To amend the Internal Revenue Code of 1986 to reform the taxation of income from foreign sources.

IN THE SENATE OF THE UNITED STATES

introduced the following bill; which was read twice and referred to the Committee on

A BILL

To amend the Internal Revenue Code of 1986 to reform the taxation of income from foreign sources.

Be it enacted by the Senate and House of Representa-
tives of the United States of America in Congress assembled,

TITLE —FOREIGN TAX PROVISIONS

[PROVISIONS COMMON TO OPTIONS Y AND Z]

TITLE —FOREIGN TAX PROVISIONS

[PROVISIONS COMMON TO OPTIONS Y AND Z]

Subtitle A—Reform of Taxation of Income Earned by Controlled Foreign Corporations

PART I—GENERAL PROVISIONS [SEE OPTIONS Y AND Z]
PART II—FOREIGN TAX CREDIT LIMITATIONS [SEE OPTIONS Y AND Z]

PART III—INTEREST EXPENSE DISALLOWANCE [SEE OPTIONS Y AND Z]

PART IV—OTHER PROVISIONS RELATING TO SUBPART F

SUBPART A—PREVIOUSLY DEFERRED FOREIGN INCOME

Sec. _031. Treatment of previously deferred foreign income.

SUBPART B—OTHER PROVISIONS

Sec. _36. Elimination of 30-day requirement.
Sec. _37. Modification of definition of United States shareholder.

Subtitle B—Reform of Foreign Tax Credit Provisions

Sec. _41. Repeal of section 902 indirect foreign tax credits; foreign tax credit related to subpart F income.
Sec. _42. Repeal of rule suspending foreign taxes and credits until related income is taken into account.

Subtitle C—Entity Classification Reforms

Sec. _51. Certain entities held by controlled foreign corporations treated as corporations.

Subtitle D—Reform of Rules for Passive Foreign Investment Companies

Sec. _61. Treatment of non-marketable stock.
Sec. _62. Treatment of marketable stock.
Sec. _63. Other reforms.
Sec. _64. Mark to market of stock for which no election under section 1295 or 1296 in effect for last taxable year beginning before 2014.
Sec. _65. Conforming amendments.
Sec. _66. Effective date.

Subtitle E—Reform of Sourcing Rules

Sec. _71. Acceleration of election to allocate interest, etc., on a worldwide basis.
Sec. _72. Repeal of fair market value method of interest expense apportionment.
Sec. _73. Reform of title passage rules for inventory property.
Sec. _74. Certain asset acquisitions disregarded in determining source and character of income for foreign tax credit purposes.

Subtitle F—Provisions to Prevent Base Erosion

Sec. _81. Limitations on income shifting through intangible property transfers.
Sec. _82. Prevention of avoidance of tax through reinsurance with non-taxed affiliates.
Sec. _83. Treatment of gain or loss of foreign persons from sale or exchange of interests in partnerships engaged in trade or business within the United States.
Sec. _84. Interest on corporate debt obligations not treated as portfolio interest.
Sec.  _85. Denial of deductions for related party payments arising in a base
erosion arrangement.

Subtitle G—Other Provisions

Sec.  _91. Termination of special rules for domestic international sales corpora-
tions.
Sec.  _92. Repeal of dual consolidated loss rules.
Sec.  _93. Modifications to tax on foreign investments in United States real
property interests.
Sec.  _94. Dividends from foreign corporations attributable to dividends from
RICs and REITS not deductible as U.S.-source dividends.

Subtitle A—Reform of Taxation of
Income Earned by Controlled
Foreign Corporations

PART I—GENERAL PROVISIONS [SEE OPTIONS Y
AND Z]

PART II—FOREIGN TAX CREDIT LIMITATIONS
[SEE OPTIONS Y AND Z]

PART III—INTEREST EXPENSE DISALLOWANCE
[SEE OPTIONS Y AND Z]

PART IV—OTHER PROVISIONS RELATING TO
SUBPART F

Subpart A—Previously Deferred Foreign Income

SEC.  _031. TREATMENT OF PREVIOUSLY DEFERRED FOR-
EIGN INCOME.

(a) In General.—Section 965 is amended to read
as follows:

“SEC. 965. INCLUSION OF PREVIOUSLY DEFERRED FOR-
EIGN INCOME.

“(a) INCLUSION AS SUBPART F INCOME.—
“(1) In general.—Subject to the provisions of paragraph (2), the subpart F income (determined under section 952 without regard to this section) of a controlled foreign corporation for its last taxable year beginning before January 1, 2015, shall be increased by the accumulated deferred foreign income of the corporation.

“(2) Inclusion only to apply to domestic corporations.—In the case of any increase in subpart F income of a controlled foreign corporation by reason of paragraph (1)—

“(A) notwithstanding section 951(a)(1), the inclusion in gross income under such section of a United States shareholder’s pro rata portion (as determined under section 951(a)(2)) of such increased subpart F income shall only apply if the United States shareholder is a domestic corporation, and

“(B) there shall be allowed as a deduction for the taxable year of such United States shareholder in which such increased subpart F income is included in such shareholder’s gross income under section 951(a)(1) an amount equal to the applicable percentage of the amount of the income so included.
“(b) Accumulated Deferred Foreign Income.—For purposes of this section—

“(1) In general.—The term ‘accumulated deferred foreign income’ means the excess of—

“(A) the undistributed earnings of the controlled foreign corporation, over

“(B) the undistributed U.S. earnings of such controlled foreign corporation.

“(2) Undistributed earnings.—

“(A) In general.—The term ‘undistributed earnings’ means the earnings and profits of the controlled foreign corporation described in section 959(c)(3), determined—

“(i) as of the close of the taxable year described in subsection (a)(1),

“(ii) without diminution by reason of distributions made during such taxable year, and

“(iii) without regard to this section.

“(B) Special rule for current year distributions.—For purposes of this chapter, any determination with respect to the treatment of distributions described in subparagraph (A)(ii) shall be made after the application of
this section to the earnings and profits described in subparagraph (A).

“(3) UNDISTRIBUTED U.S. EARNINGS.—The term ‘undistributed U.S. earnings’ has the meaning given the term ‘post-1986 undistributed U.S. earnings’ in section 245(a)(5) (as in effect for taxable years beginning before 2015), determined—

“(A) without regard to ‘post-1986’ each place it appears in the matter before subparagraph (A), and

“(B) without regard to the last sentence thereof.

“(c) DISALLOWANCE OF FOREIGN TAX CREDIT, ETC.—

“(1) IN GENERAL.—No credit shall be allowed under section 901 to a United States shareholder of a controlled foreign corporation for any taxes paid or accrued (or treated as paid or accrued) with respect to the deductible portion of—

“(A) the increased subpart F income of the corporation included in the gross income of the shareholder under subsection (a)(2)(A), or

“(B) any distribution received by the shareholder which is properly attributable to such increased subpart F income.
“(2) Denial of deduction.—No deduction shall be allowed under this chapter to a United States shareholder of a controlled foreign corporation for any tax for which a credit is not allowable under section 901 by reason of paragraph (1).

“(3) Deductible portion.—For purposes of this subsection, the term ‘deductible portion’ means, with respect to the increased subpart F income of the corporation included in the gross income of the shareholder under subsection (a)(2)(A), the applicable percentage of such income with respect to which a deduction is allowable under subsection (a)(2)(B).

“(4) Coordination with section 78.—Section 78 shall not apply to the portion of any tax for which credit is not allowable under section 901 by reason of paragraph (1).

“(d) Applicable percentage.—For purposes of this section, the term ‘applicable percentage’ means the percentage which is equal to the ratio of—

“(1) the excess of—

“(A) the highest rate of tax in effect under section 11(b) for the taxable year of the United States shareholder described in subsection (a)(2)(B), over

“(B) 20 percent, to
“(2) the highest rate of tax in effect under section 11(b) for the taxable year of the United States shareholder described in subsection (a)(2)(B).

The percentage determined under the preceding sentence shall be rounded to the nearest whole percentage point.

