foreign corporation unless less than 50 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 of such period as the corporation has been in existence) was effectively connected with the conduct of a trade or business within the United States; but only in an amount which bears the same ratio to such dividends as the gross income of the corporation for such period which was effectively connected with the conduct of a trade or business within the United States bears to its gross income from all sources; but dividends (other than dividends for which a deduction is allowable under section 245(b)) from a foreign corporation shall, for pur-

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poses of subpart A of part III (relating to foreign tax credit), be treated as income from sources without the United States to the extent (and only to the extent) exceeding the amount which is 100/85ths of the amount of the deduction allowable under section 245 in respect of such dividends, or".

(c) Personal Services.—Section 861(a)(3)(C)(ii) (relating to income from personal services) is amended to read as follows:

"(ii) an individual who is a citizen or resident of the United States, a domestic partnership, or a domestic corporation, if such labor or services are performed for an office or place of business maintained in a foreign country or in a possession of the United States by such individual, partnership, or corporation."

(d) Definitions.—Section 864 (relating to definitions) is amended—

(1) by striking out "For purposes of this part," and inserting in lieu thereof

"(a) Sale, Etc.—For purposes of this part,"; and

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

"(b) Trade or Business Within the United States.—For purposes of this part, part II, and chapter 3, the term 'trade or business within the United States' includes the performance of personal services within the United States at any time within the taxable year, but does not include—

"(1) Performance of personal services for foreign employer.—The performance of personal services—

"(A) for a nonresident alien individual, foreign partnership, or foreign corporation, not engaged in trade or business within the United States, or

"(B) for an office or place of business maintained in a foreign country or in a possession of the United States by an individual who is a citizen or resident of the United States or by a domestic partnership or a domestic corporation,

by a nonresident alien individual temporarily present in the United States for a period or periods not exceeding *a total of 90 days during the taxable year and whose compensation for such services does not exceed in the aggregate $3,000.*

"(2) TRADING IN SECURITIES OR COMMODITIES.—

"(A) STOCKS AND SECURITIES.—

"(i) IN GENERAL.—Trading in stocks or securities through a resident broker, commission agent, custodian, or other independent agent.

"(ii) TRADING FOR TAXPAYER'S OWN ACCOUNT.—Trading in stocks or securities 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 stocks or securities, or in the case of a corporation (other than a corporation which is, or but for section 542(c)(7) or 543(b)(1)(C) would be, a personal holding company) the principal business of which is trading in stocks or securities for its own account, if its principal office is in 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* or by the direction of which the transactions in stocks or securities, or in commodities, as the case may be, are effected.

"(c) 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 sections 882(d) and (e), 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) PERIODICAL, 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 subparagraphs (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 within the United States by a nonresident alien individual or a foreign corporation if such person has an office or other fixed place of business within the United States to which such income, gain, or loss is attributable and such income, gain, or loss—

"(i) consists of rents or royalties for the use of or for the privilege of using intangible property described in section 862(a)(4) (including any gain or loss realized on the sale of such property) derived in the active conduct of such trade or business;

"(ii) consists of dividends or interest, or

gain or loss from the sale or exchange of stock or notes, bonds, or other evidences of indebtedness, and either is derived in the active conduct of a banking, financing, or similar business within the United States or is received by a corporation the principal business of which is trading in stocks or securities for its own account; or

"(iii) is derived from the sale (without the United States) through such office or other fixed place of business of personal property described in section 1221(1), except that this clause shall not apply if the property is sold for use, consumption, or disposition outside the United States and an office or other fixed place of business of the taxpayer outside the United States participated materially in such sale.

"(C) In the case of a foreign corporation taxable under part I of subchapter L, any income from sources without the United States which is attributable to its United States business shall be treated as effectively connected with the conduct of a trade or business within the United States.

"(D) No income from sources without the

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

"(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).

"(5) RULES FOR APPLICATION OF PARAGRAPH (4)(B).—For purposes of subparagraph (B) of paragraph (4)—

"(A) in determining whether a nonresident alien individual or a foreign corporation has an office or other fixed place of business, an office or other fixed place of business of an agent shall be disregarded unless such agent (i) has the authority to negotiate and conclude contracts in the name of the nonresident alien individual or foreign corporation and regularly exercises that authority or has a stock of merchandise from which he regularly fills orders

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

"(B) income, gain, or loss shall not be considered as attributable to an office or other fixed place of business within the United States unless such office or fixed place of business is a material factor in the production of such income, gain, or loss and such office or fixed place of business regularly carries on activities of the type from which such income, gain, or loss is derived, and

"(C) the income, gain, or loss which shall be attributable to an office or other fixed place of business within the United States shall be the income, gain, or loss properly allocable thereto, but, in the case of a sale described in clause (iii) of such subparagraph, the income which shall be treated as attributable to an office or other fixed place of business within the United States shall not exceed the income which would be derived from sources within the United States if the sale were made in the United States."

(e) 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.

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,

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

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

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

"(D) gains from the sale or exchange after October 4, 1966, of patents, copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises, and other like property, or of any interest in any such property, to the extent such gains are from payments which are contingent on the productivity, use, or disposition of the property or interest sold or exchanged, or from payments which are treated as being so contingent under subsection (e),

but only to the extent the amount so received is not effectively 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) shall not be taken into account in determining the tax under this paragraph. For purposes of the 183-day requirement of this paragraph, a nonresident alien individ-

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

"(b) INCOME CONNECTED WITH UNITED STATES BUSINESS—GRADUATED RATE OF TAX.—

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

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

"(c) PARTICIPANTS IN CERTAIN EXCHANGE OR TRAINING PROGRAMS.—For purposes of this section, a nonresident alien individual who (without regard to this subsection) is not engaged in trade or business within the United States and who is temporarily present in the United States as a nonimmigrant under subparagraph (F) or (J) of section 101(a)(15) of the Immigration and Nationality Act, as amended (8 U.S.C. 1101(a)(15) (F) or (J)),

