

*Handwritten mark*

[COMMITTEE PRINT]

OCTOBER 8, 1966

Calendar No.

89TH CONGRESS  
2D SESSION

**H. R. 13103**

[Report No.     ]

---

IN THE SENATE OF THE UNITED STATES

JUNE 16, 1966

Read twice and referred to the Committee on Finance

OCTOBER     , 1966

Reported by Mr. LONG of Louisiana, with amendments

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

---

**AN ACT**

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

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

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

4     ~~(a) SHORT TITLE.—This Act may be cited as the “For-~~  
5 ~~ign Investors Tax Act of 1966”.~~

J. 69-350—1

**BEST AVAILABLE COPY**

## 1 (b) TABLE OF CONTENTS.—

- Sec. 1. Short title, etc.**
- (a) Short title.
  - (b) Table of contents.
  - (c) Amendment of 1954 Code.
- Sec. 2. Source of income.**
- (a) Interest.
  - (b) Dividends.
  - (c) Personal services.
  - (d) Definitions.
  - (e) Effective dates.
- Sec. 3. Nonresident alien individuals.**
- (a) Tax on nonresident alien individuals:
    - “Sec. 871. Tax on nonresident alien individuals:
      - “(a) Income not connected with United States business—80 percent tax.
      - “(b) Income connected with United States business—graduated rate of tax.
      - “(c) Participants in certain exchange or training programs.
      - “(d) Election to treat real property income as income connected with United States business.
      - “(e) Cross references.”
  - (b) Gross income.
  - (c) Deductions.
  - (d) Allowance of deductions and credits.
  - (e) Expatriation to avoid tax:
    - “Sec. 877. Expatriation to avoid tax:
      - “(a) In general.
      - “(b) Alternative tax.
      - “(c) Special rules of source.
      - “(d) Exception for loss of citizenship for certain causes.
      - “(e) Burden of proof.”
  - (f) Partial exclusion of dividends.
  - (g) Withholding of tax on nonresident aliens.
  - (h) Liability for withheld tax.
  - (i) Declaration of estimated income tax by individuals.
  - (j) Gain from dispositions of certain depreciable realty.
  - (k) Collection of income tax at source on wages.
  - (l) Definition of foreign estate or trust.
  - (m) Conforming amendment.
  - (n) Effective dates.
- Sec. 4. Foreign corporations.**
- (a) Tax on income not connected with United States business:
    - “Sec. 881. Income of foreign corporations not connected with United States business:
      - “(a) Imposition of tax.
      - “(b) Doubling of tax.”

**Sec. 4. Foreign corporations—Continued****(b) Tax on income connected with United States business:**

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

“(a) Normal tax and surtax.

“(b) Gross income.

“(c) Allowance of deductions and credits.

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

“(e) Returns of tax by agent.

“(f) Foreign corporations.”

(c) Withholding of tax on foreign corporations.

(d) Dividends received from certain foreign corporations.

(e) Unrelated business taxable income.

(f) Corporations subject to personal holding company tax.

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

(h) Subpart F income.

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

(j) Declaration of estimated income tax by corporations.

(k) Technical amendments.

(l) Effective dates.

**Sec. 5. Special tax provisions.**

(a) Income affected by treaty.

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

“Sec. 806. Application of pre-1967 income tax provisions.

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

“(b) Alleviation of more burdensome taxes.

“(c) Notification of Congress required.

“(d) Implementation by regulations.”

(c) Clerical amendments.

(d) Effective date.

**Sec. 6. Foreign tax credit.**

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

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

**Sec. 7. Amendment to preserve existing law on deductions under section 981.**

(a) Deductions.

(b) Effective date.

**Sec. 8. Estates of nonresidents not citizens.**

(a) Rate of tax.

(b) Credits against tax.

(c) Property within the United States.

(d) Property without the United States.

(e) Definition of taxable estate.

**Sec. 8. Estates of nonresidents not citizens—Continued**

**(f) Special methods of computing tax:**

**"Sec. 9107. Expatriation to avoid tax:**

**"(a) Rate of tax,**

**"(b) Gross estate,**

**"(c) Credits,**

**"(d) Exception for loss of citizenship for certain causes,**

**"(e) Burden of proof,**

**"Sec. 9108. Application of pre-1967 estate tax provisions:**

**"(a) Imposition of more burdensome tax by foreign country,**

**"(b) Alleviation of more burdensome tax,**

**"(c) Notification of Congress required,**

**"(d) Implementation by regulation."**

**(g) Estate tax returns,**

**(h) Clerical amendment,**

**(i) Effective date.**

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

**(a) Imposition of tax,**

**(b) Transfers in general,**

**(c) Effective date.**

**Sec. 10. Treaty obligations:**

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

7        **SEC. 2. SOURCE OF INCOME.**

8        ~~(a) INTEREST.—~~

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

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

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

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

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

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

10 “~~(2)~~ deposits or withdrawable accounts with sav-  
11 ings institutions chartered and supervised as savings  
12 and loan or similar associations under Federal or State  
13 law, but only to the extent that amounts paid or credited  
14 on such deposits or accounts are deductible under section  
15 501 in computing the taxable income of such institu-  
16 tions; and

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

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

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

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

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

6 ~~(8) (A) Section 805 (relating to income derived~~  
 7 ~~by a foreign central bank of issue from obligations of~~  
 8 ~~the United States) is amended—~~

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

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

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

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

3     **"SEC. 806. INCOME DERIVED BY A FOREIGN CENTRAL**  
4           **BANK OF ISSUE FROM OBLIGATIONS OF THE**  
5           **UNITED STATES OR FROM BANK DEPOSITS."**

6     ~~(B)~~ The table of sections for subpart C of part II  
7     of subchapter N of chapter 1 is amended by striking out  
8     the item relating to section 805 and inserting in lieu  
9     thereof the following:

"Sec. 805. Income derived by a foreign central bank  
          issued from obligations of the United States  
          or from bank deposits."

10    ~~(b) DIVIDENDS.—~~

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

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

1 of such period as the corporation has been in exist-  
2 ence) was effectively connected with the conduct of  
3 a trade or business within the United States; but  
4 only in an amount which bears the same ratio to  
5 such dividends as the gross income of the corpora-  
6 tion for such period which is effectively connected  
7 with the conduct of a trade or business within the  
8 United States bears to its gross income from all  
9 sources; but dividends from a foreign corporation  
10 shall, for purposes of subpart A of part III (relating  
11 to foreign tax credit), be treated as income from  
12 sources without the United States to the extent (and  
13 only to the extent) exceeding the amount which is  
14  $100/85$ ths of the amount of the deduction allowable  
15 under section 245 in respect of such dividends, or"

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

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



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

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

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

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

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

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

19                ~~“(b) TRADE OR BUSINESS WITHIN THE UNITED~~  
 20                ~~STATES.—For purposes of this part, part II, and chapter 8,~~  
 21                ~~the term ‘trade or business within the United States’ in-~~  
 22                ~~cludes the performance of personal services within the United~~  
 23                ~~States at any time within the taxable year, but does not in-~~  
 24                ~~clude—~~

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

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

7            **"(B) for an office or place of business main-**  
 8            **tained in a foreign country or in a possession of the**  
 9            **United States by an individual who is a citizen or**  
 10           **resident of the United States or by a domestic**  
 11           **partnership or a domestic corporation,**

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

17           **"(2) TRADING IN SECURITIES OR COMMODITIES.—**

18           **"(A) STOCKS AND SECURITIES.—**

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

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

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

14 **“(B) COMMODITIES.**

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

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

1           commission agent, custodian, or other independ-  
2           ent agent.

3           ~~“(iii) Clauses (i) and (ii) apply only if~~  
4           ~~the commodities are of a kind customarily dealt~~  
5           ~~in on an organized commodity exchange and if~~  
6           ~~the transaction is of a kind customarily con-~~  
7           ~~summated at such place.~~

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

15          ~~“(e) EFFECTIVELY CONNECTED INCOME, ETC.—~~

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

17           ~~“(A) In the case of a nonresident alien indi-~~  
18           ~~vidual or a foreign corporation engaged in trade or~~  
19           ~~business within the United States during the taxable~~  
20           ~~year, the rules set forth in paragraphs (2), (3),~~  
21           ~~and (4) shall apply in determining the income,~~  
22           ~~gain, or loss which shall be treated as effectively con-~~  
23           ~~necting with the conduct of a trade or business within~~  
24           ~~the United States.~~

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

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

7 ~~“(2) PERIODICALS, ETC., INCOME FROM SOURCES~~  
8 ~~WITHIN UNITED STATES—FACTORS.~~—In determining  
9 whether income from sources within the United States  
10 of the types described in section 871(a)(1) or section  
11 881(a), or whether gain or loss from sources within  
12 the United States from the sale or exchange of capital  
13 assets, is effectively connected with the conduct of a  
14 trade or business within the United States, the factors  
15 taken into account shall include whether—

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

19 ~~“(B) the activities of such trade or business~~  
20 ~~were a material factor in the realization of the in-~~  
21 ~~come, gain, or loss.~~

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

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

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

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

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

21 ~~“(B) Income, gain, or loss from sources with-~~  
22 ~~out the United States shall be treated as effectively~~  
23 ~~connected with the conduct of a trade or business~~

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

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

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

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

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

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

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

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

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



1 royalties paid by a foreign corporation in which  
 2 the taxpayer owns (within the meaning of  
 3 section 958(a)), or is considered as owning  
 4 (by applying the ownership rules of section  
 5 958(b)), more than 50 percent of the total  
 6 combined voting power of all classes of stock  
 7 entitled to vote, or

8 “(ii) is subpart F income within the mean-  
 9 ing of section 952(a).”

10 ~~(c) EFFECTIVE DATES.—~~

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

20 (2) The amendments made by subsection (b) shall  
 21 apply with respect to amounts received after Decem-  
 22 ber 31, 1966.

1 **SEC. 2. NONRESIDENT ALIEN INDIVIDUALS.**2 ~~(a) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—~~3 ~~(1) Section 871 (relating to tax on nonresident~~  
4 ~~alien individuals) is amended to read as follows:~~5 **"SEC. 871. TAX ON NONRESIDENT ALIEN INDIVIDUALS.**6 ~~"(a) INCOME NOT CONNECTED WITH UNITED STATES~~  
7 ~~BUSINESS—30 PERCENT TAX.—~~8 ~~"(1) INCOME OTHER THAN CAPITAL GAINS.—~~ There  
9 is hereby imposed for each taxable year a tax of 30 per-  
10 cent of the amount received from sources within the  
11 United States by a nonresident alien individual as—12 ~~"(A) interest, dividends, rents, salaries, wages,~~  
13 ~~premiums, annuities, compensations, remunerations,~~  
14 ~~emoluments, and other fixed or determinable an-~~  
15 ~~nuual or periodical gains, profits, and income,~~16 ~~"(B) gains described in section 402(a)(2),~~  
17 ~~403(a)(2), or 631 (b) or (c), and gains on~~  
18 ~~transfers described in section 1285, and~~19 ~~"(C) amounts which under section 341, or~~  
20 ~~under section 1282 (in the case of bonds or other~~  
21 ~~evidences of indebtedness issued after September 28,~~  
22 ~~1965), are treated as gains from the sale or ex-~~  
23 ~~change of property which is not a capital asset,~~24 ~~but only to the extent the amount so received is not effe-~~

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

3 ~~“(2) CAPITAL GAINS OF ALIENS PRESENT IN THE~~  
4 ~~UNITED STATES 183 DAYS OR MORE.—~~In the case of a  
5 nonresident alien individual present in the United States  
6 for a period or periods aggregating 183 days or more  
7 during the taxable year, there is hereby imposed for such  
8 year a tax of 30 percent of the amount by which his  
9 gains, derived from sources within the United States,  
10 from the sale or exchange at any time during such year  
11 of capital assets exceed his losses, allocable to sources  
12 within the United States, from the sale or exchange at  
13 any time during such year of capital assets. For pur-  
14 poses of this paragraph, gains and losses shall be taken  
15 into account only if, and to the extent that, they would  
16 be recognized and taken into account if such gains and  
17 losses were effectively connected with the conduct of a  
18 trade or business within the United States, except that  
19 such gains and losses shall be determined without regard  
20 to section 1202 (relating to deduction for capital gains)  
21 and such losses shall be determined without the benefits  
22 of the capital loss carryover provided in section 1212.  
23 Any gain or loss which is taken into account in deter-  
24 mining the tax under paragraph (1) or subsection (b)

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

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

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

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

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

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

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

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

17 ~~“(A) from real property held for the produc-~~  
 18 ~~tion of income and located in the United States;~~  
 19 ~~or from any interest in such real property, includ-~~  
 20 ~~ing (1) gains from the sale or exchange of such~~  
 21 ~~real property or an interest therein; (ii) rents or~~  
 22 ~~royalties from mines, wells, or other natural deposits;~~  
 23 ~~and (iii) gains described in section ~~681(b) or (c)~~,~~  
 24 ~~and~~

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

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

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

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

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

3 ~~“(c) 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 801.~~

“~~(4) For reinstatement of pre-1967 income tax provisions in the case of residents of certain foreign countries, see section 806.~~

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

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

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

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

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

11 ~~(b) GROSS INCOME.—~~

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

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

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

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

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

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

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

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



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

4 ~~(c) DEDUCTIONS.—~~

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

8 ~~SEC. 873. DEDUCTIONS.~~

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

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

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

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

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

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

11 ~~"(c) CROSS REFERENCES.—~~

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

~~"(2) For rule that certain foreign taxes are not to be~~  
~~taken into account in determining deduction or credit,~~  
~~see section 908(b)(1)."~~

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

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

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

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

1 by filing or causing to be filed with the Secretary or his  
2 delegate a true and accurate return, in the manner prescribed  
3 in subtitle F (see, 6001 and following, relating to procedure  
4 and administration), including therein all the information  
5 which the Secretary or his delegate may deem necessary  
6 for the calculation of such deductions and credits. This sub-  
7 section shall not be construed to deny the credits provided  
8 by sections 31 and 32 for tax withheld at source or the credit  
9 provided by section 30 for certain uses of gasoline and  
10 lubricating oil."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

          "Sec. 877. Expatriation to avoid tax.

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

6           ~~(f)~~ **PARTIAL EXCLUSION OF DIVIDENDS.**—Subsection  
 7           ~~(d)~~ of section 116 ~~(relating to certain nonresident aliens in-~~  
 8           ~~eligible for exclusion)~~ is amended to read as follows:

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

12           ~~"(1)~~ in determining the tax imposed for the tax-  
 13          able year pursuant to section 871(b)(1) and only in  
 14          respect of dividends which are effectively connected with  
 15          the conduct of a trade or business within the United  
 16          States, or

17           ~~"(2)~~ in determining the tax imposed for the tax-  
 18          able year pursuant to section 877(b)."

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

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

1 persons not engaged in business in the United States)"

2 in subsection (b);

3 (2) striking out "and amounts described in sec-

4 tion 402(a)(2)" and all that follows in the first sentence

5 of subsection (b) and inserting in lieu thereof "and

6 gains described in section 402(a)(2), 403(a)(2), or

7 631 (b) or (c), and gains on transfers described in sec-

8 tion 1285;"

9 (3) by striking out paragraph (1) of subsection

10 (c) and inserting in lieu thereof the following new

11 paragraph:

12 "~~(1) INCOME CONNECTED WITH UNITED STATES~~

13 ~~BUSINESS.—No deduction or withholding under subsec-~~

14 ~~tion (a) shall be required in the case of any item of~~

15 ~~income (other than compensation for personal services)~~

16 ~~which is effectively connected with the conduct of a~~

17 ~~trade or business within the United States and on which~~

18 ~~a tax is imposed for the taxable year pursuant to section~~

19 ~~871(b)(1).";~~

20 (4) by amending paragraph (4) of subsection (c)

21 to read as follows:

22 "~~(4) COMPENSATION OF CERTAIN ALIENS.—Un-~~

23 ~~der regulations prescribed by the Secretary or his dele-~~

24 ~~gate, compensation for personal services may be ex-~~

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21       (n) EFFECTIVE DATES.—

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

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

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

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

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

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

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

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

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

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

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

1 section 1222 (in the case of bonds or other evidences of  
 2 indebtedness issued after September 28, 1965), are  
 3 treated as gains from the sale or exchange of property  
 4 which is not a capital asset,  
 5 but only to the extent the amount so received is not effec-  
 6 tively connected with the conduct of a trade or business  
 7 within the United States.

8 **“(b) DOUBLING OF TAX.—**

**“For doubling of tax on corporations of certain for-  
 eign countries, see section 801.”**

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

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

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

15 **“(a) NORMAL TAX AND SURTAX.—**

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

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

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

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

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

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

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

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

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

1 regulations prescribed by the Secretary or his  
2 delegate.

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

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

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

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

3 ~~“(4) CROSS REFERENCE.—~~

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

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

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

12 ~~“(A) from real property located in the United  
13 States, or from any interest in such real property,  
14 including (i) gains from the sale or exchange of  
15 real property or an interest therein; (ii) rents or  
16 royalties from mines, wells, or other natural de-  
17 posits; and (iii) gains described in section 621 (b)  
18 or (c); and~~

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

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



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

9 ~~“(2) ELECTION AFTER REVOCATION, ETC.—Para-~~  
10 ~~graphs (2) and (3) of section 871(d) shall apply in~~  
11 ~~respect of elections under this subsection in the same~~  
12 ~~manner and to the same extent as they apply in respect~~  
13 ~~of elections under section 871(d).~~

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

18 ~~(2)(A) Subsection (e) of section 11 (relating to~~  
19 ~~exceptions from tax on corporations) is amended by in-~~  
20 ~~serting “or” at the end of paragraph 2), by striking~~  
21 ~~out “, or” at the end of paragraph (3) and inserting~~  
22 ~~a period in lieu thereof, and by striking out paragraph~~  
23 ~~(4).~~

1           ~~(B)~~ Section 14 (relating to tax on corporations) is  
2 amended by adding at the end thereof the following  
3 new subsection:

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

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

~~"Sec. 881, Income of foreign corporations not connected  
with United States business.~~

~~"Sec. 882, Income of foreign corporations connected with  
United States business."~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10 ~~(3)~~ Section 810 (relating to foreign life insurance  
 11 companies) is amended—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 ~~"(e) CROSS REFERENCE.—~~

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

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

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

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



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

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

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

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

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

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

13       ~~“(e) CROSS REFERENCES.—~~

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

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

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

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

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

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

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

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

21 "**(4) UNITED STATES INCOME.**—Any item in-  
22 cludible in gross income of the foreign corporation under  
23 this chapter—

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

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

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

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

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

1     ~~(k)~~ TECHNICAL AMENDMENTS.—

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

## "SEC. 884. CROSS REFERENCES.

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

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

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

"(4) For reinstatement of pre-1967 income tax provisions in the case of corporations of certain foreign countries, see section 806.

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

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

3             (2) Section 953(b)(3)(F) is amended by strik-  
4     ing out "~~832(b)(5)~~" and inserting in lieu thereof  
5     "~~832(e)(5)~~".

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

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

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

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

4 ~~(a) INCOME AFFECTED BY TREATY.~~—Section 804 (re-  
5 lating to income exempt under treaties) is amended to read  
6 as follows:

7 **“SEC. 804. INCOME AFFECTED BY TREATY.**

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

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

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

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

4 **"SEC. 806. APPLICATION OF PRE-1967 INCOME TAX PRO-**  
5 **VISIONS.**

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

8 **"(1)** under the laws of any foreign country, con-  
9 sidering the tax system of such foreign country, citizens  
10 of the United States not residents of such foreign coun-  
11 try or domestic corporations are being subjected to more  
12 burdensome taxes, on any item of income received by  
13 such citizens or corporations from sources within such  
14 foreign country, than taxes imposed by the provisions of  
15 this subtitle on similar income derived from sources  
16 within the United States by residents or corporations of  
17 such foreign country,

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

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

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

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

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

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

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

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

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

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

10 ~~(1) by striking out the item relating to section 804~~  
 11 ~~and inserting in lieu thereof~~

~~“Sec. 804. Income affected by treaty.”;~~

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

~~“Sec. 806. Application of pre-1967 income tax provisions.”~~

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

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

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



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

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

“Sec 081. Elections as to treatment of income subject to  
foreign community property laws.

