

113TH CONGRESS  
1ST SESSION

**S.** \_\_\_\_\_

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.

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

3 **TITLE \_\_—FOREIGN TAX**

4 **PROVISIONS**

5 **[PROVISIONS COMMON TO OPTIONS Y**

6 **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]**

## 2

## 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 corporations.

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.

1 **Subtitle A—Reform of Taxation of**  
2 **Income Earned by Controlled**  
3 **Foreign Corporations**

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

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

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

10 **PART IV—OTHER PROVISIONS RELATING TO**  
11 **SUBPART F**

12 **Subpart A—Previously Deferred Foreign Income**

13 **SEC. \_\_031. TREATMENT OF PREVIOUSLY DEFERRED FOR-**  
14 **EIGN INCOME.**

15 (a) IN GENERAL.—Section 965 is amended to read  
16 as follows:

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

19 **“(a) INCLUSION AS SUBPART F INCOME.—**

1           “(1) IN GENERAL.—Subject to the provisions of  
2 paragraph (2), the subpart F income (determined  
3 under section 952 without regard to this section) of  
4 a controlled foreign corporation for its last taxable  
5 year beginning before January 1, 2015, shall be in-  
6 creased by the accumulated deferred foreign income  
7 of the corporation.

8           “(2) INCLUSION ONLY TO APPLY TO DOMESTIC  
9 CORPORATIONS.—In the case of any increase in sub-  
10 part F income of a controlled foreign corporation by  
11 reason of paragraph (1)—

12           “(A) notwithstanding section 951(a)(1),  
13 the inclusion in gross income under such section  
14 of a United States shareholder's pro rata por-  
15 tion (as determined under section 951(a)(2)) of  
16 such increased subpart F income shall only  
17 apply if the United States shareholder is a do-  
18 mestic corporation, and

19           “(B) there shall be allowed as a deduction  
20 for the taxable year of such United States  
21 shareholder in which such increased subpart F  
22 income is included in such shareholder's gross  
23 income under section 951(a)(1) an amount  
24 equal to the applicable percentage of the  
25 amount of the income so included.

1       “(b) ACCUMULATED DEFERRED FOREIGN IN-  
2 COME.—For purposes of this section—

3           “(1) IN GENERAL.—The term ‘accumulated de-  
4 ferred foreign income’ means the excess of—

5               “(A) the undistributed earnings of the con-  
6 trolled foreign corporation, over

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

9           “(2) UNDISTRIBUTED EARNINGS.—

10               “(A) IN GENERAL.—The term ‘undistrib-  
11 uted earnings’ means the earnings and profits  
12 of the controlled foreign corporation described  
13 in section 959(c)(3), determined—

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

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

19               “(iii) without regard to this section.

20           “(B) SPECIAL RULE FOR CURRENT YEAR  
21 DISTRIBUTIONS.—For purposes of this chapter,  
22 any determination with respect to the treatment  
23 of distributions described in subparagraph  
24 (A)(ii) shall be made after the application of

1           this section to the earnings and profits de-  
2           scribed in subparagraph (A).

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

8                   “(A) without regard to ‘post-1986’ each  
9                   place it appears in the matter before subpara-  
10                  graph (A), and

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

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

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

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

23                   “(B) any distribution received by the  
24                   shareholder which is properly attributable to  
25                   such increased subpart F income.

1           “(2) DENIAL OF DEDUCTION.—No deduction  
2 shall be allowed under this chapter to a United  
3 States shareholder of a controlled foreign corpora-  
4 tion for any tax for which a credit is not allowable  
5 under section 901 by reason of paragraph (1).

6           “(3) DEDUCTIBLE PORTION.—For purposes of  
7 this subsection, the term ‘deductible portion’ means,  
8 with respect to the increased subpart F income of  
9 the corporation included in the gross income of the  
10 shareholder under subsection (a)(2)(A), the applica-  
11 ble percentage of such income with respect to which  
12 a deduction is allowable under subsection (a)(2)(B).

13           “(4) COORDINATION WITH SECTION 78.—Sec-  
14 tion 78 shall not apply to the portion of any tax for  
15 which credit is not allowable under section 901 by  
16 reason of paragraph (1).

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

20           “(1) the excess of—

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

25           “(B) 20 percent, to

1           “(2) the highest rate of tax in effect under sec-  
2           tion 11(b) for the taxable year of the United States  
3           shareholder described in subsection (a)(2)(B).

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

6           “(e) ELECTION TO PAY LIABILITY IN INSTALL-  
7           MENTS.—

8           “(1) IN GENERAL.—In the case of a United  
9           States shareholder with respect to one or more con-  
10          trolled foreign corporations to which subsection (a)  
11          applies, such United States shareholder may elect to  
12          pay the net tax liability under this section in 2 or  
13          more (but not exceeding 8) equal installments.

14          “(2) DATE FOR PAYMENT OF INSTALLMENTS.—  
15          If an election is made under paragraph (1), the due  
16          date for the first installment shall be the due date  
17          (determined without regard to any extension of time  
18          for filing the return) for the return of tax for the  
19          taxable year described in subsection (a)(2)(B) and  
20          the due date for each succeeding installment shall be  
21          the due date (as so determined) for the return of tax  
22          for the taxable year following the taxable year with  
23          respect to which the preceding installment was  
24          made.



1           “(3) ACCELERATION OF PAYMENT.—If there  
2 is—

3           “(A) an assessment of an addition to tax  
4 for failure to pay timely with respect to any in-  
5 stallment required under this subsection,

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

9           “(C) a cessation of business by the tax-  
10 payer, or

11           “(D) any similar circumstance,

12 then the unpaid portion of all remaining installments  
13 shall be due on the date of such event (or in the case  
14 of a title 11 or similar case, the day before the peti-  
15 tion is filed).

16           “(4) PRORATION OF DEFICIENCY TO INSTALL-  
17 MENTS.—If an election is made under paragraph (1)  
18 to pay the net tax liability under this section in in-  
19 stallments and a deficiency has been assessed, the  
20 deficiency shall be prorated to the installments pay-  
21 able under paragraph (1). The part of the deficiency  
22 so prorated to any installment the date for payment  
23 of which has not arrived shall be collected at the  
24 same time as, and as a part of, such installment.  
25 The part of the deficiency so prorated to any install-

1       ment the date for payment of which has arrived  
2       shall be paid upon notice and demand from the Sec-  
3       retary. This paragraph shall not apply if the defi-  
4       ciency is due to negligence, to intentional disregard  
5       of rules and regulations, or to fraud with intent to  
6       evade tax.

7               “(5) RULES RELATING TO INTEREST.—

8               “(A) IN GENERAL.—In the case of any net  
9       tax liability prorated to an installment under  
10      this subsection, the last date prescribed for pay-  
11      ment of the tax for purposes of section 6601(a)  
12      shall be the last date for payment of the install-  
13      ment rather than the last date for payment of  
14      tax for the taxable year in which the net tax li-  
15      ability arose.

