

## SECTION 402. TREATMENT OF QUALIFYING DIRECTOR SHARES

The Act clarifies that qualifying director shares of bank are not to be treated as a second class of stock. Instead, the qualifying director shares are treated as a liability of the bank and no income or loss from the S corporation will be allocated to these qualifying director shares. The provision clarifies the law and removes a significant obstacle unique among banks contemplating a S corporation election.

## SECTION 403. BAD DEBT CHARGE OFFS IN YEARS AFTER ELECTION YEAR TREATED AS ITEMS OF BUILT-IN LOSS

The Act permits bank S corporations to recapture up to 100 percent of their bad debt reserves on their first S corporation tax return and/or their last C corporation income tax return prior to the effective date of the S election. Banks that convert to S corporation status must change from the reserve method of accounting to the specific charge off method. The resulting recapture income is treated as built-in gain subject to tax at both the shareholder and the corporate level. The Act allows banks to accelerate the recapture of bad debt reserve to their last C corporation tax year. The corporate level tax would still be paid on the recapture income, but the recapture would no longer trigger a tax for the bank's shareholders.

## TITLE V—QUALIFIED SUBCHAPTER S SUBSIDIARIES

## SECTION 501. RELIEF FROM INADVERTENTLY INVALID QUALIFIED SUBCHAPTER S SUBSIDIARY ELECTIONS AND TERMINATIONS.

The Act provides statutory authority for the Secretary to grant relief for invalid QSub elections, and terminations of QSub status, if the Secretary determines that the circumstances resulting in such ineffectiveness or termination were inadvertent. This would allow the IRS to provide relief in appropriate cases, just as it currently does in the case of invalid or ten-nated S corporation elections.

## SECTION 502. INFORMATION RETURNS FOR QUALIFIED SUBCHAPTER S SUBSIDIARIES

The Act would help clarify that a Qualified Subchapter S Subsidiary (QSSS) can provide information returns under their own tax ID number to help avoid confusion by employers, depositors, and other parties.

## SECTION 503. TREATMENT OF THE SALE OF INTEREST IN A QUALIFIED SUBCHAPTER S SUBSIDIARY

The Act treats the disposition of QSub stock as a sale of the undivided interest in the QSub's assets based on the underlying percentage of stock transferred followed by a deemed contribution by the S corporation and the acquiring party in a nontaxable transaction. Under current law, an S corporation may be required to recognize 100 percent of the gain inherent in a QSub's assets if it sells as little as 21 percent of the QSub's stock. IRS regulations suggest this result can be avoided by merging the QSub into a single member LLC prior to the sale, then selling an interest in the LLC (as opposed to stock in the QSub). The Act achieves this result without any unnecessary merger and thus removes a trap for the unwary.

## SECTION 504. EXCEPTION TO APPLICATION OF STEP TRANSACTION DOCTRINE FOR RESTRUCTURING IN CONNECTION WITH MAKING QUALIFIED SUBCHAPTER S SUBSIDIARY ELECTIONS

The Act provides that the step transaction doctrine does not apply to the deemed liquidation resulting from QSub elections. Application of the step transaction doctrine, in the context of making a QSub election, introduces complexity and uncertainty in what

should be a simple matter. The doctrine requires knowledge of decades of jurisprudence and administrative interpretations, and poses an unnecessary trap for the unwary.

## TITLE VI—ADDITIONAL PROVISIONS

## SECTION 601. ELIMINATION OF ALL EARNINGS AND PROFITS ATTRIBUTABLE TO PRE-1983 YEARS

The Small Business Job Protection Act of 1996 eliminated certain pre-1983 earnings and profits of S corporations that had S corporation status for their first tax year beginning after December 31, 1996. This provision should apply to all corporations (C and S) with pre-1983 S earnings and profits without regard to when they elect S status. There seems to be no policy reason why the elimination was restricted to corporations with an S election in effect for their first taxable year beginning after December 31, 1996.

## SECTION 602. NO GAIN OR LOSS ON DEFERRED INTERCOMPANY TRANSACTIONS BECAUSE OF CONVERSION TO S CORPORATION OR QUALIFIED S CORPORATION SUBSIDIARY

The Act makes clear that any gain or income from an intercompany transaction is not taxed at the time of the S corporation or QSub elections.