5 **“SEC. 081. ELECTION AS TO TREATMENT OF INCOME SUB-**  
6 **JECT TO FOREIGN COMMUNITY PROPERTY**  
7 **LAWS.**

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

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

15 **“(2) such individual and his spouse elect to have**  
16 **subsection (b) apply to their community income under**  
17 **foreign community property laws,**

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

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

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

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

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

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

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

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

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

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

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

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

5 ~~“(1) TIME.—An election under subsection (a) or~~  
6 ~~(e) for a taxable year may be made at any time while~~  
7 ~~such year is still open, and shall be made in such man-~~  
8 ~~ner as the Secretary or his delegate shall by regulations~~  
9 ~~prescribe.~~

10 ~~“(2) EXTENSION OF PERIOD FOR ASSESSING DE-~~  
11 ~~FIENCIES AND MAKING REFUNDS.—If any taxable~~  
12 ~~year to which an election under subsection (a) or (e)~~  
13 ~~applies is open at the time such election is made, the~~  
14 ~~period for assessing a deficiency against, and the period~~  
15 ~~for filing claim for credit or refund of any overpayment~~  
16 ~~by, the husband and wife for such taxable year, to the~~  
17 ~~extent such deficiency or overpayment is attributable to~~  
18 ~~such an election, shall not expire before 1 year after~~  
19 ~~the date of such election.~~

20 ~~“(3) ALIEN SPOUSE NEED NOT JOIN IN SUBSEC-~~  
21 ~~TION (e) ELECTION IN CERTAIN CASES.—If the Secre-~~  
22 ~~tary or his delegate determines—~~

23 ~~“(A) that an election under subsection (e)~~  
24 ~~would not affect the liability for Federal income~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“(2) For elections as to treatment of income subject  
to foreign community property laws, see section 931.”

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

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

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

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

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

19 **“(b) SPECIAL RULES.—**

20 **“(1)** For purposes of subsection (a) and for pur-  
21 poses of determining the deductions allowable under  
22 sections 872(a) and 882(e), in determining the amount  
23 of any tax paid or accrued to any foreign country or

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

6 “~~(A)~~ in the case of a nonresident alien indi-  
7 vidual, such individual is a citizen or resident of  
8 such foreign country or possession; or

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

14 “~~(2)~~ For purposes of subsection ~~(a)~~, in apply-  
15 ing section 904 the taxpayer's taxable income shall be  
16 treated as consisting only of the taxable income effec-  
17 tively connected with the taxpayer's conduct of a trade  
18 or business within the United States.

19 “~~(3)~~ The credit allowed pursuant to subsection ~~(a)~~  
20 shall not be allowed against any tax imposed by section  
21 871~~(a)~~ (relating to income of nonresident alien individ-  
22 ual not connected with United States business) or 881  
23 (relating to income of foreign corporations not con-  
24 nected with United States business).

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



1 foreign corporation choosing the benefits of this sub-  
 2 part which receives dividends shall, with respect to  
 3 such dividends, be treated as a domestic corporation."

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

"Sec. 906, Nonresident alien individuals and foreign cor-  
 porations."

6 (3) Section 874(c) is amended by striking out  
 7 "~~(c) FOREIGN TAX CREDIT NOT ALLOWED.—A non-~~  
 8 resident" and inserting in lieu thereof the following:

9 "~~(c) FOREIGN TAX CREDIT.—Except as provided in~~  
 10 section 906, a nonresident".

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

15 "~~(4) NONRESIDENT ALIEN INDIVIDUALS AND FOR-~~  
 16 HIGH CORPORATIONS.—In the case of any nonresident  
 17 alien individual not described in section 876 and in the  
 18 case of any foreign corporation, the amount determined  
 19 pursuant to section 906; and".

20 (5) Paragraph (5) (as redesignated) of section  
 21 901(b) is amended by striking out "~~or (3),~~" and in-  
 22 serting in lieu thereof "~~(3), or (4),~~".

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

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

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

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

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

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

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

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

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

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

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

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

3. **"(h) SIMILAR CREDIT REQUIRED FOR CERTAIN ALIEN**

4. **RESIDENTS.—Whenever the President finds that—**

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

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

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

19.           **the President shall proclaim that, in the case of citizens or**  
 20.           **subjects of such foreign country dying while the proclamation**  
 21.           **remains in effect, the credit under subsection (a) shall be al-**

22.           **lowed only if such foreign country allows such a similar**  
 23.           **credit in the case of citizens of the United States resident in**  
 24.           **such foreign country at the time of death."**

25.           **(4) The amendments made by this subsection**

1 ~~(other than paragraph (3))~~ shall apply with respect  
 2 to taxable years beginning after December 31, 1966.

3 The amendment made by paragraph (3) shall apply  
 4 with respect to estates of decedents dying after the date  
 5 of the enactment of this Act.

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

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

11 ~~(A) by striking out "or" at the end of sub-~~  
 12 ~~paragraph (C);~~

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

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

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

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

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

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

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

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

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

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

5 ~~“(d) DEDUCTIONS.—~~

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

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

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

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

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

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

12 ~~“(3) DEDUCTION DISALLOWED.—~~

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

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

16 **SEC. 8. ESTATES OF NONRESIDENTS NOT CITIZENS.**

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

20 ~~“(a) RATE OF TAX.—Except as provided in section~~  
 21 ~~2107, a tax computed in accordance with the following table~~  
 22 ~~is hereby imposed on the transfer of the taxable estate, de-~~



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

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

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

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

6 "SEC. 2102. CREDITS AGAINST TAX.

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

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

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

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

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

13               “(1) a United States person; or

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

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

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

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

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

12     ~~“(3) EXEMPTION.~~—

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

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

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

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

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

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

18 **"(b) GROSS ESTATE.**—For purposes of the tax imposed  
19 by subsection (a), the value of the gross estate of every  
20 decedent to whom subsection (a) applies shall be determined  
21 as provided in section 2102, except that—

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

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

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

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

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

1        ~~“(d) EXCEPTION FOR LOSS OF CITIZENSHIP FOR 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).

7        ~~“(c) 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.

16        **“SEC. 2108. APPLICATION OF PRE-1967 ESTATE TAX PROVISIONS.**

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

20                ~~“(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~~

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

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

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

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

22 ~~“(b) ALLEVIATION OF MORE BURDENSOME TAX.—~~

23 Whenever the President finds that the laws of any foreign  
24 country with respect to which the President has made a pro-

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

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

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

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

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



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

"Sec. 9107. Expatriation to avoid tax:

"Sec. 9108. Application of pre-1967 estate tax provisions."

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

6 **SEC. 8. TAX ON GIFTS OF NONRESIDENTS NOT CITIZENS.**

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

10 ~~"(a) TAXABLE TRANSFERS.—~~

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

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

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

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

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

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

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

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

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

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

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

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

5       “(2) debt obligations of—

6               “(A) a United States person, or

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

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

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

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

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

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

22       (a) **TABLE OF CONTENTS.**—

•       •       •       •       •       •       •

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

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

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

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

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

#### 13       **(a) INTEREST.—**

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

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

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

24       **“(c) INTEREST ON DEPOSITS, ETC.—***For purposes of*

1 subsection (a)(1)(A), the amounts described in this sub-  
2 section are—

3 “(1) deposits with persons carrying on the bank-  
4 ing business,

5 “(2) deposits or withdrawable accounts with sav-  
6 ings institutions chartered and supervised as savings  
7 and loan or similar associations under Federal or State  
8 law, but only to the extent that amounts paid or credited  
9 on such deposits or accounts are deductible under section  
10 591 (determined without regard to section 265) in com-  
11 puting the taxable income of such institutions, and

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

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

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

20 “(B) interest received from a resident alien  
21 individual or a domestic corporation, when it is  
22 shown to the satisfaction of the Secretary or his dele-  
23 gate that less than 20 percent of the gross income  
24 from all sources of such individual or such corpora-

1            *tion has been derived from sources within the United*  
2            *States, as determined under the provisions of this*  
3            *part, for the 3-year period ending with the close of*  
4            *the taxable year of such individual or such corpora-*  
5            *tion preceding the payment of such interest, or for*  
6            *such part of such period as may be applicable,*

7            *“(C) interest received from a resident foreign*  
8            *corporation (other than interest paid or credited*  
9            *after December 31, 1971, from a domestic branch of*  
10           *a foreign corporation, if such branch is engaged in*  
11           *the commercial banking business), when it is shown*  
12           *to the satisfaction of the Secretary or his delegate that*  
13           *less than 50 percent of the gross income from all*  
14           *sources of such foreign corporation for the 3-year*  
15           *period ending with the close of its taxable year pre-*  
16           *ceding the payment of such interest (or for such part*  
17           *of such period as the corporation has been in exist-*  
18           *ence) was effectively connected with the conduct of*  
19           *a trade or business within the United States,*

20           *“(D) in the case of interest received from a*  
21           *resident foreign corporation (other than interest paid*  
22           *or credited after December 31, 1971, from a do-*  
23           *mestic branch of a foreign corporation, if such*  
24           *branch is engaged in the commercial banking busi-*  
25           *ness) 50 percent or more of the gross income of*

1           *which from all sources for the 3-year period ending*  
2           *with the close of its taxable year preceding the pay-*  
3           *ment of such interest (or for such part of such*  
4           *period as the corporation has been in existence) was*  
5           *effectively connected with the conduct of a trade or*  
6           *business within the United States, an amount of such*  
7           *interest which bears the same ratio to such interest*  
8           *as the gross income of such foreign corporation for*  
9           *such period which was not effectively connected with*  
10           *the conduct of a trade or business within the United*  
11           *States bears to its gross income from all sources,*

12           *“(E) income derived by a foreign central bank*  
13           *of issue from bankers’ acceptances, and*

14           *“(F) interest on deposits with a foreign branch*  
15           *of a domestic corporation or a domestic partnership,*  
16           *if such branch is engaged in the commercial banking*  
17           *business.”*

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

22           *“(d) SPECIAL RULES FOR APPLICATION OF PARA-*  
23           *GRAPHS (1)(B), (1)(C), (1)(D), AND (2)(B) OF*  
24           *SUBSECTION (a).—*

25           *“(1) NEW ENTITIES.—For purposes of paragraphs*

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

9               “(2) *TRANSITION RULE.*—For purposes of para-  
10       graphs (1)(C), (1)(D), and (2)(B) of subsection  
11       (a), the gross income of the foreign corporation for  
12       any period before the first taxable year beginning after  
13       December 31, 1966, which is effectively connected with  
14       the conduct of a trade or business within the United  
15       States is an amount equal to the gross income for such  
16       period from sources within the United States.”

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

20       “**SEC. 895. INCOME DERIVED BY A FOREIGN CENTRAL**  
21               **BANK OF ISSUE FROM OBLIGATIONS OF**  
22               **THE UNITED STATES OR FROM BANK DE-**  
23               **POSITS.**

24               “Income derived by a foreign central bank of issue from  
25       obligations of the United States or of any agency or in-



1 *strumentality thereof (including beneficial interests, participa-*  
2 *tions, and other instruments issued under section 302(c) of*  
3 *the Federal National Mortgage Association Charter Act)*  
4 *which are owned by such foreign central bank of issue, or*  
5 *derived from interest on deposits with persons carrying on*  
6 *the banking business, shall not be included in gross income*  
7 *and shall be exempt from taxation under this subtitle unless*  
8 *such obligations or deposits are held for, or used in con-*  
9 *nection with, the conduct of commercial banking functions or*  
10 *other commercial activities. For purposes of the preceding*  
11 *sentence the Bank for International Settlements shall be*  
12 *treated as a foreign central bank of issue."*

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

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

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

20                 *"(B) from a foreign "corporation unless less*  
21 *than 50 percent of the gross income from all*  
22 *sources of such foreign corporation for the 3-year*  
23 *period ending with the close of its taxable year pre-*

1        *ceding the declaration of such dividends (or for such*  
2        *part of such period as the corporation has been in*  
3        *existence) was effectively connected with the con-*  
4        *duct of a trade or business within the United States;*  
5        *but only in an amount which bears the same ratio to*  
6        *such dividends as the gross income of the corpora-*  
7        *tion for such period which was effectively con-*  
8        *ected with the conduct of a trade or business within*  
9        *the United States bears to its gross income from all*  
10       *sources; but dividends (other than dividends for*  
11       *which a deduction is allowable under section*  
12       *245(b)) from a foreign corporation shall, for pur-*  
13       *poses of subpart A of part III (relating to foreign*  
14       *tax credit), be treated as income from sources with-*  
15       *out the United States to the extent (and only to the*  
16       *extent) exceeding the amount which is 100/85ths*  
17       *of the amount of the deduction allowable under sec-*  
18       *tion 245 in respect of such dividends, or”.*

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

22                    “(ii) *an individual who is a citizen or*  
23                    *resident of the United States, a domestic part-*  
24                    *nership, or a domestic corporation, if such*  
25                    *labor or services are performed for an office*

1            *or place of business maintained in a foreign*  
2            *country or in a possession of the United States*  
3            *by such individual, partnership, or corpora-*  
4            *tion."*

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

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

9            *"(a) SALE, ETC.—For purposes of this part,"; and*

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

12           *"(b) TRADE OR BUSINESS WITHIN THE UNITED*  
13           *STATES.—For purposes of this part, part II, and chapter 3,*  
14           *the term 'trade or business within the United States' in-*  
15           *cludes the performance of personal services within the United*  
16           *States at any time within the taxable year, but does not*  
17           *include—*

18           *"(1) PERFORMANCE OF PERSONAL SERVICES FOR*  
19           *FOREIGN EMPLOYER.—The performance of personal*  
20           *services—*

21           *"(A) for a nonresident alien individual,*  
22           *foreign partnership, or foreign corporation, not en-*  
23           *gaged in trade or business within the United States,*  
24           *or*

25           *"(B) for an office or place of business main-*

1     *obtained in a foreign country or in the possession of the*  
2     *United States by an individual who is a citizen or*  
3     *resident of the United States or by a domestic*  
4     *partnership or a domestic corporation,*  
5     *by a nonresident alien individual temporarily present in*  
6     *the United States for a period or periods not exceeding*  
7     *a total of 90 days during the taxable year and whose*  
8     *compensation for such services does not exceed in the*  
9     *aggregate \$3,000.*

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

11             “(A) *STOCKS AND SECURITIES.—*

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

15             “(ii) *TRADING FOR TAXPAYER’S OWN*  
16             *ACCOUNT.—Trading in stocks or securities for*  
17             *the taxpayer’s own account, whether by the tax-*  
18             *payer or his employees or through a resident*  
19             *broker, commission agent, custodian, or other*  
20             *agent, and whether or not any such agent has*  
21             *discretionary authority to make decisions in*  
22             *effecting the transactions. This clause shall not*  
23             *apply in the case of a dealer in stocks or securi-*  
24             *ties, or in the case of a corporation (other than*  
25             *a corporation which is, or but for section 542*

1           (c) (7) or 543(b) (1) (C) would be, a personal  
2           holding company) the principal business of  
3           which is trading in stocks or securities for its  
4           own account, if its principal office is in the  
5           United States.

6           “(B) COMMODITIES.—

7           “(i) IN GENERAL.—Trading in commodi-  
8           ties through a resident broker, commission agent,  
9           custodian, or other independent agent.

10           “(ii) TRADING FOR TAXPAYER’S OWN  
11           ACCOUNT.—Trading in commodities for the  
12           taxpayer’s own account, whether by the tax-  
13           payer or his employees or through a resident  
14           broker, commission agent, custodian, or other  
15           agent, and whether or not any such agent has  
16           discretionary authority to make decisions in ef-  
17           fecting the transactions. This clause shall not  
18           apply in the case of a dealer in commodities.

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

24           “(C) LIMITATION.—Subparagraphs (A) (i)  
25           and (B) (i) shall apply only if, at no time during the

1           *taxable year, the taxpayer has an office or other fixed*  
2           *place of business in the United States through which*  
3           *or by the direction of which the transactions in*  
4           *stocks or securities, or in commodities, as the case*  
5           *may be, are effected.*

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

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

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

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

23           “(2) *PERIODICAL, ETC., INCOME FROM SOURCES*  
24           *WITHIN UNITED STATES—FACTORS.—In determining*  
25           *whether income from sources within the United States*

1 of the types described in section 871(a)(1) or section  
2 881(a), or whether gain or loss from sources within  
3 the United States from the sale or exchange of capital  
4 assets, is effectively connected with the conduct of a  
5 trade or business within the United States, the factors  
6 taken into account shall include whether--

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

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

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

23 (3) OTHER INCOME FROM SOURCES WITHIN  
24 UNITED STATES.—All income, gain, or loss from sources  
25 within the United States (other than income, gain, or

1        *loss to which paragraph (2) applies) shall be treated*  
2        *as effectively connected with the conduct of a trade or*  
3        *business within the United States.*

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

24       *(e) EFFECTIVE DATES.—*

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

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

9       (2) The amendments made by subsection (b)  
 10       shall apply with respect to amounts received after De-  
 11       cember 31, 1966.

12       **SEC. 103. NONRESIDENT ALIEN INDIVIDUALS.**

13       (a) **TAX ON NONRESIDENT ALIEN INDIVIDUALS.—**

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

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

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

19       **“(1) INCOME OTHER THAN CAPITAL GAINS.—**

20       There is hereby imposed for each taxable year a tax of  
 21       30 percent of the amount received from sources within  
 22       the United States by a nonresident alien individual as—

23       **“(A) interest, dividends, rents, salaries, wages,**

1       *premiums, annuities, compensations, remunerations,*  
2       *emoluments, and other fixed or determinable annual*  
3       *or periodical gains, profits, and income,*

4               *“(B) gains described in section 402(a)(2),*  
5               *403(a)(2), or 631 (b) or (c),*

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

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

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

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

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

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

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

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

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

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

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

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

13 **“(A)** from real property held for the produc-  
 14 tion of income and located in the United States,  
 15 or from any interest in such real property, in-  
 16 cluding (1) gains from the sale or exchange of such  
 17 real property or an interest therein, (ii) rents or  
 18 royalties from mines, wells, or other natural deposits,  
 19 and (iii) gains described in section 631 (b) or (c),  
 20 and

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

25 **(1)** may elect for such taxable year to treat all such income



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

11 “(2) ELECTION AFTER REVOCATION.—If an elec-  
12 tion has been made under paragraph (1) and such elec-  
13 tion has been revoked, a new election may not be made  
14 under such paragraph for any taxable year before the  
15 5th taxable year which begins after the first taxable  
16 year for which such revocation is effective, unless the  
17 Secretary or his delegate consents to such new election.

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

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

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

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

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

21           “(f) CERTAIN ANNUITIES RECEIVED UNDER QUALI-  
22          FIED PLANS.—The tax imposed by subsection (a) shall not  
23          apply to any amount received as an annuity under a qualified  
24          annuity plan described in section 403(a)(1), or from a qual-

1 ifed trust described in section 491(a) which is exempt from  
2 tax under section 501(a), if—

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

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

16 “(g) CROSS REFERENCES.—

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

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

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

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

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

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

17 (2) Section 1 (relating to tax on individuals) is  
18 amended by redesignating subsection (d) as subsection

1       (e), and by inserting after subsection (c) the follow-  
2       ing new subsection:

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

6       (b) *GROSS INCOME.*—

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

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

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

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

19             (2) Subparagraph (B) of section 872(b)(3) (re-  
20       lating to compensation of participants in certain ex-  
21       change or training programs) is amended by striking  
22       out “by a domestic corporation” and inserting in lieu  
23       thereof “by a domestic corporation, a domestic partner-  
24       ship, or an individual who is a citizen or resident of the  
25       United States”.