16              “(B) SPECIAL RULES FOR DEFICI-  
17      CIENCIES.—

18              “(i) INTEREST PAYABLE FOR ENTIRE  
19      PERIOD.—Subparagraph (A) shall not  
20      apply to any deficiency prorated to an in-  
21      stallment under paragraph (4).

22              “(ii) PAYMENT OF INTEREST ATTRIB-  
23      UTABLE TO PRIOR PERIODS.—In the case  
24      of a deficiency to which paragraph (4) ap-  
25      plies, interest with respect to such defi-

1                   ciency which is assigned under paragraph  
2                   (4) to any installment the date for pay-  
3                   ment of which has arrived on or before the  
4                   date of the assessment of the deficiency,  
5                   shall be paid upon notice and demand from  
6                   the Secretary.

7                   “(6) PERIOD OF ASSESSMENT.—Notwith-  
8                   standing section 6501, the period for assessing the  
9                   net tax liability under this section for which an elec-  
10                  tion is made under paragraph (1) shall not expire  
11                  before the due date for the last installment.

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

18                  “(8) NET TAX LIABILITY UNDER THIS SEC-  
19                  TION.—For purposes of this subsection—

20                  “(A) IN GENERAL.—The net tax liability  
21                  under this section with respect to any United  
22                  States shareholder is the excess (if any) of—

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



1           “(1) first to the deductible portion (as defined  
2           in section 965(c)(3)) of the increase in subpart F in-  
3           come described in section 965(a)(1) included in the  
4           gross income of United States shareholders under  
5           section 951(a)(1) (after application of section  
6           965(a)(2)(A)), and

7           “(2) then to amounts described in paragraphs  
8           (1), (2), or (3) of subsection (c).”.

9           (2) CONFORMING AMENDMENT.—Section  
10          959(c) is amended by inserting “except as provided  
11          in subsection (g),” after “subsections (a) and (b),”.  
12          (c) CONFORMING AMENDMENTS.—

13          (1) Clause (vi) of section 56(g)(4)(C) is amend-  
14          ed—

15                  (A) by striking “965” and inserting  
16                  “965(a)(2)”, and

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

20          (2) Paragraph (3) of section 245(a) is amend-  
21          ed—

22                  (A) by striking “post-1986” in subpara-  
23                  graph (A), and

24                  (B) by striking “total post-1986” in sub-  
25                  paragraph (B).

1           (3) Paragraph (4) of section 245(a) is amended  
2 to read as follows:

3           “(4) **UNDISTRIBUTED EARNINGS.**—The term  
4 ‘undistributed earnings’ means the amount of the  
5 earnings and profits of the controlled foreign cor-  
6 poration (computed in accordance with sections  
7 964(a) and 986)—

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

11           “(B) without diminution by reason of divi-  
12 dends distributed during such taxable year.”.

13           (4) Paragraph (5) of section 245(a) is amend-  
14 ed—

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

18           (B) by striking “**POST-1986 UNDISTRI-  
19 B-UTED**” in the heading thereof and inserting  
20 “**UNDISTRIBUTED**”.

21           (5) Paragraph (6) of section 245(a) is amend-  
22 ed—

23           (A) by striking “beginning after December  
24 31, 1986” and inserting “which is after the  
25 first taxable year of such corporation”, and

1 (B) by striking “post-1986” both places it  
2 appears.

3 (6) Paragraph (2) of section 6601(b) is amend-  
4 ed—

5 (A) by striking “section 6156(a)” in the  
6 matter preceding subparagraph (A) and insert-  
7 ing “section 965(d)(1) or 6156(a)”, and

8 (B) by striking “section 6156(b)” in sub-  
9 paragraph (A) and inserting “section 965(d)(2)  
10 or 6156(b), as the case may be”.

11 (7) The table of section for subpart F of part  
12 III of subchapter N of chapter 1 is amended by  
13 striking the item relating to section 965 and insert-  
14 ing the following:

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

15 (d) EFFECTIVE DATE.—

16 (1) IN GENERAL.—Except as provided in para-  
17 graph (2), the amendments made by this section  
18 shall apply to taxable years of foreign corporations  
19 beginning after December 31, 2013, and to taxable  
20 years of United States shareholders with or within  
21 which such taxable years of foreign corporations  
22 end.

23 (2) CONFORMING AMENDMENTS RELATED TO  
24 SECTION 245.—The amendments made by para-  
25 graphs (2), (3), (4), and (5) of subsection (c) shall

1 apply to taxable years of foreign corporations begin-  
2 ning after December 31, 2014, and to taxable years  
3 of United States shareholders with or within which  
4 such taxable years of foreign corporations end.

5 **Subpart B—Other Provisions**

6 **SEC. \_36. ELIMINATION OF 30-DAY REQUIREMENT.**

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

10 (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to taxable years of foreign corpora-  
12 tions beginning after December 31, 2013, and to taxable  
13 years of United States shareholders with or within which  
14 such taxable years of foreign corporations end.

15 **SEC. \_37. MODIFICATION OF DEFINITION OF UNITED**  
16 **STATES SHAREHOLDER.**

17 (a) IN GENERAL.—Section 951(b) is amended by in-  
18 serting “, or 10 percent or more of the total value of  
19 shares of all classes of stock of such foreign corporation”  
20 after “such foreign corporation”.

21 (b) EFFECTIVE DATE.—The amendment made by  
22 this section shall apply to taxable years of foreign corpora-  
23 tions beginning after December 31, 2014, and to taxable  
24 years of United States shareholders with or within which  
25 such taxable years of foreign corporations end.



1     **Subtitle B—Reform of Foreign Tax**  
2                     **Credit Provisions**

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

6             (a) REPEAL OF SECTION 902 INDIRECT FOREIGN  
7     TAX CREDITS.—Subpart A of part III of subchapter N  
8     of chapter 1 is amended by striking section 902.

9             (b) FOREIGN TAX CREDIT RELATED TO SUBPART F  
10     INCOME.—

11             (1) IN GENERAL.—Section 960 is amended by  
12     redesignating subsections (b) and (c) as subsections  
13     (c) and (d), respectively, and by striking subsection  
14     (a) and inserting the following:

15             “(a) DETERMINATION OF CREDIT ON CURRENT  
16     YEAR BASIS.—For purposes of this subpart, if there is  
17     included in the gross income of a domestic corporation any  
18     amount under section 951(a) with respect to any con-  
19     trolled foreign corporation with respect to which such do-  
20     mestic corporation is a United States shareholder, such  
21     domestic corporation shall be deemed to have paid so  
22     much of such foreign corporation's foreign income taxes  
23     as are properly attributable to the amount so included.

