

105TH CONGRESS
2D SESSION

H. R. 4553

To amend the Internal Revenue Code of 1986 to expand S corporation eligibility for banks, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 11, 1998

Mrs. ROUKEMA 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 expand S corporation eligibility for banks, and for other purposes.

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 “Small Business and
5 Financial Institutions Tax Relief Act of 1998”.

6 **SEC. 2. EXPANSION OF S CORPORATION ELIGIBLE SHARE-**
7 **HOLDERS TO INCLUDE IRAS.**

8 (a) IN GENERAL.—Section 1361(c)(2)(A) of the In-
9 ternal Revenue Code of 1986 (relating to certain trusts

1 permitted as shareholders) is amended by inserting after
2 clause (v) the following:

3 “(vi) A trust described in section
4 408(a).”

5 (b) TREATMENT AS SHAREHOLDER.—Section
6 1361(c)(2)(B) of the Internal Revenue Code of 1986 (re-
7 lating to treatment as shareholders) is amended by adding
8 at the end the following:

9 “(vi) In the case of a trust described
10 in clause (vi) of subparagraph (A), the in-
11 dividual for whose benefit the trust was
12 created shall be treated as a shareholder.”

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 1998.

16 **SEC. 3. EXCLUSION OF INVESTMENT SECURITIES INCOME**
17 **FROM PASSIVE INCOME TEST FOR BANK S**
18 **CORPORATIONS.**

19 (a) IN GENERAL.—Section 1362(d)(3)(C) of the In-
20 ternal Revenue Code of 1986 (relating to passive invest-
21 ment income defined) is amended by adding at the end
22 the following:

23 “(v) EXCEPTION FOR BANK INVEST-
24 MENT SECURITIES INCOME.—In the case of
25 a bank (as defined in section 581), the

1 term ‘passive investment income’ shall not
2 include interest on investment securities
3 held by a bank.”

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to taxable years beginning after
6 December 31, 1998.

7 **SEC. 4. INCREASE IN NUMBER OF ELIGIBLE SHAREHOLD-**
8 **ERS TO 150.**

9 (a) IN GENERAL.—Section 1361(b)(1)(A) of the In-
10 ternal Revenue Code of 1986 (defining small business cor-
11 poration) is amended by striking “75” and inserting
12 “150”.

13 (b) EFFECTIVE DATE.—The amendment made by
14 this section shall apply to taxable years beginning after
15 December 31, 1998.

16 **SEC. 5. TREATMENT OF DIRECTOR QUALIFYING STOCK.**

17 (a) IN GENERAL.—Section 1361(c) of the Internal
18 Revenue Code of 1986 (relating to special rules for apply-
19 ing subsection (b)) is amended by adding at the end the
20 following:

21 “(7) DIRECTOR QUALIFYING STOCK.—

22 “(A) IN GENERAL.—For purposes of sub-
23 section (b)(1)(D), director qualifying stock shall
24 not be treated as a second class of stock.

1 “Paragraph (4) shall apply to any bank whether such
2 bank is an S corporation of a qualified subchapter S sub-
3 sidiary.”

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to taxable years beginning after
6 December 31, 1998.

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