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

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

11          (c) DEDUCTIONS.—

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

15          “SEC. 873. DEDUCTIONS.

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

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

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

10              “(2) *CHARITABLE CONTRIBUTIONS.*—The deduc-  
11 tion for charitable contributions and gifts allowed by  
12 section 170.

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

18              “(c) *CROSS REFERENCE.*—

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

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

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

1 (d) ALLOWANCE OF DEDUCTIONS AND CREDITS.—

2 Subsection (a) of section 874 (relating to filing of returns)

3 is amended to read as follows:

4 “(a) RETURN PREREQUISITE TO ALLOWANCE.—A

5 nonresident alien individual shall receive the benefit of the  
6 deductions and credits allowed to him in this subtitle only  
7 by filing or causing to be filed with the Secretary or his  
8 delegate a true and accurate return, in the manner prescribed  
9 in subtitle F (sec. 6001 and following, relating to procedure  
10 and administration), including therein all the information  
11 which the Secretary or his delegate may deem necessary  
12 for the calculation of such deductions and credits. This sub-  
13 section shall not be construed to deny the credits provided  
14 by sections 31 and 32 for tax withheld at source or the credit  
15 provided by section 39 for certain uses of gasoline and  
16 lubricating oil.”

17 (e) BENEFICIARIES OF ESTATES AND TRUSTS.—

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

20 “SEC. 875. PARTNERSHIPS; BENEFICIARIES OF ESTATES  
21 AND TRUSTS.

22 “For purposes of this subtitle—

23 “(1) a nonresident alien individual or foreign cor-

1        *poration shall be considered as being engaged in a trade*  
 2        *or business within the United States if the partnership*  
 3        *of which such individual or corporation is a member is*  
 4        *so engaged, and*

5        *“(2) a nonresident alien individual or foreign cor-*  
 6        *poration which is a beneficiary of an estate or trust which*  
 7        *is engaged in any trade or business within the United*  
 8        *States shall be treated as being engaged in such trade or*  
 9        *business within the United States.”*

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

*“Sec. 875. Partnerships; beneficiaries of estates and trusts.”*

14        **(f) EXPATRIATION TO AVOID TAX.**

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

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

21        *“(a) IN GENERAL.—Every nonresident alien individual*  
 22        *who at any time after March 8, 1965, and within the 104-*  
 23        *year period immediately preceding the close of the taxable*  
 24        *year lost United States citizenship, unless such loss did not*



1 have for one of its principal purposes the avoidance of taxes  
2 under this subtitle or subtitle B, shall be taxable for such  
3 taxable year in the manner provided in subsection (b) if the  
4 tax imposed pursuant to such subsection exceeds the tax  
5 which, without regard to this section, is imposed pursuant to  
6 section 871.

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

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

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

22 For purposes of paragraph (2), the deductions allowed by  
23 section 873(b) shall be allowed; and the deduction (for  
24 losses not connected with the trade or business if incurred in

1 transactions entered into for profit) allowed by section  
2 165(c)(2) shall be allowed, but only if the profit, if such  
3 transaction had resulted in a profit, would be included in  
4 gross income under this section.

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

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

11 “(2) STOCK OR DEBT OBLIGATIONS.—Gains on the  
12 sale or exchange of stock issued by a domestic corpora-  
13 tion or debt obligations of United States persons or of  
14 the United States, a State or political subdivision thereof,  
15 or the District of Columbia.

16 “(d) EXCEPTION FOR LOSS OF CITIZENSHIP FOR CER-  
17 TAIN CAUSES.—Subsection (a) shall not apply to a non-  
18 resident alien individual whose loss of United States citizen-  
19 ship resulted from the application of section 301(b), 350, or  
20 355 of the Immigration and Nationality Act, as amended  
21 (8 U.S.C. 1401(b), 1482, or 1487).

22 “(e) BURDEN OF PROOF.—If the Secretary or his dele-  
23 gate establishes that it is reasonable to believe that an indi-  
24 vidual's loss of United States citizenship would, but for this  
25 section, result in a substantial reduction for the taxable year

1 in the taxes on his probable income for such year, the burden  
 2 of proving for such taxable year that such loss of citizen-  
 3 ship did not have for one of its principal purposes the  
 4 avoidance of taxes under this subtitle or subtitle B shall be  
 5 on such individual."

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

"Sec. 877. Expatriation to avoid tax.

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

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

14 "(d) **CERTAIN NONRESIDENT ALIENS INELIGIBLE**  
 15 **FOR EXCLUSION.**—In the case of a nonresident alien indi-  
 16 vidual, subsection (a) shall apply only—

17 "(1) in determining the tax imposed for the tax-  
 18 able year pursuant to section 871(b)(1) and only in  
 19 respect of dividends which are effectively connected with  
 20 the conduct of a trade or business within the United  
 21 States, or

22 "(2) in determining the tax imposed for the tax-  
 23 able year pursuant to section 877(b)."

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

4           (1) *by striking out “, or of any partnership not*  
 5 *engaged in trade or business within the United States and*  
 6 *composed in whole or in part of nonresident aliens,” in*  
 7 *subsection (a) and inserting in lieu thereof “or of any*  
 8 *foreign partnership”;*

9           (2) *by striking out “(except interest on deposits*  
 10 *with persons carrying on the banking business paid to*  
 11 *persons not engaged in business in the United States)”*  
 12 *in subsection (b);*

13           (3) *by striking out “and amounts described in sec-*  
 14 *tion 402(a)(2)” and all that follows in the first sentence*  
 15 *of subsection (b) and inserting in lieu thereof “gains*  
 16 *described in section 402(a)(2), 403(a)(2), or 631*  
 17 *(b) or (c), amounts subject to tax under section 871*  
 18 *(a)(1)(C), and gains subject to tax under section 871*  
 19 *(a)(1)(D).”;*

20           (4) *by adding at the end of subsection (b) the fol-*  
 21 *lowing new sentence:*

22 *“In the case of a nonresident alien individual who is a mem-*  
 23 *ber of a domestic partnership, the items of income referred*  
 24 *to in subsection (a) shall be treated as referring to items*

1 specified in this subsection included in his distributive share  
2 of the income of such partnership.”;

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

6 “(1) **INCOME CONNECTED WITH UNITED STATES**  
7 **BUSINESS.**—No deduction or withholding under subsec-  
8 tion (a) shall be required in the case of any item of  
9 income (other than compensation for personal services)  
10 which is effectively connected with the conduct of a  
11 trade or business within the United States and which  
12 is included in the gross income of the recipient under  
13 section 871(b)(2) for the taxable year.”;

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

16 “(4) **COMPENSATION OF CERTAIN ALIENS.**—Un-  
17 der regulations prescribed by the Secretary or his dele-  
18 gate, compensation for personal services may be ex-  
19 empted from deduction and withholding under subsection  
20 (a).”;

21 (7) by striking out “amounts described in section  
22 402(a)(2), section 403(a)(2), section 631 (b) and  
23 (c), and section 1235, which are considered to be gains  
24 from the sale or exchange of capital assets,” in para-

1 graph (5) of subsection (c) and inserting in lieu thereof  
2 "gains described in section 402(a)(2), 403(a)(2), or  
3 631 (b) or (c), and gains subject to tax under section  
4 871(a)(1)(D)", and by striking out "proceeds from  
5 such sale or exchange," in such paragraph and inserting  
6 in lieu thereof "amount payable,";  
7 (8) by adding at the end of subsection (c) the fol-  
8 lowing new paragraph:

9 **"(7) CERTAIN ANNUITIES RECEIVED UNDER**  
10 **QUALIFIED PLANS.**—No deduction or withholding under  
11 subsection (a) shall be required in the case of any amount  
12 received as an annuity if such amount is, under section  
13 871(f), exempt from the tax imposed by section 871  
14 (a)."; and

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

18 **"(d) EXEMPTION OF CERTAIN FOREIGN PARTNER-**  
19 **SHIPS.**—Subject to such terms and conditions as may be  
20 provided by regulations prescribed by the Secretary or his  
21 delegate, subsection (a) shall not apply in the case of a  
22 foreign partnership engaged in trade or business within the  
23 United States if the Secretary or his delegate determines  
24 that the requirements of subsection (a) impose an undue  
25 administrative burden and that the collection of the tax

1 imposed by section 871(a) on the members of such partner-  
 2 ship who are nonresident alien individuals will not be jeop-  
 3 ardized by the exemption."

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

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

8 "Every person required to deduct and withhold any tax  
 9 under this chapter is hereby made liable for such tax and is  
 10 hereby indemnified against the claims and demands of any  
 11 person for the amount of any payments made in accordance  
 12 with the provisions of this chapter."

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

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

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

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

1 (3) by inserting after subsection (h) the follow-  
 2 ing new subsection:

3       “(i) **NONRESIDENT ALIEN INDIVIDUALS.**—No dec-  
 4 luration shall be required to be made under this section by a  
 5 nonresident alien individual unless—

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

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

14               “(3) such individual is a resident of Puerto Rico  
 15 during the entire taxable year.”

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

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

24 (l) **DEFINITIONS OF FOREIGN ESTATE OR TRUST.**—

25               (1) Section 7701(a)(31) (defining foreign estate



1 or trust) is amended by striking out "from sources with-  
 2 out the United States" and inserting in lieu thereof  
 3 " , from sources without the United States which is not  
 4 effectively connected with the conduct of a trade or busi-  
 5 ness within the United States,".

6 (2) Section 1493 (defining foreign trust for pur-  
 7 poses of chapter 5) is repealed.

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

17 (n) EFFECTIVE DATES.—

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

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

25 (3) The amendments made by subsection (i) shall

1     *apply with respect to payments occurring after Decem-*  
 2     *ber 31, 1966.*

3             *(4) The amendments made by subsection (k) shall*  
 4     *apply with respect to remuneration paid after Decem-*  
 5     *ber 31, 1966.*

6     **SEC. 104. FOREIGN CORPORATIONS.**

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

11     **“SEC. 881. TAX ON INCOME OF FOREIGN CORPORATIONS**  
 12     **NOT CONNECTED WITH UNITED STATES**  
 13     **BUSINESS.**

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

18             **“(1) interest, dividends, rents, salaries, wages, pre-**  
 19     **miums, annuities, compensations, remunerations, emolu-**  
 20     **ments, and other fixed or determinable annual or**  
 21     **periodical gains, profits, and income,**

22             **“(2) gains described in section 631 (b) or (c),**

23             **“(3) in the case of bonds or other evidences of**  
 24     **indebtedness issued after September 28, 1965, amounts**  
 25     **which under section 1232 are considered as gains from**

1 the sale or exchange of property which is not a capital  
2 asset, and

3 “(4) gains from the sale or exchange after October  
4 4, 1966, of patents, copyrights, secret processes and  
5 formulas, good will, trademarks, trade brands, fran-  
6 chises, and other like property, or of any interest in  
7 any such property, to the extent such gains are from  
8 payments which are contingent on the productivity, use,  
9 or disposition of the property or interest sold or ex-  
10 changed, or from payments which are treated as being  
11 so contingent under section 871(e),

12 but only to the extent the amount so received is not effec-  
13 tively connected with the conduct of a trade or business  
14 within the United States.

15 “(b) DOUBLING OF TAX.—

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

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

18 (1) Section 882 (relating to tax on resident for-  
19 eign corporations) is amended to read as follows:

20 “SEC. 882. TAX ON INCOME OF FOREIGN CORPORATIONS  
21 CONNECTED WITH UNITED STATES BUS-  
22 INESS.

23 “(a) NORMAL TAX AND SURTAX.—

24 “(1) IMPOSITION OF TAX.—A foreign corporation

1 engaged in trade or business within the United States  
 2 during the taxable year shall be taxable as provided in  
 3 section 11 or 1201(a) on its taxable income which is  
 4 effectively connected with the conduct of a trade or busi-  
 5 ness within the United States.

6 “(2) DETERMINATION OF TAXABLE INCOME.—In  
 7 determining taxable income for purposes of paragraph  
 8 (1), gross income includes only gross income which is  
 9 effectively connected with the conduct of a trade or busi-  
 10 ness within the United States.

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

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

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

20 “(c) ALLOWANCE OF DEDUCTIONS AND CREDITS.—

21 “(1) ALLOCATION OF DEDUCTIONS.—

22 “(A) GENERAL RULE.—In the case of a for-  
 23 eign corporation, the deductions shall be allowed  
 24 only for purposes of subsection (a) and (except as  
 25 provided by subparagraph (B)) only if and to the

1 extent that they are connected with income which  
2 is effectively connected with the conduct of a trade  
3 or business within the United States; and the proper  
4 apportionment and allocation of the deductions for  
5 this purpose shall be determined as provided in  
6 regulations prescribed by the Secretary or his  
7 delegate.

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

14 “(2) DEDUCTIONS AND CREDITS ALLOWED ONLY  
15 IF RETURN FILED.—A foreign corporation shall receive  
16 the benefit of the deductions and credits allowed to it  
17 in this subtitle only by filing or causing to be filed with  
18 the Secretary or his delegate a true and accurate return,  
19 in the manner prescribed in subtitle F, including therein  
20 all the information which the Secretary or his delegate  
21 may deem necessary for the calculation of such deduc-  
22 tions and credits. The preceding sentence shall not  
23 apply for purposes of the tax imposed by section 541  
24 (relating to personal holding company tax), and shall  
25 not be construed to deny the credit provided by section

1 32 for tax withheld at source or the credit provided by  
2 section 39 for certain uses of gasoline and lubricating oil.

3 “(3) FOREIGN TAX CREDIT.—Except as provided  
4 by section 906, foreign corporations shall not be allowed  
5 the credit against the tax for taxes of foreign countries  
6 and possessions of the United States allowed by section  
7 901.

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

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

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

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

24 may elect for such taxable year to treat all such income  
25 as income which is effectively connected with the con-

1     *duct of a trade or business within the United States. In*  
2     *such case, such income shall be taxable as provided in*  
3     *subsection (a)(1) whether or not such corporation is*  
4     *engaged in trade or business within the United States*  
5     *during the taxable year. An election under this para-*  
6     *graph for any taxable year shall remain in effect for all*  
7     *subsequent taxable years, except that it may be revoked*  
8     *with the consent of the Secretary or his delegate with*  
9     *respect to any taxable year.*

10         “(2) *ELECTION AFTER REVOCATION, ETC.—Par-*  
11         *agraphs (2) and (3) of section 871(d) shall apply in*  
12         *respect of elections under this subsection in the same*  
13         *manner and to the same extent as they apply in respect*  
14         *of elections under section 871(d).*

15         “(e) *INTEREST ON UNITED STATES OBLIGATIONS*  
16         *RECEIVED BY BANKS ORGANIZED IN POSSESSIONS.—In the*  
17         *case of a corporation created or organized in, or under the*  
18         *law of, a possession of the United States which is carrying*  
19         *on the banking business in a possession of the United States,*  
20         *interest on obligations of the United States shall—*

21         “(1) *for purposes of this subpart, be treated as*  
22         *income which is effectively connected with the conduct of*  
23         *a trade or business within the United States, and*

24         “(2) *shall be taxable as provided in subsection*  
25         *(a)(1) whether or not such corporation is engaged in*

1     *trade or business within the United States during the*  
 2     *taxable year.*

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

7             *(2)(A) Subsection (e) of section 11 (relating to*  
 8     *exceptions from tax on corporations) is amended by in-*  
 9     *serting “or” at the end of paragraph (2), by striking*  
 10     *out “, or” at the end of paragraph (3) and inserting*  
 11     *a period in lieu thereof, and by striking out paragraph*  
 12     *(4).*

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

16     *“(f) FOREIGN CORPORATIONS.—In the case of a foreign*  
 17     *corporation, the tax imposed by subsection (a) shall apply*  
 18     *only as provided by section 882.”*

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

*“Sec. 881. Tax on income of foreign corporations not con-*  
    *nected with United States business.*

*“Sec. 882. Tax on income of foreign corporations connected*  
    *with United States business.”*



1       (c) *WITHHOLDING OF TAX ON FOREIGN CORPORA-*  
2 *TIONS.*—Section 1442 (relating to withholding of tax on  
3 foreign corporations) is amended to read as follows:

4       “*SEC. 1442. WITHHOLDING OF TAX ON FOREIGN CORPO-*  
5                                   *RATIONS.*”

6       “(a) *GENERAL RULE.*—In the case of foreign corpora-  
7 tions subject to taxation under this subtitle, there shall be  
8 deducted and withheld at the source in the same manner and  
9 on the same items of income as is provided in section 1441  
10 or section 1451 a tax equal to 30 percent thereof; except  
11 that, in the case of interest described in section 1451 (relat-  
12 ing to tax-free covenant bonds), the deduction and with-  
13 holding shall be at the rate specified therein. For purposes  
14 of the preceding sentence, the references in section 1441(b)  
15 to sections 871(a)(1)(C) and (D) shall be treated as re-  
16 ferring to sections 881(a)(3) and (4), the reference in  
17 section 1441(c)(1) to section 871(b)(1) shall be treated  
18 as referring to section 842 or section 882(a), as the case  
19 may be, and the reference in section 1441(c)(5) to section  
20 871(a)(1)(D) shall be treated as referring to section  
21 881(a)(4).

22       “(b) *EXEMPTION.*—Subject to such terms and condi-  
23 tions as may be provided by regulations prescribed by the  
24 Secretary or his delegate, subsection (a) shall not apply in

1 *the case of a foreign corporation engaged in trade or business*  
2 *within the United States if the Secretary or his delegate de-*  
3 *termines that the requirements of subsection (a) impose an*  
4 *undue administrative burden and that the collection of the*  
5 *tax imposed by section 881 on such corporation will not be*  
6 *jeopardized by the exemption."*

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

11           *(1) by striking out "and has derived 50 percent*  
12 *or more of its gross income from sources within the*  
13 *United States," in that portion of subsection (a) which*  
14 *precedes paragraph (1) and by inserting in lieu thereof*  
15 *"and if 50 percent or more of the gross income of such*  
16 *corporation from all sources for such period is effectively*  
17 *connected with the conduct of a trade or business within*  
18 *the United States,";*

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

23           *(3) by striking out "from sources within the United*  
24 *States" in paragraph (2) and inserting in lieu thereof*

1       “, which is effectively connected with the conduct of a  
2       trade or business within the United States,”; and

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

5       “*For purposes of this subsection, the gross income of the*  
6       *foreign corporation for any period before the first taxable*  
7       *year beginning after December 31, 1966, which is effec-*  
8       *tively connected with the conduct of a trade or business*  
9       *within the United States is an amount equal to the gross*  
10       *income for such period from sources within the United*  
11       *States.*”

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

14       (1) Section 245 (relating to dividends received  
15       from certain foreign corporations) is amended by re-  
16       designating subsection (b) as (c), and by inserting after  
17       subsection (a) the following new subsection:

18       **“(b) DIVIDENDS RECEIVED BY DOMESTIC CORPORA-**  
19       **TIONS FROM CERTAIN WHOLLY OWNED FOREIGN SUB-**  
20       **SIDIARIES.—If, for any taxable year of a foreign corpora-**  
21       **tion—**

22       “(1) all of the outstanding voting stock of such for-  
23       eign corporation is owned (directly or indirectly) by a  
24       domestic corporation, and

1           “(2) all of the gross income of such foreign corpora-  
 2           tion from all sources is effectively connected with the  
 3           conduct of a trade or business within the United States,  
 4           there shall be allowed as a deduction (in lieu of the deduction  
 5           provided by subsection (a)) an amount equal to 100 percent  
 6           of the dividends received by such domestic corporation from  
 7           such foreign corporation which are paid out of the earnings  
 8           and profits of such taxable year.”

9           (2). Subsection (c) of such section 245 (as redesignated  
 10          by paragraph (1)) is amended by striking out  
 11          “subsection (a)” and inserting in lieu thereof “subsections  
 12          (a) and (b)”.

