

105TH CONGRESS
1ST SESSION

H. R. 14

To amend the Internal Revenue Code of 1986 to provide maximum rates of tax on capital gains of 14 percent for individuals and 28 percent for corporations and to index the basis of assets of individuals for purposes of determining gains and losses.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 7, 1997

Mr. DREIER (for himself, Ms. MCCARTHY of Missouri, Mr. ENGLISH of Pennsylvania, Mr. MORAN of Virginia, and Mr. HALL of Texas) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide maximum rates of tax on capital gains of 14 percent for individuals and 28 percent for corporations and to index the basis of assets of individuals for purposes of determining gains and losses.

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

3 **SECTION 1. SHORT TITLE, ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Capital Gains Tax Reduction Act of 1997”.

1 (b) AMENDMENT OF 1986 CODE.—Except as other-
 2 wise expressly provided, whenever in this Act an amend-
 3 ment or repeal is expressed in terms of an amendment
 4 to, or repeal of, a section or other provision, the reference
 5 shall be considered to be made to a section or other provi-
 6 sion of the Internal Revenue Code of 1986.

7 **SEC. 2. 14 PERCENT MAXIMUM CAPITAL GAINS RATE FOR**
 8 **INDIVIDUALS.**

9 (a) IN GENERAL.—Subsection (h) of section 1 (relat-
 10 ing to maximum capital gains rate) is amended to read
 11 as follows:

12 “(h) MAXIMUM CAPITAL GAINS RATE.—

13 “(1) IN GENERAL.—If a taxpayer has a net
 14 capital gain for any taxable year, the tax imposed by
 15 this section for such taxable year shall not exceed
 16 the sum of—

17 “(A) a tax computed at the rates and in
 18 the same manner as if this subsection had not
 19 been enacted on taxable income reduced by the
 20 net capital gain,

21 “(B) 7.5 percent of so much of the tax-
 22 payer’s net capital gain (or, if less, taxable in-
 23 come) as does not exceed the excess (if any)
 24 of—

1 “(i) the amount of taxable income
 2 which would (without regard to this para-
 3 graph) be taxed at a rate of 15 percent or
 4 less, over

5 “(ii) the amount on which tax is de-
 6 termined under subparagraph (A), plus

7 “(C) 14 percent of the taxpayer’s net cap-
 8 ital gain (or, if less, taxable income) in excess
 9 of the amount of capital gain on which tax is
 10 determined under subparagraph (B).

11 “(2) NET CAPITAL GAIN TAKEN INTO ACCOUNT
 12 AS INVESTMENT INCOME.—For purposes of this sub-
 13 section, the net capital gain for any taxable year
 14 shall be reduced (but not below zero) by the amount
 15 which the taxpayer elects to take into account as in-
 16 vestment income under section 163(d)(4)(B)(iii).”

17 (b) MINIMUM TAX.—

18 (1) IN GENERAL.—Subparagraph (A) of section
 19 55(b)(1) is amended by redesignating clauses (ii)
 20 and (iii) as clauses (iii) and (iv), respectively, and by
 21 inserting after clause (i) the following new clause:

22 “(ii) MAXIMUM RATE OF TAX ON NET
 23 CAPITAL GAIN.—The amount determined
 24 under the first sentence of clause (i) shall
 25 not exceed the sum of—

1 “(I) the amount determined
 2 under such first sentence computed at
 3 the rates and in the same manner as
 4 if this clause had not been enacted on
 5 the taxable excess reduced by the net
 6 capital gain, plus

7 “(II) a tax of 14 percent of the
 8 lesser of the net capital gain or the
 9 taxable excess.”

10 (2) CONFORMING AMENDMENT.—Clause (iii) of
 11 section 55(a)(1)(A) (as redesignated by paragraph
 12 (1)) is amended by striking “clause (i)” and insert-
 13 ing “this subparagraph”.

14 (c) CONFORMING AMENDMENTS.—

15 (1) Section 1202 (relating to 50-percent exclu-
 16 sion for gain from certain small business stock) is
 17 hereby repealed.

18 (2)(A) Subsection (a) of section 57 is amended
 19 by striking paragraph (7).

20 (B) Subclause (II) of section 53(d)(1)(B)(ii) is
 21 amended by striking “, (5), and (7)” and inserting
 22 “and (5)”.

