

106TH CONGRESS  
1ST SESSION

# S. 1952

To amend the Internal Revenue Code of 1986 to provide a simplified method for determining a partner's share of items of a partnership which is a qualified investment club.

---

## IN THE SENATE OF THE UNITED STATES

NOVEMBER 17, 1999

Mr. ABRAHAM introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To amend the Internal Revenue Code of 1986 to provide a simplified method for determining a partner's share of items of a partnership which is a qualified investment club.

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 Investors Tax  
5       Simplification Act of 1999”.

1 **SEC. 2. ELECTION TO USE SIMPLIFIED METHOD FOR**  
2 **QUALIFIED INVESTMENT CLUBS.**

3 (a) IN GENERAL.—Part I of subchapter K of chapter  
4 1 of the Internal Revenue Code of 1986 (relating to deter-  
5 mination of tax liability of partners and partnerships) is  
6 amended by inserting after section 704 the following new  
7 section:

8 **“SEC. 704A. ELECTION TO USE SIMPLIFIED METHOD FOR**  
9 **QUALIFIED INVESTMENT CLUBS.**

10 “(a) IN GENERAL.—Notwithstanding any other pro-  
11 vision of this subchapter, a partner’s distributive share of  
12 all items of income, gain, loss, deduction, or credit of a  
13 qualified investment club shall be determined under the  
14 simplified method.

15 “(b) SIMPLIFIED METHOD.—For purposes of this  
16 section—

17 “(1) IN GENERAL.—The term ‘simplified meth-  
18 od’ means a method pursuant to which a partnership  
19 allocates each of the items of income, gain, loss, de-  
20 duction, and credit for its taxable year to its part-  
21 ners based on their proportionate interests on the  
22 last day of such taxable year in partnership profits.

23 “(2) EXCEPTION FOR DISTRIBUTIONS DURING  
24 YEAR.—The partnership may take into account the  
25 partners’ varying interests in partnership profits re-  
26 sulting from distributions during the taxable year in

1 determining the partners' interests in partnership  
 2 profits for purposes of paragraph (1).

3 “(c) DEFINITIONS.—For purposes of this section—

4 “(1) QUALIFIED INVESTMENT CLUB.—The  
 5 term ‘qualified investment club’ means, with respect  
 6 to any taxable year, any partnership—

7 “(A) which is not required to be registered  
 8 under the Investment Company Act of 1940,

9 “(B) for which no person who is registered  
 10 as an investment adviser under the Investment  
 11 Advisers Act of 1940 substantially participates  
 12 in the management or investment decisions  
 13 thereof,

14 “(C) all of the partners of which are quali-  
 15 fied partners for the calendar year in which the  
 16 taxable year of the partnership ends,

17 “(D) at least 90 percent of the gross in-  
 18 come of which is derived from items described  
 19 in section 851(b)(2),

20 “(E) at least 90 percent of the value of the  
 21 total assets of which, at the end of each quarter  
 22 of such year, consists of cash, cash items (in-  
 23 cluding receivables), and securities,

24 “(F) the taxable year of which is the cal-  
 25 endar year, and

1 “(G) for which an election under sub-  
2 section (e) is in effect.

3 “(2) QUALIFIED PARTNER.—

4 “(A) IN GENERAL.—The term ‘qualified  
5 partner’ means—

6 “(i) any individual other than a non-  
7 resident alien,

8 “(ii) any individual retirement plan,  
9 and

10 “(iii) any education individual retire-  
11 ment account (as defined in section 530).

12 “(B) LIMITATION ON CONTRIBUTIONS BY  
13 INDIVIDUALS.—An individual shall not be a  
14 qualified partner for any calendar year if the  
15 aggregate contributions by such individual to  
16 qualified investment clubs (determined without  
17 regard to paragraph (1)(C)) during such cal-  
18 endar year exceeds \$3,000 or exceeds \$3,000  
19 during any of the 5 preceding calendar years.

20 “(C) LIMITATION ON CONTRIBUTIONS BY  
21 TRUSTS.—

22 “(i) IN GENERAL.—A plan or account  
23 referred to in subparagraph (A) (hereafter  
24 in this subparagraph referred to as a  
25 ‘trust’) shall not be a qualified partner for

1 any calendar year if the aggregate con-  
2 tributions to qualified investment clubs  
3 (determined without regard to paragraph  
4 (1)(C)) during such calendar year by such  
5 trust exceeds the excess of—

6 “(I) the product of \$3,000 and  
7 the number of years before such cal-  
8 endar year that such trust held any  
9 asset, over

10 “(II) the aggregate contributions  
11 made to qualified investment clubs (as  
12 so determined) by such trust during  
13 all prior calendar years.