13          (f) DISTRIBUTIONS OF CERTAIN FOREIGN CORPORATIONS.—  
 14          Section 301(b)(1)(C) (relating to certain corporate distributees of  
 15          foreign corporations) is amended—  
 16          (1) by striking out “gross income from sources  
 17          within the United States” in clause (i) and inserting in  
 18          lieu thereof “gross income which is effectively connected  
 19          with the conduct of a trade or business within the United  
 20          States”;

21          (2) by striking out “gross income from sources with-  
 22          out the United States” in clause (ii) and inserting in  
 23          lieu thereof “gross income which is not effectively con-  
 24          nected with the conduct of a trade or business within  
 25          the United States”; and

1           (3) by adding at the end thereof the following new  
 2           sentences: "For purposes of clause (i), the gross income  
 3           of a foreign corporation for any period before its first  
 4           taxable year beginning after December 31, 1966, which  
 5           is effectively connected with the conduct of a trade or  
 6           business within the United States is an amount equal  
 7           to the gross income for such period from sources within  
 8           the United States. For purposes of clause (ii), the  
 9           gross income of a foreign corporation for any period  
 10          before its first taxable year beginning after December  
 11          31, 1966, which is not effectively connected with the  
 12          conduct of a trade or business within the United States  
 13          is an amount equal to the gross income for such period  
 14          from sources without the United States."

15          (g) **UNRELATED BUSINESS TAXABLE INCOME.**—The  
 16          last sentence of section 512(a) (relating to definition) is  
 17          amended to read as follows: "In the case of an organiza-  
 18          tion described in section 511 which is a foreign organiza-  
 19          tion, the unrelated business taxable income shall be its  
 20          unrelated business taxable income which is effectively con-  
 21          nected with the conduct of a trade or business within the  
 22          United States."

23          (h) **CORPORATIONS SUBJECT TO PERSONAL HOLD-**  
 24          **ING COMPANY TAX.**—

25                 (1) Paragraph (7) of section 542(c) (relating

1 to corporations not subject to personal holding company  
2 tax) is amended to read as follows:

3 “(7) a foreign corporation (other than a corpora-  
4 tion which has income to which section 543(a)(7) ap-  
5 plies for the taxable year), if all of its stock outstanding  
6 during the last half of the taxable year is owned by  
7 nonresident alien individuals, whether directly or indi-  
8 rectly through foreign estates, foreign trusts, foreign  
9 partnerships, or other foreign corporations;”.

10 (2) Section 543(b)(1) (relating to definition of  
11 ordinary gross income) is amended—

12 (A) by striking out “and” at the end of sub-  
13 paragraph (A),

14 (B) by striking out the period at the end of  
15 subparagraph (B) and inserting in lieu thereof “,  
16 and”, and

17 (C) by inserting after subparagraph (B) the  
18 following new subparagraph:

19 “(C) in the case of a foreign corporation all of  
20 the outstanding stock of which during the last half  
21 of the taxable year is owned by nonresident alien in-  
22 dividuals (whether directly or indirectly through  
23 foreign estates, foreign trusts, foreign partnerships,  
24 or other foreign corporations), all items of income

1        *which would, but for this subparagraph, constitute*  
2        *personal holding company income under any para-*  
3        *graph of subsection (a) other than paragraph (7)*  
4        *thereof."*

5        (3) Section 545 (relating to definition of undis-  
6        tributed personal holding company income) is amended—

7            (A) by striking out subsection (a) and insert-  
8            ing in lieu thereof the following:

9            "(a) **DEFINITION.**—For purposes of this part, the term  
10        'undistributed personal holding company income' means the  
11        taxable income of a personal holding company adjusted in  
12        the manner provided in subsections (b), (c), and (d), minus  
13        the dividends paid deduction as defined in section 561. In  
14        the case of a personal holding company which is a foreign  
15        corporation, not more than 10 percent in value of the out-  
16        standing stock of which is owned (within the meaning of  
17        section 958(a)) during the last half of the taxable year by  
18        United States persons, the term 'undistributed personal hold-  
19        ing company income' means the amount determined by multi-  
20        plying the undistributed personal holding company income  
21        (determined without regard to this sentence) by the percent-  
22        age in value of its outstanding stock which is the greatest per-  
23        centage in value of its outstanding stock so owned by United  
24        States persons on any one day during such period."; and

1 *and section 6682 (B) by adding at the end thereof the following*  
 2 *new subsection:*

3 *“(d) CERTAIN FOREIGN CORPORATIONS.—In the case*  
 4 *of a foreign corporation all of the outstanding stock of which*  
 5 *during the last half of the taxable year is owned by nonresi-*  
 6 *dent alien individuals (whether directly or indirectly through*  
 7 *foreign estates, foreign trusts, foreign partnerships, or other*  
 8 *foreign corporations), the taxable income for purposes of*  
 9 *subsection (a) shall be the income which constitutes personal*  
 10 *holding company income under section 543(a)(7), reduced*  
 11 *by the deductions attributable to such income, and adjusted,*  
 12 *with respect to such income, in the manner provided in sub-*  
 13 *section (b).”*

14 *Section 6682 (4) (A) Subchapter B of chapter 68 (relating to*  
 15 *assessable penalties) is amended by adding at the end*  
 16 *thereof the following new section:*

17 **“SEC. 6682. FAILURE OF FOREIGN CORPORATION TO FILE**  
 18 **RETURN OF PERSONAL HOLDING COMPANY**  
 19 **TAX.**

20 *“Any foreign corporation which—*  
 21 *(1) is a personal holding company for any tax-*  
 22 *able year, and*  
 23 *(2) fails to file or to cause to be filed with the*  
 24 *Secretary or his delegate a true and accurate return of*  
 25 *the tax imposed by section 541,*



1 shall, in addition to other penalties provided by law, be liable  
 2 to a penalty equal to the tax imposed on such corporation by  
 3 section 541 for such taxable year. The preceding sentence  
 4 shall not apply if the foreign corporation is denied the deduc-  
 5 tion provided by section 547 by reason of the application of  
 6 subsection (g) of such section. No penalty shall be imposed  
 7 under section 6653 for any offenses to which this section is  
 8 applicable.”

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

“Sec. 6682. Failure of foreign corporation to file return of  
 personal holding company tax.”

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

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

17 “SEC. 842. FOREIGN CORPORATIONS CARRYING ON IN-  
 18 SURANCE BUSINESS.

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

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

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

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

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

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

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

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

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

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

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

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

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

21          (E) by striking out “for purposes of subsec-  
22          tion (a)” each place it appears in subsection (b)  
23          (as redesignated by subparagraph (A)) and insert-  
24          ing in lieu thereof “with respect to a foreign  
25          corporation”,

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

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

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

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

14          “(c) **CROSS REFERENCE.**—

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

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

17               (A) by striking out subsection (e) and by  
18               redesignating subsections (f) and (g) as sub-  
19               sections (e) and (f), and

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

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

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

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

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

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

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

13            **"(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 sec-  
tion 842."**

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

1           (8) *The second sentence of section 841 (relating*  
2 *to credit for foreign taxes) is amended by striking out*  
3 *“sentence,” and inserting in lieu thereof “sentence (and*  
4 *for purposes of applying section 906 with respect to a*  
5 *foreign corporation subject to tax under this sub-*  
6 *chapter),”.*

7           (j) *SUBPART F INCOME.—Section 952 (b) (relating*  
8 *to exclusion of United States income) is amended to read*  
9 *as follows:*

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

18           (k) *GAIN FROM CERTAIN SALES OR EXCHANGES*  
19 *OF STOCK IN CERTAIN FOREIGN CORPORATIONS.—Para-*  
20 *graph (4) of section 1248(d) (relating to exclusions from*  
21 *earnings and profits) is amended to read as follows:*

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

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

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

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

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

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

1     (m) *TECHNICAL AMENDMENTS.*—2             (1) *Section 884 is amended to read as follows:*3     “**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.”**

4             (2) *Section 953(b)(3)(F) is amended by striking*  
5             *out “832(b)(5)” and inserting in lieu thereof*  
6             *“832(c)(5)”.*

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

10            (n) *EFFECTIVE DATES.*—*The amendments made by*  
11            *this section (other than subsection (k)) shall apply with*  
12            *respect to taxable years beginning after December 31, 1966.*  
13            *The amendment made by subsection (k) shall apply with*  
14            *respect to sales or exchanges occurring after December 31,*  
15            *1966.*



1 **SEC. 105. SPECIAL TAX PROVISIONS.**

2       *(a) INCOME AFFECTED BY TREATY.*—Section 894 (re-  
3 *lating to income exempt under treaties*) is amended to read  
4 *as follows:*

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

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

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

20       *(b) ADJUSTMENT OF TAX BECAUSE OF BURDENSOME*  
21 *OR DISCRIMINATORY FOREIGN TAXES.*—Subpart C of part  
22 *II of subchapter N of chapter 1 (relating to miscellaneous*

1 *provisions applicable to nonresident aliens and foreign co vo-*  
2 *rations) is amended by adding at the end thereof the follow-*  
3 *ing new section:*

4 **“SEC. 896. ADJUSTMENT OF TAX ON NATIONALS, RESI-**  
5 **DENTS, AND CORPORATIONS OF CERTAIN**  
6 **FOREIGN COUNTRIES.**

7 *“(a) IMPOSITION OF MORE BURDENSOME TAXES BY*  
8 *FOREIGN COUNTRY.—Whenever the President finds that—*

9 *“(1) under the laws of any foreign country, con-*  
10 *sidering the tax system of such foreign country, citizens*  
11 *of the United States not residents of such foreign coun-*  
12 *try or domestic corporations are being subjected to more*  
13 *burdensome taxes, on any item of income received by*  
14 *such citizens or corporations from sources within such*  
15 *foreign country, than taxes imposed by the provisions of*  
16 *this subtitle on similar income derived from sources*  
17 *within the United States by residents or corporations of*  
18 *such foreign country,*

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

25 *“(3) it is in the public interest to apply pre-1967*

1       *tax provisions in accordance with the provisions of this*  
2       *subsection to residents or corporations of such foreign*  
3       *country,*

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

11       “(b) *IMPOSITION OF DISCRIMINATORY TAXES BY*  
12       *FOREIGN COUNTRY.—Whenever the President finds that—*

13               “(1) *under the laws of any foreign country, citizens*  
14               *of the United States or domestic corporations (or any*  
15               *class of such citizens or corporations) are, with respect to*  
16               *any item of income, being subjected to a higher effective*  
17               *rate of tax than are nationals, residents, or corporations*  
18               *of such foreign country (or a similar class of such na-*  
19               *tionals, residents, or corporations) under similar cir-*  
20               *cumstances;*

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

24               “(3) *it is in the public interest to adjust, in accord-*  
25               *ance with the provisions of this subsection, the effective*

1       *rate of tax imposed by this subtitle on similar income of*  
2       *nationals, residents, or corporations of such foreign*  
3       *country (or such similar class of such nationals, resi-*  
4       *dents, or corporations),*  
5       *the President shall proclaim that the tax on similar income*  
6       *of nationals, residents, or corporations of such foreign country*  
7       *(or such similar class of such nationals, residents, or corpo-*  
8       *rations) shall, for taxable years beginning after such proc-*  
9       *lamation, be adjusted so as to cause the effective rate of tax*  
10       *imposed by this subtitle on such similar income to be sub-*  
11       *stantially equal to the effective rate of tax imposed by such*  
12       *foreign country on such item of income of citizens of the*  
13       *United States or domestic corporations (or such class of*  
14       *citizens or corporations). In implementing a proclamation*  
15       *made under this subsection, the effective rate of tax imposed by*  
16       *this subtitle on an item of income may be adjusted by the dis-*  
17       *allowance, in whole or in part, of any deduction, credit, or*  
18       *exemption which would otherwise be allowed with respect to*  
19       *that item of income or by increasing the rate of tax otherwise*  
20       *applicable to that item of income.*

21       “(c) *ALLEVIATION OF MORE BURDENSOME OR DIS-*  
22       *CRIMINATORY TAXES.—Whenever the President finds that—*

23               “(1) *the laws of any foreign country with respect*  
24       *to which the President has made a proclamation under*  
25       *subsection (a) have been modified so that citizens of the*

1     *United States not residents of such foreign country or*  
2     *domestic corporations are no longer subject to more bur-*  
3     *densome taxes on the item of income derived by such*  
4     *citizens or corporations from sources within such foreign*  
5     *country, or*

6             *“(2) the laws of any foreign country with respect*  
7     *to which the President has made a proclamation under*  
8     *subsection (b) have been modified so that citizens of the*  
9     *United States or domestic corporations (or any class of*  
10    *such citizens or corporations) are no longer subject to*  
11    *a higher rate of tax on the item of income,*

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

17             *“(d) NOTIFICATION OF CONGRESS REQUIRED.—No*  
18    *proclamation shall be issued by the President pursuant to*  
19    *this section unless, at least 30 days prior to such procla-*  
20    *mation, he has notified the Senate and the House of Repre-*  
21    *sentatives of his intention to issue such proclamation.*

22             *“(e) IMPLEMENTATION BY REGULATIONS.—The Sec-*  
23    *retary or his delegate shall prescribe such regulations as he*  
24    *deems necessary or appropriate to implement this section.”*

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

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

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

6           (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.”*

7       (d) *EFFECTIVE DATE.*—The amendments made by this  
8 section (other than subsections (e) and (f)) shall apply  
9 with respect to taxable years beginning after December 31,  
10 1966.

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

14           (1) Part III of subchapter N of chapter 1 (relat-  
15 ing to income from sources without the United States)  
16 is amended by adding at the end thereof the following  
17 new subpart:

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

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

1 **“SEC. 981. ELECTION AS TO TREATMENT OF INCOME SUB-**  
2 **JECT TO FOREIGN COMMUNITY PROPERTY**  
3 **LAWS.**

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

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

11 *“(2) such individual and his spouse elect to have*  
12 *subsection (b) apply to their community income under*  
13 *foreign community property laws,*

14 *then subsection (b) shall apply to such income of such indi-*  
15 *vidual and such spouse for the taxable year and for all sub-*  
16 *sequent taxable years for which the requirements of para-*  
17 *graph (1) are met, unless the Secretary or his delegate*  
18 *consents to a termination of the election.*

19 *“(b) TREATMENT OF COMMUNITY INCOME.—For any*  
20 *taxable year to which an election made under subsection (a)*  
21 *applies, the community income under foreign community*

1 *property laws of the husband and wife making the election*  
2 *shall be treated as follows:*

3       “(1) *Earned income (within the meaning of the*  
4 *first sentence of section 911(b)), other than trade or*  
5 *business income and a partner’s distributive share of*  
6 *partnership income, shall be treated as the income of the*  
7 *spouse who rendered the personal services.*

8       “(2) *Trade or business income, and a partner’s*  
9 *distributive share of partnership income, shall be treated*  
10 *as provided in section 1402(a)(5).*

11       “(3) *Community income not described in para-*  
12 *graph (1) or (2) which is derived from the separate*  
13 *property (as determined under the applicable foreign*  
14 *community property law) of one spouse shall be treated*  
15 *as the income of such spouse.*

16       “(4) *All other such community income shall be*  
17 *treated as provided in the applicable foreign community*  
18 *property law.*

19       “(c) **ELECTION FOR PRE-1967 YEARS.—**

20       “(1) **ELECTION.—***If an individual meets the re-*  
21 *quirements of subsection (a)(1) (A) and (C) for any*  
22 *taxable year beginning before January 1, 1967, and if*  
23 *such individual and the spouse referred to in subsection*  
24 *(a)(1)(C) elect under this subsection, then paragraph*  
25 *(2) of this subsection shall apply to their community in-*



1     *come under foreign community property laws for all*  
2     *open taxable years beginning before January 1, 1967*  
3     *(whether under this chapter, the corresponding provi-*  
4     *sions of the Internal Revenue Code of 1939, or the cor-*  
5     *responding provisions of prior revenue laws), for which*  
6     *the requirements of subsection (a)(1) (A) and (C)*  
7     *are met.*

8             “(2) *EFFECT OF ELECTION.*—For any taxable  
9     *year to which an election made under this subsection*  
10    *applies, the community income under foreign community*  
11    *property laws of the husband and wife making the*  
12    *election shall be treated as provided by subsection (b),*  
13    *except that the other community income described in*  
14    *paragraph (4) of subsection (b) shall be treated as the*  
15    *income of the spouse who, for such taxable year, had*  
16    *gross income under paragraphs (1), (2), and (3) of*  
17    *subsection (b), plus separate gross income, greater than*  
18    *that of the other spouse.*

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

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

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

11          “(3) *ALIEN SPOUSE NEED NOT JOIN IN SUBSEC-*  
12          *TION (C) ELECTION IN CERTAIN CASES.—If the Secre-*  
13          *tary or his delegate determines—*

14                 “(A) *that an election under subsection (c)*  
15                 *would not affect the liability for Federal income*  
16                 *tax of the spouse referred to in subsection (a)(1)*  
17                 *(C) for any taxable year, or*

18                 “(B) *that the effect on such liability for tax*  
19                 *cannot be ascertained and that to deny the election*  
20                 *to the citizen of the United States would be inequita-*  
21                 *ble and cause undue hardship,*

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

25          “(4) *INTEREST.—To the extent that any overpay-*

1 *ment or deficiency for a taxable year is attributable to*  
2 *an election made under this section, no interest shall be*  
3 *allowed or paid for any period before the day which is 1*  
4 *year after the date of such election.*

5 *“(e) DEFINITIONS AND SPECIAL RULES.—For pur-*  
6 *poses of this section—*

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

10 *“(2) OPEN YEARS.—A taxable year of a citizen*  
11 *of the United States and his spouse shall be treated as*  
12 *‘open’ if the period for assessing a deficiency against*  
13 *such citizen for such year has not expired before the*  
14 *date of the election under subsection (a) or (c), as the*  
15 *case may be.*

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

20 *“(4) DEATH OF SPOUSE DURING TAXABLE*  
21 *YEAR.—In applying subsection (a)(1)(C), and in de-*  
22 *termining under subsection (c)(2) which spouse has*  
23 *the greater income for a taxable year, if a husband or*  
24 *wife dies the taxable year of the surviving spouse shall*  
25 *be treated as ending on the date of such death.”*

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

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

3           (3) *Section 911(d) (relating to earned income*  
4           *from sources without the United States) is amended—*

5                     *(A) by striking out “For administrative” and*  
6                     *inserting in lieu thereof the following: “(1) For ad-*  
7                     *ministrative”; and*

8                     *(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.”*

9           (f) *PRESUMPTIVE DATE OF PAYMENT FOR TAX*  
10           *WITHHELD UNDER CHAPTER 3.—*

11                    *“(1) Any tax actually deducted and withheld at*  
12                    *sidered paid in the case of prepaid income tax) is*  
13                    *amended to read as follows:*

14                    *“(b) PREPAID INCOME TAX.—For purposes of section*  
15                    *6511 or 6512—*

16                    *“(1) Any tax actually deducted and withheld at*  
17                    *the source during any calendar year under chapter 24*  
18                    *shall, in respect of the recipient of the income, be deemed*  
19                    *to have been paid by him on the 15th day of the fourth*  
20                    *month following the close of his taxable year with respect*  
21                    *to which such tax is allowable as a credit under section*  
22                    *31.*

1           “(2) Any amount paid as estimated income tax for  
2 any taxable year shall be deemed to have been paid on  
3 the last day prescribed for filing the return under sec-  
4 tion 6012 for such taxable year (determined without  
5 regard to any extension of time for filing such return).

6           “(3) Any tax withheld at the source under chapter  
7 3 shall, in respect of the recipient of the income, be  
8 deemed to have been paid by such recipient on the last  
9 day prescribed for filing the return under section 6012  
10 for the taxable year (determined without regard to any  
11 extension of time for filing) with respect to which such  
12 tax is allowable as a credit under section 1462. For  
13 this purpose, any exemption granted under section 6012  
14 from the requirement of filing a return shall be disre-  
15 garded.”

