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.

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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-

HOLDERS TO INCLUDE IRAS.

8 (a) IN GENERAL.—Section 1361(c)(2)(A) of the In9 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-
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24	MENT SECURITIES INCOME.—In the case of

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 SHAREHOLD8 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 apply19 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 sub23 section (b)(1)(D), director qualifying stock shall
24 not be treated as a second class of stock.

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"(B) DIRECTOR QUALIFYING STOCK DEFINED.—For purposes of this paragraph, the
term 'director qualifying stock' means any stock
held by any director of a bank (as defined in
section 581) as mandated by banking regulatory requirements."
(b) EFFECTIVE DATE.—The amendment made by

8 this section shall apply to taxable years beginning after9 December 31, 1998.

10SEC. 6. BAD DEBT CHARGE OFFS IN YEARS AFTER ELEC-11TION YEAR TREATED AS ITEMS OF BUILT IN12LOSS.

13 The Secretary of the Treasury shall modify Regula-14 tion 1.1374–4(f) for taxable years beginning after Decem-15 ber 31, 1998, with respect to bad debt deductions under 16 section 166 of the Internal Revenue Code of 1986 by al-17 lowing such deductions to be properly taken into account 18 throughout the recognition period (as defined in section 19 1374(d)(7) of such Code).

20 SEC. 7. INCLUSION OF BANKS IN 3-YEAR S CORPORATION

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RULE FOR CORPORATE PREFERENCE ITEMS.

(a) IN GENERAL.—Section 1363(b) of the Internal
Revenue Code of 1986 (relating to computation of corporation's taxable income) is amended by adding at the
end the following new flush sentence:

"Paragraph (4) shall apply to any bank whether such
 bank is an S corporation of a qualified subchapter S sub 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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