

1 respect to sales or exchanges occurring after December 31,
2 1966.

3 **SEC. 5. SPECIAL TAX PROVISIONS.**

4 ~~“(a) INCOME AFFECTED BY TREATY.—~~Section 894 ~~(re-~~
5 ~~lating to income exempt under treaties)~~ is amended to read
6 as follows:

7 **“SEC. 894. INCOME AFFECTED BY TREATY.**

8 ~~“(a) INCOME EXEMPT UNDER TREATY.—~~Income of
9 any kind, to the extent required by any treaty obligation of
10 the United States, shall not be included in gross income and
11 shall be exempt from taxation under this subtitle.

12 ~~“(b) PERMANENT ESTABLISHMENT IN UNITED~~
13 ~~STATES.—~~For purposes of applying any exemption from, or
14 reduction of, any tax provided by any treaty to which the
15 United States is a party with respect to income which is not
16 effectively connected with the conduct of a trade or business
17 within the United States, a nonresident alien individual or a
18 foreign corporation shall be deemed not to have a permanent
19 establishment in the United States at any time during the
20 taxable year. This subsection shall not apply in respect of
21 the tax computed under section 877(b).”

22 ~~(b) APPLICATION OF PRE-1967 INCOME TAX PROVI-~~
23 ~~SIONS.—~~Subpart C of part II of subchapter N of chapter 1