8. TREATY OBLIGATIONS

The bill provides that no amendment made by this bill is to apply in any case where its application would be contrary to any treaty obligation of the United States. However, for purposes of this provision, the granting of a benefit provided by any amendment made by this bill will not be considered to be contrary to a treaty obligation.

B. Other Amendments to the Internal Revenue Code

1. Application of investment credit to property used in U.S. possessions (sec. 201 of the bill and sec. 48(a)(2) of the code)

In general, present law provides the investment credit provisions are not available for property located outside the United States. Therefore, with limited exceptions property used in a possession is not eligible for the investment credit.

Although the investment credit provision as enacted in 1962 was intended to encourage increased investment in new plant and equipment located in the United States, there appears to be no reason to deny the benefits of this provision to U.S. possessions. It is the opinion of your committee that in view of the unique and close relationships that exist between the United States and its possessions, the economic development of these possessions should be stimulated by the same incentives that are offered to U.S. investment. However, your committee does not believe that the benefits of the investment credit should be extended to U.S. persons who already enjoy a special tax treatment sometimes accorded investment in the possessions; namely, the exemption from U.S. tax which applies to U.S. persons who derive substantially all their income from a U.S. possession.

Your committee's amendment extends the application of the investment credit provision to property used in a possession by a U.S. person or by a corporation organized in a possession provided the property would otherwise have qualified for the investment credit. This rule is not extended if the property is owned or used in the possession by U.S. persons who are presently exempt from U.S. tax due to the application of the special provisions of the code which exempt U.S. persons who derive substantially all their income from a U.S. possession (secs. 931; 932, 933, or 934(b)).

This amendment is effective with respect to taxable years ending after December 31, 1965, but only with respect to property placed in service after that date. Additionally, for purposes of computing a carryback of investment credit, the amount of any investment credit generated by this provision is to be disregarded.

2. Medical expense deductions of individuals age 65 or over (sec. 202 of the bill and sec. 213 of the code)

For taxable years beginning before January 1, 1967, existing law provides that a taxpayer age 65 or over can deduct—without regard to the 3-percent floor applicable to taxpayers under 65 years of age—all medical expenses he incurs for himself and his spouse. In addition, all amounts spent for medicines and drugs for himself and his spouse are deductible—without regard to the rule applicable to taxpayers under age 65 that amounts paid for medicines and drugs are taken into account only to the extent they exceed 1 percent of adjusted gross income.