23 (3) Paragraph (1) of section 170(e) of such
 24 Code is amended by striking “the amount of gain”
 25 in the material following subparagraph (B)(ii) and

1 inserting “50 percent (80 percent in the case of a
2 corporation) of the amount of gain”.

3 (4) Paragraph (2) of section 172(d) is amended
4 to read as follows:

5 “(2) CAPITAL GAINS AND LOSSES OF TAX-
6 PAYERS OTHER THAN CORPORATIONS.—In the case
7 of a taxpayer other than a corporation, the amount
8 deductible on account of losses from sales or ex-
9 changes of capital assets shall not exceed the
10 amount includible on account of gains from sales or
11 exchanges of capital assets.”

12 (5) Paragraph (4) of section 642(c) is amended
13 by striking the first sentence.

14 (6) Paragraph (3) of section 643(a) is amended
15 by striking the last sentence.

16 (7) Paragraph (4) of section 691(c) is amended
17 by striking “1202,”.

18 (8) The second sentence of section 871(a)(2) is
19 amended by striking “such gains and losses shall be
20 determined without regard to section 1202 and”.

21 (9) Subsection (a) of section 1044 is amended
22 by striking the last sentence.

23 (10) Paragraph (1) of section 1445(e) is
24 amended by striking “28 percent” and inserting “14
25 percent”.

1 (11) Section 6652 is amended by striking sub-
2 section (k) and by redesignating subsections (l) and
3 (m) as subsections (k) and (l), respectively.

4 (12)(A) The second sentence of section
5 7518(g)(6)(A) is amended by striking “28 percent”
6 and inserting “14 percent”.

7 (B) The second sentence of section
8 607(h)(6)(A) of the Merchant Marine Act, 1936 is
9 amended by striking “28 percent” and inserting “14
10 percent”.

11 (13) The table of sections for part I of sub-
12 chapter P of chapter 1 is amended by striking the
13 item relating to section 1202.

14 (d) EFFECTIVE DATES.—

15 (1) IN GENERAL.—Except as provided in para-
16 graph (2), the amendments made by this section
17 shall apply to taxable years beginning after Decem-
18 ber 31, 1996.

19 (2) WITHHOLDING.—The amendment made by
20 subsection (c)(10) shall apply to amounts paid after
21 the date of the enactment of this Act.

22 **SEC. 3. 28 PERCENT MAXIMUM CAPITAL GAINS RATE FOR**
23 **CORPORATIONS.**

24 (a) IN GENERAL.—Section 1201 is amended to read
25 as follows:

1 **“SEC. 1201. ALTERNATIVE TAX FOR CORPORATIONS.**

2 “(a) GENERAL RULE.—If for any taxable year a cor-
 3 poration has a net capital gain, then, in lieu of the tax
 4 imposed by sections 11, 511, and 831 (a) and (b) (which-
 5 ever is applicable), there is hereby imposed a tax (if such
 6 tax is less than the tax imposed by such sections) which
 7 shall consist of the sum of—

8 “(1) a tax computed on the taxable income re-
 9 duced by the amount of the net capital gain, at the
 10 rates and in the manner as if this subsection had
 11 not been enacted, plus

12 “(2) a tax of 28 percent of the net capital gain.

13 “(b) CROSS REFERENCES.—

“For computation of the alternative tax—

**“(1) in the case of life insurance companies, see
 section 801(a)(2),**

**“(2) in the case of regulated investment compa-
 nies and their shareholders, see section 852(b)(3)(A)
 and (D), and**

**“(3) in the case of real estate investment trusts,
 see section 857(b)(3)(A).”**

14 (b) TECHNICAL AMENDMENTS.—

15 (1) Clause (iii) of section 852(b)(3)(D) is
 16 amended by striking “65 percent” and inserting “72
 17 percent”.

18 (2) Subsection (e) of section 1445 is amended
 19 by striking “35 percent” each place it appears and
 20 inserting “28 percent”.

1 (3)(A) The second sentence of section
2 7518(g)(6)(A) is amended by striking “34 percent”
3 and inserting “28 percent”.

4 (B) The second sentence of section
5 607(h)(6)(A) of the Merchant Marine Act, 1936 is
6 amended by striking “34 percent” and inserting “28
7 percent”.

8 (c) EFFECTIVE DATES.—

9 (1) IN GENERAL.—Except as provided in para-
10 graph (2), the amendments made by this section
11 shall apply to taxable years ending after December
12 31, 1996.

