

insurance companies were, in general, deemed to be property not within the United States (and therefore not includible in the gross estate of a nonresident not a citizen of the United States) effective with respect to decedents dying after the date of the enactment of the bill.

The effect of the action recommended in the accompanying conference report is to provide the estate tax treatment for these deposits, accounts, and amounts contained in the Senate amendment (namely, that they are not includible in the gross estate of nonresidents who are not citizens of the United States) with respect to estates of decedents dying after the date of the enactment of the bill and before January 1, 1973. In the case of estates of decedents who are nonresidents and not citizens of the United States and who die after December 31, 1972, these deposits, accounts, and amounts will be includible in gross estate for purposes of the Federal estate tax.

Other modifications

Title I of the Senate amendment, while in general retaining the substance of the bill as passed by the House with respect to matters other than the tax treatment of bank deposits, made numerous technical and other modifications in the provisions which relate to the tax treatment of foreign investors. For an explanation of the more important of these modifications, which are included in the action recommended in the accompanying conference report, see the report of the Committee on Finance of the Senate (Senate Report No. 1707, 89th Congress, 2d session).

TITLE II—OTHER AMENDMENTS TO INTERNAL REVENUE CODE

Application of investment credit to property used in possessions of the United States

Section 48(a)(2)(A) of the code provides the general rule that property used predominantly outside the United States is not to be included within the term "section 38 property" and therefore is not eligible for the investment credit. Section 48(a)(2)(B) of the code provides exceptions to this general rule.

The Senate amendment (in proposed section 201) amends section 48(a)(2)(B) to include among the exceptions from the general rule with respect to property used predominantly outside the United States 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(c)) 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. Under the Senate amendment, this provision was effective with respect to property placed in service on or after January 1, 1966 (but no carryback of an investment credit attributable to this provision was permitted).

The conference action includes this amendment to the code.

Deduction of medical expenses of individuals age 65 or over

Section 106 of the Social Security Amendments of 1965 provided, in general, that, effective with respect to taxable years beginning after December 31, 1966, the medical expenses of individuals age 65 and over are to be treated for income tax purposes in

the same way as the medical expenses of individuals under the age of 65 (that is, these expenses would be subject to the 3-percent of adjusted gross income provision and to the 1-percent provision for drugs). The Senate amendment would have made permanent the treatment of medical expenses of individuals age 65 and over as not being subject to the 3-percent and 1-percent provisions.

The conference action recommended in the accompanying conference report does not include this provision of the Senate amendment with respect to the medical expenses of the aged.

Basis of property received on liquidation of subsidiary

Under existing law, the "purchase" from an unrelated party by one corporation of at least 80 percent of the stock of another corporation, when followed (within 2 years) by

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the liquidation of the acquired corporation, is treated as a purchase of the assets of the acquired corporation. For this purpose, where the acquiring corporation owns 50 percent or more of the stock of a subsidiary corporation, the subsidiary corporation is treated as a related party (and, therefore, the acquiring corporation cannot take into account stock in the liquidated corporation which it acquired from such a subsidiary).

The Senate amendment (in proposed section 203) expands the definition of "purchase" contained in section 334(b)(3) of the code to include the purchase of stock from a subsidiary where the stock of such subsidiary was also acquired by purchase (within a specified period). This new definition of "purchase" applies with respect to acquisition of stock after December 31, 1965.

The Senate amendment also contained (in proposed section 203(c)) an amendment to section 453(d) of the code with respect to the treatment of installment notes in a distribution in complete liquidation of a subsidiary described in section 334(b)(2). For a description of such treatment under the Senate amendment, see the report of the Committee on Finance (Senate Report No. 1707).

Under the conference action, the Senate amendment, insofar as it relates to section 334(b)(2) liquidations, is included.

Transfers of property to investment companies controlled by transferors

Section 351(a) of the code, which provides a general rule for the transfer of property to a corporation controlled by the transferor, now reads as follows:

"(a) General Rule.—No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368(c)) of the corporation. For purposes of this section, stock or securities issued for services shall not be considered as issued in return for property."

The Senate amendment (in proposed section 204(a)) amends the first sentence of section 351(a) by striking out "to a corporation" and inserting in lieu thereof "to a corporation (including an investment company)". Under the Senate amendment this amendment to section 351(a) was to apply with respect to transfers of property whether