“(e) Election to Pay Liability in Installments.—

“(1) In General.—In the case of a United States shareholder with respect to one or more controlled foreign corporations to which subsection (a) applies, such United States shareholder may elect to pay the net tax liability under this section in 2 or more (but not exceeding 8) equal installments.

“(2) Date for Payment of Installments.— If an election is made under paragraph (1), the due date for the first installment shall be the due date (determined without regard to any extension of time for filing the return) for the return of tax for the taxable year described in subsection (a)(2)(B) and the due date for each succeeding installment shall be the due date (as so determined) for the return of tax for the taxable year following the taxable year with respect to which the preceding installment was made.
“(3) Acceleration of Payment.—If there is—

“(A) an assessment of an addition to tax for failure to pay timely with respect to any installment required under this subsection,

“(B) a liquidation or sale of substantially all the assets of the taxpayer (including in a title 11 or similar case),

“(C) a cessation of business by the taxpayer, or

“(D) any similar circumstance,

then the unpaid portion of all remaining installments shall be due on the date of such event (or in the case of a title 11 or similar case, the day before the petition is filed).

“(4) Proration of Deficiency to Installments.—If an election is made under paragraph (1) to pay the net tax liability under this section in installments and a deficiency has been assessed, the deficiency shall be prorated to the installments payable under paragraph (1). The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as a part of, such installment. The part of the deficiency so prorated to any install-
ment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary. This paragraph shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

“(5) Rules relating to interest.—

“(A) In general.—In the case of any net tax liability prorated to an installment under this subsection, the last date prescribed for payment of the tax for purposes of section 6601(a) shall be the last date for payment of the installment rather than the last date for payment of tax for the taxable year in which the net tax liability arose.

“(B) Special rules for deficiencies.—

“(i) Interest payable for entire period.—Subparagraph (A) shall not apply to any deficiency prorated to an installment under paragraph (4).

“(ii) Payment of interest attributable to prior periods.—In the case of a deficiency to which paragraph (4) applies, interest with respect to such defi-
ciency which is assigned under paragraph (4) to any installment the date for payment of which has arrived on or before the date of the assessment of the deficiency, shall be paid upon notice and demand from the Secretary.

“(6) Period of Assessment.—Notwithstanding section 6501, the period for assessing the net tax liability under this section for which an election is made under paragraph (1) shall not expire before the due date for the last installment.

“(7) Election.—Any election under paragraph (1) shall be made not later than the due date for the return of tax for the taxable year of the United States shareholder described in subsection (a)(2)(B) and shall be made in such manner as the Secretary may provide.

“(8) Net Tax Liability Under This Section.—For purposes of this subsection—

“(A) In General.—The net tax liability under this section with respect to any United States shareholder is the excess (if any) of—

“(i) such taxpayer’s net income tax for the taxable year, over
“(ii) such taxpayer’s net income tax for such taxable year determined without regard to this section.

“(B) Net Income Tax.—The term ‘net income tax’ means the net income tax (as defined in section 38(c)(1)) reduced by the credit allowed under section 38.

“(C) Regulations.—The Secretary shall prescribe such regulations as may be necessary for the determination under this subsection of the net tax liability under this section in the case of any pass-thru entity.

“(f) Regulations.—The Secretary shall promulgate such regulations as necessary to carry out the purposes of this section, including regulations for the application of this section to pass-through entities all or part of which are owned by 1 or more domestic corporations.”.

(b) Ordering Rule for Purposes of Treatment of Previously Taxed Income.—

(1) In general.—Section 959 is amended by adding at the end the following new subsection:

“(g) Special Ordering Rule.—Notwithstanding subsection (c), for purposes of subsections (a) and (b), section 316(a) shall be applied by applying paragraph (2) thereof and then paragraph (1) thereof—
“(1) first to the deductible portion (as defined in section 965(e)(3)) of the increase in subpart F income described in section 965(a)(1) included in the gross income of United States shareholders under section 951(a)(1) (after application of section 965(a)(2)(A)), and

“(2) then to amounts described in paragraphs (1), (2), or (3) of subsection (c).”.

(2) CONFORMING AMENDMENT.—Section 959(c) is amended by inserting “except as provided in subsection (g),” after “subsections (a) and (b),”.

(c) CONFORMING AMENDMENTS.—

(1) Clause (vi) of section 56(g)(4)(C) is amended—

(A) by striking “965” and inserting “965(a)(2)”, and

(B) by inserting “AND INCLUSIONS” after “CERTAIN DISTRIBUTIONS” in the heading thereof.

(2) Paragraph (3) of section 245(a) is amended—

(A) by striking “post-1986” in subparagraph (A), and

(B) by striking “total post-1986” in subparagraph (B).
(3) Paragraph (4) of section 245(a) is amended to read as follows:

“(4) UNDISTRIBUTED EARNINGS.—The term ‘undistributed earnings’ means the amount of the earnings and profits of the controlled foreign corporation (computed in accordance with sections 964(a) and 986)—

“(A) as of the close of the taxable year of the controlled foreign corporation in which the dividend is distributed, and

“(B) without diminution by reason of dividends distributed during such taxable year.”.

(4) Paragraph (5) of section 245(a) is amended—

(A) by striking “post-1986” both places it appears in the matter preceding subparagraph (A), and

(B) by striking “POST-1986 UNDISTRIBUTED” in the heading thereof and inserting “UNDISTRIBUTED”.

(5) Paragraph (6) of section 245(a) is amended—

(A) by striking “beginning after December 31, 1986” and inserting “which is after the first taxable year of such corporation”, and
(B) by striking “post-1986” both places it appears.

(6) Paragraph (2) of section 6601(b) is amended—

(A) by striking “section 6156(a)” in the matter preceding subparagraph (A) and inserting “section 965(d)(1) or 6156(a)”, and

(B) by striking “section 6156(b)” in subparagraph (A) and inserting “section 965(d)(2) or 6156(b), as the case may be”.

(7) The table of section for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 965 and inserting the following:

“Sec. 965. Inclusion of previously deferred foreign income.”.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2013, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.

(2) CONFORMING AMENDMENTS RELATED TO SECTION 245.—The amendments made by paragraphs (2), (3), (4), and (5) of subsection (c) shall
apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.

Subpart B—Other Provisions

SEC. 36. ELIMINATION OF 30-DAY REQUIREMENT.

(a) In General.—Section 951(a)(1) is amended by striking “for an uninterrupted period of 30 days or more” and inserting “at any time”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2013, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.

SEC. 37. MODIFICATION OF DEFINITION OF UNITED STATES SHAREHOLDER.

(a) In General.—Section 951(b) is amended by inserting “, or 10 percent or more of the total value of shares of all classes of stock of such foreign corporation” after “such foreign corporation”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.
Subtitle B—Reform of Foreign Tax Credit Provisions

SEC. 41. REPEAL OF SECTION 902 INDIRECT FOREIGN TAX CREDITS; FOREIGN TAX CREDIT RELATED TO SUBPART F INCOME.

(a) Repeal of Section 902 Indirect Foreign Tax Credits.—Subpart A of part III of subchapter N of chapter 1 is amended by striking section 902.

(b) Foreign Tax Credit Related to Subpart F Income.—

(1) In general.—Section 960 is amended by redesignating subsections (b) and (c) as subsections (c) and (d), respectively, and by striking subsection (a) and inserting the following:

“(a) Determination of Credit on Current Year Basis.—For purposes of this subpart, if there is included in the gross income of a domestic corporation any amount under section 951(a) with respect to any controlled foreign corporation with respect to which such domestic corporation is a United States shareholder, such domestic corporation shall be deemed to have paid so much of such foreign corporation’s foreign income taxes as are properly attributable to the amount so included.

“(b) Treatment of Foreign Taxes Not Previously Deemed Paid.—For purposes of this subpart—
“(1) IN GENERAL.—If any portion of a distribution from a controlled foreign corporation received by a domestic corporation is excluded from gross income under section 959(a), such domestic corporation shall be deemed to have paid so much of such foreign corporation’s foreign income taxes as are properly attributable to the amount so excluded to the extent such taxes were not deemed paid by the domestic corporation under this section for any prior taxable year.