16           (2) Section 6513(c) (relating to return and pay-  
17 ment of Social Security taxes and income tax withhold-  
18 ing) is amended by striking out “chapter 21 or 24” and  
19 inserting in lieu thereof “chapter 3, 21, or 24”.

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

22           (A) by striking out “chapter 21 or 24” in para-  
23 graphs (1) and (2) and inserting in lieu thereof  
24 “chapter 3, 31, or 24”; and

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

3 **SEC. 106. FOREIGN TAX CREDIT.**

4           (a) **ALLOWANCE OF CREDIT TO CERTAIN NONRESI-**  
5 **DENT ALIENS AND FOREIGN CORPORATIONS.—**

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

9 **"SEC. 906. NONRESIDENT ALIEN INDIVIDUALS AND FOR-**  
10 **EIGN CORPORATIONS.**

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

21           "(b) **SPECIAL RULES.—**

22           "(1) For purposes of subsection (a), in applying  
23 section 904 the taxpayer's taxable income shall be treated  
24 as consisting only of the taxable income effectively con-

1        *nected with the taxpayer's conduct of a trade or business*  
2        *within the United States.*

3            *“(2) The credit allowed pursuant to subsection (a)*  
4        *shall not be allowed against any tax imposed by section*  
5        *871(a) (relating to income of nonresident alien individ-*  
6        *ual not connected with United States business) or 881*  
7        *(relating to income of foreign corporations not connected*  
8        *with United States business).*

9            *“(3) For purposes of sections 902(a) and 78, a*  
10        *foreign corporation choosing the benefits of this subpart*  
11        *which receives dividends shall, with respect to such divi-*  
12        *dends, be treated as a domestic corporation.”*

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

*“Sec. 906. Nonresident alien individuals and foreign cor-*  
*porations.”*

15            *(3) Section 874(c) is amended by striking out*  
16        *“(c) FOREIGN TAX CREDIT NOT ALLOWED.—A non-*  
17        *resident” and inserting in lieu thereof the following:*

18            *“(c) FOREIGN TAX CREDIT.—Except as provided in*  
19        *section 906, a nonresident”.*

20            *(4) Subsection (b) of section 901 (relating to*  
21        *amount allowed) is amended by redesignating para-*

1 graph (4) as paragraph (5), and by inserting after  
2 paragraph (3) the following new paragraph:

3 “(4) **NONRESIDENT ALIEN INDIVIDUALS AND FOR-**  
4 **EIGN CORPORATIONS.**—In the case of any nonresident  
5 alien individual not described in section 876 and in the  
6 case of any foreign corporation, the amount determined  
7 pursuant to section 906; and”.

8 (5) Paragraph (5) (as redesignated) of section  
9 901(b) is amended by striking out “or (3),” and in-  
10 serting in lieu thereof “(3), or (4),”.

11 (6) The amendments made by this subsection shall  
12 apply with respect to taxable years beginning after  
13 December 31, 1966. In applying section 904 of the  
14 Internal Revenue Code of 1954 with respect to section  
15 906 of such Code, no amount may be carried from or to  
16 any taxable year beginning before January 1, 1967, and  
17 no such year shall be taken into account.

18 (b) **ALIEN RESIDENTS OF THE UNITED STATES OR**  
19 **PUERTO RICO.**—

20 (1) Paragraph (3) of section 901(b) (relating  
21 to amount of foreign tax credit allowed in case of alien  
22 resident of the United States or Puerto Rico (is amended  
23 by striking out “, if the foreign country of which such



1 alien resident is a citizen or subject, in imposing such  
 2 taxes, allows a similar credit to citizens of the United  
 3 States residing in such country”.

4 (2) Section 901 is amended by redesignating sub-  
 5 sections (c) and (d) as subsections (d) and (e), and  
 6 by inserting after subsection (b) the following new  
 7 subsection:

8 “(c) **SIMILAR CREDIT REQUIRED FOR CERTAIN ALIEN**  
 9 **RESIDENTS.**—Whenever the President finds that—

10 “(1) a foreign country, in imposing income, war  
 11 profits, and excess profits taxes, does not allow to  
 12 citizens of the United States residing in such foreign  
 13 country a credit for any such taxes paid or accrued to  
 14 the United States or any foreign country, as the case  
 15 may be, similar to the credit allowed under subsection  
 16 (b)(3),

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

21 “(3) it is in the public interest to allow the credit  
 22 under subsection (b)(3) to citizens or subjects of such

1       *foreign country only if it allows such a similar credit to*  
2       *citizens of the United States residing in such foreign*  
3       *country,*  
4       *the President shall proclaim that, for taxable years begin-*  
5       *ning while the proclamation remains in effect, the credit*  
6       *under subsection (b)(3) shall be allowed to citizens or*  
7       *subjects of such foreign country only if such foreign country,*  
8       *in imposing income, war profits, and excess profits taxes,*  
9       *allows to citizens of the United States residing in such foreign*  
10       *country such a similar credit."*

11               (3) Section 2014 (relating to credit for foreign  
12       *death taxes) is amended by striking out the second sen-*  
13       *tence of subsection (a), and by adding at the end of*  
14       *such section the following new subsection:*

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

17               **"(1) a foreign country, in imposing estate, inherit-**  
18       **ance, legacy, or succession taxes, does not allow to citi-**  
19       **zens of the United States resident in such foreign coun-**  
20       **try at the time of death a credit similar to the credit**  
21       **allowed under subsection (a),**

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

1           “(3) it is in the public interest to allow the credit  
2           under subsection (a) in the case of citizens or subjects  
3           of such foreign country only if it allows such a similar  
4           credit in the case of citizens of the United States resident  
5           in such foreign country at the time of death,  
6           the President shall proclaim that, in the case of citizens or  
7           subjects of such foreign country dying while the proclamation  
8           remains in effect, the credit under subsection (a) shall be al-  
9           lowed only if such foreign country allows such a similar  
10          credit in the case of citizens of the United States resident in  
11          such foreign country at the time of death.”

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

18          (c) **FOREIGN TAX CREDIT IN RESPECT OF INTEREST**  
19          **RECEIVED FROM FOREIGN SUBSIDIARIES.—**

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

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

25                           “(C) received from a corporation in which the

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

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

7           *"For purposes of subparagraph (C), stock owned, di-*  
8           *rectly or indirectly, by or for a foreign corporation*  
9           *shall be considered as being proportionately owned by*  
10          *its shareholders."*

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

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

16          (a) **DEDUCTIONS.**—Subsection (d) of section 931 (re-  
17          lating to deductions) is amended to read as follows:

18          “(d) **DEDUCTIONS.**—

19               “(1) **GENERAL RULE.**—Except as otherwise pro-  
20               vided in this subsection and subsection (e), in the case  
21               of persons entitled to the benefits of this section the  
22               deductions shall be allowed only if and to the extent  
23               that they are connected with income from sources within  
24               the United States; and the proper apportionment and  
25               allocation of the deductions with respect to sources of

1 *income within and without the United States shall be*  
2 *determined as provided in part I, under regulations*  
3 *prescribed by the Secretary or his delegate.*

4 “(2) *EXCEPTIONS.*—*The following deductions shall*  
5 *be allowed whether or not they are connected with in-*  
6 *come from sources within the United States:*

7 “(A) *The deduction, for losses not connected*  
8 *with the trade or business if incurred in transactions*  
9 *entered into for profit, allowed by section 165(c)*  
10 *(2), but only if the profit, if such transaction had*  
11 *resulted in a profit, would be taxable under this*  
12 *subtitle.*

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

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

20 “(3) *DEDUCTION DISALLOWED.*—

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

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

1 **SEC. 103. ESTATES OF NONRESIDENTS NOT CITIZENS.**

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

5 “(a) *RATE OF TAX.*—Except as provided in section  
 6 2107, a tax computed in accordance with the following table  
 7 is hereby imposed on the transfer of the taxable estate, de-  
 8 termined as provided in section 2106, of every decedent non-  
 9 resident not a citizen of the United States:

<b>If the taxable estate is:</b>	<b>The tax shall be:</b>
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.”

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

13 **“SEC. 2102. CREDITS AGAINST TAX.**

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

19 “(b) *SPECIAL LIMITATION.*—The maximum credit  
 20 allowed under section 2011 against the tax imposed by sec-

1 tion 2101 for State death taxes paid shall be an amount  
 2 which bears the same ratio to the credit computed as pro-  
 3 vided in section 2011(b) as the value of the property, as  
 4 determined for purposes of this chapter, upon which State  
 5 death taxes were paid and which is included in the gross  
 6 estate under section 2103 bears to the value of the total gross  
 7 estate under section 2103. For purposes of this subsection,  
 8 the term 'State death taxes' means the taxes described in  
 9 section 2011(a)."

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

14 "(c) *DEBT OBLIGATIONS.*—For purposes of this sub-  
 15 chapter, debt obligations of—

16 "(1) a United States person, or

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

19 owned by a nonresident not a citizen of the United States  
 20 shall be deemed property within the United States. With  
 21 respect to estates of decedents dying after December 31, 1971,  
 22 deposits with a domestic branch of a foreign corporation, if  
 23 such branch is engaged in the commercial banking business  
 24 shall, for purposes of this subchapter, be deemed property

1 *within the United States. This subsection shall not apply*  
2 *to a debt obligation to which section 2105(b) applies or to*  
3 *a debt obligation of a domestic corporation if any interest on*  
4 *such obligation, were such interest received by the decedent*  
5 *at the time of his death, would be treated by reason of sec-*  
6 *tion 861(a)(1)(B) as income from sources without the*  
7 *United States."*

8 *(d) PROPERTY WITHOUT THE UNITED STATES.—Sub-*  
9 *section (b) of section 2105 (relating to bank deposits) is*  
10 *amended to read as follows:*

11 *"(b) CERTAIN BANK DEPOSITS, ETC.—For purposes*  
12 *of this subchapter—*

13 *"(1) amounts described in section 861(c) if any*  
14 *interest thereon, were such interest received by the dece-*  
15 *dent at the time of his death, would be treated by reason of*  
16 *section 861(a)(1)(A) as income from sources without*  
17 *the United States, and*

18 *"(2) deposits with a foreign branch of a domestic*  
19 *corporation or domestic partnership, if such branch is*  
20 *engaged in the commercial banking business,*  
21 *shall not be deemed property within the United States."*

22 *(e) DEFINITION OF TAXABLE ESTATE.—Paragraph*



1 (3) section 2106(a) (relating to deduction of exemption  
2 from gross estate) is amended to read as follows:

3 “(3) EXEMPTION.—

4 “(A) GENERAL RULE.—An exemption of  
5 \$30,000.

6 “(B) RESIDENTS OF POSSESSIONS OF THE  
7 UNITED STATES.—In the case of a decedent who is  
8 considered to be a ‘nonresident not a citizen of the  
9 United States’ under the provisions of section 2209,  
10 the exemption shall be the greater of (i) \$30,000,  
11 or (ii) that proportion of the exemption authorized  
12 by section 2052 which the value of that part of the  
13 decedent’s gross estate which at the time of his  
14 death is situated in the United States bears to the  
15 value of his entire gross estate wherever situated.”

16 (f) SPECIAL METHODS OF COMPUTING TAX.—Sub-  
17 chapter B of chapter 11 (relating to estates of nonresidents  
18 not citizens) is amended by adding at the end thereof the fol-  
19 lowing new sections:

20 “SEC. 2107. EXPATRIATION TO AVOID TAX.

21 “(a) RATE OF TAX.—A tax computed in accordance  
22 with the table contained in section 2001 is hereby imposed

1 on the transfer of the taxable estate, determined as provided  
2 in section 2106, of every decedent nonresident not a citizen  
3 of the United States dying after the date of enactment of this  
4 section, if after March 8, 1965, and within the 10-year pe-  
5 riod ending with the date of death such decedent lost United  
6 States citizenship, unless such loss did not have for one of its  
7 principal purposes the avoidance of taxes under this subtitle  
8 or subtitle A.

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

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

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

23 then that proportion of the fair market value of the stock of  
24 such foreign corporation owned (within the meaning of sec-  
25 tion 958(a)) by such decedent at the time of his death,

1 *which the fair market value of any assets owned by such for-*  
2 *ign corporation and situated in the United States, at the time*  
3 *of his death, bears to the total fair market value of all assets*  
4 *owned by such foreign corporation at the time of his death,*  
5 *shall be included in the gross estate of such decedent. For*  
6 *purposes of the preceding sentence, a decedent shall be*  
7 *treated as owning stock of a foreign corporation at the time*  
8 *of his death if, at the time of a transfer, by trust or otherwise,*  
9 *within the meaning of sections 2035 to 2038, inclusive, he*  
10 *owned such stock.*

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

14 “(d) **EXCEPTION FOR LOSS OF CITIZENSHIP FOR CER-**  
15 **TAIN CAUSES.**—Subsection (a) shall not apply to the trans-  
16 fer of the estate of a decedent whose loss of United States  
17 citizenship resulted from the application of section 301(b),  
18 350, or 355 of the Immigration and Nationality Act, as  
19 amended (8 U.S.C. 1401 (b), 1482, or 1487).

20 “(e) **BURDEN OF PROOF.**—If the Secretary or his dele-  
21 gate establishes that it is reasonable to believe that an indi-  
22 vidual's loss of United States citizenship would, but for this  
23 section, result in a substantial reduction in the estate, in-  
24 heritance, legacy, and succession taxes in respect of the  
25 transfer of his estate, the burden of proving that such loss of

1 citizenship did not have for one of its principal purposes the  
2 avoidance of taxes under this subtitle or subtitle A shall be  
3 on the executor of such individual's estate.

4 "SEC. 2108. APPLICATION OF PRE-1967 ESTATE TAX PRO-  
5 VISIONS.

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

8 "(1) under the laws of any foreign country, con-  
9 sidering the tax system of such foreign country, a more  
10 burdensome tax is imposed by such foreign country on  
11 the transfer of estates of decedents who were citizens of  
12 the United States and not residents of such foreign  
13 country than the tax imposed by this subchapter on the  
14 transfer of estates of decedents who were residents of  
15 such foreign country,

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

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

1 *the President shall proclaim that the tax on the transfer of*  
2 *the estate of every decedent who was a resident of such for-*  
3 *ign country at the time of his death shall, in the case of*  
4 *decedents dying after the date of such proclamation, be*  
5 *determined under this subchapter without regard to amend-*  
6 *ments made to sections 2101 (relating to tax imposed),*  
7 *2102 (relating to credits against tax), 2106 (relating to*  
8 *taxable estate), and 6018 (relating to estate tax returns)*  
9 *on or after the date of enactment of this section.*

10       “(b) **ALLEVIATION OF MORE BURDENSOME TAX.—**  
11 *Whenever the President finds that the laws of any foreign*  
12 *country with respect to which the President has made a pro-*  
13 *clamation under subsection (a) have been modified so that*  
14 *the tax on the transfer of estates of decedents who were*  
15 *citizens of the United States and not residents of such*  
16 *foreign country is no longer more burdensome than the*  
17 *tax imposed by this subchapter on the transfer of estates*  
18 *of decedents who were residents of such foreign country,*  
19 *he shall proclaim that the tax on the transfer of the*  
20 *estate of every decedent who was a resident of such*  
21 *foreign country at the time of his death shall, in the case*  
22 *of decedents dying after the date of such proclamation, be*  
23 *determined under this subchapter without regard to sub-*  
24 *section (a).*

1       “(c) **NOTIFICATION OF CONGRESS REQUIRED.**—No  
2       proclamation shall be issued by the President pursuant to  
3       this section unless, at least 30 days prior to such proclama-  
4       tion, he has notified the Senate and the House of Repre-  
5       sentatives of his intention to issue such proclamation.

6       “(d) **IMPLEMENTATION BY REGULATIONS.**—The Sec-  
7       retary or his delegate shall prescribe such regulations as may  
8       be necessary or appropriate to implement this section.”

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

13       “(h) **CLERICAL AMENDMENT.**—The table of sections for  
14       subchapter B of chapter 11 (relating to estates of nonresi-  
15       dents not citizens) is amended by adding at the end thereof  
16       the following:

“Sec. 2107. Expatriation to avoid tax.

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

17       “(i) **EFFECTIVE DATE.**—The amendments made by this  
18       section shall apply with respect to estates of decedents dying  
19       after the date of the enactment of this Act.

20       **SEC. 109. TAX ON GIFTS OF NONRESIDENTS NOT CITI-**  
21       **ZENS.**

22       “(a) **IMPOSITION OF TAX.**—Subsection (a) of section

1 2501 (relating to general rule for imposition of tax) is  
2 amended to read as follows:

3 “(a) *TAXABLE TRANSFERS.*—

4 “(1) *GENERAL RULE.*—For the calendar year  
5 1955 and each calendar year thereafter a tax, computed  
6 as provided in section 2502, is hereby imposed on the  
7 transfer of property by gift during such calendar year by  
8 any individual, resident or nonresident.

9 “(2) *TRANSFERS OF INTANGIBLE PROPERTY.*—  
10 Except as provided in paragraph (3), paragraph (1)  
11 shall not apply to the transfer of intangible property by  
12 a nonresident not a citizen of the United States.

