

107TH CONGRESS  
2D SESSION

# H. R. 3857

To amend the Internal Revenue Code of 1986 to treat nominally foreign corporations created through inversion transactions as domestic corporations.

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IN THE HOUSE OF REPRESENTATIVES

MARCH 6, 2002

Mr. McINNIS introduced the following bill; which was referred to the  
Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to treat nominally foreign corporations created through inversion transactions as domestic corporations.

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. FOREIGN CORPORATIONS CREATED THROUGH**  
4                       **INVERSION TRANSACTIONS TAXED AS DO-**  
5                       **MESTIC CORPORATIONS.**

6           (a) IN GENERAL.—Paragraph (4) of section 7701(a)  
7       of the Internal Revenue Code of 1986 (defining domestic)  
8       is amended to read as follows:

9                       “(4) DOMESTIC.—

1           “(A) IN GENERAL.—Except as provided in  
2           subparagraph (B), the term ‘domestic’ when ap-  
3           plied to a corporation or partnership means cre-  
4           ated or organized in the United States or under  
5           the law of the United States or of any State  
6           unless, in the case of a partnership, the Sec-  
7           retary provides otherwise by regulations.

8           “(B) INVERSION TRANSACTIONS DIS-  
9           REGARDED.—

10           “(i) IN GENERAL.—A corporation  
11           which would (but for this subparagraph)  
12           be treated as a foreign corporation shall be  
13           treated as a domestic corporation if such  
14           corporation is an inverted domestic cor-  
15           poration.

16           “(ii) INVERTED DOMESTIC CORPORA-  
17           TION.—For purposes of clause (i), a for-  
18           eign corporation is an inverted domestic  
19           corporation if, immediately after a trans-  
20           action in which property is directly or indi-  
21           rectly transferred by a domestic corpora-  
22           tion to such foreign corporation, more than  
23           80 percent of the stock (by vote or value)  
24           of such foreign corporation is held by  
25           former shareholders of the domestic cor-

poration by reason of holding stock in such domestic corporation.

“(iii) LOWER STOCK OWNERSHIP TEST FOR CERTAIN CORPORATIONS.—Clause (ii) shall be applied by substituting ‘50 per cent’ for ‘80 percent’ if—

“(I) stock in such foreign corporation is publicly traded on an exchange in the United States,

“(II) less than 10 percent of the gross income of such foreign corporation is derived from activities in the foreign country in which such foreign corporation is created or organized, and

“(III) less than 10 percent of the employees of such foreign corporation are permanently located in such foreign country.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to transactions after December 31, 2001.

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