24             “(b) TREATMENT OF FOREIGN TAXES NOT PRE-  
25     VIOUSLY DEEMED PAID.—For purposes of this subpart—

1           “(1) IN GENERAL.—If any portion of a dis-  
2           tribution from a controlled foreign corporation re-  
3           ceived by a domestic corporation is excluded from  
4           gross income under section 959(a), such domestic  
5           corporation shall be deemed to have paid so much of  
6           such foreign corporation’s foreign income taxes as  
7           are properly attributable to the amount so excluded  
8           to the extent such taxes were not deemed paid by  
9           the domestic corporation under this section for any  
10          prior taxable year.

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

21          (2) APPLICATION WITH RESPECT TO FOREIGN  
22          TAX CREDIT LIMITATION.—Section 960(c), as reded-  
23          icated by paragraph (1), is amended by adding at  
24          the end the following new paragraph:

1           “(6) APPLICATION WITH RESPECT TO FOREIGN  
2 TAX CREDIT LIMITATION.—This subsection shall be  
3 applied separately with respect to each category of  
4 income described in section 904(d)(1).”.

5           (3) CONFORMING AMENDMENTS.—

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

9           “(d) FOREIGN INCOME TAXES.—For purposes of this  
10 section, the term ‘foreign income taxes’ means any income,  
11 war profits, or excess profits taxes paid or accrued by a  
12 foreign corporation to any foreign country or possession  
13 of the United States.

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

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

22          (c) MODIFICATION TO SECTION 78 GROSS UP.—Sec-  
23 tion 78 is amended to read as follows:

1 **“SEC. 78. AMOUNTS RECEIVED FROM CERTAIN FOREIGN**  
2 **CORPORATIONS BY DOMESTIC CORPORA-**  
3 **TIONS CHOOSING FOREIGN TAX CREDIT.**

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

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

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

17 (d) CONFORMING AMENDMENTS.—

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

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

24 (3) Subparagraph (B) of section 814(f)(1) is  
25 repealed.

1           (4) Subsection (a) of section 901 is amended by  
2 striking “sections 902 and 960” and inserting “sec-  
3 tion 960”.

4           (5) Paragraph (2) of section 901(e) is amended  
5 by striking “but is not limited to—” and all that fol-  
6 lows through “that portion” and inserting “but is  
7 not limited to that portion”.

8           (6) Subsection (f) of section 901 is amended by  
9 striking “sections 902 and 960” and inserting “sec-  
10 tion 960”.

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

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

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

18           “(k) CROSS REFERENCE.—For modification of limi-  
19 tation under subsection (a) for purposes of determining  
20 the amount of credit which can be taken against the alter-  
21 native minimum tax, see section 59(a).”.

22           (10) Paragraph (1) of section 905(c) is amend-  
23 ed by striking the last sentence.

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

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

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

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

8           (15) Paragraph (3) of section 907(c) is amend-  
9           ed—

10                   (A) by striking subparagraph (A) and re-  
11                   designating subparagraphs (B) and (C) as sub-  
12                   paragraphs (A) and (B), respectively, and

13                   (B) by striking “section 960(a)” in sub-  
14                   paragraph (A) (as so redesignated) and insert-  
15                   ing “section 960”.

16           (16) Paragraph (5) of section 907(c) is amend-  
17           ed by striking “902 or”.

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

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

22           (19) Paragraph (1) of section 958(a) is amend-  
23           ed by striking “960(a)(1)” and inserting “960”.

24           (20) Subparagraph (B) of section 6038(c)(1) is  
25           amended by striking “sections 902 (relating to for-

1        eign tax credit for corporate stockholder in foreign  
2        corporation) and 960 (relating to special rules for  
3        foreign tax credit)” and inserting “section 960”.

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

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

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

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

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

17        (e) EFFECTIVE DATE.—The amendments made by  
18       this section shall apply to taxable years of foreign corpora-  
19       tions beginning after December 31, 2014, and to taxable  
20       years of United States shareholders with or within which  
21       such taxable years of foreign corporations end.

1 **SEC. \_\_42. REPEAL OF RULE SUSPENDING FOREIGN TAXES**  
2 **AND CREDITS UNTIL RELATED INCOME IS**  
3 **TAKEN INTO ACCOUNT.**

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

6 (b) CONFORMING AMENDMENTS.—

7 (1) Section 901(m)(1)(B) is amended by strik-  
8 ing “a section 902 corporation (as defined in section  
9 909(d)(5))” and inserting “a controlled foreign cor-  
10 poration (as defined in section 957(a))”.

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

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

17 **Subtitle C—Entity Classification**  
18 **Reforms**

19 **SEC. \_\_51. CERTAIN ENTITIES HELD BY CONTROLLED FOR-**  
20 **EIGN CORPORATIONS TREATED AS CORPORA-**  
21 **TIONS.**

22 (a) IN GENERAL.—Chapter 79 is amended by adding  
23 at the end the following new section:





“Sec. 7705. Certain entities held by controlled foreign corporations treated as corporations.”.

1 (c) EFFECTIVE DATES.—

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

9 (2) SPECIAL RULE FOR EXISTING ENTITIES.—

10 If a business entity—

11 (A) was in existence on December 31,  
12 2014, and not treated as a corporation under  
13 section 7701 of the Internal Revenue Code of  
14 1986 (or the regulations thereunder) for its last  
15 taxable year beginning on or before such date,  
16 and

17 (B) is treated by reason of the amend-  
18 ments made by this section as a corporation for  
19 its first taxable year beginning after such date,  
20 then, for purposes of applying such section and reg-  
21 ulations, an election shall be treated as having been  
22 made under such regulations to change the entity's  
23 classification to a corporation, effective as of the be-  
24 ginning of such first taxable year.

1 **Subtitle D—Reform of Rules for**  
2 **Passive Foreign Investment**  
3 **Companies**

4 **SEC. \_61. TREATMENT OF NON-MARKETABLE STOCK.**

5 (a) IN GENERAL.—Part VI of subchapter P of chap-  
6 ter 1 is amended by striking subparts A and B and insert-  
7 ing the following:

8 **“Subpart A—Non-marketable Stock**

9 **“SEC. 1291. CURRENT INCOME INCLUSION FOR NON-MAR-**  
10 **KETABLE STOCK.**

11 “(a) CURRENT INCLUSION IN INCOME.—If a United  
12 States person owns stock in a passive foreign investment  
13 company, there shall be included in the gross income of  
14 such person an amount equal to the person's interest ac-  
15 crual amount with respect to such stock for the taxable  
16 year. Any amount included in gross income under the pre-  
17 ceding sentence shall be treated as interest for purposes  
18 of this title.

19 “(b) TREATMENT OF DISTRIBUTIONS ATTRIB-  
20 UTABLE TO PREVIOUSLY TAXED AMOUNTS.—In the case  
21 of 1 or more distributions to any person for any taxable  
22 year in respect of stock in a passive foreign investment  
23 company, the aggregate amount of such distributions oth-  
24 erwise includible in gross income of such person for the  
25 taxable year shall be reduced by the excess of—

1           “(1) the aggregate amounts included in gross  
2 income of such person under subsection (a) with re-  
3 spect to such stock for the taxable year and all pre-  
4 ceding taxable years, over

5           “(2) the aggregate reductions under this sub-  
6 section in the amounts includible in such person's  
7 gross income for all preceding taxable years.

