

which is not effectively connected with this business is to be taxed at the applicable treaty rate rather than at the regular individual or corporate rate.

B. OTHER AMENDMENTS TO THE INTERNAL REVENUE CODE (ADDED BY YOUR COMMITTEE)

1. Application of the investment credit to certain property in U.S. possessions.—The investment credit is extended to property located in U.S. possessions provided the property is owned by a U.S. company or citizen, subject to U.S. tax on its income from possessions, would otherwise have qualified for the investment credit, and is not owned or used by U.S. persons who are presently exempt from U.S. tax. This amendment is effective with respect to property placed in service after December 31, 1965.

2. Medical expense deductions of persons 65 and over.—The amendment repeals the provisions with respect to a taxpayer age 65 or over, his spouse age 65 or over, and dependent mothers or fathers who are age 65 or over, which, beginning in 1967, would limit their medical deductions to medical care expenses in excess of 3 percent of adjusted gross income and define their medical care expenses to include only those medicine and drug expenses in excess of 1 percent of adjusted gross income.

3. Corporate acquisition of assets of another corporation.—(a) *Purchase of stock.*—Under present law, the purchase from an unrelated party by one corporation of at least 80 percent of the stock of another corporation followed by the liquidation of the acquired corporation within 2 years is treated as a purchase of the assets of the acquired corporation. These amendments expand the definition of "purchase" to include the purchase of stock from a 50-percent owned subsidiary if stock in the 50-percent owned subsidiary was also acquired by purchase. The change is to be effective with respect to acquisitions of stock made after December 31, 1965.

(b) *Installment notes.*—This amendment provides that when installment notes are transferred in the type of purchase and liquidation described above, gain is to be recognized to the distributing corporation in the same manner as if it had sold the notes. This amendment is to be effective with respect to distributions made after the date of enactment of this act.

4. Swap funds.—The amendment sets aside certain Treasury regulations proposing to tax the exchange of appreciated securities for shares in a mutual investment fund.

5. Self-employed persons retirement plans: minimum amount treated as earned income.—This amendment raises from \$2,500 to \$6,600 the minimum amount of earnings from a trade or business, in which both personal services and capital are material income-producing factors, which a self-employed person may treat as earned income regardless of the general rule that only 30 percent of the net profits of the trade or business may be treated as a self-employed person's earned income. This amendment applies to taxable years beginning after December 31, 1965.

6. Self-employed persons retirement plans: certain income of authors, inventors, and so forth.—The bill amends present law relating to self-employed individuals' retirement plans to permit authors, inventors, and so forth, to include gains (other than capital gains) from sales and other transfers of their works in their earned income base for the

purpose of computing deductions for contributions to such plans. This change will be effective for taxable years ending after the date of enactment of this act.

7. Exclusion of certain rents from personal holding company income.—This amendment provides, for taxable years beginning after the date of enactment of the act (and certain earlier years at the election of the taxpayer), that rent received from the lease of tangible personal property manufactured by a taxpayer is not to be treated as personal holding company income.

8. Percentage depletion in the case of certain clay-bearing alumina.—This amendment provides, with respect to taxable years beginning after the date of enactment, a percentage depletion rate of 23 percent for alumina and aluminum compounds extracted from domestic deposits of clay, laterite, and nephelite syenite. It further provides that in computing gross income from mining all processes applied to derive alumina or aluminum compounds from such clay, laterite, and nephelite syenite are to be treated as mining processes.

9. Percentage depletion rate for clam and oyster shells.—This amendment provides that mollusk shells (including clam and oyster shells) are to be allowed percentage depletion at the same rate (15 percent) as is applicable in the case of limestone and other calcium carbonates. This change is applicable to taxable years beginning after the date of enactment.

10. Sintering and burning of shale, clay, and slate.—This amendment provides that for purposes of percentage depletion, the sintering or burning of shale, clay, and slate used or sold for use as lightweight aggregates is to be treated as a mining process. This amendment is applicable to taxable years beginning after the date of enactment.

[P. 25339]

11. Straddles.—This amendment provides that, with respect to straddle transactions entered into after January 25, 1965, the income from the lapse of an option which originated as part of a straddle is to be treated as a short-term capital gain (instead of ordinary income). This permits it to be netted against any capital loss which may result from the exercise of the other option in the straddle while retaining what in most respects is ordinary income treatment for any excess of net short-term capital gain over net long-term capital loss.

12. The taxation of per-unit retain allocations of cooperatives.—The bill clarifies present law dealing with the taxation of cooperatives and patrons to insure that a current single tax is paid, at either the cooperative or patron level, with respect to per-unit retain certificates. In so doing, the amendment makes the treatment of these certificates generally comparable to the treatment of patronage dividends under present law.

13. The excise tax on hearses.—This bill provides that the sale of an ambulance, hearse, or combination ambulance-hearse vehicle is to be considered to be the sale of an automobile chassis or automobile body (rather than a truck chassis or body) for purposes of determining the manufacturers' excise tax on motor vehicles. This change applies with respect to articles sold after the date of enactment of this bill.

14. Interest equalization tax: raw material source loans.—Subsequent transfers of debt obligations to assure raw material sources are