

107TH CONGRESS
2D SESSION

S. 2050

To amend the Internal Revenue Code of 1986 to treat nominally foreign corporations created through inversion transactions as domestic corporations.

IN THE SENATE OF THE UNITED STATES

MARCH 21, 2002

Mr. WELLSTONE (for himself and Mr. DAYTON) 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 treat nominally foreign corporations created through inversion transactions as domestic corporations.

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. FOREIGN CORPORATIONS CREATED THROUGH**
4 **INVERSION TRANSACTIONS TAXED AS DO-**
5 **MESTIC CORPORATIONS.**

6 (a) IN GENERAL.—Paragraph (4) of section 7701(a)
7 of the Internal Revenue Code of 1986 (defining domestic)
8 is amended to read as follows:

9 “(4) DOMESTIC.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘domestic’ when applied to a corporation or partnership means created or organized in the United States or under the law of the United States or of any State unless, in the case of a partnership, the Secretary provides otherwise by regulations.

“(B) INVERSION TRANSACTIONS DISREGARDED.—

“(i) IN GENERAL.—A corporation which would (but for this subparagraph) be treated as a foreign corporation shall be treated as a domestic corporation if such corporation is an inverted domestic corporation.

“(ii) INVERTED DOMESTIC CORPORATION.—For purposes of clause (i), a foreign corporation is an inverted domestic corporation if, immediately after a transaction in which—

“(I) property is directly or indirectly transferred by a domestic corporation to such foreign corporation, or

1 “(II) stock in a domestic cor-
2 poration is transferred directly or in-
3 directly by its shareholders to such
4 foreign corporation,
5 more than 50 percent of the stock (by vote
6 or value) of such foreign corporation is
7 held by former shareholders of the domes-
8 tic corporation by reason of holding stock
9 in such domestic corporation.

10 “(iii) REGULATIONS RELATING TO IN-
11 VERTED DOMESTIC CORPORATIONS.—The
12 Secretary may by regulations provide that
13 clause (i) shall not apply to a foreign cor-
14 poration which is an inverted domestic cor-
15 poration if, immediately before the trans-
16 action described in clause (ii), such foreign
17 corporation was engaged in the active con-
18 duct of 1 or more trades or businesses
19 which are substantial in relation to the
20 trades or businesses which the domestic
21 corporation described in clause (ii) was en-
22 gaged in the active conduct of at such
23 time.”

24 (b) EFFECTIVE DATE.—The amendment made by
25 this section shall apply to taxable years of any inverted

- 1 domestic corporation beginning after December 31, 2002,
- 2 without regard to whether the corporation became an in-
- 3 verted domestic corporation before, on, or after such date.

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