

(b) *Transfers in general.*—Subsection (b) of section 9 of the bill amends subsection (b) of section 2511 of the code, relating to the situs rule for stock in a corporation, to provide situs rules for stock in a corporation and debt obligations. Since, under new section 2501 (a) (2), transfers of intangible property by nonresidents not citizens of the United States are no longer subject to the gift tax unless the donor is an expatriate to whom new section 2501 (a) (3) applies, these situs rules apply only to transfers by such expatriates. They are, in general, the same as the situs rules provided for estate tax purposes by section 2104, as amended by section 8(c) of the bill, except that there is in new section 2511(b) no exception similar to that contained in new section 2104(c) with respect to debt obligations of a domestic corporation the interest on which would be treated as income from sources without the United States by reason of section 861(a) (1) (B) of the code. Moreover, no exception is provided in section 2511 of the code comparable to that contained in section 2105(b), as amended by section 8(d) of the bill, with respect to deposits in certain foreign branches of domestic corporations.

Accordingly, for gift tax purposes in the case of such expatriates, bank deposits with a domestic corporation are considered debt obligations situated within the United States even though deposited with a foreign branch of the domestic corporation. Shares of stock issued by a foreign corporation and debt obligations of persons not described in new section 2511(b) (2) shall in no case be considered to be property situated in the United States for purposes of determining the gift tax of such expatriates.

(c) *Effective date.*—The amendments made by section 9 of the bill apply with respect to the calendar year 1967 and all calendar years thereafter.

SECTION 10 OF BILL. TREATY OBLIGATIONS

Section 10 of the bill provides that, if the application of any provision of the bill would be contrary to a treaty obligation of the United States in force on the date of enactment of the bill, the treaty obligation is to prevail. For example, if an income tax convention to which the United States is a party provides that the United States will tax individual residents or corporations of the other country only on income from sources within the United States, then, in the case of such residents or corporations who are entitled to the benefit so accorded by that convention, the provisions of section 871(b), as amended by section 3(a) of the bill, and of section 882, as amended by section 4(b) of the bill, is to apply only to that income effectively connected with the conduct of a trade or business within the United States which is from sources within the United States.

In such case the income from sources without the United States, which in the absence of the convention would be taxable, is to be excluded from gross income by reason of the treaty obligation and the provisions of section 894(a), as amended by section 5(a) of the bill.

Section 10 also makes clear that, for such purposes, the extension of any benefit provided by any amendment made by the bill is not to be considered as being contrary to any treaty obligation of the United States. Thus, for example, the benefit accorded by section 894(b), as