

and estate tax provisions, are not to result in the application of this provision.

This amendment applies with respect to the calendar year 1967 and all calendar years thereafter.

b. Situs of bonds given by expatriates (sec. 109(b) of the act and sec. 2511 of the code)

Under prior law bonds issued by U.S. persons, unlike other debt obligations, were considered to be situated where the instrument was located for purposes of the gift tax applicable to nonresident aliens. Under that rule, a citizen who became an expatriate with a principal purpose of avoiding U.S. taxes escaped U.S. gift taxation. To prevent this result, the act amends the present gift tax laws to provide that debt obligations of a U.S. person, or of the United States, a State or political subdivision thereof, or the District of Columbia which are owned by such expatriates are deemed to be situated in the United States. This amendment applies with respect to the calendar year 1967 and all calendar years thereafter.

8. TREATY OBLIGATIONS

No amendment made by this act is to apply in any case where its application would be contrary to any treaty obligation of the United States. However, for purposes of this provision, the granting of a benefit provided by any amendment made by this act will not be considered to be contrary to a treaty obligation.

B. OTHER AMENDMENTS TO THE INTERNAL REVENUE CODE

1. Application of investment credit to property used in U.S. possessions (sec. 201 of the act and sec. 48(a)(2) of the code)

In general, under prior law the investment credit was not available for property located outside the United States. Therefore, with limited exceptions, property used in a possession was not eligible for the investment credit.

This amendment extends the application of the investment credit provision to property used in a possession by a U.S. person, or by a corporation organized in a possession, provided the property would otherwise have qualified for the investment credit. This rule is not extended if the property is owned or used in the possession by U.S. persons who are presently exempt from U.S. tax due to the application of the special provisions of the code which exempt U.S. persons who derive substantially all their income from a U.S. possession (secs. 931, 932, 933, or 934(b)).

This amendment is effective with respect to taxable years ending after December 31, 1965, but only with respect to property placed in service after that date. Additionally, for purposes of computing a carryback of investment credit, the amount of any investment credit generated by this provision is to be disregarded.

2. Basis of property received in liquidation of subsidiary (sec. 202 of the act and sec. 334(b)(2) and (3) and sec. 453(d) of the code)

(a) Purchase of stock.—Under existing law, if one corporation purchases 80 percent or more of the stock of another within a 12-month period and then causes the corporation acquired to be liquidated within