

103<sup>D</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 3739

To amend the Internal Revenue Code of 1986 to provide all taxpayers with a 50 percent deduction for capital gains, to index the basis of certain capital assets, and to allow the capital loss deduction for losses on the sale or exchange of an individual's principal residence.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 26, 1994

Mr. ARCHER (for himself, Mr. CRANE, Mr. THOMAS of California, Mr. SHAW, Mr. SUNDQUIST, Mrs. JOHNSON of Connecticut, Mr. HOUGHTON, Mr. HERGER, Mr. MCCRERY, Mr. HANCOCK, Mr. CAMP, and Mr. ZIMMER) 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 provide all taxpayers with a 50 percent deduction for capital gains, to index the basis of certain capital assets, and to allow the capital loss deduction for losses on the sale or exchange of an individual's principal residence.

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 "Capital Formation and  
5 Jobs Creation Act of 1994".

1 **SEC. 2. 50 PERCENT CAPITAL GAINS DEDUCTION.**

2 (a) GENERAL RULE.—Part I of subchapter P of  
3 chapter 1 of the Internal Revenue Code of 1986 (relating  
4 to treatment of capital gains) is amended to read as fol-  
5 lows:

6 **“PART I—TREATMENT OF CAPITAL GAINS**

“Sec. 1201. Capital gains deduction.

7 **“SEC. 1201. CAPITAL GAINS DEDUCTION.**

8 “(a) GENERAL RULE.—If for any taxable year a tax-  
9 payer has a net capital gain, 50 percent of such gain shall  
10 be a deduction from gross income.

11 “(b) ESTATES AND TRUSTS.—In the case of an es-  
12 tate or trust, the deduction shall be computed by excluding  
13 the portion (if any) of the gains for the taxable year from  
14 sales or exchanges of capital assets which, under sections  
15 652 and 662 (relating to inclusions of amounts in gross  
16 income of beneficiaries of trusts), is includible by the in-  
17 come beneficiaries as gain derived from the sale or ex-  
18 change of capital assets.

19 “(c) COORDINATION WITH TREATMENT OF CAPITAL  
20 GAIN UNDER LIMITATION ON INVESTMENT INTEREST.—  
21 For purposes of this section, the net capital gain for any  
22 taxable year shall be reduced (but not below zero) by the  
23 amount which the taxpayer takes into account as invest-  
24 ment income under section 163(d)(4)(B)(iii).

25 “(d) TRANSITIONAL RULE.—

1           “(1) IN GENERAL.—In the case of a taxable  
2 year which includes February 1, 1994, the amount  
3 taken into account as the net capital gain under  
4 subsection (a) shall not exceed the net capital gain  
5 determined by only taking into account gains and  
6 losses properly taken into account for the portion of  
7 the taxable year on or after February 1, 1994.

8           “(2) SPECIAL RULES FOR PASS-THRU ENTI-  
9 TIES.—

10           “(A) IN GENERAL.—In applying paragraph  
11 (1) with respect to any pass-thru entity, the de-  
12 termination of when gains and losses are prop-  
13 erly taken into account shall be made at the en-  
14 tity level.

15           “(B) PASS-THRU ENTITY DEFINED.—For  
16 purposes of subparagraph (A), the term ‘pass-  
17 thru entity’ means—

18           “(i) a regulated investment company,

19           “(ii) a real estate investment trust,

20           “(iii) an S corporation,

21           “(iv) a partnership,

22           “(v) an estate or trust, and

23           “(vi) a common trust fund.”

24           (b) DEDUCTION ALLOWABLE IN COMPUTING AD-  
25 JUSTED GROSS INCOME.—Subsection (a) of section 62 of

1 such Code is amended by inserting after paragraph (15)  
2 the following new paragraph:

3 “(16) LONG-TERM CAPITAL GAINS.—The de-  
4 duction allowed by section 1201.”

