

Statutory Notes and Related Subsidiaries

SAVINGS PROVISION

For provisions that nothing in repeal by Pub. L. 101-508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101-508, set out as a note under section 45K of this title.

[§ 114. Repealed. Pub. L. 108-357, title I, § 101(a), Oct. 22, 2004, 118 Stat. 1423]

Section, added Pub. L. 106-519, §3(a), Nov. 15, 2000, 114 Stat. 2423, related to exclusion of extraterritorial income from gross income.

A prior section 114, act Aug. 16, 1954, ch. 736, 68A Stat. 35, related to sports programs conducted for American National Red Cross, prior to repeal by Pub. L. 101-508, title XI, §11801(a)(8), Nov. 5, 1990, 104 Stat. 1388-520.

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EFFECTIVE DATE OF REPEAL

Repeal applicable to transactions after Dec. 31, 2004, see section 101(c) of Pub. L. 108-357, set out as an Effective Date of 2004 Amendments note under section 56 of this title.

TRANSITION PROVISIONS

Pub. L. 108-357, title I, §101(d)-(f), Oct. 22, 2004, 118 Stat. 1423, 1424, as amended by Pub. L. 109-222, title V, §513(b), May 17, 2006, 120 Stat. 366; Pub. L. 113-295, div. A, title II, §219(a), Dec. 19, 2014, 128 Stat. 4035, provided that:

“(d) TRANSITIONAL RULE FOR 2005 AND 2006.—

“(1) IN GENERAL.—In the case of transactions during 2005 or 2006, the amount includible in gross income by reason of the amendments made by this section [amending sections 56, 275, 864, 903, and 999 of this title and repealing this section and sections 941 to 943 of this title] shall not exceed the applicable percentage of the amount which would have been so included but for this subsection.

“(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be as follows:

“(A) For 2005, the applicable percentage shall be 20 percent.

“(B) For 2006, the applicable percentage shall be 40 percent.

“(3) COORDINATION WITH SECTION 199.—This subsection shall be applied without regard to any deduction allowable under section 199 [probably means former section 199 of the Internal Revenue Code of 1986].

“(e) REVOCATION OF ELECTION TO BE TREATED AS DOMESTIC CORPORATION.—If, during the 1-year period beginning on the date of the enactment of this Act [Oct. 22, 2004], a corporation for which an election is in effect under section 943(e) of the Internal Revenue Code of 1986 revokes such election, no gain or loss shall be recognized with respect to property treated as transferred under clause (ii) of section 943(e)(4)(B) of such Code to the extent such property—

“(1) was treated as transferred under clause (i) thereof, or

“(2) was acquired during a taxable year to which such election applies and before May 1, 2003, in the ordinary course of its trade or business.

The Secretary of the Treasury (or such Secretary's delegate) may prescribe such regulations as may be necessary to prevent the abuse of the purposes of this subsection.

“(f) Repealed. Pub. L. 109-222, title V, §513(b), May 17, 2006, 120 Stat. 366.]”

§ 115. Income of States, municipalities, etc.

Gross income does not include—

(1) income derived from any public utility or the exercise of any essential governmental function and accruing to a State or any political subdivision thereof, or the District of Columbia; or

(2) income accruing to the government of any possession of the United States, or any political subdivision thereof.

(Aug. 16, 1954, ch. 736, 68A Stat. 35; Pub. L. 94-455, title XIX, §1901(a)(19), Oct. 4, 1976, 90 Stat. 1766.)

Editorial Notes

AMENDMENTS

1976—Pub. L. 94-455 struck out “(a) General rule” before “Gross income does not include”, struck out subsecs. (b) and (c) which related to contracts concerning public utilities made before Sept. 8, 1916, and contracts concerning bridge acquisition made before May 29, 1928, respectively, and in par. (1) of former subsec. (a), struck out “or territory” after “accruing to a State”.

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EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by Pub. L. 94-455 applicable with respect to taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as a note under section 2 of this title.

TAX TREATMENT OF STATE OWNERSHIP OF RAILROAD
REAL ESTATE INVESTMENT TRUST

Pub. L. 109-59, title XI, §11146, Aug. 10, 2005, 119 Stat. 1966, provided that:

“(a) IN GENERAL.—If a State owns all of the outstanding stock of a corporation—

“(1) which is a real estate investment trust on the date of the enactment of this Act [Aug. 10, 2005],

“(2) which is a non-operating class III railroad, and

“(3) substantially all of the activities of which consist of the ownership, leasing, and operation by such corporation of facilities, equipment, and other property used by the corporation or other persons for railroad transportation and for economic development purposes for the benefit of the State and its citizens, then, to the extent such activities are of a type which are an essential governmental function within the meaning of section 115 of the Internal Revenue Code of 1986, income derived from such activities by the corporation shall be treated as accruing to the State for purposes of section 115 of such Code.

“(b) GAIN OR LOSS NOT RECOGNIZED ON CONVERSION.—Notwithstanding section 337(d) of the Internal Revenue Code of 1986—

“(1) no gain or loss shall be recognized under section 336 or 337 of such Code, and

“(2) no change in basis of the property of such corporation shall occur, because of any change of status of a corporation to a tax-exempt entity by reason of the application of subsection (a).

