

vided by an amendment made by this act is not to be considered to be contrary to a treaty obligation. Thus, even though a nonresident alien or foreign corporation has a permanent establishment in the United States, income 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

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 under certain sections of the code. This amendment is effective with respect to property placed in service after December 31, 1965.

Corporate acquisition of assets of another corporation.—(a) *Purchase of stock.*—Under existing 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. The definition of “purchase” in this provision is extended 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.*—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.

Swap funds, etc.—The act provides that no gain or loss is to be recognized with respect to property that is transferred to an investment company in what constitutes an exchange of investment interests on or before June 30, 1967, if the registration statements of the investment company (where such statements are required) are filed with the SEC before January 1, 1967, and the property is deposited with the investment fund before May 1, 1967.

Removal of certain limitations to the deductibility of contributions to self-employed individuals' pension plans.—The act repeals the provision which limited the deduction from gross income which self-employed individuals could take with respect to contributions on their own behalf to a retirement plan to 50 percent of the contributions. Thus, self-employed persons may deduct the entire amount of their contributions subject to the limitation that the contributions cannot exceed the lesser of 10 percent of earned income or \$2,500. This provision is to be effective for taxable years beginning after December 31, 1967.

The act also permits a self-employed individual to include in his earned income all of his net profits (rather than not over 30 percent) when his income is derived from a business in which both the performance of personal services and capital are material income-producing factors. In such cases, however, the personal services provided by the self-employed person must clearly be a material income-producing factor.