

same ratio to the total amount of such expenditures as—

“(A) the lesser of 4 months or the number of months in the taxable year, bears to

“(B) the number of months in the taxable year.”

**1-YEAR MODIFICATION IN REGULATIONS PROVIDING FOR ALLOCATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES**

Pub. L. 99-514, title XII, §1216, Oct. 22, 1986, 100 Stat. 2549, provided that:

“(a) **GENERAL RULE.**—For purposes of section 861(b), section 862(b), and section 863(b) of the Internal Revenue Code of 1954 [now 1986], notwithstanding section 864(e) of such Code—

“(1) 50 percent of all amounts allowable as a deduction for qualified research and experimental expenditures shall be apportioned to income from sources within the United States and deducted from such income in determining the amount of taxable income from sources within the United States, and

“(2) the remaining portion of such amounts shall be apportioned on the basis of gross sales or gross income.

The preceding sentence shall not apply to any expenditures described in section 1.861-8(e)(3)(i)(B) of the Income Tax Regulations.

“(b) **QUALIFIED RESEARCH AND EXPERIMENTAL EXPENDITURES.**—For purposes of this section—

“(1) **IN GENERAL.**—The term ‘qualified research and experimental expenditures’ means amounts—

“(A) which are research and experimental expenditures within the meaning of section 174 of such Code, and

“(B) which are attributable to activities conducted in the United States.

“(2) **TREATMENT OF DEPRECIATION, ETC.**—Rules similar to the rules of [former] section 174(c) of such Code shall apply.

“(c) **EFFECTIVE DATE.**—This section shall apply to taxable years beginning after August 1, 1986, and on or before August 1, 1987.”

**ALLOCATION UNDER SECTION 861 OF RESEARCH AND EXPERIMENTAL EXPENDITURES**

Pub. L. 98-369, div. A, title I, §126, July 18, 1984, 98 Stat. 648, as amended by Pub. L. 99-272, title XIII, §13211, Apr. 7, 1986, 100 Stat. 324; Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(a) **IN GENERAL.**—For purposes of section 861(b), section 862(b), and section 863(b) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954], all amounts allowable as a deduction for qualified research and experimental expenditures shall be allocated to income from sources within the United States and deducted from such income in determining the amount of taxable income from sources within the United States.

“(b) **QUALIFIED RESEARCH AND EXPERIMENTAL EXPENDITURES.**—For purposes of this section—

“(1) **IN GENERAL.**—The term ‘qualified research and experimental expenditures’ means amounts—

“(A) which are research and experimental expenditures within the meaning of section 174 of such Code, and

“(B) which are attributable to activities conducted in the United States.

“(2) **TREATMENT OF DEPRECIATION, ETC.**—Rules similar to the rules of [former] subsection (c) of section 174 of such Code shall apply.

“(c) **EFFECTIVE DATES.**—

“(1) **IN GENERAL.**—This section shall apply to taxable years beginning after August 13, 1983, and on or before August 1, 1986.

“(2) **SPECIAL RULE.**—If the taxpayer’s 4th taxable year beginning after August 13, 1981, is not described

in paragraph (1), this section shall apply also to such 4th taxable year.”

**CONFORMITY OF AMENDMENTS MADE BY FOREIGN INVESTORS TAX ACT OF 1966 WITH TREATY OBLIGATIONS OF THE UNITED STATES**

Pub. L. 89-809, title I, §110, Nov. 13, 1966, 80 Stat. 1575, provided that: “No amendment made by this title [see Short Title note above] shall apply in any case where its application would be contrary to any treaty obligation of the United States. For purposes of the preceding sentence, the extension of a benefit provided by any amendment made by this title shall not be deemed to be contrary to a treaty obligation of the United States.”