5 (c) TECHNICAL AND CONFORMING CHANGES.—

6 (1) Section 13113 of the Revenue Reconcili-  
7 ation Act of 1993 (relating to 50-percent exclusion  
8 for gain from certain small business stock), and the  
9 amendments made by such section, are hereby re-  
10 pealed; and the Internal Revenue Code of 1986 shall  
11 be applied as if such section (and amendments) had  
12 never been enacted.

13 (2) Section 1 of such Code is amended by strik-  
14 ing subsection (h).

15 (3) Paragraph (1) of section 170(e) of such  
16 Code is amended by striking “the amount of gain”  
17 in the material following subparagraph (B)(ii) and  
18 inserting “50 percent of the amount of gain”.

19 (4)(A) Paragraph (2) of section 172(d) of such  
20 Code is amended to read as follows:

21 “(2) CAPITAL GAINS AND LOSSES.—

22 “(A) LOSSES OF TAXPAYERS OTHER THAN  
23 CORPORATIONS.—In the case of a taxpayer  
24 other than a corporation, the amount deductible  
25 on account of losses from sales or exchanges of

1 capital assets shall not exceed the amount in-  
2 cludible on account of gains from sales or ex-  
3 changes of capital assets.

4 “(B) DEDUCTION UNDER SECTION 1201.—  
5 The deduction under section 1201 shall not be  
6 allowed.”

7 (B) Subparagraph (B) of section 172(d)(4) of  
8 such Code is amended by striking “paragraphs (1)  
9 and (3)” and inserting “paragraphs (1), (2)(B), and  
10 (3)”.

11 (5) Paragraph (4) of section 642(c) of such  
12 Code is amended to read as follows:

13 “(4) ADJUSTMENTS.—To the extent that the  
14 amount otherwise allowable as a deduction under  
15 this subsection consists of gain from the sale or ex-  
16 change of capital assets held for more than 1 year,  
17 proper adjustment shall be made for any deduction  
18 allowable to the estate or trust under section 1201  
19 (relating to deduction for excess of capital gains over  
20 capital losses). In the case of a trust, the deduction  
21 allowed by this subsection shall be subject to section  
22 681 (relating to unrelated business income).”

23 (6) Paragraph (3) of section 643(a) of such  
24 Code is amended by adding at the end thereof the  
25 following new sentence: “The deduction under sec-

1       tion 1201 (relating to deduction of excess of capital  
2       gains over capital losses) shall not be taken into ac-  
3       count.”

4               (7) Paragraph (4) of section 691(c) of such  
5       Code is amended by striking “sections 1(h), 1201,  
6       and 1211” and inserting “sections 1201 and 1211”.

7               (8) The second sentence of section 871(a)(2) of  
8       such Code is amended by inserting “such gains and  
9       losses shall be determined without regard to section  
10       1201 (relating to deduction for capital gains) and”  
11       after “except that”.

12              (9) Subsection (d) of section 1044 of such Code  
13       is amended by striking the last sentence.

14              (10)(A) Paragraph (2) of section 1211(b) of  
15       such Code is amended to read as follows:

16               “(2) the sum of—

17                       “(A) the excess of the net short-term cap-  
18                       ital loss over the net long-term capital gain, and

19                       “(B) one-half of the excess of the net long-  
20                       term capital loss over the net short-term capital  
21                       gain.”

22              (B) So much of paragraph (2) of section  
23       1212(b) of such Code as precedes subparagraph (B)  
24       thereof is amended to read as follows:

25               “(2) SPECIAL RULES.—

1 “(A) ADJUSTMENTS.—

2 “(i) For purposes of determining the  
3 excess referred to in paragraph (1)(A),  
4 there shall be treated as short-term capital  
5 gain in the taxable year an amount equal  
6 to the lesser of—

7 “(I) the amount allowed for the  
8 taxable year under paragraph (1) or  
9 (2) of section 1211(b), or

10 “(II) the adjusted taxable income  
11 for such taxable year.