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

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

13           “(2) reduced by the amount of any reduction  
14 under subsection (b) in the amounts includible in  
15 such person's gross income with respect to distribu-  
16 tions in respect of such stock.

17           “(d) LOSS TREATED AS ORDINARY TO EXTENT OF  
18 NET BASIS INCREASES.—In the case of any loss recog-  
19 nized by any person on the disposition of stock of any pas-  
20 sive foreign investment company, so much of such loss as  
21 does not exceed the aggregate net increases under sub-  
22 section (c) in the basis of such person in such stock shall  
23 be treated as an ordinary loss.

24           “(e) INTEREST ACCRUAL AMOUNT.—

1           “(1) IN GENERAL.—For purposes of this sec-  
2           tion, the interest accrual amount with respect to any  
3           stock in a passive foreign investment company for  
4           any taxable year is the product of—

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

8                   “(B) the sum of—

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

13                           “(ii) 5 percentage points.

14           “(2) PRORATION OF INTEREST ACCRUAL  
15           AMOUNT.—In the case of a taxpayer who acquires or  
16           disposes of stock in any passive foreign investment  
17           company during the taxable year, the interest ac-  
18           crual amount determined under paragraph (1) with  
19           respect to such stock for such year shall be an  
20           amount which bears the same ratio to the amount  
21           which would be so determined without regard to this  
22           subparagraph as—

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

1           “(B) the number of days in the taxable  
2           year.

3           “(3) ADJUSTED BASIS DETERMINED AT ACQUI-  
4           SITION.—In the case of the acquisition of any stock  
5           in a passive foreign investment company during the  
6           taxable year, paragraph (1) shall be applied by sub-  
7           stituting ‘the acquisition of such stock’ for ‘the be-  
8           ginning of such taxable year’.

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

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

18                 “(2) section 1296 applies to such stock.

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

22                 “(1) with respect to the inclusion of income  
23                 from and basis adjustments with respect to passive  
24                 foreign investment company stock owned indirectly  
25                 by the taxpayer, and

1           “(2) to prevent the avoidance of the purposes of  
2           this section.”.

3           (b) CLERICAL AMENDMENT.—The table of subparts  
4 for part VI of subchapter P of chapter 1 is amended by  
5 striking the items relating to subparts A and B and insert-  
6 ing the following:

                                  “SUBPART A—NON-MARKETABLE STOCK”.

7 **SEC. \_\_ 62. TREATMENT OF MARKETABLE STOCK.**

8           (a) REPEAL OF ELECTION.—

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

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

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

14           (2) CONFORMING AMENDMENTS.—

15                   (A) Subparagraphs (A) and (B)(ii) of sec-  
16                   tion 1296(c)(1) are each amended by striking  
17                   “(with respect to which an election under this  
18                   section is in effect)”.

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

23                   (C) The heading of subpart C of part VI  
24                   of subchapter P of chapter 1 is amended by  
25                   striking “**Election of**”.

1 (D) The heading of section 1296 is amend-  
2 ed by striking “**ELECTION OF**”.

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

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

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

12 “(i) in any foreign corporation which  
13 is subject to governmental regulation com-  
14 parable to Federal regulation of regulated  
15 investment companies, and

16 “(ii) which is redeemable or otherwise  
17 disposable at its net asset value or at any  
18 other price determined under an inde-  
19 pendent valuation method which is fixed at  
20 the time of purchase, and”.

21 **SEC. \_63. OTHER REFORMS.**

22 (a) ELIMINATION OF ASSET TEST.—

23 (1) IN GENERAL.—Section 1297(a) is amended  
24 by striking “foreign corporation if” and all that fol-  
25 lows and inserting “foreign corporation if 60 percent



1 or more of the gross income of such corporation for  
2 the taxable year is passive income.”.

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

5 (b) ACTIVITIES UNDERTAKEN BY 25 PERCENT SUB-  
6 SIDIARIES.—Section 1297(c) is amended to read as fol-  
7 lows:

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

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

17 “(2) except to the extent provided in regula-  
18 tions, conducted the trade or business activities of  
19 such other corporation.”.

1 **SEC. \_\_64. MARK TO MARKET OF STOCK FOR WHICH NO**  
2 **ELECTION UNDER SECTION 1295 OR 1296 IN**  
3 **EFFECT FOR LAST TAXABLE YEAR BEGIN-**  
4 **NING BEFORE 2014.**

5 (a) IN GENERAL.—Section 1298 is amended by re-  
6 designating subsection (g) as subsection (h) and by insert-  
7 ing after subsection (f) the following:

8 “(g) TRANSITION RULE FOR CERTAIN STOCK.—

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

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

15 “(B) proper adjustment shall be made in  
16 the amount of any gain or loss subsequently re-  
17 alized to reflect the amount of any gain or loss  
18 on such stock taken into account by reason of  
19 subparagraph (A).

20 “(2) ELECTION TO PAY LIABILITY IN INSTALL-  
21 MENTS.—

22 “(A) IN GENERAL.—A taxpayer may elect  
23 to pay the net tax liability under paragraph (1)  
24 in 2 or more (but not exceeding 8) equal install-  
25 ments.

1           “(B) DATE FOR PAYMENT OF INSTALL-  
2           MENTS.—If an election is made under subpara-  
3           graph (A), the due date for the first installment  
4           shall be the due date (determined without re-  
5           gard to any extension of time for filing the re-  
6           turn) for the return of tax for the taxable year  
7           described in paragraph (1) and the due date for  
8           each succeeding installment shall be the due  
9           date (as so determined) for the return of tax  
10          for the taxable year following the taxable year  
11          with respect to which the preceding installment  
12          was made.

13          “(C) ACCELERATION OF PAYMENT.—If  
14          there is—

15                 “(i) an assessment of an addition to  
16                 tax for failure to pay timely with respect to  
17                 any installment required under this sub-  
18                 section,

19                 “(ii) a liquidation or sale of substan-  
20                 tially all the assets of the taxpayer (includ-  
21                 ing in a title 11 or similar case),

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

24                 “(iv) any similar circumstance,

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

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

23 “(E) RULES RELATING TO INTEREST.—

24 “(i) IN GENERAL.—In the case of any  
25 net tax liability prorated to an installment

1 under this paragraph, the last date pre-  
2 scribed for payment of the tax for purposes  
3 of section 6601(a) shall be the last date for  
4 payment of the installment rather than the  
5 last date for payment of tax for the taxable  
6 year in which the net tax liability arose.

7 “(ii) SPECIAL RULES FOR DEFICI-  
8 CIENCIES.—

9 “(I) INTEREST PAYABLE FOR EN-  
10 TIRE PERIOD.—Clause (i) shall not  
11 apply to any deficiency prorated to an  
12 installment under subparagraph (D).