“(2) TAXES OF LOWER-TIER CFCS.—If a controlled foreign corporation receives a distribution any portion of which is described in section 959(b) from another controlled foreign corporation, such foreign corporation shall be deemed to have paid so much of such other foreign corporation’s foreign income taxes as are properly attributable to the amount so described to the extent such taxes were not deemed paid by a domestic corporation under this section for any prior taxable year.”.

(2) APPLICATION WITH RESPECT TO FOREIGN TAX CREDIT LIMITATION.—Section 960(c), as redesignated by paragraph (1), is amended by adding at the end the following new paragraph:
“(6) Application with respect to foreign tax credit limitation.—This subsection shall be applied separately with respect to each category of income described in section 904(d)(1).”.

(3) Conforming amendments.—

(A) Section 960 is amended by striking subsection (d), as redesignated by paragraph (1), and inserting the following:

“(d) Foreign income taxes.—For purposes of this section, the term ‘foreign income taxes’ means any income, war profits, or excess profits taxes paid or accrued by a foreign corporation to any foreign country or possession of the United States.

“(e) Regulations.—The Secretary shall provide such regulations as may be necessary or appropriate to carry out the provisions of this section, including rules for the application of this section to domestic partnerships with partners that are domestic corporations.”.

(B) Section 960 is amended by striking the heading and inserting “DEEMED PAID CRED- IT FOR SUBPART F INCLUSIONS”.

(c) Modification to Section 78 gross up.—Sec-
“SEC. 78. AMOUNTS RECEIVED FROM CERTAIN FOREIGN CORPORATIONS BY DOMESTIC CORPORATIONS CHOOSING FOREIGN TAX CREDIT.

“If a domestic corporation which is a United States shareholder chooses to have the benefits of subpart A of part III of subchapter N (relating to foreign tax credits) for any taxable year, an amount equal to the taxes deemed to be paid by such corporation under section 960 for such taxable year—

“(1) shall be treated as an amount included in the gross income under section 951(a), and

“(2) for purposes of section 904, shall be deemed to be attributable to the same category of income described in section 904(d)(1) as the income which gave rise to the taxes deemed paid by such corporation.”.

(d) CONFORMING AMENDMENTS.—

(1) Subclause (III) of section 56(g)(4)(C)(iii) is amended by inserting “as in effect before its repeal” after “section 902”.

(2) Sections 535(b)(1) and 545(b)(1) are each amended by striking “section 902(a) or 960(a)(1)” and inserting “section 960”.

(3) Subparagraph (B) of section 814(f)(1) is repealed.
(4) Subsection (a) of section 901 is amended by striking “sections 902 and 960” and inserting “section 960”.

(5) Paragraph (2) of section 901(e) is amended by striking “but is not limited to—” and all that follows through “that portion” and inserting “but is not limited to that portion”.

(6) Subsection (f) of section 901 is amended by striking “sections 902 and 960” and inserting “section 960”.

(7) Subparagraph (A) of section 901(j)(1) is amended by striking “902 or”.

(8) Subparagraph (A) of section 904(h)(10) is amended by striking “sections 902, 907, and 960” and inserting “sections 907 and 960”.

(9) Subsection (k) of section 904 is amended to read as follows:

“(k) CROSS REFERENCE.—For modification of limitation under subsection (a) for purposes of determining the amount of credit which can be taken against the alternative minimum tax, see section 59(a).”.

(10) Paragraph (1) of section 905(c) is amended by striking the last sentence.

(11) Subclause (I) of section 905(c)(2)(B) is amended by striking “902 or”.

(12) Subsection (a) of section 906 is amended by striking “(or deemed, under section 902, paid or accrued during the taxable year)”.

(13) Subsection (b) of section 906 is amended by striking paragraphs (4) and (5).

(14) Subparagraph (B) of section 907(b)(2) is amended by striking “902 or”.

(15) Paragraph (3) of section 907(c) is amended—

(A) by striking subparagraph (A) and redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively, and

(B) by striking “section 960(a)” in subparagraph (A) (as so redesignated) and inserting “section 960”.

(16) Paragraph (5) of section 907(c) is amended by striking “902 or”.

(17) Clause (i) of section 907(f)(2)(B) is amended by striking “902 or”.

(18) Subsection (a) of section 908 is amended by striking “902 or”.

(19) Paragraph (1) of section 958(a) is amended by striking “960(a)(1)” and inserting “960”.

(20) Subparagraph (B) of section 6038(c)(1) is amended by striking “sections 902 (relating to for-
eign tax credit for corporate stockholder in foreign
corporation) and 960 (relating to special rules for
foreign tax credit)” and inserting “section 960”.

(21) Paragraph (4) of section 6038(c) is
amended by striking subparagraph (C).

(22) The table of sections for subpart A of part
III of subchapter N of chapter 1 is amended by
striking the item relating to section 902.

(23) The table of sections for part II of sub-
chapter B of chapter 1 is amended by striking
“Dividends” in the item relating to section 78 and
inserting “Amounts”.

(24) The table of sections for subpart F of part
III of subchapter N of chapter 1 is amended by
striking the item relating to section 960 and insert-
ing the following:

“Sec. 960. Deemed paid credit for subpart F inclusions.”.

(e) EFFECTIVE DATE.—The amendments made by
this section shall apply to taxable years of foreign corpora-
tions beginning after December 31, 2014, and to taxable
years of United States shareholders with or within which
such taxable years of foreign corporations end.
SEC. 42. REPEAL OF RULE SUSPENDING FOREIGN TAXES AND CREDITS UNTIL RELATED INCOME IS TAKEN INTO ACCOUNT.

(a) IN GENERAL.—Subpart A of part III of subchapter N of chapter 1 is amended by striking section 909.

(b) CONFORMING AMENDMENTS.—

(1) Section 901(m)(1)(B) is amended by striking “a section 902 corporation (as defined in section 909(d)(5))” and inserting “a controlled foreign corporation (as defined in section 957(a))”.

(2) The table of sections of subpart A of part III of subchapter N of chapter 1 is amended by striking the item relating to section 909.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to foreign taxes paid or accrued in taxable years beginning after December 31, 2014.

Subtitle C—Entity Classification Reforms

SEC. 51. CERTAIN ENTITIES HELD BY CONTROLLED FOREIGN CORPORATIONS TREATED AS CORPORATIONS.

(a) IN GENERAL.—Chapter 79 is amended by adding at the end the following new section:
“SEC. 7705. CERTAIN ENTITIES HELD BY CONTROLLED FOREIGN CORPORATIONS TREATED AS CORPORATIONS.

“(a) GENERAL RULE.—Notwithstanding section 7701 (and the regulations under such section), a business entity (whether domestic or foreign) which is not otherwise required under such section or regulations to be treated as a corporation shall be treated as a corporation for purposes of this title if—

“(1) a controlled foreign corporation is treated under such section and regulations as the single owner with respect to such entity, or

“(2) all of the ownership interests of such entity are held directly by 2 or more members (at least 1 of which is a controlled foreign corporation) of an expanded affiliated group.

“(b) TERMS.—For purposes of this section—

“(1) CONTROLLED FOREIGN CORPORATION.—The term ‘controlled foreign corporation’ has the meaning given such term by section 957(a).

“(2) EXPANDED AFFILIATED GROUP.—The term ‘expanded affiliated group’ has the meaning given such term by section 7874(c)(1).”.

(b) CONFORMING AMENDMENT.—The table of sections for chapter 79 is amended by adding at the end the following new item:
Sec. 7705. Certain entities held by controlled foreign corporations treated as corporations.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years of business entities beginning after December 31, 2014, and taxable years of shareholders of, or holders of other ownership interests in, such business entities with or within which such taxable years of such business entities end.