12 “(ii) For purposes of determining the  
13 excess referred to in paragraph (1)(B),  
14 there shall be treated as short-term capital  
15 gain in the taxable year an amount equal  
16 to the sum of—

17 “(I) the amount allowed for the  
18 taxable year under paragraph (1) or  
19 (2) of section 1211(b) or the adjusted  
20 taxable income for such taxable year,  
21 whichever is the least, plus

22 “(II) the excess of the amount  
23 described in subclause (I) over the net  
24 short-term capital loss (determined

1                   without regard to this subsection) for  
2                   such year.”

3           (11) Paragraph (1) of section 1402(i) of such  
4 Code is amended by inserting “, and the deduction  
5 provided by section 1201 shall not apply” before the  
6 period at the end thereof.

7           (12) Section 12 of such Code is amended by  
8 striking paragraph (4) and redesignating the follow-  
9 ing paragraphs accordingly.

10          (13) Paragraph (2) of section 527(b) of such  
11 Code is hereby repealed.

12          (14) Subparagraph (D) of section 593(b)(2) of  
13 such Code is amended by adding “and” at the end  
14 of clause (iii), by striking “, and” at the end of  
15 clause (iv) and inserting a period, and by striking  
16 clause (v).

17          (15) Paragraph (2) of section 801(a) of such  
18 Code is hereby repealed.

19          (16) Subsection (c) of section 831 of such Code  
20 is amended by striking paragraph (1) and redesign-  
21 ating the following paragraphs accordingly.

22          (17)(A) Subparagraph (A) of section 852(b)(3)  
23 of such Code is amended by striking “, determined  
24 as provided in section 1201(a), on” and inserting  
25 “of 17.5 percent of”.

1 (B) Clause (iii) of section 852(b)(3)(D) of such  
2 Code is amended—

3 (i) by striking “65 percent” and inserting  
4 “82.5 percent”, and

5 (ii) by striking “section 1201(a)” and in-  
6 serting “subparagraph (A)”.

7 (18) Clause (ii) of section 857(b)(3)(A) of such  
8 Code is amended by striking “determined at the rate  
9 provided in section 1201(a) on” and inserting “of  
10 17.5 percent of”.

11 (19) Paragraph (1) of section 882(a) of such  
12 Code is amended by striking “section 11, 55, or  
13 1201(a)” and inserting “section 11 or 55”.

14 (20) Subsection (b) of section 904 of such Code  
15 is amended by striking paragraphs (2)(B), (3)(B),  
16 (3)(D), and (3)(E).

17 (21) Subsection (b) of section 1374 of such  
18 Code is amended by striking paragraph (4).

19 (22) Subsection (b) of section 1381 is amended  
20 by striking “or 1201”.

21 (23) Paragraph (1) of section 1445(e) of such  
22 Code is amended by striking “35 percent (or, to the  
23 extent provided in regulations, 28 percent)” and in-  
24 serting “17.5 percent (or, to the extent provided in  
25 regulations, 19.8 percent)”.

1           (24) Clause (i) of section 6425(c)(1)(A) of such  
2 Code is amended by striking “or 1201(a)”.

3           (25) Clause (i) of section 6655(g)(1)(A) of such  
4 Code is amended by striking “or 1201(a)”.

5           (26)(A) The second sentence of section  
6 7518(g)(6)(A) of such Code is amended—

7                 (i) by striking “during a taxable year to  
8 which section 1(h) or 1201(a) applies”, and

9                 (ii) by striking “28 percent (34 percent”  
10 and inserting “19.8 percent (17.5 percent”.

11           (B) The second sentence of section  
12 607(h)(6)(A) of the Merchant Marine Act, 1936 is  
13 amended—

14                 (i) by striking “during a taxable year to  
15 which section 1(h) or 1201(a) of such Code ap-  
16 plies”, and

17                 (ii) by striking “28 percent (34 percent”  
18 and inserting “19.8 percent (17.5 percent”.