13 “(II) PAYMENT OF INTEREST AT-  
14 TRIBUTABLE TO PRIOR PERIODS.—In  
15 the case of a deficiency to which sub-  
16 paragraph (D) applies, interest with  
17 respect to such deficiency which is as-  
18 signed under subparagraph (D) to any  
19 installment the date for payment of  
20 which has arrived on or before the  
21 date of the assessment of the defi-  
22 ciency, shall be paid upon notice and  
23 demand from the Secretary.

24 “(F) PERIOD OF ASSESSMENT.—Notwith-  
25 standing section 6501, the period for assessing

1 the net tax liability under this section for which  
2 an election is made under subparagraph (A)  
3 shall not expire before the due date for the last  
4 installment.

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

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

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

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

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

23 “(ii) NET INCOME TAX.—The term  
24 ‘net income tax’ means the net income tax

1 (as defined in section 38(c)(1)) reduced by  
2 the credit allowed under section 38.

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

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

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

11 “(4) OTHER DEFINITIONS AND SPECIAL  
12 RULES.—

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

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

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

23 **SEC. 65. CONFORMING AMENDMENTS.**

24 (1) Section 1(h)(10) is amended by inserting  
25 “and” at the end of subparagraph (E), by striking

1 “; and” at the end of subparagraph (F) and insert-  
2 ing a period, and by striking subparagraph (G).

3 (2) Section 951 is amended by striking sub-  
4 section (c).

5 (3) Section 1248(d)(6) is amended—

6 (A) by inserting “(as in effect on the date  
7 of the enactment of the \_\_\_\_\_ Act)” after  
8 “section 1293”, and

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

11 (4) Section 1296(d) is amended—

12 (A) by inserting “(as in effect on the date  
13 of the enactment of the \_\_\_\_\_ Act)” after  
14 “section 1291”, and

15 (B) by striking the last sentence.

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

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

23 (7) Section 1298 is amended by striking sub-  
24 section (c).



1 (8) Section 6501(c)(8) is amended by striking  
2 “under section 1295(b) or”.

3 (9) Section 6503(i) is amended—

4 (A) by inserting “(as in effect on the date  
5 of the enactment of the \_\_\_\_\_ Act)” after  
6 “section 1294(b)”, and

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

9 **SEC. \_66. EFFECTIVE DATE.**

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

13 **Subtitle E—Reform of Sourcing**  
14 **Rules**

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

17 (a) **IN GENERAL.**—Paragraphs (5)(D) and (6) of sec-  
18 tion 864(f) are each amended by striking “December 31,  
19 2020” and inserting “December 31, 2014”.

20 (b) **EFFECTIVE DATE.**—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2014.

1 **SEC. 72. REPEAL OF FAIR MARKET VALUE METHOD OF IN-**  
2 **TEREST EXPENSE APPORTIONMENT.**

3 (a) IN GENERAL.—Paragraph (2) of section 864(e)  
4 is amended to read as follows:

5 “(2) GROSS INCOME AND FAIR MARKET VALUE  
6 METHODS MAY NOT BE USED FOR INTEREST.—All  
7 allocations and apportionments of interest expense  
8 shall be made on the basis of the adjusted bases of  
9 assets rather than on the basis of the fair market  
10 value of the assets or gross income.”.

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

14 **SEC. 73. REFORM OF TITLE PASSAGE RULES FOR INVEN-**  
15 **TORY PROPERTY.**

16 (a) IN GENERAL.—Paragraphs (1) and (2) of section  
17 865(b) are amended to read as follows:

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

24 “(2) if paragraph (1) does not apply, the in-  
25 come shall be sourced under the rules of section  
26 861(a)(6), 862(a)(6), and 863.”.

1 (b) COORDINATION WITH TREATY OBLIGATIONS.—  
2 Section 865(b) is amended by adding at the end the fol-  
3 lowing new sentence: “Paragraph (1) shall not apply to  
4 any income which may, under a treaty obligation of the  
5 United States (applied without regard to such paragraph),  
6 be taxed by the foreign government with which the treaty  
7 was entered into.”.

8 (c) CONFORMING AMENDMENT.—Section 865(e)(2)  
9 is amended by striking “(including inventory property)”  
10 and inserting “(other than inventory property)”.

11 (d) EFFECTIVE DATES.—The amendments made by  
12 this section shall apply to sales or exchanges occurring  
13 after December 31, 2014.

14 **SEC. 74. CERTAIN ASSET ACQUISITIONS DISREGARDED IN**  
15 **DETERMINING SOURCE AND CHARACTER OF**  
16 **INCOME FOR FOREIGN TAX CREDIT PUR-**  
17 **POSES.**

18 (a) IN GENERAL.—So much of section 901(m) as  
19 precedes paragraph (2) thereof, as amended by sec-  
20 tion 42, is amended to read as follows:

21 “(m) APPLICATION OF FOREIGN TAX CREDIT RULES  
22 IN CASE OF COVERED ASSET ACQUISITIONS.—

23 “(1) IN GENERAL.—In the case of a covered  
24 asset acquisition—

1           “(A) the disqualified portion of any foreign  
2 income tax determined with respect to the in-  
3 come or gain attributable to the relevant for-  
4 eign assets—

5                   “(i) shall not be taken into account in  
6 determining the credit allowed under sub-  
7 section (a), and

8                   “(ii) in the case of a foreign income  
9 tax paid by a controlled foreign corporation  
10 (as defined in section 957(a)), shall not be  
11 taken into account for purposes of section  
12 960, and

13           “(B) rules similar to the rules of  
14 338(h)(16) shall apply if the covered asset ac-  
15 quisition is described in subparagraph (B), (C),  
16 or (D) of paragraph (2).”.

17       (b) EFFECTIVE DATE.—The amendment made by  
18 this section shall apply to acquisitions occurring in taxable  
19 years beginning after December 31, 2014.

20       **Subtitle F—Provisions to Prevent**  
21                   **Base Erosion**

22       **SEC. \_\_81. LIMITATIONS ON INCOME SHIFTING THROUGH**  
23                   **INTANGIBLE PROPERTY TRANSFERS.**

24       (a) DEFINITION OF INTANGIBLE ASSET.—Subpara-  
25 graph (B) of section 936(h)(3) is amended—

- 1 (1) by striking “or” at the end of clause (v),  
2 (2) by striking clause (vi) and inserting the fol-  
3 lowing:

4 “(vi) any goodwill, going concern  
5 value, or workforce in place (including its  
6 composition and terms and conditions  
7 (contractual or otherwise) of its employ-  
8 ment); or

9 “(vii) any other item the value or po-  
10 tential value of which is not attributable to  
11 tangible property or the services of any in-  
12 dividual.”, and

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

15 (b) CLARIFICATION OF ALLOWABLE VALUATION  
16 METHODS.—

- 17 (1) FOREIGN CORPORATIONS.—Paragraph (2)  
18 of section 367(d) is amended by adding at the end  
19 the following new subparagraph:

20 “(D) REGULATORY AUTHORITY.—For pur-  
21 poses of the last sentence of subparagraph (A),  
22 the Secretary may require—

- 23 “(i) the valuation of transfers of in-  
24 tangible property on an aggregate basis, or

1                   “(ii) the valuation of such a transfer  
2                   on the basis of the realistic alternatives to  
3                   such a transfer,  
4                   in any case in which the Secretary determines  
5                   that such basis is the most reliable means of  
6                   valuation of such transfers.”.