14 “(ii) AGGREGATION OF RELATED  
15 TRUSTS.—For purposes of this  
16 subparagraph—

17 “(I) all trusts having the same  
18 beneficiary shall be treated as 1 trust,  
19 and

20 “(II) only the trust having the  
21 longest period described in clause  
22 (i)(I) shall be taken into account  
23 thereunder.

1                   “(iii) FRACTIONS OF A YEAR.—For  
 2                   purposes of clause (i)(I), a fraction of a  
 3                   year shall be counted as a whole year.

4                   “(D) NO ATTRIBUTION BETWEEN INDIVID-  
 5                   UALS AND TRUSTS.—Notwithstanding any other  
 6                   provision of this title, there shall be no attribu-  
 7                   tion of contributions between a trust and an in-  
 8                   dividual.

9                   “(3) SECURITIES.—

10                  “(A) DEFINITION.—The term ‘security’  
 11                  has the meaning given to such term by section  
 12                  475(c)(2) (determined without regard to sub-  
 13                  paragraph (F) thereof).

14                  “(B) CERTAIN RULES TO APPLY.—For  
 15                  purposes of paragraph (1)(E), rules similar to  
 16                  the rules of paragraphs (4) and (5) of section  
 17                  851(c), shall apply.

18                  “(d) INFLATION ADJUSTMENT.—In the case of cal-  
 19                  endar years after 1999, the \$3,000 amounts contained in  
 20                  subsection (c)(2) shall each be increased for any calendar  
 21                  year after 2000 by an amount equal to—

22                   “(1) \$3,000, multiplied by

23                   “(2) the cost-of-living adjustment under section  
 24                  1(f)(3) for such calendar year, determined by sub-

stituting ‘calendar year 1999’ for ‘calendar year  
1992’ in subparagraph (B) thereof.

Any increase under this subsection which is not a multiple  
of \$50 shall be rounded to the nearest multiple of \$50.

“(e) ELECTION.—An election under this subsection  
shall be made on the return for the taxable year for which  
it is made and shall apply to such taxable year and all  
subsequent taxable years for which the partnership is a  
qualified investment club, unless the election is revoked  
with the consent of the Secretary.

“(f) TERMINATION OF QUALIFIED INVESTMENT  
CLUB STATUS.—An election under subsection (e) shall  
terminate as of the 1st day of any taxable year during  
which the partnership ceases to be a qualified investment  
club and, solely for purposes of section 704(c), each part-  
ner shall be treated as contributing on such first day such  
partner’s pro rata share of the partnership’s assets and  
liabilities on such first day to a new partnership.

“(g) INADVERTENT INVALID ELECTIONS OR TERMI-  
NATIONS.—The Secretary shall provide a relief mechanism  
for treating a partnership as a qualified investment club  
in circumstances where—

“(1) an election under subsection (e) was not  
effective for the taxable year for which made by rea-

1 son of an inadvertent failure to satisfy any require-  
 2 ment of subsection (c), or

3 “(2) there is an inadvertent termination under  
 4 subsection (f) of such an election.

5 “(h) ELECTION AFTER TERMINATION.—If an elec-  
 6 tion under subsection (e) by a partnership is terminated  
 7 or revoked, such partnership shall not be eligible to make  
 8 an election under subsection (e) for any taxable year be-  
 9 fore its 5th taxable year which begins after the 1st taxable  
 10 year for which such termination or revocation is effective,  
 11 unless the Secretary consents to such election.

12 “(i) REGULATIONS.—The Secretary shall prescribe  
 13 such regulations as may be necessary to carry out the pur-  
 14 poses of this section, including regulations regarding the  
 15 status of an individual or trust as a qualified partner.”.

16 (b) CLERICAL AMENDMENT.—The table of sections  
 17 for part I of subchapter K of chapter 1 of such Code is  
 18 amended by inserting after the item relating to section  
 19 704 the following new item:

“Sec. 704A. Election to use simplified method for qualified invest-  
 ment clubs.”

20 (c) EFFECTIVE DATE.—The amendments made by  
 21 this section shall apply to taxable years ending after the  
 22 date of the enactment of this Act.

○