19           (d) EFFECTIVE DATE.—

20                 (1) IN GENERAL.—Except as otherwise pro-  
21 vided in this subsection, the amendments made by  
22 this section shall apply to taxable years ending after  
23 the date of the enactment of this Act.

24                 (2) TRANSITIONAL RULE.—The amendments  
25 made by subsection (c) (other than paragraph (3))

1 shall not apply to gains and losses properly taken  
2 into account for the portion of the taxable year be-  
3 fore February 1, 1994.

4 (3) CONTRIBUTIONS.—The amendment made  
5 by subsection (c)(3) shall apply only to contributions  
6 on or after February 1, 1994.

7 (4) WITHHOLDING.—The amendment made by  
8 subsection (c)(23) shall apply only to amounts paid  
9 after the date of the enactment of this Act.

10 **SEC. 3. INDEXING OF CERTAIN ASSETS FOR PURPOSES OF**  
11 **DETERMINING GAIN OR LOSS.**

12 (a) IN GENERAL.—Part II of subchapter O of chap-  
13 ter 1 of the Internal Revenue Code of 1986 (relating to  
14 basis rules of general application) is amended by inserting  
15 after section 1021 the following new section:

16 **“SEC. 1022. INDEXING OF CERTAIN ASSETS FOR PURPOSES**  
17 **OF DETERMINING GAIN OR LOSS.**

18 “(a) GENERAL RULE.—

19 “(1) INDEXED BASIS SUBSTITUTED FOR AD-  
20 JUSTED BASIS.—Except as otherwise provided in  
21 this subsection, if an indexed asset which has been  
22 held for more than 1 year is sold or otherwise dis-  
23 posed of, for purposes of this title the indexed basis  
24 of the asset shall be substituted for its adjusted  
25 basis.

1           “(2) EXCEPTION FOR DEPRECIATION, ETC.—

2           The deduction for depreciation, depletion, and amor-  
3           tization shall be determined without regard to the  
4           application of paragraph (1) to the taxpayer or any  
5           other person.

6           “(b) INDEXED ASSET.—

7           “(1) IN GENERAL.—For purposes of this sec-  
8           tion, the term ‘indexed asset’ means—

9                   “(A) stock in a corporation, and

10                   “(B) tangible property (or any interest  
11           therein),

12           which is a capital asset or property used in the trade  
13           or business (as defined in section 1231(b)).

14           “(2) CERTAIN PROPERTY EXCLUDED.—For  
15           purposes of this section, the term ‘indexed asset’  
16           does not include—

17                   “(A) CREDITOR’S INTEREST.—Any interest  
18           in property which is in the nature of a credi-  
19           tor’s interest.

20                   “(B) OPTIONS.—Any option or other right  
21           to acquire an interest in property.

22                   “(C) NET LEASE PROPERTY.—In the case  
23           of a lessor, net lease property (within the mean-  
24           ing of subsection (i)(3)).

1           “(D) CERTAIN PREFERRED STOCK.—Stock  
2           which is fixed and preferred as to dividends and  
3           does not participate in corporate growth to any  
4           significant extent.

5           “(E) STOCK IN FOREIGN CORPORA-  
6           TIONS.—Stock in a foreign corporation.

7           “(F) STOCK IN S CORPORATIONS.—Stock  
8           in an S corporation.

9           “(3) EXCEPTION FOR STOCK IN FOREIGN COR-  
10          PORATION WHICH IS REGULARLY TRADED ON NA-  
11          TIONAL OR REGIONAL EXCHANGE.—Paragraph  
12          (2)(E) shall not apply to stock in a foreign corpora-  
13          tion the stock of which is listed on the New York  
14          Stock Exchange, the American Stock Exchange, the  
15          national market system operated by the National As-  
16          sociation of Securities Dealers, or any domestic re-  
17          gional exchange for which quotations are published  
18          on a regular basis other than—

19                 “(A) stock of a foreign investment com-  
20                 pany (within the meaning of section 1246(b)),

21                 “(B) stock in a passive foreign investment  
22                 company (as defined in section 1296), and

23                 “(C) stock in a foreign corporation held by  
24                 a United States person who meets the require-  
25                 ments of section 1248(a)(2).