7                   (2) ALLOCATION AMONG TAXPAYERS.—Section  
8                   482 is amended by adding at the end the following:  
9                   “For purposes of this section, the Secretary may re-  
10                  quire the valuation of transfers of intangible prop-  
11                  erty on an aggregate basis or the valuation of such  
12                  a transfer on the basis of the realistic alternatives  
13                  to such a transfer, in any case in which the Sec-  
14                  retary determines that such basis is the most reli-  
15                  able means of valuation of such transfers.”.

16                  (c) EFFECTIVE DATE.—

17                   (1) IN GENERAL.—The amendments made by  
18                   this section shall apply to transfers in taxable years  
19                   beginning after December 31, 2014.

20                   (2) NO INFERENCE.—Nothing in the amend-  
21                   ment made by subsection (a) shall be construed to  
22                   create any inference with respect to the application  
23                   of section 936(h)(3) of the Internal Revenue Code of  
24                   1986, or the authority of the Secretary of the Treas-  
25                   ury to provide regulations for such application, with

1 respect to taxable years beginning before January 1,  
2 2015.

3 **SEC. \_\_82. PREVENTION OF AVOIDANCE OF TAX THROUGH**  
4 **REINSURANCE WITH NON-TAXED AFFILIATES.**

5 (a) IN GENERAL.—Part III of subchapter L of chap-  
6 ter 1 is amended by adding at the end the following new  
7 section:

8 **“SEC. 849. SPECIAL RULES FOR REINSURANCE OF NON-**  
9 **LIFE CONTRACTS WITH NON-TAXED AFFILI-**  
10 **ATES.**

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

15 “(1) any non-taxed reinsurance premium,

16 “(2) any additional amount paid by such insur-  
17 ance company with respect to the reinsurance for  
18 which such non-taxed reinsurance premium is paid,  
19 to the extent such additional amount is properly al-  
20 locable to such non-taxed reinsurance premium, and

21 “(3) any return premium, ceding commission,  
22 reinsurance recovered, or other amount received by  
23 such insurance company with respect to the reinsur-  
24 ance for which such non-taxed reinsurance premium  
25 is paid, to the extent such return premium, ceding

1 commission, reinsurance recovered, or other amount  
2 is properly allocable to such non-taxed reinsurance  
3 premium.

4 “(b) NON-TAXED REINSURANCE PREMIUMS.—For  
5 purposes of this section—

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

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

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

23 “(1) by substituting ‘at least 50 percent’ for ‘at  
24 least 80 percent’ each place it appears in subsection  
25 (a)(1), and



1           “(2) without regard to subsections (a)(4),  
2           (b)(2)(C), (b)(2)(D), and (e)(3)(C).

3           “(d) ELECTION TO TREAT REINSURANCE INCOME AS  
4 EFFECTIVELY CONNECTED.—

5           “(1) IN GENERAL.—A specified affiliated cor-  
6 poration may elect for any taxable year to treat  
7 specified reinsurance income as—

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

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

15           “(2) EFFECT OF ELECTION.—In the case of  
16 any specified reinsurance income with respect to  
17 which the election under this subsection applies—

18                   “(A) DEDUCTION ALLOWED FOR REINSUR-  
19                   ANCE PREMIUMS.—For exemption from sub-  
20                   section (a), see definition of non-taxed reinsur-  
21                   ance premiums in subsection (b).

22                   “(B) EXCEPTION FROM EXCISE TAX.—The  
23                   tax imposed by section 4371 shall not apply  
24                   with respect to any income treated as effectively

1 connected with the conduct of a trade or busi-  
2 ness in the United States under paragraph (1).

3 “(C) TAXATION UNDER THIS SUB-  
4 CHAPTER.—Such income shall be subject to tax  
5 under this subchapter to the same extent and  
6 in the same manner as if such income were the  
7 income of a domestic insurance company.

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

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

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

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

23 “(3) SPECIFIED AFFILIATED CORPORATION.—  
24 For purposes of this subsection, the term ‘specified  
25 affiliated corporation’ means any affiliated corpora-

1       tion which is a foreign corporation and which meets  
2       such requirements as the Secretary shall prescribe to  
3       ensure that tax on the specified reinsurance income  
4       of such corporation is properly determined and paid.

5           “(4) SPECIFIED REINSURANCE INCOME.—For  
6       purposes of this paragraph, the term ‘specified rein-  
7       surance income’ means all income of a specified af-  
8       filiated corporation which is attributable to reinsur-  
9       ance with respect to which subsection (a) would (but  
10      for the election under this subsection) apply.

11          “(5) RULES RELATED TO ELECTION.—Any  
12      election under paragraph (1) shall—

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

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

19          “(e) REGULATIONS.—The Secretary shall prescribe  
20      such regulations as may be appropriate to carry out, or  
21      to prevent the avoidance of the purposes of, this section,  
22      including regulations which provide for the application of  
23      this section to alternative reinsurance transactions, front-  
24      ing transactions, conduit and reciprocal transactions, and  
25      any economically equivalent transactions.”.

1 (b) CLERICAL AMENDMENT.—The table of sections  
2 for part III of subchapter L of chapter 1 of such Code  
3 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.”.

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

7 **SEC. 83. TREATMENT OF GAIN OR LOSS OF FOREIGN PER-**  
8 **SONS FROM SALE OR EXCHANGE OF INTER-**  
9 **ESTS IN PARTNERSHIPS ENGAGED IN TRADE**  
10 **OR BUSINESS WITHIN THE UNITED STATES.**

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

13 “(8) GAIN OR LOSS OF FOREIGN PERSONS  
14 FROM SALE OR EXCHANGE OF CERTAIN PARTNER-  
15 SHIP INTERESTS.—

16 “(A) IN GENERAL.—If a nonresident indi-  
17 vidual or foreign corporation is treated under  
18 section 875(1) as being engaged in a trade or  
19 business within the United States by reason of  
20 being a member of a partnership, then gain or  
21 loss of the individual or corporation on the sale  
22 or exchange of an interest in the partnership  
23 shall be treated as effectively connected with  
24 the conduct of such trade or business within the

1 United States in an amount which bears the  
2 same ratio to the aggregate amount of the gain  
3 or loss as—

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

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

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

1 section 897(g) is treated as received from the  
2 sale or exchange in the United States of the  
3 United States real property interest.