13 (2) WITHHOLDING.—The amendment made by
14 subsection (b)(2) shall apply to amounts paid after
15 the date of the enactment of this Act.

16 (d) TRANSITIONAL RULE.—

17 (1) IN GENERAL.—In the case of any taxable
18 year ending after December 31, 1996, and beginning
19 on or before such date, paragraph (2) of section
20 1201(a) of the Internal Revenue Code of 1986 (as
21 amended by this section) shall be applied as if it
22 read as follows:

23 “(2) the sum of—

24 “(A) a tax of 28 percent of the lesser of—

1 “(i) the net capital gain for the tax-
2 able year, or

3 “(ii) the net capital gain taking into
4 account only gain or loss properly taken
5 into account for the portion of the taxable
6 year after December 31, 1996, plus

7 “(B) a tax of 35 percent of the excess of—

8 “(i) the net capital gain for the tax-
9 able year, over

10 “(ii) the amount of net capital gain
11 taken into account under subparagraph
12 (A).”

13 (2) SPECIAL RULE FOR PASS-THRU ENTITIES.—

14 (A) IN GENERAL.—In applying paragraph
15 (1) with respect to any pass-thru entity, the de-
16 termination of when gains and losses are prop-
17 erly taken into account shall be made at the en-
18 tity level.

19 (B) PASS-THRU ENTITY DEFINED.—For
20 purposes of subparagraph (A), the term “pass-
21 thru entity” means—

- 22 (i) a regulated investment company,
- 23 (ii) a real estate investment trust,
- 24 (iii) an S corporation,
- 25 (iv) a partnership,

1 (v) an estate or trust, and

2 (vi) a common trust fund.

3 **SEC. 4. INDEXING OF CERTAIN ASSETS FOR PURPOSES OF**
 4 **DETERMINING GAIN OR LOSS.**

5 (a) IN GENERAL.—Part II of subchapter O of chap-
 6 ter 1 (relating to basis rules of general application) is
 7 amended by inserting after section 1021 the following new
 8 section:

9 **“SEC. 1022. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
 10 **OF DETERMINING GAIN OR LOSS.**

11 “(a) GENERAL RULE.—

12 “(1) INDEXED BASIS SUBSTITUTED FOR AD-
 13 JUSTED BASIS.—Solely for purposes of determining
 14 gain or loss on the sale or other disposition by a tax-
 15 payer (other than a corporation) of an indexed asset
 16 which has been held for more than 3 years, the in-
 17 dexed basis of the asset shall be substituted for its
 18 adjusted basis.

19 “(2) EXCEPTION FOR DEPRECIATION, ETC.—
 20 The deductions for depreciation, depletion, and am-
 21 ortization shall be determined without regard to the
 22 application of paragraph (1) to the taxpayer or any
 23 other person.

24 “(b) INDEXED ASSET.—

1 “(1) IN GENERAL.—For purposes of this sec-
2 tion, the term ‘indexed asset’ means—

3 “(A) common stock in a C corporation
4 (other than a foreign corporation), and

5 “(B) tangible property,
6 which is a capital asset or property used in the trade
7 or business (as defined in section 1231(b)).

8 “(2) STOCK IN CERTAIN FOREIGN CORPORA-
9 TIONS INCLUDED.—For purposes of this section—

10 “(A) IN GENERAL.—The term ‘indexed
11 asset’ includes common stock in a foreign cor-
12 poration which is regularly traded on an estab-
13 lished securities market.

14 “(B) EXCEPTION.—Subparagraph (A)
15 shall not apply to—

16 “(i) stock of a foreign investment
17 company (within the meaning of section
18 1246(b)),

19 “(ii) stock in a passive foreign invest-
20 ment company (as defined in section
21 1296),

22 “(iii) stock in a foreign corporation
23 held by a United States person who meets
24 the requirements of section 1248(a)(2),
25 and

1 “(iv) stock in a foreign personal hold-
 2 ing company (as defined in section 552).

3 “(C) TREATMENT OF AMERICAN DEPOSI-
 4 TORY RECEIPTS.—An American depository re-
 5 ceipt for common stock in a foreign corporation
 6 shall be treated as common stock in such cor-
 7 poration.

8 “(c) INDEXED BASIS.—For purposes of this sec-
 9 tion—

10 “(1) GENERAL RULE.—The indexed basis for
 11 any asset is—

12 “(A) the adjusted basis of the asset, in-
 13 creased by

14 “(B) the applicable inflation adjustment.