13 “(3) *EXCEPTIONS.*—Paragraph (2) shall not  
14 apply in the case of a donor who at any time after  
15 March 8, 1965, and within the 10-year period ending  
16 with the date of transfer lost United States citizenship  
17 unless—

18 “(A) such donor’s loss of United States citi-  
19 zenship resulted from the application of section  
20 301(b), 350, or 355 of the Immigration and Na-  
21 tionality Act, as amended (8 U.S.C. 1401(b),  
22 1482, or 1487), or

23 “(B) such loss did not have for one of its prin-

1           *cipal purposes the avoidance of taxes under this*  
2           *subtitle or subtitle A.*

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

12           “(b) *TRANSFERS IN GENERAL.*—*Subsection (b) of sec-*  
13           *tion 2511 (relating to situs rule for stock in a corporation)*  
14           *is amended to read as follows:*

15           “(b) *INTANGIBLE PROPERTY.*—*For purposes of this*  
16           *chapter, in the case of a nonresident not a citizen of the*  
17           *United States who is excepted from the application of section*  
18           *2501(a)(2)—*

19                   “(1) *shares of stock issued by a domestic corpora-*  
20                   *tion, and*

21                   “(2) *debt obligations of—*

22                           “(A) *a United States person, or*

23                           “(B) *the United States, a State or any political*  
24                   *subdivision thereof, or the District of Columbia,*



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

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

6 **SEC. 110. TREATY OBLIGATIONS.**

7 *No amendment made by this title shall apply in any case*  
 8 *where its application would be contrary to any treaty obliga-*  
 9 *tion of the United States. For purposes of the preceding*  
 10 *sentence, the extension of a benefit provided by any amend-*  
 11 *ment made by this title shall not be deemed to be contrary*  
 12 *to a treaty obligation of the United States.*

13 **TITLE II—OTHER AMENDMENTS**  
 14 **TO INTERNAL REVENUE CODE**

15 **SEC. 201. APPLICATION OF INVESTMENT CREDIT TO**  
 16 **PROPERTY USED IN POSSESSIONS OF THE**  
 17 **UNITED STATES.**

18 *(a) PROPERTY USED BY DOMESTIC CORPORATIONS,*  
 19 *ETC.—Section 48(a)(2)(B) (relating to property used out-*  
 20 *side the United States) is amended—*

21 *(1) by striking out "and" at the end of clause (v);*

22 *(2) by striking out the period at the end of clause*

23 *(vi) and inserting in lieu thereof "; and"; and*

1           (3) by adding at the end thereof the following new  
2       *clause:*

3                       “(vii) any property which is owned by a  
4       *domestic corporation (other than a corporation*  
5       *entitled to the benefits of section 931 or 934(b))*  
6       *or by a United States citizen (other than a citi-*  
7       *zen entitled to the benefits of section 931, 933,*  
8       *or 934(b)) and which is used predominantly*  
9       *in a possession of the United States by such a*  
10       *corporation or citizen, by a corporation created*  
11       *or organized in, or under the law of, a posses-*  
12       *sion of the United States, or by a United States*  
13       *citizen who is a bona fide resident of a posses-*  
14       *sion of the United States.”*

15       (b) *EFFECTIVE DATE.*—*The amendments made by sub-*  
16       *section (a) shall apply to taxable years ending after Decem-*  
17       *ber 31, 1965, but only with respect to property placed in*  
18       *service after such date. In applying section 46(b) of the*  
19       *Internal Revenue Code of 1954 (relating to carryback and*  
20       *carryover of unused credits), the amount of any investment*  
21       *credit carryback to any taxable year ending on or before*  
22       *December 31, 1965, shall be determined without regard to the*  
23       *amendments made by this section.*

1 **SEC. 202. DEDUCTION OF MEDICAL EXPENSES OF INDI-**  
2 **VIDUALS AGE 65 OR OVER.**

3 *(a) REPEAL OF AMENDMENTS MADE BY SOCIAL SE-*  
4 *CURITY AMENDMENTS OF 1965.—Subsections (a) and (b)*  
5 *of section 106 of the Social Security Amendments of 1965*  
6 *are repealed.*

7 *(b) COST OF MEDICAL INSURANCE.—Section 213(a)*  
8 *(relating to allowance of deduction for medical, dental, etc.,*  
9 *expenses) is amended—*

10 *(1) by striking out “and” at the end of paragraph*  
11 *(1)(A);*

12 *(2) by inserting after “such expenses” in paragraph*  
13 *(1)(B) “(reduced by any amount deductible under sub-*  
14 *paragraph (C))”;*

15 *(3) by striking out the period at the end of para-*  
16 *graph (1)(B) and inserting in lieu thereof “, and”;*

17 *(4) by adding at the end of paragraph (1) the fol-*  
18 *lowing new subparagraph:*

19 *“(C) an amount (not in excess of \$150) equal*  
20 *to one-half of the expenses paid during the taxable*  
21 *year for insurance which constitutes medical care*  
22 *for the taxpayer, his spouse, and dependents (other*

1. . . . that any dependent described in subparagraph  
2 (A).”;

3 (5) by striking out “and” at the end of paragraph  
4 (2)(B);

5 (6) by inserting after “such expenses” in para-  
6 graph (1)(C) “(reduced by any amount deductible  
7 under subparagraph (D))”;

8 (7) by striking out the period at the end of para-  
9 graph (2)(C) and inserting in lieu thereof “, and”;  
10 and

11 (8) by adding at the end of paragraph (2) the  
12 following new subparagraph:

13 “(D) an amount (not in excess of \$150) equal  
14 to one-half of the expenses paid during the taxable  
15 year for insurance which constitutes medical care  
16 for such dependents (other than any dependent de-  
17 scribed in paragraph (1)(A)).”

18 (c) *EFFECTIVE DATE.*—The repeal and amendments  
19 made by this section shall apply to taxable years beginning  
20 after December 31, 1966.

1 **SEC. 203. BASIS OF PROPERTY RECEIVED ON LIQUIDA-**  
2 **TION OF SUBSIDIARY.**

3 *(a) DEFINITION OF PURCHASE.—Section 334(b)(3)*  
4 *(relating to definition of purchase) is amended by adding at*  
5 *the end thereof the following new sentence:*

6 *“Notwithstanding subparagraph (C) of this para-*  
7 *graph, for purposes of paragraph (2)(B), the term*  
8 *‘purchase’ also means an acquisition of stock from a cor-*  
9 *poration when ownership of such stock would be attributed*  
10 *under section 318(a) to the person acquiring such*  
11 *stock, if the stock of such corporation by reason of which*  
12 *such ownership would be attributed was acquired by*  
13 *purchase (within the meaning of the preceding sen-*  
14 *tence).”*

15 *(b) PERIOD OF ACQUISITION.—Section 334(b)(2)*  
16 *(B) (relating to exception) is amended by striking out “dur-*  
17 *ing a period of not more than 12 months,” and inserting in*  
18 *lieu thereof “during a 12-month period beginning with the*  
19 *earlier of—*

1           “(i) the date of the first acquisition by purchase of such stock, or

2  
3           “(ii) if any of such stock was acquired in an acquisition which is a purchase within the meaning of the second sentence of paragraph (3), the date on which the distributee is first considered under section 318(a) as owning stock owned by the corporation from which such acquisition was made.”.

10           (c) *DISTRIBUTION OF INSTALLMENT OBLIGATIONS.*—  
11 Section 453(d)(4)(A) (relating to distribution of installment obligations in certain liquidations) is amended to read  
12 as follows:

14           “(A) *LIQUIDATIONS TO WHICH SECTION 332 APPLIES.*—If—

16           “(i) an installment obligation is distributed in a liquidation to which section 332 (relating to complete liquidations of subsidiaries) applies, and

20           “(ii) the basis of such obligation in the hands of the distributee is determined under section 334(b)(1),

23 then no gain or loss with respect to the distribution of such obligation shall be recognized by the distributing corporation.”

1       (d) *EFFECTIVE DATES.*—The amendment made by sub-  
2 section (a) shall apply only with respect to acquisitions of  
3 stock after December 31, 1965. The amendments made by  
4 subsections (b) and (c) shall apply only with respect to dis-  
5 tributions made after the date of the enactment of this Act.

6 **SEC. 204. TRANSFERS OF STOCK AND SECURITIES TO**  
7                   **CORPORATIONS CONTROLLED BY TRANS-**  
8                   **FERORS.**

9       (a) *TRANSFERS TO INVESTMENT COMPANIES.*—The  
10 first sentence of section 351(a) (relating to transfers to cor-  
11 porations controlled by transferor) is amended by striking out  
12 “to a corporation” and inserting in lieu thereof “to a corpora-  
13 tion (including an investment company)”.

14       (b) *EFFECTIVE DATE.*—The amendment made by sub-  
15 section (a) shall apply with respect to transfers of property  
16 whether made before, on, or after the date of the enactment  
17 of this Act.

18 **SEC. 205. MINIMUM AMOUNT TREATED AS EARNED IN-**  
19                   **COME FOR RETIREMENT PLANS OF CERTAIN**  
20                   **SELF-EMPLOYED INDIVIDUALS.**

21       (a) *INCREASE TO \$6,600.*—Section 401(c)(2)(B) (re-  
22 lating to earned income when both personal services and capi-  
23 tal are material income-producing factors) is amended by  
24 striking out “\$2,500” each place it appears therein and in-  
25 serting in lieu thereof “\$6,600”.

1       **(b) EFFECTIVE DATE.**—The amendment made by sub-  
 2 section (a) shall apply to taxable years beginning after De-  
 3 cember 31, 1965.

4       **SEC. 206. TREATMENT OF CERTAIN INCOME OF AU-**  
 5                   **THORS, INVENTORS, ETC., AS EARNED IN-**  
 6                   **COME FOR RETIREMENT PLAN PURPOSES.**

7       **(a) INCOME FROM DISPOSITION OF PROPERTY CRE-**  
 8       **ATED BY TAXPAYER.**—Section 401(c)(2) (relating to defi-  
 9 nition of earned income) is amended by adding at the end  
 10 thereof the following new subparagraph:

11                   **“(C) INCOME FROM DISPOSITION OF CER-**  
 12                   **TAIN PROPERTY.**—For purposes of this section, the  
 13 term ‘earned income’ includes gains (other than any  
 14 gain which is treated under any provision of this  
 15 chapter as gain from the sale or exchange of a  
 16 capital asset) and net earnings derived from the  
 17 sale or other disposition of, the transfer of any in-  
 18 terest in, or the licensing of the use of property  
 19 (other than good will) by an individual whose per-  
 20 sonal efforts created such property.”

21       **(b) EFFECTIVE DATE.**—The amendment made by sub-  
 22 section (a) shall apply to taxable years ending after the date  
 23 of the enactment of this Act.



1 **SEC. 207. EXCLUSION OF CERTAIN RENTS FROM PER-**  
2 **SONAL HOLDING COMPANY INCOME.**

3 **(a) RENTS FROM LEASES OF CERTAIN TANGIBLE**  
4 **PERSONAL PROPERTY.**—Section 543(b)(3) (relating to  
5 adjusted income from rents) is amended by striking out “but  
6 does not include amounts constituting personal holding com-  
7 pany income under subsection (a)(6), nor copyright royalti-  
8 ties (as defined in subsection (a)(4) nor produced film rents  
9 (as defined in subsection (a)(5)(B)).” and inserting in  
10 lieu thereof the following: “but such term ~~does~~ not include—

11 “(A) amounts constituting personal holding  
12 company income under subsection (a)(6),

13 “(B) copyright royalties (as defined in sub-  
14 section (a)(4)),

15 “(C) produced film rents (as defined in sub-  
16 section (a)(5)(B)), or

17 “(D) compensation, however designated, for the  
18 use of, or the right to use, any tangible personal  
19 property manufactured or produced by the taxpayer,  
20 if during the taxable year the taxpayer is engaged  
21 in in substantial manufacturing or production of  
22 tangible personal property of the same type.”

1           **(b) TECHNICAL AMENDMENTS.—**

2           (1) *Section 543(a)(2) (relating to adjusted in-*  
3 *come from rents included in personal holding company*  
4 *income) is amended by striking out the last sentence*  
5 *thereof.*

6           (2) *Section 543(b)(2) (relating to definition of*  
7 *adjusted ordinary gross income) is amended—*

8                 (A) *by striking out “(as defined in the second*  
9 *sentence of paragraph (3) of this subsection)” in*  
10 *subparagraph (A) and inserting in lieu thereof*  
11 *“(as defined in paragraph (3))”;* and

12                 (B) *by adding at the end thereof the following*  
13 *new subparagraph:*

14                     “(D) **CERTAIN EXCLUDED RENTS.**—*From the*  
15 *gross income consisting of compensation described*  
16 *in subparagraph (D) of paragraph (3) subtract*  
17 *the amount allowable as deductions for the items*  
18 *described in clauses (i), (ii), (iii), and (iv) of*  
19 *subparagraph (A) to the extent allocable, under*  
20 *regulations prescribed by the Secretary or his dele-*  
21 *gate, to such gross income. The amount subtracted*  
22 *under this subparagraph shall not exceed such gross*  
23 *income.”*

24           (c) **EFFECTIVE DATE.**—*The amendments made by*  
25 *subsections (a) and (b) shall apply to taxable years begin-*

1 *ning after the date of the enactment of this Act. Such*  
2 *amounts shall also apply, at the election of the taxpayer*  
3 *(made at such time and in such manner as the Secretary or*  
4 *his delegate may prescribe); to taxable years beginning on*  
5 *or before such date and ending after December 31, 1965.*

6 **SEC. 208. PERCENTAGE DEPLETION RATE FOR CERTAIN**  
7 **CLAY BEARING ALUMINA.**

8 *(a) 23 PERCENT RATE.—Section 613(b) (relating to*  
9 *percentage depletion rates) is amended—*

10 *(1) by inserting “clay, laterite, and nephelite sye-*  
11 *nite” after “anorthosite” in paragraph (2)(B); and*

12 *(2) by striking out “if paragraph (5)(B) does not*  
13 *apply” in paragraph (3)(B) and inserting in lieu*  
14 *thereof “if neither paragraph (2)(B) nor (5)(B) ap-*  
15 *plies”.*

16 *(b) TREATMENT PROCESSES.—Section 613(c)(4)*  
17 *(relating to treatment processes considered as mining) is*  
18 *amended—*

19 *(1) by striking out “and” at the end of subpara-*  
20 *graph (G),*

21 *(2) by redesignating subparagraph (H) as (I),*  
22 *and by inserting after subparagraph (G) the following*  
23 *new subparagraph:*

24 *“(H) in the case of clay, laterite, and nephelite*  
25 *syenite from deposits in the United States (to the*

1           *extent that alumina and aluminum compounds are*  
2           *extracted therefrom)—all processes applied to derive*  
3           *alumina or aluminum compounds therefrom; and”.*

4           **(c) EFFECTIVE DATE.**—*The amendments made by sub-*  
5           *sections (a) and (b) shall apply to taxable years beginning*  
6           *after the date of the enactment of this Act.*

7           **SEC. 209. PERCENTAGE DEPLETION RATE FOR CLAM**  
8           **AND OYSTER SHELLS.**

9           **(a) 15 PERCENT RATE.**—*Section 613(b) (relating*  
10          *to percentage depletion rates) is amended—*

11           **(1)** *by striking out “mollusk shells (including clam*  
12          *shells and oyster shells),” in paragraph (5)(A), and*

13           **(2)** *by inserting “mollusk shells (including clam*  
14          *shells and oyster shells),” after “marble,” in paragraph*  
15          **(6).**

16           **(b) EFFECTIVE DATE.**—*The amendments made by sub-*  
17          *section (a) shall apply to taxable years beginning after the*  
18          *date of the enactment of this Act.*

19          **SEC. 210. SINTERING AND BURNING OF SHALE, CLAY,**  
20          **AND SLATE USED AS LIGHTWEIGHT AGGRE-**  
21          **GATES.**

22          **(a) TREATMENT PROCESSES.**—*Section 613(c)(4)*  
23          *(relating to treatment processes considered as mining) is*  
24          *amended by striking out “and the furnacing of quicksilver*  
25          *ores” in subparagraph (E) and inserting in lieu thereof*

1 *“the furnacing of quicksilver ores, and the sintering or burn-*  
 2 *ing of shale, clay, and slate used or sold for use as lightweight*  
 3 *aggregates”.*

4 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*  
 5 *section (a) shall apply to taxable years beginning after the*  
 6 *date of the enactment of this Act.*

7 **SEC. 211. STRADDLES.**

8 (a) *TREATMENT AS SHORT-TERM CAPITAL GAIN.*—  
 9 *Section 1234 (relating to options) is amended by redesign-*  
 10 *ating subsection (c) as subsection (d) and by inserting after*  
 11 *subsection (b) the following new subsection:*

12 “(c) *SPECIAL RULE FOR GRANTORS OF STRADDLES.*—

13 “(1) *GAIN ON LAPSE.*—*In the case of gain on lapse*  
 14 *of an option granted by the taxpayer as part of a strad-*  
 15 *dle, the gain shall be deemed to be gain from the sale or*  
 16 *exchange of a capital asset held for not more than 6*  
 17 *months on the day that the option expired.*

18 “(2) *EXCEPTION.*—*This subsection shall not apply*  
 19 *to any person who holds securities for sale to customers*  
 20 *in the ordinary course of his trade or business.*

21 “(3) *DEFINITIONS.*—*For purposes of this subsec-*  
 22 *tion—*

23 “(A) *The term ‘straddle’ means a simultane-*  
 24 *ously granted combination of an option to buy, and*

1            *an option to sell, the same quantity of a security at*  
 2            *the same price during the same period of time.*

3            *“(B) The term ‘security’ has the meaning as-*  
 4            *signed to such term by section 1236(c).”*

5            *(b) EFFECTIVE DATE.—The amendments made by sub-*  
 6            *section (a) shall apply to straddle transactions entered into*  
 7            *after January 25, 1965, in taxable years ending after such*  
 8            *date.*

9            **SEC. 212. TAX TREATMENT OF PER-UNIT RETAIN ALLO-**  
 10            **CATIONS.**

11            *(a) TAX TREATMENT OF COOPERATIVES.—*

12            *(1) Section 1382(a) (relating to gross income of*  
 13            *cooperatives) is amended by striking out the period at*  
 14            *the end thereof and inserting “or by reason of any amount*  
 15            *paid to a patron as a per-unit retain allocation (as de-*  
 16            *finied in section 1388(f)).”*

17            *(2) Section 1382(b) is amended—*

18            *(A) by striking out “(b) PATRONAGE DIV-*  
 19            *IDENDS.—” and inserting in lieu thereof “(b) PA-*  
 20            *TRONAGE DIVIDENDS AND PER-UNIT RETAIN*  
 21            *ALLOCATIONS.—”,*

22            *(B) by striking out “or” at the end of para-*  
 23            *graph (1),*

24            *(C) by striking out the period at the end of*

1 paragraph (2) and inserting a semicolon in lieu  
2 thereof,

3 (D) by striking out the sentence following para-  
4 graph (2) and inserting in lieu thereof the following:

5 “(3) as per-unit retain allocations, to the extent paid  
6 in qualified per-unit retain certificates (as defined in sec-  
7 tion 1388(h)) with respect to marketing occurring dur-  
8 ing such taxable year; or

9 “(4) in money or other property (except per-unit  
10 retain certificates) in redemption of a nonqualified per-  
11 unit retain certificate which was paid as a per-unit retain  
12 allocation during the payment period for the taxable year  
13 during which the marketing occurred.”

14 “For purposes of this title, any amount not taken into ac-  
15 count under the preceding sentence shall, in the case of an  
16 amount described in paragraph (1) or (2), be treated in  
17 the same manner as an item of gross income and as a deduc-  
18 tion therefrom, and in the case of an amount described in  
19 paragraph (3) or (4), be treated as a deduction in arriving  
20 at gross income.”

21 (3) Section 1382(e) is amended to read as fol-  
22 lows:

23 “(e) **PRODUCTS MARKETED UNDER POOLING AR-**  
24 **RANGEMENTS.**—For purposes of subsection (b), in the case

1 of a pooling arrangement for the marketing of products—

2 “(1) the patronage shall (to the extent provided  
3 in regulations prescribed by the Secretary or his dele-  
4 gate) be treated as patronage occurring during the tax-  
5 able year in which the pool closes, and

6 “(2) the marketing of products shall be treated as  
7 occurring during any of the taxable years in which the  
8 pool is open.”

9 (4) Section 1382(f) is amended by striking out  
10 “subsection (b)” and inserting in lieu thereof “para-  
11 graphs (1) and (2) of subsection (b)”.

12 (5) The heading for section 1383 is amended by  
13 striking out the period at the end thereof and inserting  
14 “OR NONQUALIFIED PER-UNIT RETAIN CERTIFI-  
15 CATES.”

16 (6) Section 1383(a) is amended—

17 (A) by striking out “section 1382(b)(2)” and  
18 inserting in lieu thereof “section 1382(b)(2) or  
19 (4).”,

20 (B) by striking out “nonqualified written no-  
21 tices of allocation” each place it appears and in-  
22 serting in lieu thereof “nonqualified written notices  
23 of allocation or nonqualified per-unit retain certifi-  
24 cates”, and



1           (C) by striking out “qualified written notices  
2 of allocation” and inserting in lieu thereof “qual-  
3 ified written notices of allocation or qualified per-unit  
4 retain certificates (as the case may be)”.

5           (7) Section 1383(b)(2) is amended—

6           (A) by striking out “nonqualified written no-  
7 tice of allocation” and inserting in lieu thereof “non-  
8 qualified written notice of allocation or nonqualified  
9 per-unit retain certificate”,

10          (B) by striking out “qualified written notice of  
11 allocation” and inserting in lieu thereof “qualified  
12 written notice of allocation or qualified per-unit re-  
13 tain certificate (as the case may be)”,

14          (C) by striking out “such written notice of  
15 allocation” and inserting in lieu thereof “such writ-  
16 ten notice of allocation or per-unit retain certificate”,  
17 and

18          (D) by striking out “section 1382(b)(2)” and  
19 inserting in lieu thereof “section 1382(b) (2) or  
20 (4)”,

21           (8) The table of sections for part I of subchapter  
22 T of chapter 1 is amended by striking out—

“Sec. 1383. Computation of tax where cooperative redeems  
nonqualified written notices of allocation.”