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

"(d) ELECTION TO TREAT REAL PROPERTY INCOME AS INCOME CONNECTED WITH UNITED STATES BUSINESS.—

"(1) IN GENERAL.—A nonresident alien individual who during the taxable year derives any income—

"(A) from real property held for the production of income and located in the United States, or from any interest in such real property, including (i) gains from the sale or exchange of such real property or an interest therein, (ii) rents or royalties from mines, wells, or other natural deposits, and (iii) gains described in section 631 (b) or (c), and

"(B) which, but for this subsection, would not be treated as income which is effectively connected with the conduct of a trade or business within the United States,

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)

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

"(1) PAYMENTS TREATED AS CONTINGENT ON USE, ETC.—If more than 50 percent of the gain for any taxable year from the sale or exchange of any patent, copyright, secret process or formula, good will, trademark, trade brand, franchise, or other like property, or of any interest in any such property, is from payments which are contingent on the productivity, use, or disposition of such property or interest, all of the gain for the taxable year from the sale or exchange of such property or interest shall be treated as being from payments which are contingent on the productivity, use, or disposition of such property or interest.

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

"(f) CERTAIN ANNUITIES RECEIVED UNDER QUALIFIED PLANS.—For purposes of this section, gross income does not include any amount received as an annuity under a qualified annuity plan described in section 403(a)(1), or from

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

"(1) all of the personal services by reason of which such annuity is payable were either (A) personal services performed outside the United States by an individual who, at the time of performance of such personal services, was a nonresident alien, or (B) personal services described in section 864(b)(1) performed within the United States by such individual, and

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

"(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)."

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

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

"(d) NONRESIDENT ALIENS.—In the case of a nonresident alien individual, the tax imposed by subsection (a) shall apply only as provided by section 871 or 877."

(b) GROSS INCOME.—

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

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

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

"(2) gross income which is effectively connected with the conduct of a trade or business within the United States."

(2) Subparagraph (B) of section 872(b)(3) (relating to compensation of participants in certain exchange or training programs) is amended by striking out "by a domestic corporation" and inserting in lieu thereof "by a domestic corporation, a domestic partner-

ship, or an individual who is a citizen or resident of the United States".

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

"(4) CERTAIN BOND INCOME OF RESIDENTS OF THE RYUKYU ISLANDS OR THE TRUST TERRITORY OF THE PACIFIC ISLANDS.—Income derived by a nonresident alien individual from a series E or series H United States savings bond, if such individual acquired such bond while a resident of the Ryukyu Islands or the Trust Territory of the Pacific Islands."

(c) DEDUCTIONS.—

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

"SEC. 873. DEDUCTIONS.

"(a) GENERAL RULE.—In the case of a nonresident alien individual, the deductions shall be allowed only for purposes of section 871(b) and (except as provided by subsection (b)) only if and to the extent that they are connected with income which is effectively connected with the conduct of a trade or business within the United States; and

the proper apportionment and allocation of the deductions for this purpose shall be determined as provided in regulations prescribed by the Secretary or his delegate.

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

"(1) LOSSES.—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 located within the United States.

"(2) CHARITABLE CONTRIBUTIONS.—The deduction for charitable contributions and gifts allowed by section 170.

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

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

"(3) For exemptions of nonresident aliens, see section 873(b)(3)."

(d) Allowance of Deductions and Credits.—Subsection (a) of section 874 (relating to filing of returns) is amended to read as follows:

"(a) Return Prerequisite to Allowance.—A nonresident alien individual shall receive the benefit of the deductions and credits allowed to him 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 (sec. 6001 and following, relating to procedure and administration), including therein all the information which the Secretary or his delegate may deem necessary for the calculation of such deductions and credits. This sub-

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

(e) Beneficiaries of Estates and Trusts.—

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

"SEC. 875. PARTNERSHIPS; BENEFICIARIES OF ESTATES AND TRUSTS.

"For purposes of this subtitle—

"(1) a nonresident alien individual or foreign corporation shall be considered as being engaged in a trade or business within the United States if the partnership of which such individual or corporation is a member is so engaged, and

"(2) a nonresident alien individual or foreign corporation which is a beneficiary of an estate or trust which is engaged in any trade or business within the United States shall be treated as being engaged in such trade or business within the United States."

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

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

(f) Expatriation To Avoid Tax.—

(1) Subpart A of part II of subchapter N of chapter 1 (relating to nonresident alien individuals) is amended by redesignating section 877 as section 878, and by inserting after section 876 the following new section:

"SEC. 877. EXPATRIATION TO AVOID TAX.

"(a) In General.—Every nonresident alien individual who at any time after March 8, 1965, and within the 10-year period immediately preceding the close of the taxable year 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 B, shall be taxable for such taxable year in the manner provided in subsection (b) if the tax imposed pursuant to such subsection exceeds the tax which, without regard to this section, is imposed pursuant to section 871.

"(b) Alternative Tax.—A nonresident alien individual described in subsection (a) shall be taxable for the taxable year as provided in section 1 or section 1201(b), except that—

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

"(2) the deductions shall be allowed if and to the

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

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

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

"(1) SALE OF PROPERTY.—Gains on the sale or exchange of property (other than stock or debt obligations) located in the United States.

"(2) STOCK OR DEBT OBLIGATIONS.—Gains on the sale or exchange of stock issued by a domestic corporation or debt obligations of United States persons or of

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

"(d) EXCEPTION FOR LOSS OF CITIZENSHIP FOR CERTAIN CAUSES.—Subsection (a) shall not apply to a nonresident alien individual whose loss of United States citizenship resulted from the application of section 301(b), 350, or 355 of the Immigration and Nationality Act, as amended (8 U.S.C. 1401(b), 1482, or 1487).