(2) SPECIAL RULE FOR EXISTING ENTITIES.—

If a business entity—

(A) was in existence on December 31, 2014, and not treated as a corporation under section 7701 of the Internal Revenue Code of 1986 (or the regulations thereunder) for its last taxable year beginning on or before such date, and

(B) is treated by reason of the amendments made by this section as a corporation for its first taxable year beginning after such date, then, for purposes of applying such section and regulations, an election shall be treated as having been made under such regulations to change the entity’s classification to a corporation, effective as of the beginning of such first taxable year.
Subtitle D—Reform of Rules for Passive Foreign Investment Companies

SEC. 61. TREATMENT OF NON-MARKETABLE STOCK.

(a) IN GENERAL.—Part VI of subchapter P of chapter 1 is amended by striking subparts A and B and inserting the following:

“Subpart A—Non-marketable Stock

“SEC. 1291. CURRENT INCOME INCLUSION FOR NON-MARKETABLE STOCK.

“(a) CURRENT INCLUSION IN INCOME.—If a United States person owns stock in a passive foreign investment company, there shall be included in the gross income of such person an amount equal to the person’s interest accrual amount with respect to such stock for the taxable year. Any amount included in gross income under the preceding sentence shall be treated as interest for purposes of this title.

“(b) TREATMENT OF DISTRIBUTIONS ATTRIBUTABLE TO PREVIOUSLY TAXED AMOUNTS.—In the case of 1 or more distributions to any person for any taxable year in respect of stock in a passive foreign investment company, the aggregate amount of such distributions otherwise includible in gross income of such person for the taxable year shall be reduced by the excess of—
“(1) the aggregate amounts included in gross income of such person under subsection (a) with respect to such stock for the taxable year and all preceding taxable years, over

“(2) the aggregate reductions under this subsection in the amounts includible in such person’s gross income for all preceding taxable years.

“(c) BASIS ADJUSTMENTS.—A person’s basis in any stock in a passive foreign investment company shall be—

“(1) increased by any amount includible in gross income under subsection (a) with respect to such stock, and

“(2) reduced by the amount of any reduction under subsection (b) in the amounts includible in such person’s gross income with respect to distributions in respect of such stock.

“(d) LOSS TREATED AS ORDINARY TO EXTENT OF NET BASIS INCREASES.—In the case of any loss recognized by any person on the disposition of stock of any passive foreign investment company, so much of such loss as does not exceed the aggregate net increases under subsection (c) in the basis of such person in such stock shall be treated as an ordinary loss.

“(e) INTEREST ACCRUAL AMOUNT.—
“(1) **In General.**—For purposes of this section, the interest accrual amount with respect to any stock in a passive foreign investment company for any taxable year is the product of—

“(A) the holder’s adjusted basis in such stock as of the beginning of such taxable year, multiplied by

“(B) the sum of—

“(i) the monthly Federal short-term rate determined under section 1274(d) for the first month ending during such taxable year, plus

“(ii) 5 percentage points.

“(2) **Proration of Interest Accrual Amount.**—In the case of a taxpayer who acquires or disposes of stock in any passive foreign investment company during the taxable year, the interest accrual amount determined under paragraph (1) with respect to such stock for such year shall be an amount which bears the same ratio to the amount which would be so determined without regard to this subparagraph as—

“(A) the number of days in the taxable year during which such stock was held by such taxpayer, bears to
“(B) the number of days in the taxable year.

“(3) ADJUSTED BASIS DETERMINED AT ACQUISITION.—In the case of the acquisition of any stock in a passive foreign investment company during the taxable year, paragraph (1) shall be applied by substituting ‘the acquisition of such stock’ for ‘the beginning of such taxable year’.

“(f) EXCEPTION FOR SHORT HOLDING PERIODS AND MARKETABLE STOCK.—This section shall not apply to any stock in a passive foreign investment company for any taxable year if—

“(1) such stock has been held for less than 1 year and is disposed of on or before the due date for the return of income tax for the taxable year in which the stock was acquired (without regard to any extension of time for filing such return), or

“(2) section 1296 applies to such stock.

“(g) REGULATIONS.—The Secretary shall issue such regulations as are necessary or appropriate to carry out the purposes of this section, including regulations—

“(1) with respect to the inclusion of income from and basis adjustments with respect to passive foreign investment company stock owned indirectly by the taxpayer, and
“(2) to prevent the avoidance of the purposes of this section.”.

(b) CLERICAL AMENDMENT.—The table of subparts for part VI of subchapter P of chapter 1 is amended by striking the items relating to subparts A and B and inserting the following:

“SUBPART A—NON-MARKETABLE STOCK”.

SEC. 62. TREATMENT OF MARKETABLE STOCK.

(a) REPEAL OF ELECTION.—

(1) IN GENERAL.—Section 1296 is amended—

(A) by striking “, at the election of such person” in subsection (a), and

(B) by striking subsections (j) and (k) and redesignating subsection (l) as subsection (j).

(2) CONFORMING AMENDMENTS.—

(A) Subparagraphs (A) and (B)(ii) of section 1296(e)(1) are each amended by striking “(with respect to which an election under this section is in effect)”.

(B) Section 1296(i) is amended by striking “and with respect to which an election under this section was in effect as of the date of the decedent’s death”.

(C) The heading of subpart C of part VI of subchapter P of chapter 1 is amended by striking “Election of”.
(D) The heading of section 1296 is amended by striking “ELECTION OF”.

(E) The item relating to subpart C in the table of subparts for part VI of subchapter P of chapter 1 is amended by striking “Election of”.

(b) EXPANSION OF DEFINITION OF MARKETABLE STOCK.—Subparagraph (B) of section 1296(e)(1) is amended to read as follows:

“(B) except as provided in regulations, stock—

“(i) in any foreign corporation which is subject to governmental regulation comparable to Federal regulation of regulated investment companies, and

“(ii) which is redeemable or otherwise disposable at its net asset value or at any other price determined under an independent valuation method which is fixed at the time of purchase, and”.

SEC. 63. OTHER REFORMS.

(a) ELIMINATION OF ASSET TEST.—

(1) IN GENERAL.—Section 1297(a) is amended by striking “foreign corporation if” and all that follows and inserting “foreign corporation if 60 percent
or more of the gross income of such corporation for
the taxable year is passive income.”.

(2) CONFORMING AMENDMENT.—Section 1298
is amended by striking subsection (e).

(b) ACTIVITIES UNDERTAKEN BY 25 PERCENT SUB-
DIARIES.—Section 1297(c) is amended to read as fol-

ows:

“(c) LOOK-THRU IN THE CASE OF 25-PERCENT
OWNED CORPORATIONS.—If a foreign corporation owns
(directly or indirectly) at least 25 percent (by value) of
the stock of another corporation, for purposes of deter-
mining whether income of such foreign corporation is pas-
sive income, such foreign corporation shall be treated as
if it—

“(1) received directly its proportionate share of
the income of such other corporation, and

“(2) except to the extent provided in regula-
tions, conducted the trade or business activities of
such other corporation.”.
SEC. 64. MARK TO MARKET OF STOCK FOR WHICH NO ELECTION UNDER SECTION 1295 OR 1296 IN EFFECT FOR LAST TAXABLE YEAR BEGINNING BEFORE 2014.

(a) In General.—Section 1298 is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following:

“(g) TRANSITION RULE FOR CERTAIN STOCK.—

“(1) In General.—If a United States person holds covered stock on the last day of such person’s last taxable year beginning in 2014, then—

“(A) all such covered stock shall be treated as sold for its fair market value on such day, and

“(B) proper adjustment shall be made in the amount of any gain or loss subsequently realized to reflect the amount of any gain or loss on such stock taken into account by reason of subparagraph (A).

“(2) ELECTION TO PAY LIABILITY IN INSTALLMENTS.—

“(A) In General.—A taxpayer may elect to pay the net tax liability under paragraph (1) in 2 or more (but not exceeding 8) equal installments.
“(B) Date for payment of installments.—If an election is made under subparagraph (A), the due date for the first installment shall be the due date (determined without regard to any extension of time for filing the return) for the return of tax for the taxable year described in paragraph (1) and the due date for each succeeding installment shall be the due date (as so determined) for the return of tax for the taxable year following the taxable year with respect to which the preceding installment was made.

