

104TH CONGRESS
2D SESSION

S. 2141

To amend the Internal Revenue Code of 1986 to permit certain tax free corporate liquidations into a 501(c)(3) organization and to revise the unrelated business income tax rules regarding receipt of debt-financed property in such a liquidation.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 27, 1996

Mrs. FEINSTEIN 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 permit certain tax free corporate liquidations into a 501(c)(3) organization and to revise the unrelated business income tax rules regarding receipt of debt-financed property in such a liquidation.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. ELIMINATION OF CORPORATE LEVEL TAX**
 2 **UPON LIQUIDATION OF CLOSELY HELD COR-**
 3 **PORATIONS UNDER CERTAIN CONDITIONS.**

4 (a) IN GENERAL.—Paragraph (2) of section 337(b)
 5 of the Internal Revenue Code of 1986 (relating to treat-
 6 ment of indebtedness of subsidiary, etc.) is amended—

7 (1) by striking “Except as provided in subpara-
 8 graph (B)” in subparagraph (A) and inserting “Ex-
 9 cept as provided in subparagraph (B) or (C)”, and

10 (2) by adding at the end the following new sub-
 11 paragraph:

12 “(C) EXCEPTION IN THE CASE OF STOCK
 13 ACQUIRED WITHOUT CONSIDERATION.—If the
 14 80-percent distributee is an organization de-
 15 scribed in section 501(c)(3) and acquired stock
 16 in a liquidated domestic corporation from either
 17 a decedent (within the meaning of section
 18 1014(b)) or the decedent’s spouse, subpara-
 19 graph (A) shall not apply to any distribution of
 20 property to the 80-percent distributee. This
 21 subparagraph shall apply only if all of the fol-
 22 lowing conditions are met:

23 “(i) Eighty percent or more of the
 24 stock in the liquidated corporation was ac-
 25 quired by the distributee, solely by a dis-
 26 tribution from an estate or trust created

by one or more qualified persons. For purposes of this clause, the term ‘qualified person’ means a citizen or individual resident of the United States, an estate (other than a foreign estate within the meaning of section 7701(a)(31)(A)), or any trust described in clause (i), (ii), or (iii) of section 1361(c)(2)(A).

“(ii) The liquidated corporation adopted its plan of liquidation on or after January 1, 1997.

“(iii) The 80-percent distributee is an organization created or organized under the laws of the United States or of any State.

Nothing in subsection (d) shall be construed to limit the application of this subsection in circumstances in which this subparagraph applies.”.

(b) REVISION OF UNRELATED BUSINESS INCOME TAX RULES TO EXEMPT CERTAIN ASSETS.—Subparagraph (B) of section 514(c)(2) of the Internal Revenue Code of 1986 (relating to property acquired subject to mortgage, etc.) is amended by inserting “or pursuant to

1 a liquidation described in section 337(b)(2)(C),” after
2 “bequest or devise,”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall take effect on the date of the enactment
5 of this Act.

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