"(e) BURDEN OF PROOF.—If the Secretary or his delegate establishes that it is reasonable to believe that an individual's loss of United States citizenship would, but for this section, result in a substantial reduction for the taxable year in the taxes on his probable income for such year, the burden of proving for such taxable year that such loss of citizenship did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle B shall be on such individual."

(2) The table of sections for subpart A of part II of subchapter N of chapter 1 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."

(g) 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)."

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

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

(2) 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);

(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

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

(6) 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 exempted from deduction and withholding under subsection (a).";

(7) by striking out "amounts described in section 402(a)(2), section 403(a)(2), section 631 (b) and (c), and section 1235, which are considered to be gains from the sale or exchange of capital assets," in paragraph (5) of subsection (c) and inserting in lieu thereof "gains described in section 402(a)(2), 403(a)(2), or 631 (b) or (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,", and by striking out "proceeds from such sale or exchange," in such paragraph and inserting in lieu thereof "amount payable,";

(8) by adding at the end of subsection (c) the following new paragraph:

"(7) CERTAIN ANNUITIES RECEIVED UNDER 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

person for the amount of any payments made in accordance with the provisions of this chapter."

(j) DECLARATION OF ESTIMATED INCOME TAX BY INDIVIDUALS.—*Section 6015 (relating to declaration of estimated income tax by individuals) is amended—*

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

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

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

(3) by inserting after subsection (h) the following new subsection:

"(i) NONRESIDENT ALIEN INDIVIDUALS.—*No declaration shall be required to be made under this section by a nonresident alien individual unless—*

"(1) withholding under chapter 24 is made applicable to the wages, as defined in section 3401(a), of such individual,

"(2) such individual has income (other than compensation for personal services subject to deduction and withholding under section 1441) which is effectively

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

"(3) such individual is a resident of Puerto Rico during the entire taxable year."

(k) COLLECTION OF INCOME TAX AT SOURCE ON WAGES.—Subsection (a) of section 3401 (relating to definition of wages for purposes of collection of income tax at source) is amended by striking out paragraphs (6) and (7) and inserting in lieu thereof the following:

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

(l) DEFINITIONS OF FOREIGN ESTATE OR TRUST.—

(1) Section 7701(a)(31) (defining foreign estate or trust) is amended by striking out "from sources without the United States" and inserting in lieu thereof ", from sources without the United States which is not effectively connected with the conduct of a trade or business within the United States,".

(2) Section 1493 (defining foreign trust for purposes of chapter 5) is repealed.

(m) CONFORMING AMENDMENT.—The first sentence of section 932(a) (relating to citizens of possessions of the United States) is amended to read as follows: "Any in-

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dividual who is a citizen of any possession of the United States (but not otherwise a citizen of the United States) and who is not a resident of the United States shall be subject to taxation under this subtitle in the same manner and subject to the same conditions as in the case of a nonresident alien individual."

(n) EFFECTIVE DATES.—

(1) The amendments made by this section (other than the amendments made by subsections (h), (i), and (k)) shall apply with respect to taxable years beginning after December 31, 1966.

(2) The amendments made by subsection (h) shall apply with respect to payments made in taxable years of recipients beginning after December 31, 1966.

(3) The amendments made by subsection (i) shall apply with respect to payments occurring after December 31, 1966.

(4) The amendments made by subsection (k) shall apply with respect to remuneration paid after December 31, 1966.

SEC. 104. FOREIGN CORPORATIONS.

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

"SEC. 881. TAX ON INCOME OF FOREIGN CORPORATIONS NOT CONNECTED WITH UNITED STATES BUSINESS.

"(a) IMPOSITION OF TAX.—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 foreign corporation as—

"(1) interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, and other fixed or determinable annual or periodical gains, profits, and income,

"(2) gains described in section 631 (b) or (c),

"(3) in the case of bonds or other evidences of indebtedness issued after September 28, 1965, amounts which under section 1232 are considered as gains from the sale or exchange of property which is not a capital asset, and

"(4) gains from the sale or exchange after October 4, 1966, of patents, copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises, and other like property, or of any interest in any such property, to the extent such gains are from payments which are contingent on the productivity, use, or disposition of the property or interest sold or ex-

changed, or from payments which are treated as being so contingent under section 871(e),

but only to the extent the amount so received is not effectively connected with the conduct of a trade or business within the United States.

"(b) Doubling of Tax.—

"For doubling of tax on corporations of certain foreign countries, see section 891."

(b) Tax on Income Connected With United States Business.—

(1) Section 882 (relating to tax on resident foreign corporations) is amended to read as follows:

"SEC. 882. TAX ON INCOME OF FOREIGN CORPORATIONS CONNECTED WITH UNITED STATES BUSINESS.

"(a) Normal Tax and Surtax.—

"(1) Imposition of tax.—A foreign corporation engaged in trade or business within the United States during the taxable year shall be taxable as provided in section 11 or 1201(a) on its taxable income which is effectively connected with the conduct of a trade or business within the United States.

"(2) Determination of taxable income.—In determining taxable income for purposes of paragraph (1), gross income includes only gross income which is

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

"(b) GROSS INCOME.—In the case of a foreign corporation, gross income includes only—

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

"(2) gross income which is effectively connected with the conduct of a trade or business within the United States.

"(c) ALLOWANCE OF DEDUCTIONS AND CREDITS.—

"(1) ALLOCATION OF DEDUCTIONS.—

"(A) GENERAL RULE.—In the case of a foreign corporation, the deductions shall be allowed only for purposes of subsection (a) and (except as provided by subparagraph (B)) only if and to the extent that they are connected with income which is effectively connected with the conduct of a trade or business within the United States; and the proper apportionment and allocation of the deductions for this purpose shall be determined as provided in regulations prescribed by the Secretary or his 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.*

"(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).*

"(d) ELECTION TO TREAT REAL PROPERTY INCOME AS INCOME CONNECTED WITH UNITED STATES BUSINESS.—

"(1) IN GENERAL.—A foreign corporation which during the taxable year derives any income—

"(A) from real property located in the United States, or from any interest in such real property, including (i) gains from the sale or exchange of real property or an interest therein, (ii) rents or royalties from mines, wells, or other natural deposits, and (iii) gains described in section 631 (b) or (c), and

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

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 (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).