“(C) Acceleration of payment.—If there is—

“(i) an assessment of an addition to tax for failure to pay timely with respect to any installment required under this subsection,

“(ii) a liquidation or sale of substantially all the assets of the taxpayer (including in a title 11 or similar case),

“(iii) a cessation of business by the taxpayer, or

“(iv) any similar circumstance,
then the unpaid portion of all remaining install-
ments shall be due on the date of such event
(or in the case of a title 11 or similar case, the
day before the petition is filed).

“(D) PRORATION OF DEFICIENCY TO IN-
STALLMENTS.—If an election is made under
subparagraph (A) to pay the net tax liability
under this subsection in installments and a defi-
ciency has been assessed, the deficiency shall be
prorated to the installments payable under sub-
paragraph (A). The part of the deficiency so
prorated to any installment the date for pay-
ment of which has not arrived shall be collected
at the same time as, and as a part of, such in-
stallment. The part of the deficiency so pro-
rated to any installment the date for payment
of which has arrived shall be paid upon notice
and demand from the Secretary. This para-
graph shall not apply if the deficiency is due to
negligence, to intentional disregard of rules and
regulations, or to fraud with intent to evade
tax.

“(E) RULES RELATING TO INTEREST.—

“(i) IN GENERAL.—In the case of any
net tax liability prorated to an installment
under this paragraph, the last date prescribed for payment of the tax for purposes of section 6601(a) shall be the last date for payment of the installment rather than the last date for payment of tax for the taxable year in which the net tax liability arose.

“(ii) Special rules for deficiencies.—

“(I) Interest payable for entire period.—Clause (i) shall not apply to any deficiency prorated to an installment under subparagraph (D).

“(II) Payment of interest attributable to prior periods.—In the case of a deficiency to which subparagraph (D) applies, interest with respect to such deficiency which is assigned under subparagraph (D) to any installment the date for payment of which has arrived on or before the date of the assessment of the deficiency, shall be paid upon notice and demand from the Secretary.

“(F) Period of assessment.—Notwithstanding section 6501, the period for assessing
the net tax liability under this section for which
an election is made under subparagraph (A)
shall not expire before the due date for the last
installment.

“(G) ELECTION.—Any election under sub-
paragraph (A) shall be made not later than the
due date for the return of tax for the taxable
year described in paragraph (1) and shall be
made in such manner as the Secretary may pro-
vide.

“(H) NET TAX LIABILITY UNDER THIS
SUBSECTION.—For purposes of this para-
graph—

“(i) IN GENERAL.—The net tax liabil-
ity under this subsection with respect to
any United States person is the excess (if
any) of—

“(I) such taxpayer’s net income
tax for the taxable year, over

“(II) such taxpayer’s net income
tax for such taxable year determined
without regard to this subsection.

“(ii) NET INCOME TAX.—The term
‘net income tax’ means the net income tax
(as defined in section 38(c)(1)) reduced by
the credit allowed under section 38.

“(3) COVERED STOCK.—For purposes of this
subsection, the term ‘covered stock’ means any stock
in a passive foreign investment company unless—

“(A) there was an election in effect under
section 1296 (as in effect for taxable years be-
inning in 2014), or

“(B) there was an election in effect under
section 1295(b) (as so in effect).

“(4) OTHER DEFINITIONS AND SPECIAL
RULES.—

“(A) DEFINITIONS.—Any term used in
this subsection which is also used in this part
shall have the meaning given such term under
such part.

“(B) APPLICATION OF CERTAIN RULES.—
The rules of the other provisions of this section
shall apply for purposes of this subsection.”.

(b) EFFECTIVE DATE.—The amendment made by
this section shall apply to a United States person’s last
taxable year beginning in 2014.

SEC. 65. CONFORMING AMENDMENTS.

(1) Section 1(h)(10) is amended by inserting
“and” at the end of subparagraph (E), by striking
“; and” at the end of subparagraph (F) and inserting a period, and by striking subparagraph (G).

(2) Section 951 is amended by striking subsection (c).

(3) Section 1248(d)(6) is amended—

(A) by inserting “(as in effect on the date of the enactment of the ______ Act)” after “section 1293”, and

(B) by inserting “(as so in effect)” after “section 1293(c)”.

(4) Section 1296(d) is amended—

(A) by inserting “(as in effect on the date of the enactment of the ______ Act)” after “section 1291”, and

(B) by striking the last sentence.

(5) Section 1298(b)(1) is amended by striking “which was not a qualified electing fund” and all that follows and inserting a period.

(6) Section 1298(b)(5)(B) is amended by striking “and to any amount included in gross income under section 1293(a) (or which would have been so included but for section 1291(f))”.

(7) Section 1298 is amended by striking subsection (c).
(8) Section 6501(c)(8) is amended by striking 
“under section 1295(b) or”.

(9) Section 6503(i) is amended—

(A) by inserting “(as in effect on the date 
of the enactment of the _______ Act)” after 
“section 1294(b)”, and

(B) by inserting “(as so in effect)” after 
“section 1294”.

SEC. _66. EFFECTIVE DATE.

Except as otherwise provided in this subtitle, the
amendments made by this subtitle shall apply to taxable 
years beginning after December 31, 2014.

Subtitle E—Reform of Sourcing 
Rules

SEC. _71. ACCELERATION OF ELECTION TO ALLOCATE IN-
TEREST, ETC., ON A WORLDWIDE BASIS.

(a) In General.—Paragraphs (5)(D) and (6) of sec-
tion 864(f) are each amended by striking “December 31,
2020” and inserting “December 31, 2014”.

(b) Effective Date.—The amendments made by 
this section shall apply to taxable years beginning after 
December 31, 2014.
SEC. 72. REPEAL OF FAIR MARKET VALUE METHOD OF INTEREST EXPENSE APPORTIONMENT.

(a) In General.—Paragraph (2) of section 864(e) is amended to read as follows:

“(2) Gross income and fair market value methods may not be used for interest.—All allocations and apportionments of interest expense shall be made on the basis of the adjusted bases of assets rather than on the basis of the fair market value of the assets or gross income.”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 73. REFORM OF TITLE PASSAGE RULES FOR INVENTORY PROPERTY.

(a) In General.—Paragraphs (1) and (2) of section 865(b) are amended to read as follows:

“(1) notwithstanding any other provision of this part, if the income is attributable to an office or other fixed place of business of the taxpayer within the United States (determined in the same manner as under subsection (e)(3)), the income shall be sourced within the United States, and

“(2) if paragraph (1) does not apply, the income shall be sourced under the rules of section 861(a)(6), 862(a)(6), and 863.”.
(b) Coordination With Treaty Obligations.—
Section 865(b) is amended by adding at the end the following new sentence: “Paragraph (1) shall not apply to any income which may, under a treaty obligation of the United States (applied without regard to such paragraph), be taxed by the foreign government with which the treaty was entered into.”.

(c) Conforming Amendment.—Section 865(e)(2) is amended by striking “(including inventory property)” and inserting “(other than inventory property)”.

(d) Effective Dates.—The amendments made by this section shall apply to sales or exchanges occurring after December 31, 2014.

SEC. 74. CERTAIN ASSET ACQUISITIONS DISREGARDED IN DETERMINING SOURCE AND CHARACTER OF INCOME FOR FOREIGN TAX CREDIT PURPOSES.

(a) In General.—So much of section 901(m) as precedes paragraph (2) thereof, as amended by section 42, is amended to read as follows:

“(m) Application of Foreign Tax Credit Rules in Case of Covered Asset Acquisitions.—

“(1) In General.—In the case of a covered asset acquisition—
“(A) the disqualified portion of any foreign income tax determined with respect to the income or gain attributable to the relevant foreign assets—

“(i) shall not be taken into account in determining the credit allowed under subsection (a), and

“(ii) in the case of a foreign income tax paid by a controlled foreign corporation (as defined in section 957(a)), shall not be taken into account for purposes of section 960, and

“(B) rules similar to the rules of 338(h)(16) shall apply if the covered asset acquisition is described in subparagraph (B), (C), or (D) of paragraph (2).”.

(b) Effective Date.—The amendment made by this section shall apply to acquisitions occurring in taxable years beginning after December 31, 2014.