15 “(2) APPLICABLE INFLATION ADJUSTMENT.—
 16 The applicable inflation adjustment for any asset is
 17 an amount equal to—

18 “(A) the adjusted basis of the asset, multi-
 19 plied by

20 “(B) the percentage (if any) by which—

21 “(i) the gross domestic product
 22 deflator for the last calendar quarter end-
 23 ing before the asset is disposed of, exceeds

1 “(ii) the gross domestic product
2 deflator for the last calendar quarter end-
3 ing before the asset was acquired by the
4 taxpayer (or, if later, the calendar quarter
5 ending on December 31, 1996).

6 The percentage under subparagraph (B) shall be
7 rounded to the nearest $\frac{1}{10}$ of 1 percentage point.

8 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—

9 The gross domestic product deflator for any cal-
10 endar quarter is the implicit price deflator for the
11 gross domestic product for such quarter (as shown
12 in the last revision thereof released by the Secretary
13 of Commerce before the close of the following cal-
14 endar quarter).

15 “(d) SUSPENSION OF HOLDING PERIOD WHERE DI-
16 MINISHED RISK OF LOSS; TREATMENT OF SHORT
17 SALES.—

18 “(1) IN GENERAL.—If the taxpayer (or a relat-
19 ed person) enters into any transaction which sub-
20 stantially reduces the risk of loss from holding any
21 asset, such asset shall not be treated as an indexed
22 asset for the period of such reduced risk.

23 “(2) SHORT SALES.—

24 “(A) IN GENERAL.—In the case of a short
25 sale of an indexed asset with a short sale period

1 in excess of 3 years, for purposes of this title,
 2 the amount realized shall be an amount equal
 3 to the amount realized (determined without re-
 4 gard to this paragraph) increased by the appli-
 5 cable inflation adjustment. In applying sub-
 6 section (c)(2) for purposes of the preceding sen-
 7 tence, the date on which the property is sold
 8 short shall be treated as the date of acquisition
 9 and the closing date for the sale shall be treat-
 10 ed as the date of disposition.

11 “(B) SHORT SALE PERIOD.—For purposes
 12 of subparagraph (A), the short sale period be-
 13 gins on the day that the property is sold and
 14 ends on the closing date for the sale.

15 “(e) TREATMENT OF REGULATED INVESTMENT
 16 COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

17 “(1) ADJUSTMENTS AT ENTITY LEVEL.—

18 “(A) IN GENERAL.—Except as otherwise
 19 provided in this paragraph, the adjustment
 20 under subsection (a) shall be allowed to any
 21 qualified investment entity (including for pur-
 22 poses of determining the earnings and profits of
 23 such entity).

24 “(B) EXCEPTION FOR CORPORATE SHARE-
 25 HOLDERS.—Under regulations—

1 “(i) in the case of a distribution by a
2 qualified investment entity (directly or in-
3 directly) to a corporation—

4 “(I) the determination of whether
5 such distribution is a dividend shall be
6 made without regard to this section,
7 and

8 “(II) the amount treated as gain
9 by reason of the receipt of any capital
10 gain dividend shall be increased by the
11 percentage by which the entity’s net
12 capital gain for the taxable year (de-
13 termined without regard to this sec-
14 tion) exceeds the entity’s net capital
15 gain for such year determined with re-
16 gard to this section, and

17 “(ii) there shall be other appropriate
18 adjustments (including deemed distribu-
19 tions) so as to ensure that the benefits of
20 this section are not allowed (directly or in-
21 directly) to corporate shareholders of quali-
22 fied investment entities.

23 For purposes of the preceding sentence, any
24 amount includible in gross income under section
25 852(b)(3)(D) shall be treated as a capital gain

1 dividend and an S corporation shall not be
2 treated as a corporation.

3 “(C) EXCEPTION FOR QUALIFICATION
4 PURPOSES.—This section shall not apply for
5 purposes of sections 851(b) and 856(e).