"(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.

"(f) 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 (e) 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).

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

"(f) Foreign Corporations.—In the case of a foreign corporation, the tax imposed by subsection (a) shall apply only as provided by section 882."

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

"Sec. 881. Tax on income of foreign corporations not connected with United States business.

"Sec. 882. Tax on income of foreign corporations connected with United States business."

(c) Withholding of Tax on Foreign Corporations.—*Section 1442 (relating to withholding of tax on foreign corporations) is amended to read as follows:*

"SEC. 1442. WITHHOLDING OF TAX ON FOREIGN CORPORATIONS.

"(a) General Rule.—In the case of foreign corporations subject to taxation under this subtitle, there shall be deducted and withheld at the source in the same manner and on the same items of income as is provided in section 1441 or section 1451 a tax equal to 30 percent thereof; except that, in the case of interest described in section 1451 (relating to tax-free covenant bonds), the deduction and withholding shall be at the rate specified therein. For purposes of the preceding sentence, the references in section 1441(b) to sections 871(a)(1) (C) and (D) shall be treated as referring to sections 881(a) (3) and (4), the reference in section 1441(c)(1) to section 871(b)(1) shall be treated as referring to section 842 or section 882(a), as the case may be, and the reference in section 1441(c)(5) to section 871(a)(1)(D) shall be treated as referring to section 881(a)(4).

"(b) Exemption.—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 corporation 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 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 corporation from all sources for such period is effectively connected with the conduct of a trade or business within the United States,";

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

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

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

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

(e) DIVIDENDS RECEIVED FROM CERTAIN WHOLLY-OWNED FOREIGN SUBSIDIARIES.—

(1) Section 245 (relating to dividends received from certain foreign corporations) is amended by redesignating subsection (b) as (c), and by inserting after subsection (a) the following new subsection:

"(b) CERTAIN DIVIDENDS RECEIVED FROM WHOLLY OWNED FOREIGN SUBSIDIARIES.—

"(1) IN GENERAL.—In the case of dividends described in paragraph (2) received from a foreign corporation by a domestic corporation which, for its taxable year in which such dividends are received, owns (directly or indirectly) all of the outstanding stock of such foreign corporation, there shall be allowed as a deduction (in lieu of the deduction provided by subsection (a)) an amount equal to 100 percent of such dividends.

"(2) Eligible dividends.—Paragraph (1) shall apply only to dividends which are paid out of the earnings and profits of a foreign corporation for a taxable year during which—

"(A) all of its outstanding stock is owned (directly or indirectly) by the domestic corporation to which such dividends are paid; and

"(B) all of its gross income from all sources is effectively connected with the conduct of a trade or business within the United States.

"(3) Exception.—Paragraph (1) shall not apply to any dividends if an election under section 1562 is effective for either—

"(A) the taxable year of the domestic corporation in which such dividends are received, or

"(B) the taxable year of the foreign corporation out of the earnings and profits of which such dividends are paid."

(2) Subsection (a) of such section 245 is amended by adding at the end thereof (after the sentence added by subsection (d)(4)) the following new sentence: "For purposes of paragraph (2), there shall not be taken into account any taxable year within such uninterrupted period if, with respect to dividends paid out of the earnings

and profits of such year, the deduction provided by subsection (b) would be allowable."

(3) Subsection (c) of such section 245 (as redesignated by paragraph (1)) is amended by striking out "subsection (a)" and inserting in lieu thereof "subsections (a) and (b)".

(f) DISTRIBUTIONS OF CERTAIN FOREIGN CORPORATIONS.—Section 301(b)(1)(C) (relating to certain corporate distributees of foreign corporations) is amended—

(1) by striking out "gross income from sources within the United States" in clause (i) and inserting in lieu thereof "gross income which is effectively connected with the conduct of a trade or business within the United States";

(2) by striking out "gross income from sources without the United States" in clause (ii) and inserting in lieu thereof "gross income which is not effectively connected with the conduct of a trade or business within the United States"; and

(3) by adding at the end thereof the following new sentences: "For purposes of clause (i), the gross income of a foreign corporation for any period before its first taxable year beginning after December 31, 1966, which is effectively connected with the conduct of a trade or business within the United States is an amount equal

to the gross income for such period from sources within the United States. For purposes of clause (ii), the gross income of a foreign corporation for any period before its first taxable year beginning after December 31, 1966, which is not effectively connected with the conduct of a trade or business within the United States is an amount equal to the gross income for such period from sources without the United States."

(g) UNRELATED BUSINESS TAXABLE INCOME.—The last sentence of section 512(a) (relating to definition) is amended to read as follows: "In the case of an organization described in section 511 which is a foreign organization, the unrelated business taxable income shall be its unrelated business taxable income which is effectively connected with the conduct of a trade or business within the United States."