“(c) TAX-EXEMPT FINANCING.—

“(1) IN GENERAL.—Any obligation issued by a corporation described in subsection (a) at least 95 percent of the net proceeds (as defined in section 150(a) of the Internal Revenue Code of 1986) of which are to be used to provide for the acquisition, construction, or improvement of railroad transportation infrastructure (including railroad terminal facilities)—

“(A) shall be treated as a State or local bond (within the meaning of section 103(c) of such Code), and

“(B) shall not be treated as a private activity bond (within the meaning of section 103(b)(1) of such Code) solely by reason of the ownership or use of such railroad transportation infrastructure by the corporation.

“(2) NO INFERENCE.—Except as provided in paragraph (1), nothing in this subsection shall be con-

strued to affect the treatment of the private use of proceeds or property financed with obligations issued by the corporation for purposes of section 103 of the Internal Revenue Code of 1986 and part IV of subchapter B [probably means part IV of subchapter B of chapter 1] of such Code.

“(d) DEFINITIONS.—For purposes of this section:

“(1) REAL ESTATE INVESTMENT TRUST.—The term ‘real estate investment trust’ has the meaning given such term by section 856(a) of the Internal Revenue Code of 1986.

“(2) NON-OPERATING CLASS III RAILROAD.—The term ‘non-operating class III railroad’ has the meaning given such term by part A of subtitle IV of title 49, United States Code (49 U.S.C. 10101 et seq.), and the regulations thereunder.

“(3) STATE.—The term ‘State’ includes—

“(A) the District of Columbia and any possession of the United States, and

“(B) any authority, agency, or public corporation of a State.

“(e) APPLICABILITY.—

“(1) IN GENERAL.—Except as provided in paragraph (2), this section shall apply on and after the date on which a State becomes the owner of all of the outstanding stock of a corporation described in subsection (a) through action of such corporation’s board of directors.

“(2) EXCEPTION.—This section shall not apply to any State which—

“(A) becomes the owner of all of the voting stock of a corporation described in subsection (a) after December 31, 2003, or

“(B) becomes the owner of all of the outstanding stock of a corporation described in subsection (a) after December 31, 2006.”

[§ 116. Repealed. Pub. L. 99-514, title VI, § 612(a), Oct. 22, 1986, 100 Stat. 2250]

Section, acts Aug. 16, 1954, ch. 736, 68A Stat. 37; June 25, 1959, Pub. L. 86-69, § 3(a)(2), 73 Stat. 139; Sept. 14, 1960, Pub. L. 86-779, § 10(f), 74 Stat. 1009; Feb. 26, 1964, Pub. L. 88-272, title II, § 201(c), (d)(6)(C), 78 Stat. 32; Nov. 13, 1966, Pub. L. 89-809, title I, § 103(g), 80 Stat. 1552; Oct. 4, 1976, Pub. L. 94-455, title X, §§ 1051(h)(2), 1053(d)(1), title XIX, § 1901(a)(20), 90 Stat. 1647, 1649, 1766; Apr. 2, 1980, Pub. L. 96-223, title IV, § 404(a), 94 Stat. 305; Aug. 13, 1981, Pub. L. 97-34, title III, § 302(b)(2), 95 Stat. 272; July 18, 1984, Pub. L. 98-369, div. A, title V, § 542(b), 98 Stat. 891, authorized partial exclusion of dividends received by individuals.

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EFFECTIVE DATE OF REPEAL

Repeal applicable to taxable years beginning after Dec. 31, 1986, see section 612(c) of Pub. L. 99-514, set out as an Effective Date of 1986 Amendment note under section 301 of this title.

§ 117. Qualified scholarships

(a) General rule

Gross income does not include any amount received as a qualified scholarship by an individual who is a candidate for a degree at an educational organization described in section 170(b)(1)(A)(ii).

(b) Qualified scholarship

For purposes of this section—

(1) In general

The term “qualified scholarship” means any amount received by an individual as a scholarship or fellowship grant to the extent the individual establishes that, in accordance with the

conditions of the grant, such amount was used for qualified tuition and related expenses.

(2) Qualified tuition and related expenses

For purposes of paragraph (1), the term “qualified tuition and related expenses” means—

(A) tuition and fees required for the enrollment or attendance of a student at an educational organization described in section 170(b)(1)(A)(ii), and

(B) fees, books, supplies, and equipment required for courses of instruction at such an educational organization.

(c) Limitation

(1) In general

Except as provided in paragraph (2), subsections (a) and (d) shall not apply to that portion of any amount received which represents payment for teaching, research, or other services by the student required as a condition for receiving the qualified scholarship or qualified tuition reduction.

(2) Exceptions

Paragraph (1) shall not apply to any amount received by an individual under—

(A) the National Health Service Corps Scholarship Program under section 338A(g)(1)(A) of the Public Health Service Act,

(B) the Armed Forces Health Professions Scholarship and Financial Assistance program under subchapter I of chapter 105 of title 10, United States Code, or

(C) a comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in such section).

(d) Qualified tuition reduction

(1) In general

Gross income shall not include any qualified tuition reduction.

(2) Qualified tuition reduction

For purposes of this subsection, the term “qualified tuition reduction” means the amount of any reduction in tuition provided to an employee of an organization described in section 170(b)(1)(A)(ii) for the education (below the graduate level) at such organization (or another organization described in section 170(b)(1)(A)(ii)) of—

(A) such employee, or

(B) any person treated as an employee (or whose use is treated as an employee use) under the rules of section 132(h).

(3) Reduction must not discriminate in favor of highly compensated, etc.

Paragraph (1) shall apply with respect to any qualified tuition reduction provided with respect to any highly compensated employee only if such reduction is available on substantially the same terms to each member of a group of employees which is defined under a reasonable classification set up by the employer which does not discriminate in favor of highly compensated employees (within the