6 “(D) EXCEPTION FOR CERTAIN TAXES IM-
7 POSED AT ENTITY LEVEL.—

8 “(i) TAX ON FAILURE TO DISTRIBUTE
9 ENTIRE GAIN.—If any amount is subject to
10 tax under section 852(b)(3)(A) for any
11 taxable year, the amount on which tax is
12 imposed under such section shall be in-
13 creased by the percentage determined
14 under subparagraph (B)(i)(II). A similar
15 rule shall apply in the case of any amount
16 subject to tax under paragraph (2) or (3)
17 of section 857(b) to the extent attributable
18 to the excess of the net capital gain over
19 the deduction for dividends paid deter-
20 mined with reference to capital gain divi-
21 dends only. The first sentence of this
22 clause shall not apply to so much of the
23 amount subject to tax under section
24 852(b)(3)(A) as is designated by the com-
25 pany under section 852(b)(3)(D).

1 “(ii) OTHER TAXES.—This section
2 shall not apply for purposes of determining
3 the amount of any tax imposed by para-
4 graph (4), (5), or (6) of section 857(b).

5 “(2) ADJUSTMENTS TO INTERESTS HELD IN
6 ENTITY.—

7 “(A) REGULATED INVESTMENT COMPA-
8 NIES.—Stock in a regulated investment com-
9 pany (within the meaning of section 851) shall
10 be an indexed asset for any calendar quarter in
11 the same ratio as—

12 “(i) the average of the fair market
13 values of the indexed assets held by such
14 company at the close of each month during
15 such quarter, bears to

16 “(ii) the average of the fair market
17 values of all assets held by such company
18 at the close of each such month.

19 “(B) REAL ESTATE INVESTMENT
20 TRUSTS.—Stock in a real estate investment
21 trust (within the meaning of section 856) shall
22 be an indexed asset for any calendar quarter in
23 the same ratio as—

1 “(i) the fair market value of the in-
2 dexed assets held by such trust at the close
3 of such quarter, bears to

4 “(ii) the fair market value of all as-
5 sets held by such trust at the close of such
6 quarter.

7 “(C) RATIO OF 80 PERCENT OR MORE.—If
8 the ratio for any calendar quarter determined
9 under subparagraph (A) or (B) would (but for
10 this subparagraph) be 80 percent or more, such
11 ratio for such quarter shall be 100 percent.

12 “(D) RATIO OF 20 PERCENT OR LESS.—If
13 the ratio for any calendar quarter determined
14 under subparagraph (A) or (B) would (but for
15 this subparagraph) be 20 percent or less, such
16 ratio for such quarter shall be zero.

17 “(E) LOOK-THRU OF PARTNERSHIPS.—For
18 purposes of this paragraph, a qualified invest-
19 ment entity which holds a partnership interest
20 shall be treated (in lieu of holding a partnership
21 interest) as holding its proportionate share of
22 the assets held by the partnership.

23 “(3) TREATMENT OF RETURN OF CAPITAL DIS-
24 TRIBUTIONS.—Except as otherwise provided by the
25 Secretary, a distribution with respect to stock in a

1 qualified investment entity which is not a dividend
 2 and which results in a reduction in the adjusted
 3 basis of such stock shall be treated as allocable to
 4 stock acquired by the taxpayer in the order in which
 5 such stock was acquired.

6 “(4) QUALIFIED INVESTMENT ENTITY.—For
 7 purposes of this subsection, the term ‘qualified in-
 8 vestment entity’ means—

9 “(A) a regulated investment company
 10 (within the meaning of section 851), and

11 “(B) a real estate investment trust (within
 12 the meaning of section 856).

13 “(f) OTHER PASS-THRU ENTITIES.—

14 “(1) PARTNERSHIPS.—

15 “(A) IN GENERAL.—In the case of a part-
 16 nership, the adjustment made under subsection
 17 (a) at the partnership level shall be passed
 18 through to the partners.

19 “(B) SPECIAL RULE IN THE CASE OF SEC-
 20 TION 754 ELECTIONS.—In the case of a transfer
 21 of an interest in a partnership with respect to
 22 which the election provided in section 754 is in
 23 effect—

1 “(i) the adjustment under section
2 743(b)(1) shall, with respect to the trans-
3 feror partner, be treated as a sale of the
4 partnership assets for purposes of applying
5 this section, and

6 “(ii) with respect to the transferee
7 partner, the partnership’s holding period
8 for purposes of this section in such assets
9 shall be treated as beginning on the date
10 of such adjustment.

11 “(2) S CORPORATIONS.—In the case of an S
12 corporation, the adjustment made under subsection
13 (a) at the corporate level shall be passed through to
14 the shareholders. This section shall not apply for
15 purposes of determining the amount of any tax im-
16 posed by section 1374 or 1375.