## SECTION 603. TREATMENT OF CHARITABLE CONTRIBUTION AND FOREIGN TAX CREDIT CARRYFORWARDS

The Act provides that charitable contribution carryforwards and other carryforwards arising from a taxable year for which the corporation was a C corporation shall be allowed as a deduction against the net recognized built-in gain of the corporation for the taxable year. This provision is consistent with the legislative history of the 1986 Act.

## SECTION 604. DISTRIBUTION BY AN S CORPORATION TO AN EMPLOYEE STOCK OWNERSHIP PLAN

An ESOP will usually borrow from the sponsoring corporation to fund its acquisition of employer securities. In the case of a C corporation, the tax code provides that an ESOP will not be treated as engaging in a "prohibited transaction" if it uses any "dividend" on employer securities purchased with loan proceeds to make payments on the loan regardless of whether such employer securities have been pledged as collateral to secure the loan. The policy facilitates the payment of ESOP loans and thereby promotes employee ownership. Because S corporation distributions are technically not "dividends", the Act provides that S corporation distributions are treated as dividends. This clarification is necessary to ensure that the policy of facilitating the payment of ESOP loans applies equally to S corporation and C corporation ESOPs.

## SECTION 605. SPECIAL RULES OF APPLICATION

The effective dates of some amendments made by the Act may occur in years in which it is too late to file a claim for refund arising in such years from applying the amendments. The Act grants a 1-year extension beginning on the date of enactment in which to file such claims for these closed years.

Mr. Speaker, I urge my fellow members to review and support the S Corporation Modernization Act, which will help create a level playing field for small businesses. I look forward to working with my colleagues on the Ways and Means Committee to enact this bill.

GIVING PRAISE TO ZION  
EVANGELICAL LUTHERAN CHURCH

## HON. JAMES A. BARCIA

OF MICHIGAN

IN THE HOUSE OF REPRESENTATIVES

*Thursday, July 19, 2001*

Mr. BARCIA. Mr. Speaker, I rise today to sing the praises of Zion Evangelical Lutheran Church in Bay City, Michigan, as Reverend William H. Allwardt, his family and the congregation celebrate the 100th anniversary of its founding. Since its humble beginnings in 1901 in a small wood-frame building, Zion has grown to become a stronghold of faith for over 2,000 members in and around Bay City.

In 1901, Zion members first gathered to worship in a wooden building that once had been the Salzburg Band Hall. As the congregation grew, so did the need for a larger forum, resulting in the building in November 1930 of the present-day church. From the beginning, church leaders also recognized that religious education doesn't take place only on Sundays, so they built a schoolhouse. The commitment to Christian education continues today inside the Zion Memorial Building, named to honor the men and women of Zion who served in World War II. During the last school year, 170 students studied and learned at Zion.

Tradition and a sense of continuity have always been important elements in Zion's spiritual mission. In keeping with those practices, the church has had just seven pastors in a century's time. The present pastor, Reverend Allwardt, his wife, Paulette, and children, Will and Charice, have been part of the Zion family since 1978 and have contributed greatly to its rich history and Christian undertaking to spread the word of God to people near and far.

A fruitful church cannot multiply the ranks of the faithful without reaching out and Zion's congregation has always opened its doors and expanded its influence well beyond the sanctuary and into the surrounding community. Over the years, Zion has led by Christian example with their involvement in many social organizations, including the Saginaw Valley Blood Program, the Boy Scouts and Girl Scouts of America, the Bay County Food Pantry and the CROP Walk.

Mr. Speaker, I ask my colleagues to join me in honoring Zion Evangelical Lutheran Church for a century of Christian service, fellowship and leadership from the pulpit, the pews and among the greater community and in wishing them another hundred years of success.

## SALUTE TO VERNA SMALL

## HON. JERROLD NADLER

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

*Thursday, July 19, 2001*

Mr. NADLER. Mr. Speaker, I rise today to laud the incredible and enduring community activism of Verna Small. Verna has been active in the Greenwich Village community of New York City for over half a century, however she got her start right here in Washington, D.C. A 1937 graduate of George Washington University, Verna soon began working for the United States Department of

Labor, which took her on assignments all across this nation. Thankfully for us New Yorkers she landed in the heart of New York City, Greenwich Village, and immediately made it her home.