Subtitle F—Provisions to Prevent Base Erosion

Sec. 81. Limitations on Income Shifting Through Intangible Property Transfers.

(a) Definition of Intangible Asset.—Subparagraph (B) of section 936(h)(3) is amended—
(1) by striking “or” at the end of clause (v),

(2) by striking clause (vi) and inserting the following:

“(vi) any goodwill, going concern value, or workforce in place (including its composition and terms and conditions (contractual or otherwise) of its employment); or

“(vii) any other item the value or potential value of which is not attributable to tangible property or the services of any individual.”, and

(3) by striking the flush language after clause (vii), as added by paragraph (2).

(b) Clarification of Allowable Valuation Methods.—

(1) Foreign Corporations.—Paragraph (2) of section 367(d) is amended by adding at the end the following new subparagraph:

“(D) Regulatory Authority.—For purposes of the last sentence of subparagraph (A), the Secretary may require—

“(i) the valuation of transfers of intangible property on an aggregate basis, or
“(ii) the valuation of such a transfer on the basis of the realistic alternatives to such a transfer,
in any case in which the Secretary determines that such basis is the most reliable means of valuation of such transfers.”.

(2) Allocation among taxpayers.—Section 482 is amended by adding at the end the following:
“For purposes of this section, the Secretary may require the valuation of transfers of intangible property on an aggregate basis or the valuation of such a transfer on the basis of the realistic alternatives to such a transfer, in any case in which the Secretary determines that such basis is the most reliable means of valuation of such transfers.”.

(e) Effective Date.—

(1) In general.—The amendments made by this section shall apply to transfers in taxable years beginning after December 31, 2014.

(2) No inference.—Nothing in the amendment made by subsection (a) shall be construed to create any inference with respect to the application of section 936(h)(3) of the Internal Revenue Code of 1986, or the authority of the Secretary of the Treasury to provide regulations for such application, with
respect to taxable years beginning before January 1, 2015.

SEC. 82. PREVENTION OF AVOIDANCE OF TAX THROUGH REINSURANCE WITH NON-TAXED AFFILIATES.

(a) IN GENERAL.—Part III of subchapter L of chapter 1 is amended by adding at the end the following new section:

“SEC. 849. SPECIAL RULES FOR REINSURANCE OF NON-LIFE CONTRACTS WITH NON-TAXED AFFILIATES.

“(a) IN GENERAL.—The taxable income under section 831(a) or the life insurance company taxable income under section 801(b) (as the case may be) of an insurance company shall be determined by not taking into account—

“(1) any non-taxed reinsurance premium,

“(2) any additional amount paid by such insurance company with respect to the reinsurance for which such non-taxed reinsurance premium is paid, to the extent such additional amount is properly allocable to such non-taxed reinsurance premium, and

“(3) any return premium, ceding commission, reinsurance recovered, or other amount received by such insurance company with respect to the reinsurance for which such non-taxed reinsurance premium is paid, to the extent such return premium, ceding
commission, reinsurance recovered, or other amount
is properly allocable to such non-taxed reinsurance
premium.

“(b) Non-Taxed Reinsurance Premiums.—For
purposes of this section—

“(1) In General.—The term ‘non-taxed rein-
surance premium’ means any reinsurance premium
paid directly or indirectly to an affiliated corporation
with respect to reinsurance of risks (other than ex-
cepted risks), to the extent that the income attrib-
utable to the premium is not subject to tax under
this subtitle (either as the income of the affiliated
corporation or as amounts included in gross income
by a United States shareholder under section 951).

“(2) Excepted Risks.—The term ‘excepted
risks’ means any risk with respect to which reserves
described in section 816(b)(1) are established.

“(c) Affiliated Corporations.—For purposes of
this section, a corporation shall be treated as affiliated
with an insurance company if both corporations would be
members of the same controlled group of corporations (as
defined in section 1563(a)) if section 1563 were applied—

“(1) by substituting ‘at least 50 percent’ for ‘at
least 80 percent’ each place it appears in subsection
(a)(1), and
“(2) without regard to subsections (a)(4),
(b)(2)(C), (b)(2)(D), and (e)(3)(C).

“(d) Election To Treat Reinsurance Income As
Effectively Connected.—

“(1) in general.—A specified affiliated cor-
poration may elect for any taxable year to treat
specified reinsurance income as—

“(A) income effectively connected with the
conduct of a trade or business in the United
States, and

“(B) for purposes of any treaty between
the United States and any foreign country, in-
come attributable to a permanent establishment
in the United States.

“(2) Effect of election.—In the case of
any specified reinsurance income with respect to
which the election under this subsection applies—

“(A) Deduction allowed for reinsur-
ance premiums.—For exemption from sub-
section (a), see definition of non-taxed reinsur-
ance premiums in subsection (b).

“(B) Exception from excise tax.—The
tax imposed by section 4371 shall not apply
with respect to any income treated as effectively
connected with the conduct of a trade or business in the United States under paragraph (1).

“(C) TAXATION UNDER THIS SUBCHAPTER.—Such income shall be subject to tax under this subchapter to the same extent and in the same manner as if such income were the income of a domestic insurance company.

“(D) COORDINATION WITH FOREIGN TAX CREDIT PROVISIONS.—For purposes of subpart A of part III of subchapter N and sections 78 and 960—

“(i) such specified reinsurance income shall be treated as derived from sources without the United States, and

“(ii) subsections (a), (b), and (c) of section 904 and sections 907 and 960 shall be applied separately with respect to each item of such income.

The Secretary may issue regulations or other guidance which provide that related items of specified reinsurance income may be aggregated for purposes of applying clause (ii).

“(3) SPECIFIED AFFILIATED CORPORATION.—For purposes of this subsection, the term ‘specified affiliated corporation’ means any affiliated corpora-
tion which is a foreign corporation and which meets such requirements as the Secretary shall prescribe to ensure that tax on the specified reinsurance income of such corporation is properly determined and paid.

“(4) Specified reinsurance income.—For purposes of this paragraph, the term ‘specified reinsurance income’ means all income of a specified affiliated corporation which is attributable to reinsurance with respect to which subsection (a) would (but for the election under this subsection) apply.

“(5) Rules related to election.—Any election under paragraph (1) shall—

“(A) be made at such time and in such form and manner as the Secretary may provide, and

“(B) apply for the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

“(e) Regulations.—The Secretary shall prescribe such regulations as may be appropriate to carry out, or to prevent the avoidance of the purposes of, this section, including regulations which provide for the application of this section to alternative reinsurance transactions, fronting transactions, conduit and reciprocal transactions, and any economically equivalent transactions.”.
(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter L of chapter 1 of such Code is amended by adding at the end the following new item:

“Sec. 849. Special rules for reinsurance of non-life contracts with non-taxed affiliates.”.

(e) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 83. TREATMENT OF GAIN OR LOSS OF FOREIGN PERSONS FROM SALE OR EXCHANGE OF INTERESTS IN PARTNERSHIPS ENGAGED IN TRADE OR BUSINESS WITHIN THE UNITED STATES.

(a) IN GENERAL.—Section 864(c) is amended by adding at the end the following:

“(8) GAIN OR LOSS OF FOREIGN PERSONS FROM SALE OR EXCHANGE OF CERTAIN PARTNERSHIP INTERESTS.—

“(A) IN GENERAL.—If a nonresident individual or foreign corporation is treated under section 875(1) as being engaged in a trade or business within the United States by reason of being a member of a partnership, then gain or loss of the individual or corporation on the sale or exchange of an interest in the partnership shall be treated as effectively connected with the conduct of such trade or business within the
United States in an amount which bears the
same ratio to the aggregate amount of the gain
or loss as—

“(i) the amount which would have
been the individual’s or corporation’s dis-
tributive share of net gain or loss which
would have been treated as effectively con-
nected with the conduct of a trade or busi-
ness within the United States if the part-
nership had sold all of its assets at their
fair market value as of the date of the sale
or exchange, bears to

“(ii) the amount which would have
been the individual’s or corporation’s dis-
tributive share of all net gain or loss from
such deemed sale.