1 and inserting in lieu thereof—

*“Sec. 1383. Computation of tax where cooperative redeems nonqualified written notices of allocation or nonqualified per-unit retain certificates.”*

2 (b) *TAX TREATMENT BY PATRONS.—*

3 (1) *Section 1385(a) is amended by striking out*  
 4 *“and” at the end of paragraph (1), by striking out the*  
 5 *period at the end of paragraph (2) and inserting in lieu*  
 6 *thereof “, and”, and by adding at the end thereof the fol-*  
 7 *lowing new paragraph:*

8 *“(3) the amount of any per-unit retain allocation*  
 9 *which is paid in qualified per-unit retain certificates and*  
 10 *which is received by him during the taxable year from an*  
 11 *organization described in section 1381(a).”*

12 (2) *The heading for section 1385(c) is amended by*  
 13 *striking out “ALLOCATION” and inserting in lieu thereof*  
 14 *“ALLOCATION AND CERTAIN NONQUALIFIED PER-*  
 15 *UNIT RETAIN CERTIFICATES”.*

16 (3) *Section 1385(c)(1) is amended to read as fol-*  
 17 *lows:*

18 *“(1) APPLICATION OF SUBSECTION.—This subsec-*  
 19 *tion shall apply to—*

20 *“(A) any nonqualified written notice of alloca-*  
 21 *tion which—*

22 *“(i) was paid as a patronage dividend, or*

23 *“(ii) was paid by an organization described*

1           in section 1381(a)(1) on a patronage basis  
 2           with respect to earnings derived from business  
 3           or sources described in section 1382(c)(2)(A),  
 4           and

5           “(B) any nonqualified per-unit retain certif-  
 6           icate which was paid as a per-unit retain alloca-  
 7           tion.”

8           (4) Section 1385(c)(2) is amended—

9           (A) by striking out “nonqualified written notice  
 10          of allocation” and inserting in lieu thereof “non-  
 11          qualified written notice of allocation or nonqualified  
 12          per-unit retain certificate”, and

13          (B) by striking out “such written notice of al-  
 14          location” each place it appears and inserting in lieu  
 15          thereof “such written notice of allocation or per-unit  
 16          retain certificate”.

17          (5) The table of parts for subchapter T of chapter  
 18          1 is amended by striking out—

          “Part II. Tax treatment by patrons of patronage dividends.”

19          and inserting in lieu thereof—

          “Part II. Tax treatment by patrons of patronage dividends  
           and per-unit retain allocations.”

20          (c) **DEFINITIONS.**—

21          (1)(A) Section 1388(e)(1) is amended by strik-  
 22          ing out “allocation)” and inserting in lieu thereof “allo-  
 23          cation or a per-unit retain certificate)”.

1           (B) Section 1388(e)(2) is amended by striking  
2           out "allocation" and inserting in lieu thereof "alloca-  
3           tion or qualified per-unit retain certificate".

4           (2) Section 1388 is amended by adding at the end  
5           thereof the following new subsections:

6           “(f) *PER-UNIT RETAIN ALLOCATION.*—For purposes  
7           of this subchapter, the term ‘per-unit retain allocation’ means  
8           any allocation, by an organization to which part I of this sub-  
9           chapter applies, other than by payment in money or other  
10          property (except per-unit retain certificates) to a patron with  
11          respect to products marketed for him, the amount of which  
12          is fixed without reference to the net earnings of the organiza-  
13          tion pursuant to an agreement between the organization and  
14          the patron.

15          “(g) *PER-UNIT RETAIN CERTIFICATE.*—For purposes  
16          of this subchapter, the term ‘per-unit retain certificate’ means  
17          any written notice which discloses to the recipient the stated  
18          dollar amount of a per-unit retain allocation to him by the  
19          organization.

20          “(h) *QUALIFIED PER-UNIT RETAIN CERTIFICATE.*—

21                 “(1) *DEFINED.*—For purposes of this subchapter,  
22                 the term ‘qualified per-unit retain certificate’ means any  
23                 per-unit retain certificate which the distributee has agreed,  
24                 in the manner provided in paragraph (2), to take into

1        *account at its stated dollar amount as provided in section*  
2        *1385(a).*

3            *“(2) MANNER OF OBTAINING AGREEMENT.—A*  
4        *distributee shall agree to take a per-unit retain certificate*  
5        *into account as provided in paragraph (1) only by—*

6            *“(A) making such agreement in writing, or*

7            *“(B) obtaining or retaining membership in the*  
8        *organization after—*

9            *“(i) such organization has adopted (after*  
10        *the date of the enactment of this subsection) a*  
11        *bylaw providing that membership in the organi-*  
12        *zation constitutes such agreement, and*

13            *“(ii) he has received a written notification*  
14        *and copy of such bylaw.*

15        *“(3) PERIOD FOR WHICH AGREEMENT IS EFFECTIVE.—*

16            *“(A) GENERAL RULE.—Except as provided in*  
17        *subparagraph (B)—*

18            *“(i) an agreement described in paragraph*  
19        *(2)(A) shall be an agreement with respect to*  
20        *all products delivered by the distributee to the*  
21        *organization during the taxable year of the orga-*  
22        *nization during which such agreement is made*  
23        *and all subsequent taxable years of the organiza-*  
24        *tion; and*

1           “(ii) an agreement described in paragraph  
2           (2)(B) shall be an agreement with respect to  
3           all products delivered by the distributee to the  
4           organization after he received the notification  
5           and copy described in paragraph (2)(B)(ii).

6           “(B) REVOCATION, ETC.—

7           “(i) Any agreement described in para-  
8           graph (2)(A) may be revoked (in writing)  
9           by the distributee at any time. Any such revo-  
10          cation shall be effective with respect to products  
11          delivered by the distributee on or after the first  
12          day of the first taxable year of the organization  
13          beginning after the revocation is filed with the  
14          organization; except that in the case of a pool-  
15          ing arrangement described in section 1382(e)  
16          a revocation made by a distributee shall not be  
17          effective as to any products which were delivered  
18          to the organization by the distributee before such  
19          revocation.

20          “(ii) Any agreement described in para-  
21          graph (2)(B) shall not be effective with re-  
22          spect to any products delivered after the dis-  
23          tributee ceases to be a member of the organiza-  
24          tion or after the bylaws of the organization.

1            *cease to contain the provision described in para-*  
 2            *graph (2)(B)(i).*

3            **“(i) NONQUALIFIED PER-UNIT RETAIN CERTIFI-**  
 4 **CATE.—***For purposes of this subchapter, the term ‘nonquali-*  
 5 *fied per-unit retain certificate’ means a per-unit retain cer-*  
 6 *tificate which is not described in subsection (h).”*

7            **(c) INFORMATION REPORTING.—**

8            **(1) AMOUNTS SUBJECT TO REPORTING.—***Section*  
 9 *6044(b)(1) is amended by striking out “and” at the*  
 10 *end of subparagraph (B), by striking out the period at*  
 11 *the end of subparagraph (C) and inserting in lieu*  
 12 *thereof “, and”, and by adding after subparagraph (C)*  
 13 *the following new subparagraphs:*

14            *“(D) the amount of any per-unit retain al-*  
 15 *location (as defined in section 1388(f)) which*  
 16 *is paid in qualified per-unit retain certificates (as*  
 17 *defined in section 1388(h)), and*

18            *“(E) any amount described in section 1382*  
 19 *(b)(4) (relating to redemption of nonqualified per-*  
 20 *unit retain certificates).”*

21            **(2) DETERMINATION OF AMOUNT PAID.—**

22            *(A) Section 6044(d)(1) is amended by strik-*  
 23 *ing out “allocation)” and inserting in lieu thereof*

1           *“allocation or a qualified per-unit retain certifi-*  
2           *cate)”*.

3           *(B) Section 6044(d)(2) is amended by strik-*  
4           *ing out “allocation” and inserting in lieu thereof*  
5           *“allocation or a qualified per-unit retain certificate”*.

6           *(d) EFFECTIVE DATES.—*

7           *(1) The amendments made by subsections (a) and*  
8           *(b) shall apply to per-unit retain allocations made dur-*  
9           *ing taxable years of an organization described in sec-*  
10           *tion 1381(a) (relating to organizations to which part I*  
11           *of subchapter T of chapter 1 applies) beginning after*  
12           *April 30, 1966, with respect to products delivered dur-*  
13           *ing such years.*

14           *(2) The amendments made by subsection (c) shall*  
15           *apply with respect to calendar years after 1966.*

16           *(e) TRANSITION RULE.—*

17           *(1) Except as provided in paragraph (2), a writ-*  
18           *ten agreement between a patron and a cooperative as-*  
19           *sociation—*

20           *(A) which clearly provides that the patron*  
21           *agrees to treat the stated dollar amounts of all per-*  
22           *unit retain certificates issued to him by the associa-*  
23           *tion as representing cash distributions which he has,*  
24           *of his own choice, reinvested in the cooperative*  
25           *association,*



1           *(B) which is revocable by the patron at any*  
 2           *time after the close of the taxable year in which it*  
 3           *was made,*

4           *(C) which was entered into after October 14,*  
 5           *1965, and before the date of the enactment of this*  
 6           *Act, and*

7           *(D) which is in effect on the date of the enact-*  
 8           *ment of this Act, and with respect to which a written*  
 9           *notice of revocation has not been furnished to the*  
 10           *cooperative association,*

11           *shall be effective (for the period prescribed in the agree-*  
 12           *ment) for purposes of section 1388(h) of the Internal*  
 13           *Revenue Code of 1954 as if entered into, pursuant to*  
 14           *such section, after the date of the enactment of this Act.*

15           *(2) An agreement described in paragraphs (1) (A)*  
 16           *and (C) which was included in a by-law of the coopera-*  
 17           *tive association and which is in effect on the date of the*  
 18           *enactment of this Act shall be effective for purposes of sec-*  
 19           *tion 1388(h) of such Code only for taxable years of the*  
 20           *association beginning before May 1, 1967.*

21   **SEC. 213. EXCISE TAX RATE ON AMBULANCES AND**  
 22           **HEARSEES.**

23           *(a) CLASSIFICATION AS AUTOMOBILES.—Section 4062*  
 24           *(relating to definitions applicable to the tax on motor vehicles)*

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

3       “(b) *AMBULANCES, HEARSEES, ETC.—For purposes of*  
 4 *section 4061(a), a sale of an ambulance, hearse, or combina-*  
 5 *tion ambulance-hearse shall be considered to be a sale of an*  
 6 *automobile chassis and an automobile body enumerated in*  
 7 *subparagraph (B) of section 4061(a)(2).”*

8       “(b) *EFFECTIVE DATE.—The amendment made by sub-*  
 9 *section (a) shall apply with respect to articles sold after the*  
 10 *date of the enactment of this Act.*

11 **SEC. 214. APPLICABILITY OF EXCLUSION FROM INTEREST**  
 12                                   **EQUALIZATION TAX OF CERTAIN LOANS TO**  
 13                                   **ASSURE RAW MATERIALS SOURCES.**

14       “(a) *EXCEPTION TO EXCLUSION.—Section 4914(d)*  
 15 *(relating to loans to assure raw materials sources) is amended*  
 16 *by adding at the end thereof the following new paragraph:*

17                   “(3) *EXCEPTION.—The exclusion from tax pro-*  
 18 *vided by paragraph (1) shall not apply in any case where*  
 19 *the acquisition of the debt obligation of the foreign corpo-*  
 20 *ration is made with an intent to sell, or offer to sell, any*  
 21 *part of such debt obligation to United States persons.”*

22       “(b) *TECHNICAL AMENDMENTS.—Section 4914(j)(1)*  
 23 *(relating to loss of entitlement to exclusion in case of certain*  
 24 *subsequent transfers) is amended—*

1           (A) by striking out in subparagraph (A) “, or  
2           the exclusion provided by subsection (d),”, and

3           (B) by striking out “subsection (d) or (f)” in  
4           subparagraph (D) and inserting in lieu thereof  
5           “subsection (f)”.

6           (c) *EFFECTIVE DATE.*—The amendments made by sub-  
7           sections (a) and (b) shall apply with respect to acquisitions  
8           of debt obligations made after the date of the enactment of  
9           this Act.

10   **SEC. 215. EXCLUSION FROM INTEREST EQUALIZATION**  
11           **TAX FOR CERTAIN ACQUISITIONS BY INSUR-**  
12           **ANCE COMPANIES.**

13           (a) *NEW COMPANIES AND COMPANIES OPERATING*  
14           *IN FORMER LESS DEVELOPED COUNTRIES.*—Section 4914  
15           (e) (relating to acquisitions by insurance companies doing  
16           business in foreign countries) is amended—

17           (1) by striking out “at the time of the initial desig-  
18           nation” in the last sentence of paragraph (2);

19           (2) by striking out “An” in the first sentence of  
20           paragraph (3)(A)(i) and inserting in lieu thereof “Ex-  
21           cept as provided in clause (ii), an”;

22           (3) by striking out “under this subparagraph” in  
23           paragraph (3)(A)(ii) and inserting in lieu thereof  
24           “under clause (i)”;

1           (4) by adding after clause (ii) of paragraph (3)

2           (A) the following new clauses:

3                   “(iii) *INITIAL DESIGNATION AFTER*  
4                   *OCTOBER 2, 1964.—An insurance company*  
5                   *which was not in existence on October 2,*  
6                   *1964, or was otherwise ineligible to establish a*  
7                   *fund (or funds) of assets described in para-*  
8                   *graph (2) by making an initial designation un-*  
9                   *der clause (i) on or before such date, may estab-*  
10                   *lish (and thereafter currently maintain) such*  
11                   *fund (or funds) of assets at any time after the*  
12                   *enactment of this clause by designating stock of*  
13                   *a foreign issuer or a debt obligation of a foreign*  
14                   *obligor as a part of such fund in accordance*  
15                   *with the provisions of clause (iv) (if applicable)*  
16                   *and subparagraph (B) (i).*

17                   “(iv) *FUNDS INVOLVING CURRENCIES OF*  
18                   *FORMER LESS DEVELOPED COUNTRIES.—An*  
19                   *insurance company desiring to establish a fund*  
20                   *under clause (iii) with respect to insurance*  
21                   *contracts payable in the currency of a country*  
22                   *designated as a less developed country on Octo-*  
23                   *ber 2, 1964, which thereafter has such designa-*  
24                   *tion terminated by an Executive order issued*  
25                   *under section 4916(b), shall designate as assets*

1 of such fund, to the extent permitted by sub-  
2 paragraph (E), the stock of foreign issuers or  
3 debt obligations of foreign obligors as follows:  
4 First, stock and debt obligations having a period  
5 remaining to maturity of at least 1 year (other  
6 than stock or a debt obligation described in sec-  
7 tion 4916(a)) acquired before July 19, 1963,  
8 and owned by the company on the date which  
9 the President, in accordance with section 4916  
10 (b), communicates to Congress his intention to  
11 terminate the status of such country as a less de-  
12 veloped country; second, stock and debt obliga-  
13 tions having a period remaining to maturity of  
14 at least 1 year described in section 4916(a)  
15 (and owned by the company on the date of such  
16 termination) which, at the time of acquisition,  
17 qualified for the exclusion provided in such sec-  
18 tion because of the status of such country as a  
19 less developed country; and third, such stock or  
20 debt obligations as the company may elect to des-  
21 ignate under subparagraph (B)(i). The pe-  
22 riod remaining to maturity referred to in the  
23 preceding sentence shall be determined as of the  
24 date of the President's communication to  
25 Congress.”;

1           (5) by striking out "TO MAINTAIN FUND" in the  
2 heading of paragraph (3)(B);

3           (6) by striking out "as provided in subparagraph  
4 (A)(ii)" in paragraph (3)(B)(i) and inserting in lieu  
5 thereof "under subparagraphs (A) (i) and (ii)";

6           (7) by inserting before the period at the end of the  
7 first sentence of paragraph (3)(C) the following: ";  
8 except that, with respect to a fund established under sub-  
9 paragraph (A)(iii), stock or debt obligations acquired  
10 before the establishment of such fund may not be desig-  
11 nated as part of such fund under this subparagraph";

12           (8) by striking out "subparagraph (B)," in para-  
13 graph (3)(E)(i) and inserting in lieu thereof "sub-  
14 paragraph (A)(iv), (B)";

15           (9) by striking out "subparagraph (A)" in para-  
16 graph (4)(B)(i) and inserting in lieu thereof "sub-  
17 paragraph (A)(i)";

18           (10) by striking out "paragraph (3)(A)" in para-  
19 graph (4)(B)(ii) and inserting in lieu thereof "para-  
20 graph (3)(A)(i)"; and

21           (11) by adding at the end of paragraph (4) the  
22 following new subparagraph:

23           "(C) SPECIAL RULE.--For purposes of sub-  
24 paragraph (A), if a country designated as a less  
25 developed country on September 2, 1964, thereafter

1        *has such designation terminated by an Executive*  
2        *order issued under section 4916(b), all insurance*  
3        *contracts payable in the currency of such country*  
4        *which were entered into before such designation was*  
5        *terminated shall be treated as insurance contracts*  
6        *payable in the currency of a country other than a less*  
7        *developed country."*

8        *(b) EFFECTIVE DATE.—The amendments made by sub-*  
9        *section (a) shall take effect on the day after the date of the*  
10       *enactment of this Act.*

11       **SEC. 216. EXCLUSION FROM INTEREST EQUALIZATION**  
12                                **TAX OF CERTAIN ACQUISITIONS BY FOREIGN**  
13                                **BRANCHES OF DOMESTIC BANKS.**

14       *(a) AUTHORITY FOR MODIFICATION OF EXECUTIVE*  
15       *ORDERS.—Section 4931(a) (relating to commercial bank*  
16       *loans) is amended by adding at the end thereof the following*  
17       *new sentence: "Clause (A) of the preceding sentence shall*  
18       *not prevent a modification of such Executive order (or any*  
19       *modification thereof) to exclude from the application of sub-*  
20       *section (b) acquisitions by commercial banks, through*  
21       *branches located outside the United States, of debt obligations*  
22       *of foreign obligors payable in currency of the United States."*

23       *(b) EFFECTIVE DATE.—The amendment made by sub-*  
24       *section (a) shall apply with respect to acquisitions of debt*  
25       *obligations made after the date of the enactment of this Act.*

1 **TITLE III—PRESIDENTIAL ELEC-**  
 2 **TION CAMPAIGN FUND ACT**

3 **SEC. 301. SHORT TITLE.**

4 *This title may be cited as the “Presidential Election Cam-*  
 5 *paign Fund Act of 1966”.*

6 **SEC. 302. AUTHORITY FOR DESIGNATION OF \$1 OF IN-**  
 7 **COME TAX PAYMENTS TO PRESIDENTIAL**  
 8 **ELECTION CAMPAIGN FUND.**

9 *(a) Subchapter A of chapter 61 of the Internal Rev-*  
 10 *enue Code of 1954 (relating to returns and records) is*  
 11 *amended by adding at the end thereof the following new*  
 12 *part:*

13 **“PART VIII—DESIGNATION OF INCOME TAX PAY-**  
 14 **MENTS TO PRESIDENTIAL ELECTION CAMPAIGN**  
 15 **FUND**

*“Sec. 6096. Designation by individuals.*

16 **“SEC. 6096. DESIGNATION BY INDIVIDUALS.**

17 *“(a) IN GENERAL.—Every individual (other than a*  
 18 *nonresident alien) whose income tax liability for any taxable*  
 19 *year is \$1 or more may designate that \$1 shall be paid into*  
 20 *the Presidential Election Campaign Fund established by sec-*  
 21 *tion 303 of the Presidential Election Campaign Fund Act*  
 22 *of 1966.*

23 *“(b) INCOME TAX LIABILITY.—For purposes of sub-*  
 24 *section (a), the income tax liability of an individual for any*



1 taxable year is the amount of the tax imposed by chapter 1  
2 on such individual for such taxable year (as shown on his  
3 return), reduced by the sum of the credits (as shown in his  
4 return) allowable under sections 32(2), 33, 35, 37, and 38.