**§ 862. Income from sources without the United States**

**(a) Gross income from sources without United States**

The following items of gross income shall be treated as income from sources without the United States:

(1) interest other than that derived from sources within the United States as provided in section 861(a)(1);

(2) dividends other than those derived from sources within the United States as provided in section 861(a)(2);

(3) compensation for labor or personal services performed without the United States;

(4) rentals or royalties from property located without the United States or from any interest in such property, including rentals or royalties for the use of or for the privilege of using without the United States patents, copyrights, secret processes and formulas, good will, trade-marks, trade brands, franchises, and other like properties;

(5) gains, profits, and income from the sale or exchange of real property located without the United States;

(6) gains, profits, and income derived from the purchase of inventory property (within the meaning of section 865(i)(1)) within the United States and its sale or exchange without the United States;

(7) underwriting income other than that derived from sources within the United States as provided in section 861(a)(7);

(8) gains, profits, and income from the disposition of a United States real property interest (as defined in section 897(c)) when the real property is located in the Virgin Islands; and

(9) amounts received, directly or indirectly, from a foreign person for the provision of a guarantee of indebtedness of such person other than amounts which are derived from sources within the United States as provided in section 861(a)(9).

**(b) Taxable income from sources without United States**

From the items of gross income specified in subsection (a) there shall be deducted the expenses, losses, and other deductions properly apportioned or allocated thereto, and a ratable part of any expenses, losses, or other deductions which cannot definitely be allocated to some item or class of gross income. The remainder, if any, shall be treated in full as taxable income

from sources without the United States. In the case of an individual who does not itemize deductions, an amount equal to the standard deduction shall be considered a deduction which cannot definitely be allocated to some item or class of gross income.

(Aug. 16, 1954, ch. 736, 68A Stat. 276; Pub. L. 92-178, title III, § 314(b), Dec. 10, 1971, 85 Stat. 528; Pub. L. 94-455, title X, § 1036(b), title XIX, § 1901(b)(26)(C), Oct. 4, 1976, 90 Stat. 1633, 1798; Pub. L. 95-30, title I, § 102(b)(10), May 23, 1977, 91 Stat. 138; Pub. L. 97-34, title VIII, § 831(a)(2), Aug. 13, 1981, 95 Stat. 352; Pub. L. 99-514, title I, § 104(b)(12), title XII, § 1211(b)(1)(C), Oct. 22, 1986, 100 Stat. 2105, 2536; Pub. L. 100-647, title I, § 1012(e)(4), Nov. 10, 1988, 102 Stat. 3500; Pub. L. 101-239, title VII, § 7811(i)(2), Dec. 19, 1989, 103 Stat. 2409; Pub. L. 111-240, title II, § 2122(b), Sept. 27, 2010, 124 Stat. 2568.)

#### AMENDMENTS

2010—Subsec. (a)(9). Pub. L. 111-240 added par. (9).  
 1989—Subsec. (a)(6). Pub. L. 101-239 substituted “865(i)(1)” for “865(h)(1)”.  
 1988—Subsec. (c). Pub. L. 100-647 repealed subsec. (c) which read as follows:  
 “(c) CROSS REFERENCE.—For source of amounts attributable to certain aircraft and vessels, see section 861(e).”  
 1986—Subsec. (a)(6). Pub. L. 99-514, § 1211(b)(1)(C), substituted “inventory property (within the meaning of section 865(h)(1))” for “personal property”.  
 Subsec. (b). Pub. L. 99-514, § 104(b)(12), substituted “the standard deduction” for “the zero bracket amount”.  
 1981—Subsec. (a)(8). Pub. L. 97-34 added par. (8).  
 1977—Subsec. (b). Pub. L. 95-30 provided that, in the case of an individual who does not itemize deductions, an amount equal to the zero bracket amount shall be considered a deduction which cannot definitely be allocated to some item or class of gross income.  
 1976—Subsec. (a)(5), (6). Pub. L. 94-455, § 1901(b)(26)(C), inserted “or exchange” after “sale”.  
 Subsec. (a)(7). Pub. L. 94-455, § 1036(b), added par. (7).  
 1971—Subsec. (c). Pub. L. 92-178 added subsec. (c).