4 “(C) SALE OR EXCHANGE.—For purposes  
5 of this paragraph, an individual or corporation  
6 shall be treated as having sold or exchanged  
7 any interest in a partnership if, under any pro-  
8 vision of this subtitle, the individual or corpora-  
9 tion is treated as realizing gain from the sale  
10 of such interest.

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

19 (b) WITHHOLDING REQUIREMENTS.—Section 1446  
20 is amended by redesignating subsection (f) as subsection  
21 (g) and by inserting after subsection (e) the following:

22 “(f) SPECIAL RULES FOR WITHHOLDING ON SALES  
23 OF PARTNERSHIP INTERESTS.—

24 “(1) IN GENERAL.—Except as provided in this  
25 subsection, if any portion of the gain (if any) on any

1 disposition of an interest in a partnership would be  
2 treated under section 864(c)(8) as effectively con-  
3 nected with the conduct of a trade or business with-  
4 in the United States, the transferee shall be required  
5 to deduct and withhold a tax equal to 10 percent of  
6 the amount realized on the disposition.

7 “(2) EXCEPTION IF NONFOREIGN AFFIDAVIT  
8 FURNISHED.—

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

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

19 “(i) the transferee has actual knowl-  
20 edge that the affidavit is false, or the  
21 transferee receives a notice (as described in  
22 section 1445(d)) from a transferor’s agent  
23 or transferee’s agent that such affidavit or  
24 statement is false, or

1                   “(ii) the Secretary by regulations re-  
2                   quires the transferee to furnish a copy of  
3                   such affidavit or statement to the Sec-  
4                   retary and the transferee fails to furnish a  
5                   copy of such affidavit or statement to the  
6                   Secretary at such time and in such manner  
7                   as required by such regulations.

8                   “(C) RULES FOR AGENTS.—The rules of  
9                   section 1445(d) shall apply to a transferor’s  
10                  agent or transferee’s agent with respect to any  
11                  affidavit described in subparagraph (A) in the  
12                  same manner as such rules apply with respect  
13                  to the disposition of a United States real prop-  
14                  erty interest under such section.

15                  “(3) AUTHORITY OF SECRETARY TO PRESCRIBE  
16                  REDUCED AMOUNT.—At the request of the trans-  
17                  feror or transferee, the Secretary may prescribe a  
18                  reduced amount to be withheld under this section if  
19                  the Secretary determines that to substitute such re-  
20                  duced amount will not jeopardize the collection of  
21                  the tax imposed under this title with respect to gain  
22                  treated under section 864(c)(8) as effectively con-  
23                  nected with the conduct of a trade or business with-  
24                  in the United States.



1           “(4) PARTNERSHIP TO WITHHOLD AMOUNTS  
2           NOT WITHHELD BY THE TRANSFEREE.—If a trans-  
3           feree fails to withhold any amount required to be  
4           withheld under paragraph (1), the partnership shall  
5           be required to deduct and withhold from distribu-  
6           tions to the transferee a tax in an amount equal to  
7           the amount the transferee failed to withhold (plus  
8           interest under this title on such amount).

9           “(5) DEFINITIONS.—Any term used in this sub-  
10          section which is also used under section 1445 shall  
11          have the same meaning as when used in such sec-  
12          tion.

13          “(6) REGULATIONS.—The Secretary shall pre-  
14          scribe such regulations as may be necessary to carry  
15          out the purposes of this subsection, including regula-  
16          tions providing for exceptions from the provisions of  
17          this subsection.”.

18          (c) EFFECTIVE DATE.—The amendments made by  
19          this section shall apply to sales and exchanges after De-  
20          cember 31, 2014.

21 **SEC. \_\_84. INTEREST ON CORPORATE DEBT OBLIGATIONS**

22 **NOT TREATED AS PORTFOLIO INTEREST.**

23          (a) TAX ON NONRESIDENT ALIENS.—Section  
24          871(h)(2) is amended by striking “and” at the end of sub-  
25          paragraph (A), by striking the period at the end of sub-

1 paragraph (B) and inserting “, and”, and by adding at  
2 the end the following:

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

5 (b) TAX ON FOREIGN CORPORATIONS.—Section  
6 881(c)(2) is amended by striking “and” at the end of sub-  
7 paragraph (A), by striking the period at the end of sub-  
8 paragraph (B) and inserting “, and”, and by adding at  
9 the end the following:

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

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to obligations issued more than  
14 1 year after the date of the enactment of this Act.

15 **SEC. \_\_85. DENIAL OF DEDUCTIONS FOR RELATED PARTY**  
16 **PAYMENTS ARISING IN A BASE EROSION AR-**  
17 **RANGEMENT.**

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

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

23 “(a) IN GENERAL.—No deduction shall be allowed  
24 under this chapter for any related party payment arising  
25 in connection with a base erosion arrangement.



1                   “(B) A hybrid entity.

2                   “(C) An exemption arrangement.

3                   “(D) A conduit financing arrangement.

4                   “(2) CONDUIT FINANCING ARRANGEMENT.—

5                   “(A) IN GENERAL.—The term ‘conduit fi-  
6 nancing arrangement’ means an arrangement  
7 under which—

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

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

17                   “(iii) except as otherwise provided in  
18 regulations, the financing entity, the fi-  
19 nanced entity, and any intermediate entity  
20 are related persons (determined under  
21 rules similar to the rules of subsection  
22 (b)(2)).

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

25                   “(i) any transaction involving debt,

1                   “(ii) any transaction involving any  
2                   lease or license, or

3                   “(iii) except as provided in regulations  
4                   issued by the Secretary, any other trans-  
5                   action pursuant to which a person makes  
6                   an advance of money or other property or  
7                   grants rights to use property to a trans-  
8                   feree who is obligated to repay or return a  
9                   substantial portion of the money or other  
10                  property advanced (or the equivalent in  
11                  value).

12                  “(3) EXEMPTION ARRANGEMENT.—

13                  “(A) IN GENERAL.—The term ‘exemption  
14                  arrangement’ means any provision of any for-  
15                  eign income tax law which has the effect of re-  
16                  ducing the generally applicable statutory rate  
17                  on income derived by a person subject to the  
18                  foreign income tax by 30 percent or more as  
19                  applied to a specific item of income or to in-  
20                  come from specified activities.

21                  “(B) EXCEPTION.—Except as otherwise  
22                  provided in regulations issued by the Secretary,  
23                  such term shall not include any provision of a  
24                  foreign income tax law which requires economi-

1 cally significant expenditures in order to obtain  
2 the benefit provided.

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

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

15 “(d) TERMS RELATING TO INCOME TAX.—

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

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

22 “(e) REGULATIONS.—The Secretary shall provide  
23 such regulations as are necessary to carry out the pur-  
24 poses of this section. Such regulations may provide—



1 able year beginning in 2014 shall be terminated effective  
2 for such corporation's next succeeding taxable year.

