

103^D CONGRESS
1ST SESSION

H. R. 3631

To amend the Internal Revenue Code of 1986 to provide nonrecognition treatment for certain transfers by common trust funds to regulated investment companies.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 22, 1993

Mr. COYNE (for himself, Mr. JACOBS, Mr. NEAL of Massachusetts, MR. HOAGLAND, and Mr. BREWSTER) 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 nonrecognition treatment for certain transfers by common trust funds to regulated investment companies.

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. NONRECOGNITION TREATMENT FOR CERTAIN**
4 **TRANSFERS BY COMMON TRUST FUNDS TO**
5 **REGULATED INVESTMENT COMPANIES.**

6 (a) GENERAL RULE.—Section 584 of the Internal
7 Revenue Code of 1986 (relating to common trust funds)
8 is amended by redesignating subsection (h) as subsection

1 (i) and by inserting after subsection (g) the following new
2 subsection:

3 “(h) NONRECOGNITION TREATMENT FOR CERTAIN
4 TRANSFERS TO REGULATED INVESTMENT COMPANIES.—

5 “(1) IN GENERAL.—If—

6 “(A) pursuant to a single plan, a common
7 trust fund transfers substantially all of its as-
8 sets to one or more regulated investment com-
9 panies in exchange solely for stock in the com-
10 pany or companies to which such assets are so
11 transferred, and

12 “(B) such stock is distributed by such
13 common trust fund to participants in such com-
14 mon trust fund in exchange solely for their in-
15 terests in such common trust fund,

16 no gain or loss shall be recognized by such common
17 trust fund by reason of such transfer or distribution,
18 and no gain or loss shall be recognized by any par-
19 ticipant in such common trust fund by reason of
20 such exchange.

21 “(2) BASIS RULES.—

22 “(A) REGULATED INVESTMENT COM-
23 PANY.—The basis of any asset received by a
24 regulated investment company in a transfer re-
25 ferred to in paragraph (1)(A) shall be the same

1 as it would be in the hands of the common
2 trust fund.

3 “(B) PARTICIPANTS.—The basis of the
4 stock which is received in an exchange referred
5 to in paragraph (1)(B) shall be the same as
6 that of the property exchanged. If stock in more
7 than one regulated investment company is re-
8 ceived in such exchange, the basis determined
9 under the preceding sentence shall be allocated
10 among the stock in each such company on the
11 basis of respective fair market values.

12 “(3) TREATMENT OF ASSUMPTIONS OF LIABIL-
13 ITY.—

14 “(A) IN GENERAL.—In determining wheth-
15 er the transfer referred to in paragraph (1)(A)
16 is in exchange solely for stock in one or more
17 regulated investment companies, the assump-
18 tion by any such company of a liability of the
19 common trust fund, and the fact that any prop-
20 erty transferred by the common trust fund is
21 subject to a liability, shall be disregarded.

22 “(B) SPECIAL RULE WHERE ASSUMED LI-
23 ABILITIES EXCEED BASIS.—

24 “(i) IN GENERAL.—If in any transfer
25 referred to in paragraph (1)(A) the as-

1 sumed liabilities exceed the aggregate ad-
2 justed bases (in the hands of the common
3 trust fund) of the assets transferred to the
4 regulated investment company or compa-
5 nies—

6 “(I) notwithstanding paragraph
7 (1), gain shall be recognized to the
8 common trust fund on such transfer
9 in an amount equal to such excess,

10 “(II) the basis of the assets re-
11 ceived by the regulated investment
12 company or companies in such trans-
13 fer shall be increased by the amount
14 so recognized, and

15 “(III) any adjustment to the
16 basis of a participant’s interest in the
17 common trust fund as a result of the
18 gain so recognized shall be treated as
19 occurring immediately before the ex-
20 change referred to in paragraph
21 (1)(B).

22 If the transfer referred to in paragraph
23 (1)(A) is to two or more regulated invest-
24 ment companies the basis increase under
25 subclause (II) shall be allocated among

1 such companies on the basis of the respec-
2 tive fair market values of the assets re-
3 ceived by each of such companies.

4 “(ii) ASSUMED LIABILITIES.—For
5 purposes of clause (i), the term ‘assumed
6 liabilities’ means the aggregate of—

7 “(I) any liability of the common
8 trust fund assumed by any regulated
9 investment company in connection
10 with the transfer referred to in para-
11 graph (1)(A), and

12 “(II) any liability to which prop-
13 erty so transferred is subject.

14 “(4) COMMON TRUST FUND MUST MEET DIVER-
15 SIFICATION RULES.—This subsection shall not apply
16 to any common trust fund which would not meet the
17 requirements of section 368(a)(2)(F)(ii) if it were a
18 corporation. For purposes of the preceding sentence,
19 Government securities shall not be treated as securi-
20 ties of an issuer in applying the 25-percent and 50-
21 percent test and such securities shall not be excluded
22 for purposes of determining total assets under clause
23 (iv) of section 368(a)(2)(F).”

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to transfers after the date of
3 the enactment of this Act.

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