(h) CORPORATIONS SUBJECT TO PERSONAL HOLDING COMPANY TAX.—

(1) Paragraph (7) of section 542(c) (relating to corporations not subject to personal holding company tax) is amended to read as follows:

"(7) a foreign corporation (other than a corporation which has income to which section 543(a)(7) applies 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—

(A) by striking out subsection (a) and inserting in lieu thereof the following:

"(a) DEFINITION.—For purposes of this part, the term 'undistributed personal holding company income' means the taxable income of a personal holding company adjusted in the manner provided in subsections (b), (c), and (d), minus the dividends paid deduction as defined in section 561. In the case of a personal holding company which is a foreign corporation, not more than 10 percent in value of the outstanding stock of which is owned (within the meaning of section 958(a)) during the last half of the taxable year by United States persons, the term 'undistributed personal holding company income' means the amount determined by multiplying the undistributed personal holding company income (determined without regard to this sentence) by the percentage in value of its outstanding stock which is the greatest percentage in value of its outstanding stock so owned by United States persons on any one day during such period."; and

(B) by adding at the end thereof the following new subsection:

"(d) CERTAIN FOREIGN CORPORATIONS.—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

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foreign estates, foreign trusts, foreign partnerships, or other foreign corporations), the taxable income for purposes of subsection (a) shall be the income which constitutes personal holding company income under section 543(a)(7), reduced by the deductions attributable to such income, and adjusted, with respect to such income, in the manner provided in subsection (b).”

(4)(A) Subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end thereof the following new section:

‘SEC. 6683. FAILURE OF FOREIGN CORPORATION TO FILE RETURN OF PERSONAL HOLDING COMPANY TAX.

“Any foreign corporation which—

“(1) is a personal holding company for any taxable year, and

“(2) fails to file or to cause to be filed with the Secretary or his delegate a true and accurate return of the tax imposed by section 541,

shall, in addition to other penalties provided by law, pay a penalty equal to 10 percent of the taxes imposed by chapter 1 (including the tax imposed by section 541) on such foreign corporation for such taxable year.”

(B) The table of sections for such subchapter B is amended by adding at the end thereof the following new item:

"Sec. 6683. Failure of foreign corporation to file return of personal holding company tax."

(i) AMENDMENTS WITH RESPECT TO FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS IN UNITED STATES.—

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

"SEC. 842. FOREIGN CORPORATIONS CARRYING ON INSURANCE BUSINESS.

"If a foreign corporation carrying on an insurance business within the United States would qualify under part I, II, or III of this subchapter for the taxable year if (without regard to income not effectively connected with the conduct of any trade or business within the United States) it were a domestic corporation, such corporation shall be taxable under such part on its income effectively connected with its conduct of any trade or business within the United States. With respect to the remainder of its income, which is from sources within the United States, such a foreign corporation shall be taxable as provided in section 881."

(2) The table of sections for part IV of subchapter

L of chapter 1 is amended by striking out the item relating to section 842 and inserting in lieu thereof the following:

"Sec. 842. Foreign corporations carrying on insurance business."

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

(A) by striking out subsections (a) and (d) and by redesignating subsections (b) and (c) as subsections (a) and (b),

(B) by striking out "In the case of any company described in subsection (a)," in subsection (a)(1) (as redesignated by subparagraph (A)) and inserting in lieu thereof "In the case of any foreign corporation taxable under this part,",

(C) by striking out "subsection (c)" in the last sentence of subsection (a)(2) (as redesignated by subpargraph (A)) and inserting in lieu thereof "subsection (b)",

(D) by adding at the end of subsection (a) (as redesignated by subparagraph (A)) the following new paragraph:

"(3) REDUCTION OF SECTION 881 TAX.—In the case of any foreign corporation taxable under this part, there shall be determined—

"(A) the amount which would be subject to tax under section 881 if the amount taxable under such section were determined without regard to sections 103 and 894, and

"(B) the amount of the reduction provided by paragraph (1).

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

(E) by striking out "for purposes of subsection (a)" each place it appears in subsection (b) (as redesignated by subparagraph (A)) and inserting in lieu thereof "with respect to a foreign corporation",

(F) by striking out "foreign life insurance company" each place it appears in such subsection (b) and inserting in lieu thereof "foreign corporation",

(G) by striking out "subsection (b)(2)(A)" each place it appears in such subsection (b) and inserting in lieu thereof "subsection (a)(2)(A)",

(H) by striking out "subsection (b)(2)(B)" in paragraph (2)(B)(ii) of such subsection (b) and inserting in lieu thereof "subsection (a)(2)(B)", and

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

"(c) CROSS REFERENCE.—

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

(4) Section 821 (relating to tax on mutual insurance companies to which part II applies) is amended—

(A) by striking out subsection (e) and by redesignating subsections (f) and (g) as subsections (e) and (f), and

(B) by adding at the end of subsection (f) (as redesignated by subparagraph (A)) the following:

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

(5) Section 822 (relating to determination of taxable 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

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 income 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."

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

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

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

"(B) for any taxable year beginning after December 31, 1966, as income effectively con-

nected with the conduct by such corporation of a trade or business within the United States.

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

(l) DECLARATION OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6016 (relating to declarations of estimated income tax by corporations) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(m) TECHNICAL AMENDMENTS.—

(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 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."

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

(3) Section 1249(a) is amended by striking out "Except as provided in subsection (c), gain" and inserting in lieu thereof "Gain".

(n) EFFECTIVE DATES.—The amendments made by this section (other than subsection (k)) shall apply with respect to taxable years beginning after December 31, 1966. The amendment made by subsection (k) shall apply with respect to sales or exchanges occurring after December 31, 1966.

SEC. 105. SPECIAL TAX PROVISIONS.

(a) INCOME AFFECTED BY TREATY.—Section 894 (relating to income exempt under treaties) is amended to read as follows:

"SEC. 894. INCOME AFFECTED BY TREATY.

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

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

(b) ADJUSTMENT OF TAX BECAUSE OF BURDENSOME OR DISCRIMINATORY FOREIGN TAXES.—Subpart C of part II of subchapter N of chapter 1 (relating to miscellaneous provisions applicable to nonresident aliens and foreign corporations) is amended by adding at the end thereof the following new section:

"SEC. 896. ADJUSTMENT OF TAX ON NATIONALS, RESIDENTS, AND CORPORATIONS OF CERTAIN FOREIGN COUNTRIES.