During her early years in the nation's Capital, Verna grew to love the Potomac River and other waterways, a love that would signal a passion that would last a lifetime. In New York, Verna recognized the beauty and splendor of the Hudson River and its vital relationship to Greenwich Village. She decided to make it part of her life's work to preserve this relationship and save the history of this neighborhood from disappearing at the hands of developers. Throughout the 1960's Verna, along with her comrade in arms Ruth Wittenberg, spearheaded an epic movement that culminated in the astounding creation of the New York City Landmarks Law in 1965 and the designation of the Greenwich Village Historic District in 1969, which remains today the city's largest historic district. Throughout this time Verna founded organizations that stand today to fight for the preservation of our city's neighborhoods, including the Association of Village Homeowners, the Historic Districts Council, the Greenwich Village Society for Historic Preservation, and the Federation to Preserve the Greenwich Village Waterfront & Great Port, Inc.

In 1964 Verna became a member of Manhattan Community Board 2. During her nearly forty-year tenure on the Community Board, she served as Chair of the Landmarks Committee for ten of those years. In 1994 she received the Elliot Willinsky Award from New York City's Landmarks Preservation Commission. Even today, Verna is fighting hard to preserve the history of the Village during the creation of the Hudson River Park.

Amidst all of her community activism, Verna led a full life as a wife, a mother, editor and author. She is truly a dynamic woman who has had a profound impact on those she has touched.

Mr. Speaker, I salute Verna Small and all of her accomplishments. I am happy to know her and am in constant awe of her passion and fortitude. It is my hope that she will continue to fight for what she believes in for a long time to come.

BISHOP TIMLIN CELEBRATES 50  
YEARS IN PRIESTHOOD

**HON. PAUL E. KANJORSKI**

OF PENNSYLVANIA

IN THE HOUSE OF REPRESENTATIVES

*Thursday, July 19, 2001*

Mr. KANJORSKI. Mr. Speaker, I rise today to call the attention of the House of Representatives to the 50th anniversary of the ordination to the priesthood of Bishop James C. Timlin of the Catholic Diocese of Scranton, Pennsylvania, which includes much of my Congressional District. Bishop Timlin is an institution in Northeastern Pennsylvania, known not only for his spiritual guidance but also for his leadership in a broad range of social issues.

Bishop Timlin, the eighth bishop of Scranton and the first native-born son of the diocese to become its bishop, celebrated his 50th anniversary on July 16. On September 21, he will celebrate the 25th anniversary of his elevation to the rank of bishop.

He was born in 1927 in the High Works section of Scranton to the late James C. and Helen Norton Timlin. He attended St. John the Evangelist and Holy Rosary schools in Scranton and graduated from Holy Rosary High School and St. Charles College in Catonsville, Md.

Those who knew him in childhood sensed he was on the path to the priesthood, as his face bore a radiant expression while he served Mass and he had already joined the Future Priest Club by the time he entered eighth grade at Holy Rosary. He attended St. Mary's Seminary in Baltimore before completing his studies for the priesthood at the North American College in Rome.

Bishop Timlin was ordained in 1951 in Rome by the Most Rev. Martin J. O'Connor, D.D., then-Rector of North American College, who ordained him a year early because of the speed with which he managed his studies. He continued studies in Theology there before returning to the diocese where in 1952 he was appointed assistant pastor at St. John the Evangelist Parish, Pittston.

On June 12, 1953, he became assistant pastor of St. Peter's Cathedral Parish, Scranton, where he served until September 12, 1966, when he was named assistant chancellor of the diocese and secretary to Bishop J. Carroll McCormick, D.D., the sixth Bishop of Scranton.

Other papal honors and diocesan appointments followed as he was named Chaplain to His Holiness, Pope Paul VI, on August 3, 1967, Chancellor of the diocese on December 15, 1971, and Prelate of Honor of His Holiness on April 23, 1972.