1 “(c) INDEXED BASIS.—For purposes of this section:

2 “(1) GENERAL RULE.—Except as provided in  
3 paragraph (2), the indexed basis for any asset is—

4 “(A) the adjusted basis of the asset, multi-  
5 plied by

6 “(B) the applicable inflation ratio.

7 “(2) APPLICABLE INFLATION RATIO.—The ap-  
8 plicable inflation ratio for any asset is the percent-  
9 age arrived at by dividing—

10 “(A) the gross national product deflator  
11 the calendar quarter in which the disposition  
12 takes place, by

13 “(B) the gross national product deflator  
14 for the calendar quarter in which the asset was  
15 acquired by the taxpayer (or, if later, the cal-  
16 endar quarter ending on December 31, 1994).

17 The applicable inflation ratio shall not be taken into  
18 account unless it is greater than 1. The applicable  
19 inflation ratio for any asset shall be rounded to the  
20 nearest one-tenth of 1 percent.

21 “(3) GROSS NATIONAL PRODUCT DEFLATOR.—

22 The gross national product deflator for any calendar  
23 quarter is the implicit price deflator for the gross  
24 national product for such quarter (as shown in the  
25 first revision thereof).

1 “(d) SHORT SALES.—

2 “(1) IN GENERAL.—In the case of a short sale  
3 of an indexed asset with a short sale period in excess  
4 of 1 year, for purposes of this title, the amount real-  
5 ized shall be an amount equal to the amount realized  
6 (determined without regard to this paragraph) mul-  
7 tiplied by the applicable inflation ratio. In applying  
8 subsection (c)(3) for purposes of the preceding sen-  
9 tence, the date on which the property is sold short  
10 shall be treated as the date on which the holding pe-  
11 riod for the asset begins and the closing date for the  
12 sale shall be treated as the date of disposition.

13 “(2) SHORT SALE OF SUBSTANTIALLY IDEN-  
14 TICAL PROPERTY.—If the taxpayer or the taxpayer’s  
15 spouse sells short property substantially identical to  
16 an asset held by the taxpayer, the asset held by the  
17 taxpayer and the substantially identical property  
18 shall not be treated as indexed assets for the short  
19 sale period.

20 “(3) SHORT SALE PERIOD.—For purposes of  
21 this subsection, the short sale period begins on the  
22 day after property is sold and ends on the closing  
23 date for the sale.

24 “(e) TREATMENT OF REGULATED INVESTMENT  
25 COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

1 “(1) ADJUSTMENTS AT ENTITY LEVEL.—

2 “(A) IN GENERAL.—Except as otherwise  
3 provided in this paragraph, the adjustment  
4 under subsection (a) shall be allowed to any  
5 qualified investment entity (including for pur-  
6 poses of determining the earnings and profits of  
7 such entity).

8 “(B) EXCEPTION FOR QUALIFICATION  
9 PURPOSES.—This section shall not apply for  
10 purposes of sections 851(b) and 856(c).

11 “(2) ADJUSTMENTS TO INTERESTS HELD IN  
12 ENTITY.—

13 “(A) IN GENERAL.—Stock in a qualified  
14 investment entity shall be an indexed asset for  
15 any calendar month in the same ratio as the  
16 fair market value of the assets held by such en-  
17 tity at the close of such month which are in-  
18 dexed assets bears to the fair market value of  
19 all assets of such entity at the close of such  
20 month.

