account in determining whether a declaration is required and will reduce the estimated tax for the taxable year.

The amendment made by this subsection also applies for purposes of section 6655 (relating to the addition to tax in the case of failure by a corporation to pay estimated tax).

(*k*) *Technical amendments.*—Paragraph (1) of section 4(k) of the bill amends section 884 of the code (relating to cross references).

Paragraph (2) of section 4(k) corrects an erroneous reference to section 832(b)(5) in section 953(b)(3)(F) of the code, as added by section 12(a) of the Revenue Act of 1962. The amended reference is to section 832(c)(5) of the code (relating to capital losses allowed in determining taxable income of an insurance company subject to the tax imposed by sec. 831).

Paragraph (3) of section 4(k) corrects a clerical error in section 1249(a) of the code, as added by section 16(a) of the Revenue Act of 1962.

The amendments made by section 4(k) of the bill are effective for taxable years beginning after December 31, 1966.

(*l*) *Effective dates.*—Subsection (l) of section 4 of the bill provides that the amendments made by section 4, other than by subsection (i), apply with respect to taxable years beginning after December 31, 1966. The amendment made by subsection (i) applies with respect to sales or exchanges occurring after December 31, 1966.

SECTION 5 OF BILL. SPECIAL TAX PROVISIONS

(*a*) *Income affected by treaty.*—Subsection (a) of section 5 of the bill designates the provisions of existing section 894 of the code (relating to income exempt under treaty) as new section 894(a) and adds a new subsection (b). The amendment is effective for taxable years beginning after December 31, 1966.

CODE SECTION 894. INCOME AFFECTED BY TREATY

(*a*) *Income exempt under treaty.*—Subsection (a) of section 894, as amended by section 5 (a) of the bill, is identical to existing section 894.

(*b*) *Permanent establishment in United States.*—Subsection (b) of section 894 provides that a nonresident alien individual or foreign corporation which is engaged in trade or business in the United States at any time during the taxable year is deemed not to have a permanent establishment within the United States during such year for purposes of applying any exemption from, or reduction in the rate of, any U.S. tax provided by any U.S. treaty with respect to income which is not effectively connected with the conduct of a trade or business within the United States.

This provision operates to extend such exemptions and reductions to nonresident alien individuals and foreign corporations even though they are engaged in trade or business in the United States through a permanent establishment situated therein; it will apply to all treaties entered into by the United States, whether entered into before, on, or after the date of enactment of the bill. Only those items of income derived from sources within the United States which are subject to the 30-percent tax imposed by section 871 (a) (in the case of a nonresident alien individual) or section 881 (in the case of a foreign corporation)