

106TH CONGRESS
1ST SESSION

H. R. 242

To amend the Internal Revenue Code of 1986 to expand S corporation eligibility for banks, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1999

Mrs. ROUKEMA 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 expand S corporation eligibility for banks, and for other purposes.

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.**

4 This Act may be cited as the “Small Business and
5 Financial Institutions Tax Relief Act of 1999”.

6 **SEC. 2. EXPANSION OF S CORPORATION ELIGIBLE SHARE-**
7 **HOLDERS TO INCLUDE IRAS.**

8 (a) IN GENERAL.—Section 1361(c)(2)(A) of the In-
9 ternal Revenue Code of 1986 (relating to certain trusts

1 permitted as shareholders) is amended by inserting after
 2 clause (v) the following:

3 “(vi) A trust described in section
 4 408(a).”

5 (b) TREATMENT AS SHAREHOLDER.—Section
 6 1361(c)(2)(B) of the Internal Revenue Code of 1986 (re-
 7 lating to treatment as shareholders) is amended by adding
 8 at the end the following:

9 “(vi) In the case of a trust described
 10 in clause (vi) of subparagraph (A), the in-
 11 dividual for whose benefit the trust was
 12 created shall be treated as a shareholder.”

13 (c) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to taxable years beginning after
 15 December 31, 1999.

16 **SEC. 3. EXCLUSION OF INVESTMENT SECURITIES INCOME**
 17 **FROM PASSIVE INCOME TEST FOR BANK S**
 18 **CORPORATIONS.**

19 (a) IN GENERAL.—Section 1362(d)(3)(C) of the In-
 20 ternal Revenue Code of 1986 (relating to passive invest-
 21 ment income defined) is amended by adding at the end
 22 the following:

23 “(v) EXCEPTION FOR BANK INVEST-
 24 MENT SECURITIES INCOME.—In the case of
 25 a bank (as defined in section 581), the

1 term ‘passive investment income’ shall not
 2 include interest on investment securities
 3 held by a bank.”

4 (b) EFFECTIVE DATE.—The amendment made by
 5 this section shall apply to taxable years beginning after
 6 December 31, 1999.

7 **SEC. 4. INCREASE IN NUMBER OF ELIGIBLE SHAREHOLD-**
 8 **ERS TO 150.**

9 (a) IN GENERAL.—Section 1361(b)(1)(A) of the In-
 10 ternal Revenue Code of 1986 (defining small business cor-
 11 poration) is amended by striking “75” and inserting
 12 “150”.

13 (b) EFFECTIVE DATE.—The amendment made by
 14 this section shall apply to taxable years beginning after
 15 December 31, 1999.

16 **SEC. 5. TREATMENT OF DIRECTOR QUALIFYING STOCK.**

17 (a) IN GENERAL.—Section 1361(c) of the Internal
 18 Revenue Code of 1986 (relating to special rules for apply-
 19 ing subsection (b)) is amended by adding at the end the
 20 following:

21 “(7) DIRECTOR QUALIFYING STOCK.—

22 “(A) IN GENERAL.—For purposes of sub-
 23 section (b)(1)(D), director qualifying stock shall
 24 not be treated as a second class of stock.

1 “(B) DIRECTOR QUALIFYING STOCK DE-
 2 FINED.—For purposes of this paragraph, the
 3 term ‘director qualifying stock’ means any stock
 4 held by any director of a bank (as defined in
 5 section 581) as mandated by banking regu-
 6 latory requirements.”

7 (b) EFFECTIVE DATE.—The amendment made by
 8 this section shall apply to taxable years beginning after
 9 December 31, 1999.

10 **SEC. 6. BAD DEBT CHARGE OFFS IN YEARS AFTER ELEC-**
 11 **TION YEAR TREATED AS ITEMS OF BUILT IN**
 12 **LOSS.**

13 The Secretary of the Treasury shall modify Regula-
 14 tion 1.1374–4(f) for taxable years beginning after Decem-
 15 ber 31, 1999, with respect to bad debt deductions under
 16 section 166 of the Internal Revenue Code of 1986 by al-
 17 lowing such deductions to be properly taken into account
 18 throughout the recognition period (as defined in section
 19 1374(d)(7) of such Code).

20 **SEC. 7. INCLUSION OF BANKS IN 3-YEAR S CORPORATION**
 21 **RULE FOR CORPORATE PREFERENCE ITEMS.**

22 (a) IN GENERAL.—Section 1363(b) of the Internal
 23 Revenue Code of 1986 (relating to computation of cor-
 24 poration’s taxable income) is amended by adding at the
 25 end the following new flush sentence:

1 “Paragraph (4) shall apply to any bank whether such
2 bank is an S corporation of a qualified subchapter S sub-
3 sidiary.”

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to taxable years beginning after
6 December 31, 1999.

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