21 “(B) RATIO OF 90 PERCENT OR MORE.—If  
22 the ratio for any calendar month determined  
23 under subparagraph (A) would (but for this  
24 subparagraph) be 90 percent or more, such  
25 ratio for such month shall be 100 percent.

1           “(C) RATIO OF 10 PERCENT OR LESS.—If  
2           the ratio for any calendar month determined  
3           under subparagraph (A) would (but for this  
4           subparagraph) be 10 percent or less, such ratio  
5           for such month shall be zero.

6           “(D) VALUATION OF ASSETS IN CASE OF  
7           REAL ESTATE INVESTMENT TRUSTS.—Nothing  
8           in this paragraph shall require a real estate in-  
9           vestment trust to value its assets more fre-  
10          quently than once each 36 months (except  
11          where such trust ceases to exist). The ratio  
12          under subparagraph (A) for any calendar  
13          month for which there is no valuation shall be  
14          the trustee’s good faith judgment as to such  
15          valuation.

16          “(3) QUALIFIED INVESTMENT ENTITY.—For  
17          purposes of this subsection, the term ‘qualified in-  
18          vestment entity’ means—

19                 “(A) a regulated investment company  
20                 (within the meaning of section 851), and

21                 “(B) a real estate investment trust (within  
22                 the meaning of section 856).

23          “(f) OTHER PASS-THRU ENTITIES.—

24                 “(1) PARTNERSHIPS.—

1           “(A) IN GENERAL.—In the case of a part-  
2           nership, the adjustment made under subsection  
3           (a) at the partnership level shall be passed  
4           through to the partners.

5           “(B) SPECIAL RULE IN THE CASE OF SEC-  
6           TION 754 ELECTIONS.—In the case of a transfer  
7           of an interest in a partnership with respect to  
8           which the election provided in section 754 is in  
9           effect—

10           “(i) the adjustment under section  
11           743(b)(1) shall, with respect to the trans-  
12           feror partner, be treated as a sale of the  
13           partnership assets for purposes of applying  
14           this section, and

15           “(ii) with respect to the transferee  
16           partner, the partnership’s holding period  
17           for purposes of this section in such assets  
18           shall be treated as beginning on the date  
19           of such adjustment.

20           “(2) S CORPORATIONS.—In the case of an S  
21           corporation, the adjustment made under subsection  
22           (a) at the corporate level shall be passed through to  
23           the shareholders.

24           “(3) COMMON TRUST FUNDS.—In the case of a  
25           common trust fund, the adjustment made under sub-

1 section (a) at the trust level shall be passed through  
2 to the participants.

3 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

4 “(1) IN GENERAL.—This section shall not apply  
5 to any sale or other disposition of property between  
6 related persons except to the extent that the basis  
7 of such property in the hands of the transferee is a  
8 substituted basis.

9 “(2) RELATED PERSONS DEFINED.—For pur-  
10 poses of this section, the term ‘related persons’  
11 means—

12 “(A) persons bearing a relationship set  
13 forth in section 267(b), and

14 “(B) persons treated as single employer  
15 under subsection (b) or (c) of section 414.

16 “(h) TRANSFERS TO INCREASE INDEXING ADJUST-  
17 MENT.—If any person transfers cash, debt, or any other  
18 property to another person and the principal purpose of  
19 such transfer is to secure or increase an adjustment under  
20 subsection (a), the Secretary may disallow part or all of  
21 such adjustment or increase.

22 “(i) SPECIAL RULES.—For purposes of this section:

23 “(1) TREATMENT AS SEPARATE ASSET.—In the  
24 case of any asset, the following shall be treated as  
25 a separate asset:

1           “(A) A substantial improvement to prop-  
2           erty.

3           “(B) In the case of stock of a corporation,  
4           a substantial contribution to capital.

5           “(C) Any other portion of an asset to the  
6           extent that separate treatment of such portion  
7           is appropriate to carry out the purposes of this  
8           section.

