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

"(a) TAXABLE TRANSFERS.—

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

"(2) TRANSFERS OF INTANGIBLE PROPERTY.—Except as provided in paragraph (3), paragraph (1) shall not apply to the transfer of intangible property by a nonresident not a citizen of the United States.

"(3) EXCEPTIONS.—Paragraph (2) shall not apply in the case of a donor who at any time after March 8, 1965, and within the 10-year period ending with the date of transfer lost United States citizenship unless—

"(A) such donor's 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), or

"(B) such loss did not have for one of its principal purposes the avoidance of taxes under this subtitle or subtitle A.

"(4) 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 paragraph (3), result in a substantial reduction for the calendar year in the taxes on the transfer of property by gift, 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 such individual."

(b) TRANSFERS IN GENERAL.—Subsection (b) of section 2511 (relating to situs rule for stock in a corporation) is amended to read as follows:

"(b) INTANGIBLE PROPERTY.—For purposes of this chapter, in the case of a nonresident not a citizen of the United States who is excepted from the application of section 2501 (a)(2)—

"(1) shares of stock issued by a domestic corporation, and

"(2) debt obligations of—

"(A) a United States person, or

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

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

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

SEC. 110. TREATY OBLIGATIONS.

No amendment made by this title 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.

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE

SEC. 201. APPLICATION OF INVESTMENT CREDIT TO PROPERTY USED IN POSSESSIONS OF THE UNITED STATES.

(a) PROPERTY USED BY DOMESTIC CORPORATIONS, ETC.—Section 48(a)(2)(B) (relating to property used outside the United States) is amended—

(1) by striking out "and" at the end of clause (v);

(2) by striking out the period at the end of clause (vi) and inserting in lieu thereof "; and"; and

(3) by adding at the end thereof the following new clause:

"(vii) any property which is owned by a domestic corporation (other than a corporation entitled to the benefits of section 931 or 934(b)) or by a United States citizen (other than a citizen entitled to the benefits of section 931, 932, 933, or 934(b)) and which is used predominantly in a possession of the United States by such a corporation or such a citizen, or by a corporation created or organized in, or under the law of, a possession of the United States."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to taxable years ending after December 31, 1965, but only with respect to property placed in service after such date. In applying section 46(b) of the Internal Revenue Code of 1954 (relating to carryback and carryover of unused credits), the amount of any investment credit carryback to any taxable year ending on or before December 31, 1965, shall be determined without regard to the amendments made by this section.

SEC. 202. DEDUCTION OF MEDICAL EXPENSES OF INDIVIDUALS AGE 65 OR OVER.

(a) REPEAL AMENDMENTS MADE BY SOCIAL SECURITY AMENDMENTS OF 1965.—Subsections (a) and (b) of section 106 of the Social Security Amendments of 1965 are repealed.

(b) COST OF MEDICAL INSURANCE.—Section 213(a) (relating to allowance of deduction for medical, dental, etc., expenses) is amended—

(1) by striking out "and" at the end of paragraph (1)(A);

(2) by inserting after "such expenses" in paragraph (1)(B) "(reduced by any amount deductible under subparagraph (C))";

(3) by striking out the period at the end of paragraph (1)(B) and inserting in lieu thereof ", and";

(4) by adding at the end of paragraph (1) the following new subparagraph:

"(C) an amount (not in excess of $150) equal to one-half of the expenses paid during the taxable year for insurance which constitutes medical care for the taxpayer, his spouse, and dependents (other than any dependent described in subparagraph (A)).";

(5) by striking out "and" at the end of paragraph (2)(B);

(6) by inserting after "such expenses" in paragraph (2)(C) "(reduced by any amount deductible under subparagraph (D))";

(7) by striking out the period at the end of paragraph (2)(C) and inserting in lieu thereof ", and"; and

(8) by adding at the end of paragraph (2) the following new subparagraph:

"(D) an amount (not in excess of $150) equal to one-half of the expenses paid during the taxable year for insurance which constitutes medical care for such dependents (other than any dependent described in paragraph (1)(A))."

(c) EFFECTIVE DATE.—The repeal and amendments made by this section shall apply to taxable years beginning after December 31, 1966.

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SEC. 203. BASIS OF PROPERTY RECEIVED ON LIQUIDATION OF SUBSIDIARY.

(a) DEFINITION OF PURCHASE.—Section 334