5 “(c) *MANNER AND TIME OF DESIGNATION.*—A design-  
6 nation under subsection (a) may be made with respect to any  
7 taxable year, in such manner as the Secretary or his delegate  
8 may prescribe by regulations—

9 “(1) at the time of filing the return of the tax im-  
10 posed by chapter 1 for such taxable year, or

11 “(2) at any other time (after the time of filing the  
12 return of the tax imposed by chapter 1 for such taxable  
13 year) specified in regulations prescribed by the Secre-  
14 tary or his delegate.”

15 (b) The table of parts for subchapter A of chapter 61  
16 of such Code is amended by adding at the end thereof the fol-  
17 lowing new item:

“Part VIII. Designation of income tax payments to Presi-  
dential Election Campaign Fund.”

18 (c) The amendments made by this section shall apply  
19 with respect to payments of tax for taxable years beginning  
20 after December 31, 1966.

21 **SEC. 303. PRESIDENTIAL ELECTION CAMPAIGN FUND.**

22 (a) *ESTABLISHMENT.*—There is hereby established on

1 *the books of the Treasury of the United States a special fund*  
2 *to be known as the "Presidential Election Campaign Fund"*  
3 *(hereafter in this section referred to as the "Fund"). The*  
4 *Fund shall consist of amounts transferred to it as provided in*  
5 *this section.*

6 (b) *TRANSFERS TO THE FUND.—The Secretary of the*  
7 *Treasury shall, from time to time, transfer to the Fund an*  
8 *amount equal to the sum of the amounts designated by indi-*  
9 *viduals under section 6096 of the Internal Revenue Code of*  
10 *1954 for payment into the Fund.*

11 (c) *PAYMENTS FROM FUND.—*

12 (1) *IN GENERAL.—The Secretary of the Treasury*  
13 *shall, with respect to each presidential campaign, pay*  
14 *out of the Fund, as authorized by appropriation Acts,*  
15 *into the treasury of each political party which has com-*  
16 *plied with the provisions of paragraph (3) an amount*  
17 *(subject to the limitation in paragraph (3)(B)) de-*  
18 *termined under paragraph (2).*

19 (2) *DETERMINATION OF AMOUNTS.—*

20 (A) *Each political party whose candidate for*  
21 *President at the preceding presidential election re-*  
22 *ceived 10,000,000 or more popular votes as the*  
23 *candidate of such political party shall be entitled*  
24 *to payments under paragraph (1) with respect to*  
25 *a presidential campaign equal to—*

1           (i) \$1 multiplied by the total number of  
2           popular votes cast in the preceding presidential  
3           election for candidates of political parties whose  
4           candidates received 10,000,000 or more popu-  
5           lar votes as the candidates of such political par-  
6           ties, divided by

7           (ii) the number of political parties whose  
8           candidates in the preceding presidential election  
9           received 10,000,000 or more popular votes as  
10          the candidates of such political parties.

11          (B) Each political party whose candidate for  
12          President at the preceding presidential election re-  
13          ceived more than 1,500,000, but less than 10,-  
14          000,000, popular votes as the candidate of such  
15          political party shall be entitled to payments under  
16          paragraph (1) with respect to a presidential cam-  
17          paign equal to \$1 multiplied by the number of popu-  
18          lar votes in excess of 1,500,000 received by such  
19          candidate as the candidate of such political party in  
20          the preceding presidential election.

21          (C) Payments under paragraph (1) shall be  
22          made with respect to each presidential campaign at  
23          such times as the Secretary of the Treasury may  
24          prescribe by regulations, except that no payment with  
25          respect to any presidential campaign shall be made

1           *before September 1 of the year of the presidential*  
2           *election with respect to which such campaign is con-*  
3           *ducted. If at the time so prescribed for any such*  
4           *payments, the moneys in the Fund are insufficient*  
5           *for the Secretary to pay into the treasury of each*  
6           *political party which is entitled to a payment under*  
7           *paragraph (1) the amount to which such party is*  
8           *entitled, the payment to all such parties at such time*  
9           *shall be reduced pro rata, and the amounts not paid*  
10           *at such time shall be paid when there are sufficient*  
11           *moneys in the Fund.*

12           (3) *LIMITATIONS.—*

13                   (A) *No payment shall be made under para-*  
14                   *graph (1) into the treasury of a political party with*  
15                   *respect to any presidential campaign unless the treas-*  
16                   *urer of such party has certified to the Comptroller*  
17                   *General the total amount spent or incurred (prior to*  
18                   *the date of the certification) by such party in carry-*  
19                   *ing on such presidential campaign, and has furnished*  
20                   *such other information as may be requested by the*  
21                   *Comptroller General.*

22                   (B) *No payment shall be made under para-*  
23                   *graph (1) into the treasury of a political party with*  
24                   *respect to any presidential campaign in an amount*  
25                   *which, when added to previous payments made to*

1           *such party, exceeds the amount spent or incurred by*  
 2           *such party in carrying on such presidential cam-*  
 3           *paign.*

4           (4) *The Comptroller General shall certify to the*  
 5           *Secretary of the Treasury the amounts payable to any*  
 6           *political party under paragraph (1). The Comptroller*  
 7           *General's determination as to the popular vote received*  
 8           *by any candidate of any political party shall be final*  
 9           *and not subject to review. The Comptroller General*  
 10           *is authorized to prescribe such rules and regulations*  
 11           *as he determines necessary to carry out his duties and*  
 12           *functions under this subsection.*

13           (5) *DEFINITIONS.—For purposes of this sub-*  
 14           *section—*

15           (A) *The term "political party" means any*  
 16           *political party which presents a candidate for election*  
 17           *to the office of President of the United States.*

18           (B) *The term "presidential campaign" means*  
 19           *the political campaign held every fourth year for the*  
 20           *election of presidential and vice presidential electors.*

21           (C) *The term "presidential election" means the*  
 22           *election of presidential electors.*

23           (d) *TRANSFERS TO GENERAL FUND.—If, after any*  
 24           *presidential campaign and after all political parties which*

1 are entitled to payments under subsection (c) with respect  
2 to such presidential campaign have been paid the amounts  
3 to which they are entitled under subsection (c), there are  
4 moneys remaining in the Fund, the Secretary of the Treas-  
5 ury shall transfer the moneys so remaining to the general  
6 fund of the Treasury.

7 **SEC. 304. ESTABLISHMENT OF ADVISORY BOARD.**

8 (a) There is hereby established an advisory board to be  
9 known as the Presidential Election Campaign Fund Advisory  
10 Board (hereafter in this section referred to as the "Board").  
11 It shall be the duty and function of the Board to counsel and  
12 assist the Comptroller General in the performance of the  
13 duties imposed on him under section 303 of this Act.

14 (b) The Board shall be composed of two members rep-  
15 resenting each political party whose candidate for President  
16 at the last presidential election received 10,000,000 or more  
17 popular votes as the candidate of such political party, which  
18 members shall be appointed by the Comptroller General from  
19 recommendations submitted by each such political party, and  
20 of three additional members selected by the members so ap-  
21 pointed by the Comptroller General. The term of the first  
22 members of the Board shall expire on the 60th day after the  
23 date of the first presidential election following the date of  
24 the enactment of this Act and the term of subsequent members  
25 of the Board shall begin on the 61st day after the date of a  
26 presidential election and expire on the 60th day following

1 *the date of the subsequent presidential election. The Board*  
2 *shall select a Chairman from among its members.*

3 *(c) Members of the Board shall receive compensation at*  
4 *the rate of \$75 a day for each day they are engaged in per-*  
5 *forming duties and functions as such members, including*  
6 *travel time, and, while away from their homes or regular*  
7 *places of business, shall be allowed travel expenses, including*  
8 *per diem in lieu of subsistence, as authorized by law for per-*  
9 *sons in the Government service employed intermittently.*

10 *(d) Service by an individual as a member of the Board*  
11 *shall not, for purposes of any other law of the United States,*  
12 *be considered as service as an officer or employee of the United*  
13 *States.*

14 **SEC. 305. APPROPRIATIONS AUTHORIZED.**

15 *There are authorized to be appropriated, out of the Presi-*  
16 *dential Elections Campaign Fund, such sums as may be neces-*  
17 *sary to enable the Secretary of the Treasury to make payments*  
18 *under section 303 of this Act.*

19 **TITLE IV—MISCELLANEOUS**  
20 **PROVISIONS**

21 **SEC. 401. TREASURY BONDS OR CERTIFICATES PAYABLE**  
22 **IN FOREIGN CURRENCY.**

23 *Section 16 of the Second Liberty Bond Act, as amended*  
24 *(31 U.S.C. 766), is amended by striking out "bonds" wher-*  
25 *ever it appears therein and inserting in lieu thereof "bonds,*  
26 *notes,".*

1 SEC. 402. REPORTS TO CLARIFY TO NATIONAL DEBT  
2 AND TAX STRUCTURE.

3 The Secretary of the Treasury shall, on or before  
4 March 31 of each year (beginning with 1967), submit to the  
5 Senate and the House of Representatives a report setting  
6 forth, as of the close of December 31 of the preceding year,  
7 the aggregate and individual amounts of the contingent liabili-  
8 ties and the unfunded liabilities of the Government, and of  
9 each department, agency, and instrumentality thereof, in-  
10 cluding, without limitation, trust fund liabilities, Govern-  
11 ment-sponsored corporations' liabilities, indirect liabilities not  
12 included as a part of the public debt, and liabilities of insur-  
13 ance and annuity programs, including their actuarial status  
14 on both a balance sheet and projected source and application  
15 of funds basis. The report shall also set forth the collateral  
16 pledged, or the assets available (or to be realized), as secu-  
17 rity for such liabilities (Government securities to be sepa-  
18 rately noted), and an analysis of their significance in terms  
19 of past experience and probable risk, and shall also set forth  
20 all other assets available to liquidate liabilities of the Govern-  
21 ment. The report shall set forth the required data in a  
22 concise form, with such explanatory material as the Secre-  
23 tary may determine to be necessary or desirable, and shall  
24 include total amounts of each category according to the de-  
25 partment, agency, or instrumentality involved.



1 **SEC. 403. COVERAGE OF EXPENSES OF CERTAIN DRUGS**  
2 **UNDER SUPPLEMENTARY MEDICAL INSUR-**  
3 **ANCE BENEFITS.**

4 *(a) Section 1832(a) of the Social Security Act is*  
5 *amended (1) by striking out "and" at the end of paragraph*  
6 *(1), (2) by striking out the period at the end of paragraph*  
7 *(2) and inserting in lieu thereof "; and", and (3) by adding*  
8 *at the end thereof the following new paragraph:*

9 *"(3) entitlement to be paid for allowable expenses*  
10 *(as defined in section 1845(a)(2)), or, if lower, actual*  
11 *expenses, incurred by him for the purchase of qualified*  
12 *drugs (as defined in subsection (a)(1) of such*  
13 *section)."*

14 *(b) Section 1833(a) of such Act is amended (1) by*  
15 *inserting "or qualified drugs" after "incurs expenses for*  
16 *services", (2) by striking out the period at the end of para-*  
17 *graph (2) and inserting in lieu thereof "; and", and (3)*  
18 *by adding at the end thereof the following new paragraph:*

19 *"(3) in the case of expenses covered under section*  
20 *1832(a)(3)—100 per centum of such expenses."*

21 *(c) Section 1833(b) of such Act is amended by adding*  
22 *at the end thereof the following new sentence: "For pur-*  
23 *poses of determining amounts to be counted toward meeting*  
24 *the \$50 deductible imposed by the preceding sentence, there*  
25 *shall not be included any expenses incurred for any drug or*

1 *biological which is in excess of the allowable expenses (as*  
2 *defined in section 1845(a)(2)) of such drug or biological."*

3 *(d) Part B of title XVIII of such Act is amended by*  
4 *adding at the end thereof the following new sections:*

5 *"ALLOWABLE EXPENSES FOR QUALIFIED DRUGS*

6 *"SEC. 1845. (a) For purposes of this part—*

7 *"(1) The term 'qualified drug' means a drug or*  
8 *biological which is included among the items approved*  
9 *by the Formulary Committee (established pursuant to*  
10 *section 1846(a)).*

11 *"(2) The term 'allowable expense', when used in*  
12 *connection with any quantity of a qualified drug, means*  
13 *the amount established with regard to such quantity of*  
14 *such drug by the Formulary Committee and approved*  
15 *by the Secretary.*

16 *"(b) Amounts to which an individual is entitled by*  
17 *reason of the provisions of section 1832(a)(3) shall be paid*  
18 *directly to such individual or, if such individual has assigned*  
19 *his right to receive any such amount to another person, the*  
20 *amount so assigned shall be paid to such other person. No*  
21 *individual shall be paid any amount by reason of the pro-*  
22 *visions of section 1832(a)(3) prior to the presentation by*  
23 *him (or by another on his behalf) of documentary or other*  
24 *proof satisfactory to the Secretary establishing his entitle-*  
25 *ment thereto.*

1       “(c) The benefits provided by reason of section 1832  
 2 (a)(3) may be paid by the Secretary or the Secretary  
 3 may utilize the service of carriers for the administration of  
 4 such benefits under contracts entered into between the Secre-  
 5 tary and such carriers for such purpose. To the extent deter-  
 6 mined by the Secretary to be appropriate, the provisions  
 7 relating to contracts entered into pursuant to section 1842  
 8 shall be applicable to contracts entered into pursuant to this  
 9 subsection.

10                               “FORMULARY COMMITTEE

11       “SEC. 1846. (a) There is hereby established a Formu-  
 12 lary Committee to consist of the Surgeon General of the  
 13 Public Health Service, the Commissioner of the Food and  
 14 Drug Administration, and the Director of the National In-  
 15 stitutes of Health.

16       “(b)(1) It shall be the duty of the Formulary Com-  
 17 mittee, with the advice and assistance of the Formulary Ad-  
 18 visory Group (established pursuant to section 1847) to—

19               “(A) determine which drugs and biologicals shall  
 20 constitute qualified drugs for purposes of the benefits  
 21 provided under section 1832(a); and

22               “(B) determine, with the approval of the Secre-  
 23 tary, the allowable expense, for purposes of such bene-  
 24 fits, of the various quantities of any drug determined by  
 25 the Committee to constitute a qualified drug; and

1           “(C) publish and disseminate at least once each  
2           calendar year among individuals insured under this  
3           part, physicians, pharmacists, and other interested per-  
4           sons, in accordance with directives of the Secretary, an  
5           alphabetic list naming each drug or biological (by its  
6           generic name and by each other name by which it is  
7           known) which is a qualified drug together with the al-  
8           lowable expense of various quantities thereof, and if  
9           any such drug or biological is known by a trade name,  
10          the generic name shall also appear with such trade name.

11          “(2)(A) Until the Formulary Committee determines  
12          to the contrary, any drug or biological which is included  
13          in the United States Public Health Service Formulary  
14          shall be regarded as a qualified drug for purposes of the  
15          benefits provided under section 1832(a)(3). Drugs or  
16          biologicals not included in such Formulary shall be re-  
17          garded as qualified drugs for such purposes upon determina-  
18          tion of the Formulary Committee that such drugs or bio-  
19          logicals should be so regarded. Any drug or biological  
20          included on the list of qualified drugs shall, if listed by  
21          generic name, also be listed by its trade name or names,  
22          if any.

23          “(B) Drugs and biologicals shall be determined to  
24          be qualified drugs only if they can legally be obtained by

1 *the user pursuant to a prescription of a physician; except*  
2 *that the Formulary Committee may include certain drugs*  
3 *and biologicals not requiring such a prescription if it de-*  
4 *termines such drugs or biologicals to be of a lifesaving nature.*

5 *“(C) In the interest of orderly, economical, and equi-*  
6 *table administration of the benefits provided under section*  
7 *1832(a)(3), the Formulary Committee may, by regula-*  
8 *tion, provide that a drug or biological otherwise regarded*  
9 *as being a qualified drug shall not be so regarded when*  
10 *prescribed below certain minimum quantities.*

11 *“(3) In determining the allowable expense for any*  
12 *quantity of any qualified drug, the Formulary Committee*  
13 *shall give due consideration to recognized pricing guides for*  
14 *drugs, and of other pertinent factors, with a view to deter-*  
15 *mining with respect to each qualified drug a schedule of*  
16 *prices for various quantities thereof which reflects the cost*  
17 *thereof to the ultimate dispenser of the drug plus a reason-*  
18 *able fee for the preparation, handling, and distribution*  
19 *thereof to the consumer thereof. In any case in which a*  
20 *drug or biological is available by generic name and one or*  
21 *more trade names any one of which is different from such*  
22 *generic name the cost of such drug or biological, for pur-*  
23 *poses of the preceding sentence, shall be deemed to be the*  
24 *lowest cost of such drug, however named.”*

## 1           “ADVISORY GROUP TO FORMULARY COMMITTEE

2           “SEC. 1847. (a) For the purpose of assisting the Formu-  
3 lary Committee to carry out its duties and functions, the  
4 Secretary shall appoint an Advisory Group to the Formulary  
5 Committee (hereinafter in this section referred to as the  
6 ‘Advisory Group’). The Advisory Group shall consist of  
7 seven members to be appointed by the Secretary. From  
8 time to time, the Secretary shall designate one of the mem-  
9 bers of the Advisory Group to serve as Chairman thereof.  
10 The members shall be so selected that each represents one or  
11 more of the following national organizations: an organiza-  
12 tion of physicians, an organization of manufacturers of drugs,  
13 an organization of pharmacists, an organization of persons  
14 concerned with public health, an organization of hospital  
15 pharmacists, an organization of colleges of medicine, an orga-  
16 nization of colleges of pharmacy, and an organization of con-  
17 sumers. Each member shall hold office for a term of three  
18 years, except that any member appointed to fill a vacancy  
19 occurring prior to the expiration of the term for which his  
20 predecessor was appointed shall be appointed for the remain-  
21 der of such term, and except that the terms of office of six  
22 of the members first taking office shall expire, as designated  
23 by the Secretary at the time of appointment, two at the end

1 *of the first year, two at the end of the second year, and two*  
2 *at the end of the third year, after the date of appointment.*  
3 *A member shall not be eligible to serve continuously for more*  
4 *than two terms.*

5 *“(b) Members of the Advisory Group, while attending*  
6 *meetings or conferences thereof or otherwise serving on*  
7 *business of the Advisory Group, shall be entitled to receive*  
8 *compensation at rates to be fixed by the Secretary, but not*  
9 *exceeding \$75 per day, including traveltime, and while so*  
10 *serving away from their homes or regular places of business*  
11 *they may be allowed travel expenses, including per diem in*  
12 *lieu of subsistence, as authorized by section 3109 of title 5,*  
13 *United States Code, for persons in the Government service*  
14 *employed intermittently.*

15 *“(c) The Advisory Group is authorized to engage such*  
16 *technical assistance as may be required to carry out its*  
17 *functions, and the Secretary shall, in addition, make available*  
18 *to the Advisory Group such secretarial, clerical, and other*  
19 *assistance and such pertinent data obtained and prepared*  
20 *by the Department of Health, Education, and Welfare as the*  
21 *Advisory Group may require to carry out its functions.”*

22 *(e) The amendments made by this section shall become*

1 *effective on whichever of the following first occurs: (1) the*  
2 *first day of the first month with respect to which the rate of*  
3 *the monthly premium for participation is raised, pursuant*  
4 *to section 1839(b) of the Social Security Act, after the date*  
5 *of enactment of this Act, or (2) July 1, 1968.*

Amend the title so as to read: "An Act to provide equitable tax treatment for foreign investment in the United States, to establish a Presidential Election Campaign Fund to assist in financing the costs of presidential election campaigns, and for other purposes."





OCTOBER 8, 1966

Calendar No.

89TH CONGRESS  
2d Session

**H. R. 13103**

[Report No. ]

---

## **AN ACT**

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

---

JUNE 16, 1966

Read twice and referred to the Committee on Finance

OCTOBER , 1966

Reported with amendments

---