“(B) COORDINATION WITH UNITED
STATES REAL PROPERTY INTERESTS.—If a
partnership described in subparagraph (A)
holds any United States real property interest
(as defined in section 897(c)) at the time of the
sale or exchange of the partnership interest,
then, for purposes of subparagraph (A)(i), there
shall not be taken into account any amount re-
ceived on such sale or exchange which under
section 897(g) is treated as received from the
sale or exchange in the United States of the
United States real property interest.

“(C) Sale or Exchange.—For purposes
of this paragraph, an individual or corporation
shall be treated as having sold or exchanged
any interest in a partnership if, under any pro-
vision of this subtitle, the individual or corpora-
tion is treated as realizing gain from the sale
of such interest.

“(D) Secretarial Authority.—The
Secretary may prescribe such regulations as the
Secretary determines appropriate for the appli-
cation of this paragraph, including regulations
providing whether this paragraph applies in a
case where gain or loss from a sale or exchange
would not be recognized under any other provi-
sion of this title.”.

(b) Withholding Requirements.—Section 1446
is amended by redesignating subsection (f) as subsection
(g) and by inserting after subsection (e) the following:

“(f) Special Rules for Withholding on Sales
of Partnership Interests.—

“(1) In General.—Except as provided in this
subsection, if any portion of the gain (if any) on any
disposition of an interest in a partnership would be
treated under section 864(c)(8) as effectively con-
nect ed with the conduct of a trade or business with-
in the United States, the transferee shall be required
to deduct and withhold a tax equal to 10 percent of
the amount realized on the disposition.

“(2) EXCEPTION IF NONFOREIGN AFFIDAVIT
FURNISHED.—

“(A) IN GENERAL.—No person shall be re-
quired to deduct and withhold any amount
under paragraph (1) with respect to any dis-
position if the transferor furnishes to the trans-
ferree an affidavit by the transferor stating,
under penalty of perjury, the transferor’s
United States taxpayer identification number
and that the transferor is not a foreign person.

“(B) FALSE AFFIDAVIT.—Subparagraph
(A) shall not apply to any disposition if—

“(i) the transferee has actual know-
ledge that the affidavit is false, or the
transferee receives a notice (as described in
section 1445(d)) from a transferor’s agent
or transferee’s agent that such affidavit or
statement is false, or
“(ii) the Secretary by regulations requires the transferee to furnish a copy of such affidavit or statement to the Secretary and the transferee fails to furnish a copy of such affidavit or statement to the Secretary at such time and in such manner as required by such regulations.

“(C) Rules for agents.—The rules of section 1445(d) shall apply to a transferor’s agent or transferee’s agent with respect to any affidavit described in subparagraph (A) in the same manner as such rules apply with respect to the disposition of a United States real property interest under such section.

“(3) Authority of Secretary to prescribe reduced amount.—At the request of the transferor or transferee, the Secretary may prescribe a reduced amount to be withheld under this section if the Secretary determines that to substitute such reduced amount will not jeopardize the collection of the tax imposed under this title with respect to gain treated under section 864(c)(8) as effectively connected with the conduct of a trade or business within the United States.
“(4) Partnership to Withhold Amounts Not Withheld by the Transferee.—If a transferee fails to withhold any amount required to be withheld under paragraph (1), the partnership shall be required to deduct and withhold from distributions to the transferee a tax in an amount equal to the amount the transferee failed to withhold (plus interest under this title on such amount).

“(5) Definitions.—Any term used in this subsection which is also used under section 1445 shall have the same meaning as when used in such section.

“(6) Regulations.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations providing for exceptions from the provisions of this subsection.”.

(c) Effective Date.—The amendments made by this section shall apply to sales and exchanges after December 31, 2014.

SEC. 84. INTEREST ON CORPORATE DEBT OBLIGATIONS NOT TREATED AS PORTFOLIO INTEREST.

(a) Tax on Nonresident Aliens.—Section 871(h)(2) is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of sub-
paragraph (B) and inserting “, and”, and by adding at
the end the following:

“(C) is paid on an obligation of a person
other than a corporation.”.

(b) TAX ON FOREIGN CORPORATIONS.—Section
881(c)(2) is amended by striking “and” at the end of sub-
paragraph (A), by striking the period at the end of sub-
paragraph (B) and inserting “, and”, and by adding at
the end the following:

“(C) is paid on an obligation of a person
other than a corporation.”.

(c) EFFECTIVE DATE.—The amendments made by
this section shall apply to obligations issued more than
1 year after the date of the enactment of this Act.

SEC. 85. DENIAL OF DEDUCTIONS FOR RELATED PARTY
PAYMENTS ARISING IN A BASE EROSION AR-
RANGEMENT.

(a) IN GENERAL.—Part IX of subchapter B of chap-
ter 1 is amended by inserting after section 267 the fol-
lowing:

“SEC. 267A. RELATED PARTY PAYMENTS ARISING IN A BASE
EROSION ARRANGEMENT.

“(a) IN GENERAL.—No deduction shall be allowed
under this chapter for any related party payment arising
in connection with a base erosion arrangement.
“(b) RELATED PARTY PAYMENT.—For purposes of this section—

“(1) RELATED PARTY PAYMENT.—The term ‘related party payment’ means any payment made by a domestic corporation (or a foreign corporation with income which is effectively connected with the conduct of a trade or business within the United States) and received by a related person. Such term shall not include any payment to the extent such payment is included in the gross income of a United States shareholder under section 951(a).

“(2) RELATED PERSON.—For purposes of this section, the term ‘related person’ has the meaning given such term by section 954(b), except that such section shall be applied by substituting ‘corporation described in section 267A(b)(1)’ for ‘controlled foreign corporation’ each place it appears.

“(c) BASE EROSION ARRANGEMENT DEFINED.—For purposes of this section—

“(1) IN GENERAL.—The term ‘base erosion arrangement’ means any transaction, series of transactions, or other arrangement which reduces the amount of foreign income tax paid or accrued and which involves any of the following:

“(A) A hybrid transaction or instrument.
“(B) A hybrid entity.
“(C) An exemption arrangement.
“(D) A conduit financing arrangement.

“(2) CONDUIT FINANCING ARRANGEMENT.—
“(A) IN GENERAL.—The term ‘conduit financing arrangement’ means an arrangement under which—

“(i) one party (‘the financing entity’) advances money or other property, or grants rights to use property, to another entity (‘the financed entity’) indirectly through the involvement of one or more other entities (‘intermediate entities’),

“(ii) there are financing transactions linking the financing entity, the financed entity, and the intermediate entities, and

“(iii) except as otherwise provided in regulations, the financing entity, the financed entity, and any intermediate entity are related persons (determined under rules similar to the rules of subsection (b)(2)).

“(B) FINANCING TRANSACTION.—The term ‘financing transaction’ means—

“(i) any transaction involving debt,
“(ii) any transaction involving any lease or license, or
“(iii) except as provided in regulations issued by the Secretary, any other transaction pursuant to which a person makes an advance of money or other property or grants rights to use property to a transferee who is obligated to repay or return a substantial portion of the money or other property advanced (or the equivalent in value).

“(3) EXEMPTION ARRANGEMENT.—

“(A) IN GENERAL.—The term ‘exemption arrangement’ means any provision of any foreign income tax law which has the effect of reducing the generally applicable statutory rate on income derived by a person subject to the foreign income tax by 30 percent or more as applied to a specific item of income or to income from specified activities.

“(B) EXCEPTION.—Except as otherwise provided in regulations issued by the Secretary, such term shall not include any provision of a foreign income tax law which requires economi-
cally significant expenditures in order to obtain
the benefit provided.

“(4) HYBRID ENTITY.—The term ‘hybrid enti-
yty’ means any entity which is treated as fiscally
transparent for purposes of any relevant income tax
and not treated as fiscally transparent for purposes
of any other relevant income tax.

“(5) HYBRID TRANSACTION OR INSTRUMENT.—
The term ‘hybrid transaction or instrument’ means
any transaction, series of transactions, or instru-
ment which the issuer treats as debt for purposes of
any relevant income tax and that the holder treats
as other than debt (including as an acquisition of
property) for purposes of any relevant income tax.