#### EFFECTIVE DATE OF 2010 AMENDMENT

Amendment by Pub. L. 111-240 applicable to guarantees issued after Sept. 27, 2010, see section 2122(d) of Pub. L. 111-240, set out as a note under section 861 of this title.

#### EFFECTIVE DATE OF 1989 AMENDMENT

Amendment by Pub. L. 101-239 effective, except as otherwise provided, as if included in the provision of the Technical and Miscellaneous Revenue Act of 1988, Pub. L. 100-647, to which such amendment relates, see section 7817 of Pub. L. 101-239, set out as a note under section 1 of this title.

#### EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

#### EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by section 104(b)(12) of Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, see section 151(a) of Pub. L. 99-514, set out as a note under section 1 of this title.

Amendment by section 1211(b)(1)(C) of Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, except as otherwise provided, see section 1211(c) of Pub. L. 99-514, set out as an Effective Date note under section 865 of this title.

#### EFFECTIVE DATE OF 1981 AMENDMENT

Amendment by Pub. L. 97-34 applicable to dispositions after June 18, 1980, in taxable years ending after such date, see section 831(i) of Pub. L. 97-34, set out as a note under section 897 of this title.

#### EFFECTIVE DATE OF 1977 AMENDMENT

Amendment by Pub. L. 95-30 applicable to taxable years beginning after Dec. 31, 1976, see section 106(a) of Pub. L. 95-30, set out as a note under section 1 of this title.

#### EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by section 1036(b) of Pub. L. 94-455 applicable to taxable years beginning after Dec. 31, 1976, see section 1036(c) of Pub. L. 94-455, set out as a note under section 861 of this title.

Amendment by section 1901(b)(26)(C) of Pub. L. 94-455 effective for taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as a note under section 2 of this title.

#### EFFECTIVE DATE OF 1971 AMENDMENT

Amendment by Pub. L. 92-178 applicable to taxable years ending after Aug. 15, 1971, but only with respect to leases entered into after such date, see section 314(c) of Pub. L. 92-178, set out as a note under section 861 of this title.

#### APPLICABILITY OF CERTAIN AMENDMENTS BY PUB. L. 99-514 IN RELATION TO TREATY OBLIGATIONS OF UNITED STATES

For nonapplication of amendment by section 1211(b)(1)(C) of Pub. L. 99-514 to the extent application of such amendment would be contrary to any treaty obligation of the United States in effect on Oct. 22, 1986, with provision that for such purposes any amendment by title I of Pub. L. 100-647 be treated as if it had been included in the provision of Pub. L. 99-514 to which such amendment relates, see section 1012(aa)(3), (4) of Pub. L. 100-647, set out as a note under section 861 of this title.

#### QUALIFIED RESEARCH AND EXPERIMENTAL EXPENDITURES; ALLOCATION AND APPORTIONMENT; DEFINITIONS; SPECIAL RULES; EFFECTIVE DATES

For allocation and apportionment of qualified research and experimental expenditures for purposes of sections 861 to 863 of this title, see section 4009 of Pub. L. 100-647, set out as a note under section 861 of this title.

#### 1-YEAR MODIFICATION IN REGULATIONS PROVIDING FOR ALLOCATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES

For rule governing allocation under subsec. (b) of this section of amounts allowable as a deduction for qualified research and experimental expenditures during taxable years beginning after Aug. 1, 1986, and on or before Aug. 1, 1987, see section 1216 of Pub. L. 99-514, set out as a note under section 861 of this title.

#### ALLOCATION UNDER SECTION 861 OF RESEARCH AND EXPERIMENTAL EXPENDITURES

For purposes of subsec. (b) of this section, all amounts allowable as a deduction for qualified research and experimental expenditures are to be allocated to income from sources within the United States and deducted from such income in determining the amount of taxable income from sources within the United States for taxable years beginning after Aug. 13, 1983, and on or before Aug. 1, 1986, see section 126 of Pub. L. 98-369, set out as a note under section 861 of this title.

### § 863. Special rules for determining source

#### (a) Allocation under regulations

Items of gross income, expenses, losses, and deductions, other than those specified in sec-