"(a) IMPOSITION OF MORE BURDENSOME TAXES BY FOREIGN COUNTRY.—Whenever the President finds that—

"(1) under the laws of any foreign country, considering the tax system of such foreign country, citizens of the United States not residents of such foreign coun-

try or domestic corporations are being subjected to more burdensome taxes, on any item of income received by such citizens or corporations from sources within such foreign country, than taxes imposed by the provisions of this subtitle on similar income derived from sources within the United States by residents or corporations of such foreign country,

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

"(3) it is in the public interest to apply pre-1967 tax provisions in accordance with the provisions of this subsection to residents or corporations of such foreign country,

the President shall proclaim that the tax on such similar income derived from sources within the United States by residents or corporations of such foreign country shall, for taxable years beginning after such proclamation, be determined under this subtitle without regard to amendments made to this subchapter and chapter 3 on or after the date of enactment of this section.

"(b) IMPOSITION OF DISCRIMINATORY TAXES BY FOREIGN COUNTRY.—Whenever the President finds that—

"(1) under the laws of any foreign country, citizens of the United States or domestic corporations (or any class of such citizens or corporations) are, with respect to any item of income, being subjected to a higher effective rate of tax than are nationals, residents, or corporations of such foreign country (or a similar class of such nationals, residents, or corporations) under similar circumstances;

"(2) such foreign country, when requested by the United States to do so, has not acted to eliminate such higher effective rate of tax; and

"(3) it is in the public interest to adjust, in accordance with the provisions of this subsection, the effective rate of tax imposed by this subtitle on similar income of nationals, residents, or corporations of such foreign country (or such similar class of such nationals, residents, or corporations),

the President shall proclaim that the tax on similar income of nationals, residents, or corporations of such foreign country (or such similar class of such nationals, residents, or corporations) shall, for taxable years beginning after such proclamation, be adjusted so as to cause the effective rate of tax *imposed by this subtitle on such similar income to be substantially equal to the effective rate of tax imposed by such foreign country on such item of income of citizens of the United States or domestic corporations (or such class of citizens or corporations). In implementing a proclamation made under this subsection, the effective rate of tax imposed by this subtitle on an item of income may be adjusted by the disallowance, in whole or in part, of any deduction, credit, or exemption which would otherwise be allowed with respect to that item of income or by increasing the rate of tax otherwise applicable to that item of income.*

"(c) ALLEVIATION OF MORE BURDENSOME OR DISCRIMINATORY TAXES.—Whenever the President finds that—

"(1) the laws of any foreign country with respect to which the President has made a proclamation under subsection (a) have been modified so that citizens of the United States not residents of such foreign country or domestic corporations are no longer subject to more burdensome taxes on the item of income derived by such citizens or corporations from sources within such foreign country, or

"(2) the laws of any foreign country with respect to which the President has made a proclamation under subsection (b) have been modified so that citizens of the United States or domestic corporations (or any class of

such citizens or corporations) are no longer subject to a higher effective rate of tax on the item of income.

he shall proclaim that the tax imposed by this subtitle on the similar income of nationals, residents, or corporations of such foreign country shall, for any taxable year beginning after such proclamation, be determined under this subtitle without regard to such subsection.

"(d) NOTIFICATION OF CONGRESS REQUIRED.—No proclamation shall be issued by the President pursuant to this section unless, at least 30 days prior to such proclamation, he has notified the Senate and the House of Representatives of his intention to issue such proclamation.

"(e) IMPLEMENTATION BY REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as he deems necessary or appropriate to implement this section."

(c) CLERICAL AMENDMENTS.—The table of sections for subpart C of part II of subchapter N of chapter 1 is amended—

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

"Sec. 894. Income affected by treaty.";

(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."

(d) EFFECTIVE DATE.—The amendments made by this

section (other than subsections (e) and (f)) shall apply with respect to taxable years beginning after December 31, 1966.

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

(1) Part III of subchapter N of chapter 1 (relating to income from sources without the United States) is amended by adding at the end thereof the following new subpart:

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

"SEC. 981. ELECTION AS TO TREATMENT OF INCOME SUBJECT TO FOREIGN COMMUNITY PROPERTY LAWS.

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

"(1) an individual is (A) a citizen of the United States, (B) a bona fide resident of a foreign country or countries during the entire taxable year, and (C) married at the close of the taxable year to a spouse who is a nonresident alien during the entire taxable year, and

"(2) such individual and his spouse elect to have

subsection (b) apply to their community income under foreign community property laws,

then subsection (b) shall apply to such income of such individual and such spouse for the taxable year and for all subsequent taxable years for which the requirements of paragraph (1) are met, unless the Secretary or his delegate consents to a termination of the election.

"(b) Treatment of Community Income.—For any taxable year to which an election made under subsection (a) applies, the community income under foreign community property laws of the husband and wife making the election shall be treated as follows:

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

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

"(3) Community income not described in paragraph (1) or (2) which is derived from the separate property (as determined under the applicable foreign community property law) of one spouse shall be treated as the income of such spouse.

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"(4) All other such community income shall be treated as provided in the applicable foreign community property law.

"(c) Election for Pre-1967 Years.—

"(1) Election.—If an individual meets the requirements of subsections (a)(1) (A) and (C) for any taxable year beginning before January 1, 1967, and if such individual and the spouse referred to in subsection (a)(1)(C) elect under this subsection, then paragraph (2) of this subsection shall apply to their community income under foreign community property laws for all open taxable years beginning before January 1, 1967 (whether under this chapter, the corresponding provisions of the Internal Revenue Code of 1939, or the corresponding provisions of prior revenue laws), for which the requirements of subsection (a)(1) (A) and (C) are met.