“(d) TERMS RELATING TO INCOME TAX.—

“(1) INCOME TAX.—The term ‘income tax’ in-
cludes any war profits or excess profits tax.

“(2) RELEVANT INCOME TAX.—The term ‘rel-
levant income tax’ means any income tax to which an
entity is subject by reason of its tax residence or by
reason of its taxable presence in a jurisdiction.

“(e) REGULATIONS.—The Secretary shall provide
such regulations as are necessary to carry out the pur-
poses of this section. Such regulations may provide—
“(1) rules for determining the generally applicable statutory rate to which a person is subject, and
“(2) requirements for record keeping and information reporting in addition to any requirements imposed by section 6038A.”.

(b) Conforming Amendment.—The table of sections for part IX of subchapter B of chapter 1 is amended by inserting after the item relating to section 267 the following new item:

“Sec. 267A. Related party payments arising in a base erosion arrangement.”.

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle G—Other Provisions

SEC. 91. TERMINATION OF SPECIAL RULES FOR DOMESTIC INTERNATIONAL SALES CORPORATIONS.

(a) In General.—Part IV of subchapter N of chapter 1 (relating to domestic international sales corporations) is amended by adding at the end the following new subpart:

“Subpart C—Termination

“Sec. 998. Termination of domestic international sales corporation provisions.

“SEC. 998. TERMINATION OF DOMESTIC INTERNATIONAL SALES CORPORATION PROVISIONS.

“(a) Termination of Election.—Any election under section 992(b) in effect for a corporation’s last tax-
able year beginning in 2014 shall be terminated effective for such corporation’s next succeeding taxable year.

“(b) NO NEW ELECTION.—No election may be made under section 992(b) for any taxable year beginning after December 31, 2014.

“(c) EFFECT OF TERMINATION.—A shareholder of a corporation whose election is terminated by reason of subsection (a) shall be deemed to have received a distribution to which section 995(b)(2) applies for the first taxable year for which the termination is effective. Such distribution (or any actual distribution after termination to the extent paid out of the corporation’s accumulated DISC income) shall not be treated as qualified dividend income (within the meaning of section 1(h)(11)(B)).”.

(b) CONFORMING AMENDMENT.—The table of contents for part IV of subchapter N of chapter 1 is amended by adding at the end the following new item:

“SUBPART C—TERMINATION”.

SEC. 92. REPEAL OF DUAL CONSOLIDATED LOSS RULES.

(a) IN GENERAL.—Subsection (d) of section 1503 is repealed.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to net operating losses for taxable years beginning after December 31, 2014.
SEC. 93. MODIFICATIONS TO TAX ON FOREIGN INVESTMENTS IN UNITED STATES REAL PROPERTY INTERESTS.

(a) United States Real Property Interest.—

(1) Corporate interest exclusion does not apply to certain entities.—Paragraph (1) of section 897(c) is amended by adding at the end the following new subparagraph:

“(C) Exception to exclusion rule.—Subparagraph (B) shall not apply to—

“(i) any interest in a corporation which is or has been subject to tax under subchapter M, or

“(ii) any interest in a corporation which is a successor to a corporation—

“(I) which is or has been subject to tax under subchapter M, and

“(II) in which the taxpayer held an interest.”.

(2) Increase in stock ownership requirements for publicly traded REITs.—

(A) In general.—Paragraph (3) of section 897(c) is amended by inserting at the end the following: “In the case of any class of stock of a real estate investment trust, the preceding
sentence shall be applied by substituting ‘10 percent’ for ‘5 percent’.”.

(B) CONFORMING AMENDMENT.—Subparagraph (C) of section 897(c)(6) is amended—

(i) by striking “more than 5 percent” and inserting “more than 5 or 10 percent, whichever is applicable,”, and

(ii) by striking “substituting ‘5 percent’ for ‘50 percent’)” and inserting “substituting ‘5 percent or 10 percent, whichever is applicable,’ for ‘50 percent’)”.

(b) DISTRIBUTIONS FROM CERTAIN INVESTMENT ENTITIES.—

(1) IN GENERAL.—Paragraph (1) of section 897(h) is amended—

(A) by striking “Any distribution” and inserting the following:

“(A) IN GENERAL.—Except as provided in subparagraph (B), any distribution”,

(B) by inserting “(10 percent in the case of stock of a real estate investment trust)” after “5 percent of such class of stock”, and

(C) by adding at the end the following new subparagraph:
“(B) Exception for certain distributions.—Subparagraph (A) shall not apply to distributions which are treated as a sale or exchange of stock or property pursuant to section 301(c)(3), 302, or 331.”.

(2) Domestically controlled entity.—

(A) In general.—Subparagraph (B) of section 897(h)(4) is amended—

(i) by striking “held directly or indirectly” and inserting “owned”, and

(ii) by adding at the end the following: “The rules of section 318(a) shall apply for purposes of this subparagraph.”.

(B) Conforming amendment.—Section 318(b) is amended by redesignating paragraphs (7) and (8) as paragraphs (8) and (9), respectively, and by inserting after paragraph (6) the following new paragraph:

“(6) section 897(h)(4)(B) (relating to domestically controlled entities),”.

(c) Exception for interests held by foreign retirement or pension funds.—

(1) In general.—Section 897 is amended by adding at the end the following:
“(k) Exception for Interests Held by Foreign Pension Funds.—

“(1) In General.—This section shall not apply to any United States real property interest held by—

“(A) a qualified foreign pension fund, or

“(B) any other entity wholly owned by a qualified foreign pension fund.

“(2) Qualified Foreign Pension Fund.—

For purposes of this subsection, the term ‘qualified foreign pension fund’ means any trust, corporation, or other organization or arrangement—

“(A) which is created or organized outside of the United States,

“(B) which is established to provide retirement or pension benefits to participants or beneficiaries that are current or former employees (or persons designated by such employees) of one or more employers in consideration for services rendered,

“(C) which does not have a single participant or beneficiary with a right to more than five percent of its assets,

“(D) which is subject to government regulation and provides annual information report-
ing about its beneficiaries to the relevant tax authorities in the country in which it is established or operates, and

“(E) with respect to which, under the laws of the country in which it is established or operates—

“(i) contributions to such trust, corporation, organization, or arrangement which would otherwise be subject to tax under such laws are deductible or excluded from the gross income of such entity or taxed at a reduced rate, or

“(ii) taxation of any investment income of such trust, corporation, organization, or arrangement is deferred or such income is taxed at a reduced rate.

“(3) Regulations.—The Secretary may prescribe such regulations as are necessary to carry out the purposes of this subsection.”.

(2) Exemption from withholding.—

(A) In general.—Section 1445(b) is amended by adding at the end the following:

“(10) Dispositions by qualified foreign pension funds.—This paragraph applies to any disposition of any United States real property inter-
est by a qualified foreign pension fund (as defined in section 897(k)(2)) or by any other entity wholly owned by such a fund.”.

(B) Conforming Amendment.—Section 1445(b)(1) is amended by striking “or (6)” and inserting “(6), or (10)”.

(d) Effective Dates.—

(1) In general.—Except as provided in this subsection, the amendments made by this section shall apply to dispositions of United States real property interests after the date of the enactment of this Act.

(2) Distributions.—The amendments made by subsection (b) shall apply to any distribution by a real estate investment trust on or after the date of the enactment of this Act which is treated as a deduction for a taxable year of such trust ending after such date.

SEC. _94. DIVIDENDS FROM FOREIGN CORPORATIONS AT-TRIBUTABLE TO DIVIDENDS FROM RICS AND REITS NOT DEDUCTIBLE AS U.S.-SOURCE DIVIDENDS.

(a) In general.—Section 245(a)(5), as amended by section _31, is amended by adding at the end the following new flush sentence:
“Subparagraph (B) shall not apply to any dividend received from a regulated investment company or real estate investment trust”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to dividends received from a regulated investment company or real estate investment trust on or after the date of enactment of this Act.