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

6 “(c) EFFECT OF TERMINATION.—A shareholder of a  
7 corporation whose election is terminated by reason of sub-  
8 section (a) shall be deemed to have received a distribution  
9 to which section 995(b)(2) applies for the first taxable  
10 year for which the termination is effective. Such distribu-  
11 tion (or any actual distribution after termination to the  
12 extent paid out of the corporation's accumulated DISC in-  
13 come) shall not be treated as qualified dividend income  
14 (within the meaning of section 1(h)(11)(B)).”.

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

“SUBPART C—TERMINATION”.

18 **SEC. 92. REPEAL OF DUAL CONSOLIDATED LOSS RULES.**

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

21 (b) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to net operating losses for taxable  
23 years beginning after December 31, 2014.



1 **SEC. 93. MODIFICATIONS TO TAX ON FOREIGN INVEST-**  
2 **MENTS IN UNITED STATES REAL PROPERTY**  
3 **INTERESTS.**

4 (a) UNITED STATES REAL PROPERTY INTEREST.—

5 (1) CORPORATE INTEREST EXCLUSION DOES  
6 NOT APPLY TO CERTAIN ENTITIES.—Paragraph (1)  
7 of section 897(c) is amended by adding at the end  
8 the following new subparagraph:

9 “(C) EXCEPTION TO EXCLUSION RULE.—  
10 Subparagraph (B) shall not apply to—

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

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

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

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

20 (2) INCREASE IN STOCK OWNERSHIP REQUIRE-  
21 MENTS FOR PUBLICLY TRADED REITS.—

22 (A) IN GENERAL.—Paragraph (3) of sec-  
23 tion 897(c) is amended by inserting at the end  
24 the following: “In the case of any class of stock  
25 of a real estate investment trust, the preceding

1 sentence shall be applied by substituting ‘10  
2 percent’ for ‘5 percent’.”.

3 (B) CONFORMING AMENDMENT.—Subpara-  
4 graph (C) of section 897(c)(6) is amended—

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

8 (ii) by striking “substituting ‘5 per-  
9 cent’ for ‘50 percent’” and inserting “sub-  
10 stituting ‘5 percent or 10 percent, which-  
11 ever is applicable,’ for ‘50 percent’”.

12 (b) DISTRIBUTIONS FROM CERTAIN INVESTMENT  
13 ENTITIES.—

14 (1) IN GENERAL.—Paragraph (1) of section  
15 897(h) is amended—

16 (A) by striking “Any distribution” and in-  
17 serting the following:

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

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

23 (C) by adding at the end the following new  
24 subparagraph:

1           “(B) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Subparagraph (A) shall not apply to  
2           distributions which are treated as a sale or ex-  
3           change of stock or property pursuant to section  
4           301(c)(3), 302, or 331.”.

6           (2) DOMESTICALLY CONTROLLED ENTITY.—

7           (A) IN GENERAL.—Subparagraph (B) of  
8           section 897(h)(4) is amended—

9                   (i) by striking “held directly or indi-  
10                   rectly” and inserting “owned”, and

11                   (ii) by adding at the end the fol-  
12                   lowing: “The rules of section 318(a) shall  
13                   apply for purposes of this subparagraph.”.

14           (B) CONFORMING AMENDMENT.—Section  
15           318(b) is amended by redesignating paragraphs  
16           (7) and (8) as paragraphs (8) and (9), respec-  
17           tively, and by inserting after paragraph (6) the  
18           following new paragraph:

19                   “(6) section 897(h)(4)(B) (relating to domesti-  
20                   cally controlled entities);”.

21           (c) EXCEPTION FOR INTERESTS HELD BY FOREIGN  
22           RETIREMENT OR PENSION FUNDS.—

23           (1) IN GENERAL.—Section 897 is amended by  
24           adding at the end the following:

1           “(k) EXCEPTION FOR INTERESTS HELD BY FOREIGN  
2 PENSION FUNDS.—

3           “(1) IN GENERAL.—This section shall not apply  
4 to any United States real property interest held  
5 by—

6                   “(A) a qualified foreign pension fund, or

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

9           “(2) QUALIFIED FOREIGN PENSION FUND.—

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

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

15                   “(B) which is established to provide retire-  
16 ment or pension benefits to participants or  
17 beneficiaries that are current or former employ-  
18 ees (or persons designated by such employees)  
19 of one or more employers in consideration for  
20 services rendered,

21                   “(C) which does not have a single partici-  
22 pant or beneficiary with a right to more than  
23 five percent of its assets,

24                   “(D) which is subject to government regu-  
25 lation and provides annual information report-

1           ing about its beneficiaries to the relevant tax  
2           authorities in the country in which it is estab-  
3           lished or operates, and

4           “(E) with respect to which, under the laws  
5           of the country in which it is established or oper-  
6           ates—

7           “(i) contributions to such trust, cor-  
8           poration, organization, or arrangement  
9           which would otherwise be subject to tax  
10          under such laws are deductible or excluded  
11          from the gross income of such entity or  
12          taxed at a reduced rate, or

13          “(ii) taxation of any investment in-  
14          come of such trust, corporation, organiza-  
15          tion, or arrangement is deferred or such  
16          income is taxed at a reduced rate.

17          “(3) REGULATIONS.—The Secretary may pre-  
18          scribe such regulations as are necessary to carry out  
19          the purposes of this subsection.”.

20          (2) EXEMPTION FROM WITHHOLDING.—

21                (A) IN GENERAL.—Section 1445(b) is  
22                amended by adding at the end the following:

23                “(10) DISPOSITIONS BY QUALIFIED FOREIGN  
24                PENSION FUNDS.—This paragraph applies to any  
25                disposition of any United States real property inter-

1 est by a qualified foreign pension fund (as defined  
2 in section 897(k)(2)) or by any other entity wholly  
3 owned by such a fund.”.

4 (B) CONFORMING AMENDMENT.—Section  
5 1445(b)(1) is amended by striking “or (6)” and  
6 inserting “(6), or (10)”.

7 (d) EFFECTIVE DATES.—

8 (1) IN GENERAL.—Except as provided in this  
9 subsection, the amendments made by this section  
10 shall apply to dispositions of United States real  
11 property interests after the date of the enactment of  
12 this Act.

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

19 **SEC. \_\_94. DIVIDENDS FROM FOREIGN CORPORATIONS AT-**  
20 **TRIBUTABLE TO DIVIDENDS FROM RICS AND**  
21 **REITS NOT DEDUCTIBLE AS U.S.-SOURCE**  
22 **DIVIDENDS.**

23 (a) IN GENERAL.—Section 245(a)(5), as amended by  
24 section \_\_31, is amended by adding at the end the fol-  
25 lowing new flush sentence:

1       “Subparagraph (B) shall not apply to any dividend  
2       received from a regulated investment company or  
3       real estate investment trust”.

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