Earlier in his ministry, Bishop Timlin served as chairman of the Diocesan Liturgical Commission and the Priests' Education Committee, as well as librarian and secretary at St. Pius X Seminary, Dalton. In 1972, he was appointed to the Diocesan Board of Consultors, and three years later, was elected President of the Board of Directors of The Catholic Light.

He was named Auxiliary Bishop of Scranton on August 3, 1976. He was ordained in St. Peter's Cathedral on September 21, when he also became Vicar General of the diocese. In September, 1979, he became pastor of the Church of the Nativity of Our Lord, Scranton.

In the summer of 1983, Cardinal John J. O'Connor, the seventh Bishop of Scranton, appointed him chairman of the Board of Advisors for St. Pius X Seminary, and chairman of the Preparatory Commission for the Diocesan Synod. Following the Cardinal's transfer to the Archdiocese of New York in March, 1984, Bishop Timlin was elected Diocesan Administrator by the Diocesan Board of Consultors. His Holiness, Pope John Paul II, appointed him the eighth Bishop of Scranton on April 24, 1984, and his installation followed on June 7.

Bishop Timlin has served two terms as a member of the National Conference of Catholic Bishops' Administrative Board and the National Advisory Council. He also served as a member of the Board of the North American College, as well as a consultor on the Liturgy Committee.

He is presently a consultant to the NCCB's Ecumenical and Migration committees. He is well known for his commitment to ecumenism. To give just two examples, he led the Jewish Federation United Jewish Campaign's Super Sunday Telethon in 1984 and accepted an invitation to the Polish National Catholic

Church's 100th anniversary banquet in 1997, where he addressed the crowd, sharing their joy and seeking to restore unity between them.

He has also served a five-year term as Episcopal Moderator of the National Association of Holy Name Societies. A long-time licensed pilot, the bishop is the Episcopal Moderator of the National Association of Catholic Airport Chaplains.

When he was appointed bishop, he chose the motto "Fides Spes Caritas," faith, hope, love. I think also serves as a fine summary of Bishop Timlin's life and work.

Mr. Speaker, I am pleased to call to the attention of the House of Representatives the long and dedicated service of Bishop James C. Timlin and to wish him all the best as he continues to serve Northeastern Pennsylvania.

GUAM'S STUDENT MUSICAL  
GROUP

**HON. ROBERT A. UNDERWOOD**

OF GUAM

IN THE HOUSE OF REPRESENTATIVES

*Thursday, July 19, 2001*

Mr. UNDERWOOD. Mr. Speaker, I rise before you today to bring attention to the outstanding accomplishments of Guam's student musical group, the Silouettes. Started in 1996-1997 by Michael Song in his first year as music instructor at JFK High School in Tamuning, Guam, the Silouettes have overcome difficult obstacles on their road to success and recognition. Originally composed of 13 females, 3 male voices, 1 accompanist and an outdated piano, the Silouettes struggled to earn the community's respect in their inaugural year. Due to their unrelenting desire to succeed and tremendous hard work, the Silouettes not only excelled in gaining the local community's respect, but also attained international recognition. They toured Korea and Japan, and eventually traveled to the U.S. mainland, where they were selected as champions in the "Show Choir" division of the 1999-2000 MusicFest Orlando. This year, the Silouettes have successfully defended their title, and have additionally placed first in the "Concert Choir" division, thereby earning the title of "Grand Champions" in the competition.

The attributes setting the Silouettes apart are the group's tremendous ambition and will to succeed. In their inaugural year, without any community or government assistance, the group raised \$17,000 and went on a tour to Korea, where they became the first foreign school students ever allowed to perform on the prestigious campus of EWAH Girls High School. The success greatly magnified their reputation, but the Silouettes continued to struggle while trying to obtain financial support. Through extensive fund-raising efforts, the group managed to raise the necessary funds to tour Japan and perform at 9 schools and for the mayor of Gifu, who awarded the group Honorary Citizenship of his city. Their diligence, dedication, hard work paid off. Due mainly to their growing reputation, Government of Guam funds were appropriated enabling the Silouettes to fulfill their dream and compete against some of the highest rated U.S. High Schools at the Orlando MusicFest 1999-2000 and 2000-2001.

Their magnificent talent led the Silouettes to place first in the "Show Choir" division, in