"(2) Effect of election.—For any taxable year to which an election made under this subsection applies, the community income under foreign community property laws of the husband and wife making the election shall be treated as provided by subsection (b), except that the other community income described in paragraph (4) of subsection (b) shall be treated as the income of the spouse who, for such taxable year, had

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

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

"(B) that the effect on such liability for tax cannot be ascertained and that to deny the election to the citizen of the United States would be inequitable and cause undue hardship,

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

"(4) INTEREST.—To the extent that any overpayment or deficiency for a taxable year is attributable to an election made under this section, no interest shall be allowed or paid for any period before the day which is 1 year after the date of such election.

"(e) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

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

"(2) OPEN YEARS.—A taxable year of a citizen of the United States and his spouse shall be treated as 'open' if the period for assessing a deficiency against such citizen for such year has not expired before the date of the election under subsection (a) or (c), as the 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 section 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

from the requirement of filing a return shall be disregarded.”

(2) Section 6513(c) (relating to return and payment of Social Security taxes and income tax withholding) is amended—

(A) by striking out “chapter 21 or 24” and inserting in lieu thereof “chapter 3, 21, or 24”; and

(B) by striking out “remuneration” in paragraph (2) and inserting in lieu thereof “remuneration or other amount”.

(3) Section 6501(b) (relating to time returns deemed filed) is amended—

(A) by striking out “chapter 21 or 24” in paragraphs (1) and (2) and inserting in lieu thereof “chapter 3, 21, or 24”; and

(B) by inserting after “taxes” in the heading of paragraph (2) “and tax imposed by chapter 3”.

(4) The amendments made by this subsection shall take effect on the date of the enactment of this Act.

SEC. 106. FOREIGN TAX CREDIT.

(a) ALLOWANCE OF CREDIT TO CERTAIN NONRESIDENT ALIENS AND FOREIGN CORPORATIONS.—

(1) Subpart A of part III of subchapter N of chapter 1 (relating to foreign tax credit) is amended

by adding at the end thereof the following new section:

"SEC. 906. NONRESIDENT ALIEN INDIVIDUALS AND FOREIGN CORPORATIONS.

"(a) Allowance of Credit.—A nonresident alien individual or a foreign corporation engaged in trade or business within the United States during the taxable year shall be allowed a credit under section 901 for the amount of any income, war profits, and excess profits taxes paid or accrued during the taxable year (or deemed, under section 902, paid or accrued during the taxable year) to any foreign country or possession of the United States with respect to income effectively connected with the conduct of a trade or business within the United States.

"(b) Special Rules.—

"(1) For purposes of subsection (a) and for purposes of determining the deductions allowable under sections 873(a) and 882(c), in determining the amount 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 from sources within the United States 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(c) is amended by striking out "(c) FOREIGN TAX CREDIT NOT ALLOWED.—A nonresident" and inserting in lieu thereof the following:

"(c) 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),".

(6) The amendments made by this subsection shall apply with respect to taxable years beginning after December 31, 1966. In applying section 904 of the Internal Revenue Code of 1954 with respect to section

906 of such Code, no amount may be carried from or to any taxable year beginning before January 1, 1967, and no such year shall be taken into account.

(b) Alien Residents of the United States or Puerto Rico.—

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

(2) Section 901 is amended by redesignating subsections (c) and (d) as subsections (d) and (e), and by inserting after subsection (b) the following new subsection:

"(c) Similar Credit Required for Certain Alien Residents.—Whenever the President finds that—

"(1) a foreign country, in imposing income, war profits, and excess profits taxes, does not allow to citizens of the United States residing in such foreign country a credit for any such taxes paid or accrued to the United States or any foreign country, as the case

may be, similar to the credit allowed under subsection (b)(3),

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

"(3) it is in the public interest to allow the credit under subsection (b)(3) to citizens or subjects of such foreign country only if it allows such a similar credit to citizens of the United States residing in such foreign country,

the President shall proclaim that, for taxable years beginning while the proclamation remains in effect, the credit under subsection (b)(3) shall be allowed to citizens or subjects of such foreign country only if such foreign country, in imposing income, war profits, and excess profits taxes, allows to citizens of the United States residing in such foreign country such a similar credit."

(3) Section 2014 (relating to credit for foreign death taxes) is amended by striking out the second sentence of subsection (a), and by adding at the end of such section the following new subsection:

"(h) SIMILAR CREDIT REQUIRED FOR CERTAIN ALIEN RESIDENTS.—Whenever the President finds that—

"(1) a foreign country, in imposing estate, inherit-

ance, legacy, or succession taxes, does not allow to citizens of the United States resident in such foreign country at the time of death a credit similar to the credit allowed under subsection (a),

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

"(3) it is in the public interest to allow the credit under subsection (a) in the case of citizens or subjects of such foreign country only if it allows such a similar credit in the case of citizens of the United States resident in such foreign country at the time of death,

the President shall proclaim that, in the case of citizens or subjects of such foreign country dying while the proclamation remains in effect, the credit under subsection (a) shall be allowed only if such foreign country allows such a similar credit in the case of citizens of the United States resident in such foreign country at the time of death."

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

(c) Foreign Tax Credit in Respect of Interest Received From Foreign Subsidiaries.—

(1) Section 904(f)(2) (relating to application of limitations on foreign tax credit in case of certain interest income) is amended—

(A) by striking out subparagraph (C) and inserting in lieu thereof the following:

"(C) received from a corporation in which the taxpayer (or one or more includible corporations in an affiliated group, as defined in section 1504, of which the taxpayer is a member) owns, directly or indirectly, at least 10 percent of the voting stock,".

(B) by adding at the end thereof the following new sentence:

"For purposes of subparagraph (C), stock owned, directly or indirectly, by or for a foreign corporation shall be considered as being proportionately owned by its shareholders."

(2) The amendments made by paragraph (1) shall apply to interest received after December 31, 1965, in taxable years ending after such date.

SEC. 107. AMENDMENT TO PRESERVE EXISTING LAW ON DEDUCTIONS UNDER SECTION 931.