17 “(3) COMMON TRUST FUNDS.—In the case of a
18 common trust fund, the adjustment made under sub-
19 section (a) at the trust level shall be passed through
20 to the participants.

21 “(4) INDEXING ADJUSTMENT DISREGARDED IN
22 DETERMINING LOSS ON SALE OF INTEREST IN EN-
23 TITY.—Notwithstanding the preceding provisions of
24 this subsection, for purposes of determining the

1 amount of any loss on a sale or exchange of an in-
2 terest in a partnership, S corporation, or common
3 trust fund, the adjustment made under subsection
4 (a) shall not be taken into account in determining
5 the adjusted basis of such interest.

6 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

7 “(1) IN GENERAL.—This section shall not apply
8 to any sale or other disposition of property between
9 related persons except to the extent that the basis
10 of such property in the hands of the transferee is a
11 substituted basis.

12 “(2) RELATED PERSONS DEFINED.—For pur-
13 poses of this section, the term ‘related persons’
14 means—

15 “(A) persons bearing a relationship set
16 forth in section 267(b), and

17 “(B) persons treated as single employer
18 under subsection (b) or (c) of section 414.

19 “(h) TRANSFERS TO INCREASE INDEXING ADJUST-
20 MENT.—If any person transfers cash, debt, or any other
21 property to another person and the principal purpose of
22 such transfer is to secure or increase an adjustment under
23 subsection (a), the Secretary may disallow part or all of
24 such adjustment or increase.

25 “(i) SPECIAL RULES.—For purposes of this section—

1 “(1) TREATMENT OF IMPROVEMENTS, ETC.—If
2 there is an addition to the adjusted basis of any tan-
3 gible property or of any stock in a corporation dur-
4 ing the taxable year by reason of an improvement to
5 such property or a contribution to capital of such
6 corporation—

7 “(A) such addition shall never be taken
8 into account under subsection (c)(1)(A) if the
9 aggregate amount thereof during the taxable
10 year with respect to such property or stock is
11 less than \$1,000, and

12 “(B) such addition shall be treated as a
13 separate asset acquired at the close of such tax-
14 able year if the aggregate amount thereof dur-
15 ing the taxable year with respect to such prop-
16 erty or stock is \$1,000 or more.

17 A rule similar to the rule of the preceding sentence
18 shall apply to any other portion of an asset to the
19 extent that separate treatment of such portion is ap-
20 propriate to carry out the purposes of this section.

21 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS
22 THROUGHOUT HOLDING PERIOD.—The applicable in-
23 flation adjustment shall be appropriately reduced for
24 periods during which the asset was not an indexed
25 asset.

1 “(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a
2 corporation which is not a dividend shall be treated
3 as a disposition.
4

5 “(4) SECTION CANNOT INCREASE ORDINARY
6 LOSS.—To the extent that (but for this paragraph)
7 this section would create or increase a net ordinary
8 loss to which section 1231(a)(2) applies or an ordi-
9 nary loss to which any other provision of this title
10 applies, such provision shall not apply. The taxpayer
11 shall be treated as having a long-term capital loss in
12 an amount equal to the amount of the ordinary loss
13 to which the preceding sentence applies.

14 “(5) ACQUISITION DATE WHERE THERE HAS
15 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
16 WITH RESPECT TO THE TAXPAYER.—If there has
17 been a prior application of subsection (a)(1) to an
18 asset while such asset was held by the taxpayer, the
19 date of acquisition of such asset by the taxpayer
20 shall be treated as not earlier than the date of the
21 most recent such prior application.

22 “(6) COLLAPSIBLE CORPORATIONS.—The appli-
23 cation of section 341(a) (relating to collapsible cor-
24 porations) shall be determined without regard to this
25 section.

1 “(j) REGULATIONS.—The Secretary shall prescribe
2 such regulations as may be necessary or appropriate to
3 carry out the purposes of this section.”

4 (b) CLERICAL AMENDMENT.—The table of sections
5 for part II of subchapter O of chapter 1 is amended by
6 inserting after the item relating to section 1021 the follow-
7 ing new item:

“Sec. 1022. Indexing of certain assets for purposes of determining
gain or loss.”

8 (c) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to dispositions after December 31,
10 1996, in taxable years ending after such date.

○