9           “(2) ASSETS WHICH ARE NOT INDEXED ASSETS  
10          THROUGHOUT HOLDING PERIOD.—The applicable in-  
11          flation ratio shall be appropriately reduced for peri-  
12          ods during which the asset was not an indexed asset.

13          “(3) NET LEASE PROPERTY DEFINED.—The  
14          term ‘net lease property’ means leased property  
15          where—

16                 “(A) the term of the lease (taking into ac-  
17                 count options to renew) was 50 percent or more  
18                 of the useful life of the property, and

19                 “(B) for the period of the lease, the sum  
20                 of the deductions with respect to such property  
21                 which are allowable to the lessor solely by rea-  
22                 son of section 162 (other than rents and reim-  
23                 bursed amounts with respect to such property)  
24                 is 15 percent or less of the rental income pro-  
25                 duced by such property.

1           “(4) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a  
2           corporation which is not a dividend shall be treated  
3           as a disposition.  
4

5           “(5) SECTION CANNOT INCREASE ORDINARY  
6           LOSS.—To the extent that (but for this paragraph)  
7           this section would create or increase a net ordinary  
8           loss to which section 1231(a)(2) applies or an ordinary  
9           loss to which any other provision of this title  
10          applies, such provision shall not apply. The taxpayer  
11          shall be treated as having a long-term capital loss in  
12          an amount equal to the amount of the ordinary loss  
13          to which the preceding sentence applies.

14          “(6) ACQUISITION DATE WHERE THERE HAS  
15          BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)  
16          WITH RESPECT TO THE TAXPAYER.—If there has  
17          been a prior application of subsection (a)(1) to an  
18          asset while such asset was held by the taxpayer, the  
19          date of acquisition of such asset by the taxpayer  
20          shall be treated as not earlier than the date of the  
21          most recent such prior application.

22          “(7) COLLAPSIBLE CORPORATIONS.—The appli-  
23          cation of section 341(a) (relating to collapsible cor-  
24          porations) shall be determined without regard to this  
25          section.

1       “(j) REGULATIONS.—The Secretary shall prescribe  
2 such regulations as may be necessary or appropriate to  
3 carry out the purposes of this section.”

4       (b) CLERICAL AMENDMENT.—The table of sections  
5 for part II of subchapter O of chapter 1 of such Code  
6 is amended by inserting after the item relating to section  
7 1021 the following new item:

“Sec. 1022. Indexing of certain assets for purposes of determining  
gain or loss.”

8       (c) ADJUSTMENT TO APPLY FOR PURPOSES OF DE-  
9 TERMINING EARNINGS AND PROFITS.—Subsection (f) of  
10 section 312 of such Code (relating to effect on earnings  
11 and profits of gain or loss and of receipt of tax-free dis-  
12 tributions) is amended by adding at the end thereof the  
13 following new paragraph:

14               “(3) EFFECT ON EARNINGS AND PROFITS OF  
15 INDEXED BASIS.—

**For substitution of indexed basis for adjusted  
basis in the case of the disposition of certain assets,  
see section 1022(a)(1).”**

16       (d) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to dispositions after December 31,  
18 1994, in taxable years ending after such date.

1 **SEC. 4. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**  
2 **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**  
3 **RESIDENCE.**

4 (a) **IN GENERAL.**—Subsection (c) of section 165 of  
5 the Internal Revenue Code of 1986 (relating to limitation  
6 on losses of individuals) is amended by striking “and” at  
7 the end of paragraph (2), by striking the period at the  
8 end of paragraph (3) and inserting “; and”, and by adding  
9 at the end the following new paragraph:

10 “(4) losses arising from the sale or exchange of  
11 the principal residence (within the meaning of sec-  
12 tion 1034) of the taxpayer.”

13 (b) **EFFECTIVE DATE.**—The amendment made by  
14 subsection (a) shall apply to sales and exchanges on or  
15 after February 1, 1994, in taxable years ending after such  
16 date.

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