(a) Deductions.—Subsection (d) of section 931 (relating to deductions) is amended to read as follows:

"(d) Deductions.—

"(1) General rule.—Except as otherwise provided in this subsection and subsection (e), in the case of persons entitled to the benefits of this section the deductions shall be allowed only if and to the extent that they are connected with income from sources within the United States; and the proper apportionment and allocation of the deductions with respect to sources of income within and without the United States shall be determined as provided in part I, under regulations prescribed by the Secretary or his delegate.

"(2) Exceptions.—The following deductions shall be allowed whether or not they are connected with income from sources within the United States:

"(A) The deduction, for losses not connected 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 contributions 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. 108. 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-

termined as provided in section 2106, of every decedent nonresident not a citizen of the United States:

"**If the taxable estate 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	*$45,000, 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	*$320,000, plus 25% of excess over $2,000,000."*

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

"SEC. 2102. CREDITS AGAINST TAX.

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

"(b) SPECIAL LIMITATION.—The maximum credit allowed under section 2011 against the tax imposed by section 2101 for State death taxes paid shall be an amount which bears the same ratio to the credit computed as provided in section 2011(b) as the value of the property, as determined for purposes of this chapter, upon which State

death taxes were paid and which is included in the gross estate under section 2103 bears to the value of the total gross estate under section 2103. For purposes of this subsection, the term 'State death taxes' means the taxes described in section 2011(a)."

(c) PROPERTY WITHIN THE UNITED STATES.—Section 2104 (relating to property within the United States) is amended by adding at the end thereof the following new subsection:

"(c) DEBT OBLIGATIONS.—For purposes of this subchapter, debt obligations of—

"(1) a United States person, or

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

owned and held by a nonresident not a citizen of the United States shall be deemed property within the United States. With respect to estates of decedents dying after December 31, 1971, deposits with a domestic branch of a foreign corporation, if such branch is engaged in the commercial banking business, shall, for purposes of this subchapter, be deemed property within the United States. This subsection shall not apply to a debi obligation to which section 2105(b) applies or to a debt obligation of a domestic corporation if any interest on such obligation, were such interest received by the decedent 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

by subsection (a), the value of the gross estate of every decedent to whom subsection (a) applies shall be determined as provided in section 2103, except that—

"(1) if such decedent owned (within the meaning of section 958(a)) at the time of his death 10 percent or more of the total combined voting power of all classes of stock entitled to vote of a foreign corporation, and

"(2) if such decedent owned (within the meaning of section 958(a)), or is considered to have owned (by applying the ownership rules of section 958(b)), at the time of his death, more than 50 percent of the total combined voting power of all classes of stock entitled to vote of such foreign corporation,

then that proportion of the fair market value of the stock of such foreign corporation owned (within the meaning of section 958(a)) by such decedent at the time of his death, which the fair market value of any assets owned by such foreign corporation and situated in the United States, at the time of his death, bears to the total fair market value of all assets owned by such foreign corporation at the time of his death, shall be included in the gross estate of such decedent. For purposes of the preceding sentence, a decedent shall be treated as owning stock of a foreign corporation at the time *of his death if, at the time of a transfer, by trust or otherwise, within the meaning of sections 2035 to 2038, inclusive, he owned such stock.*

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

"(d) EXCEPTION FOR LOSS OF CITIZENSHIP FOR CERTAIN CAUSES.—Subsection (a) shall not apply to the transfer of the estate of a decedent whose loss of United States citizenship resulted from the application of section 301(b), 350, or 355 of the Immigration and Nationality Act, as amended (8 U.S.C. 1401 (b), 1482, or 1487).

"(e) BURDEN OF PROOF.—If the Secretary or his delegate establishes that it is reasonable to believe that an individual's loss of United States citizenship would, but for this section, result in a substantial reduction in the estate, inheritance, legacy, and succession taxes in respect of the transfer of his estate, the burden of proving that such loss of citizenship did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle A shall be on the executor of such individual's estate.

"SEC. 2108. APPLICATION OF PRE-1967 ESTATE TAX PROVISIONS.

"(a) IMPOSITION OF MORE BURDENSOME TAX BY FOREIGN COUNTRY.—Whenever the President finds that—

"(1) under the laws of any foreign country, considering the tax system of such foreign country, a more burdensome tax is imposed by such foreign country on the transfer of estates of decedents who were citizens of the United States and not residents of such foreign country than the tax imposed by this subchapter on the transfer of estates of decedents who were residents of such foreign country,

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

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

the President shall proclaim that the tax on the transfer of the estate of every decedent who was a resident of such foreign country at the time of his death shall, in the case of decedents dying after the date of such proclamation, be determined under this subchapter without regard to amendments made to sections 2101 (relating to tax imposed), 2102 (relating to credits against tax), 2106 (relating to *taxable estate), and 6018 (relating to estate tax returns) on or after the date of enactment of this section.*

"(b) ALLEVIATION OF MORE BURDENSOME TAX.—Whenever the President finds that the laws of any foreign country with respect to which the President has made a proclamation under subsection (a) have been modified so that the tax on the transfer of estates of decedents who were citizens of the United States and not residents of such foreign country is no longer more burdensome than the tax imposed by this subchapter on the transfer of estates of decedents who were residents of such foreign country, he shall proclaim that the tax on the transfer of the estate of every decedent who was a resident of such foreign country at the time of his death shall, in the case of decedents dying after the date of such proclamation, be determined under this subchapter without regard to subsection (a).

"(c) NOTIFICATION OF CONGRESS REQUIRED.—No proclamation shall be issued by the President pursuant to this section unless, at least 30 days prior to such proclamation, he has notified the Senate and the House of Representatives of his intention to issue such proclamation.

"(d) IMPLEMENTATION BY REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary or appropriate to implement this section."