

Union Calendar No. 175

104TH CONGRESS
1ST SESSION

H. R. 2494

[Report No. 104-324]

A BILL

To amend the Internal Revenue Code of 1986 to provide for the treatment of bad debt reserves of savings associations which are required to convert into banks, and for other purposes.

NOVEMBER 7, 1995

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

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 IN THE HOUSE OF REPRESENTATIVES

OCTOBER 18, 1995

Mr. ARCHER (for himself, Mr. LEACH, and Mrs. ROUKEMA) introduced the following bill; which was referred to the Committee on Ways and Means

NOVEMBER 7, 1995

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

[For text of introduced bill, see copy of bill as introduced on October 18, 1995]

A BILL

To amend the Internal Revenue Code of 1986 to provide for the treatment of bad debt reserves of savings associations which are required to convert into 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,*

1 **SECTION 1. SHORT TITLE.**

2 *This Act may be cited as the “Thrift Charter Conver-*
3 *sion Tax Act of 1995”.*

4 **SEC. 2. TREATMENT OF RESERVES FOR BAD DEBTS OF SAV-**
5 **INGS ASSOCIATIONS WHICH ARE REQUIRED**
6 **TO CONVERT INTO BANKS.**

7 *(a) IN GENERAL.—Section 593 of the Internal Revenue*
8 *Code of 1986 (relating to reserves for losses on loans) is*
9 *hereby repealed.*

10 *(b) CONFORMING AMENDMENTS.—*

11 *(1) Subsection (d) of section 50 of such Code is*
12 *amended by adding at the end the following new sen-*
13 *tence:*

14 *“Paragraphs (1)(A), (2)(A), and (4) of the section 46(e) re-*
15 *ferred to in paragraph (1) of this subsection shall not apply*
16 *to any taxable year beginning after December 31, 1995.”*

17 *(2) Subsection (e) of section 52 of such Code is*
18 *amended by striking paragraph (1) and by redesign-*
19 *ating paragraphs (2) and (3) as paragraphs (1) and*
20 *(2), respectively.*

21 *(3) Subsection (a) of section 57 of such Code is*
22 *amended by striking paragraph (4).*

23 *(4) Section 246 of such Code is amended by*
24 *striking subsection (f).*

1 (5) Clause (i) of section 291(e)(1)(B) of such
2 Code is amended by striking “or to which section 593
3 applies”.

4 (6) Subparagraph (A) of section 585(a)(2) of
5 such Code is amended by striking “other than an or-
6 ganization to which section 593 applies”.

7 (7) Section 595 of such Code is hereby repealed.

8 (8) Section 596 of such Code is hereby repealed.

9 (9) Subsection (a) of section 860E of such Code
10 is amended—

11 (A) by striking “Except as provided in
12 paragraph (2), the” in paragraph (1) and in-
13 serting “The”,

14 (B) by striking paragraphs (2) and (4) and
15 redesignating paragraphs (3) and (5) as para-
16 graphs (2) and (3), respectively, and

17 (C) by striking in paragraph (2) (as so re-
18 designated) all that follows “subsection” and in-
19 serting a period.

20 (10) Paragraph (3) of section 992(d) of such
21 Code is amended by striking “or 593”.

22 (11) Section 1038 of such Code is amended by
23 striking subsection (f).

24 (12) Clause (ii) of section 1042(c)(4)(B) of such
25 Code is amended by striking “or 593”.

1 (13) Subsection (c) of section 1277 of such Code
2 is amended by striking “or to which section 593 ap-
3 plies”.

4 (14) Subparagraph (B) of section 1361(b)(2) of
5 such Code is amended by striking “or to which section
6 593 applies”.

7 (15) The table of sections for part II of sub-
8 chapter H of chapter 1 of such Code is amended by
9 striking the items relating to sections 593, 595, and
10 596.

11 (c) *EFFECTIVE DATE.*—

12 (1) *IN GENERAL.*—Except as provided in para-
13 graph (2), the amendments made by this section shall
14 apply to taxable years beginning after December 31,
15 1995.

16 (2) *REPEAL OF SECTION 595.*—The amendment
17 made by subsection (b)(7) shall apply to property ac-
18 quired in taxable years beginning after December 31,
19 1995.

20 (d) *6-YEAR SPREAD OF ADJUSTMENTS.*—

21 (1) *IN GENERAL.*—In the case of any taxpayer
22 who is required by reason of the amendments made
23 by this section to change its method of computing re-
24 serves for bad debts—

1 (A) such change shall be treated as a change
2 in a method of accounting,

3 (B) such change shall be treated as initiated
4 by the taxpayer and as having been made with
5 the consent of the Secretary, and

6 (C) the net amount of the adjustments re-
7 quired to be taken into account by the taxpayer
8 under section 481(a) of the Internal Revenue
9 Code of 1986—

10 (i) shall be determined by taking into
11 account only applicable excess reserves, and

12 (ii) as so determined, shall be taken
13 into account ratably over the 6-taxable year
14 period beginning with the first taxable year
15 beginning after December 31, 1995.

16 (2) APPLICABLE EXCESS RESERVES.—

17 (A) IN GENERAL.—For purposes of para-
18 graph (1), the term “applicable excess reserves”
19 means the excess (if any) of—

20 (i) the balance of the reserves described
21 in section 593(c)(1) of such Code (as in ef-
22 fect on the day before the date of the enact-
23 ment of this Act) as of the close of the tax-
24 payer’s last taxable year beginning before
25 January 1, 1996, over

1 (ii) the balance of such reserves as of
2 the close of the taxpayer's last taxable year
3 beginning before January 1, 1988.

4 (B) *SPECIAL RULE FOR THRIFTS WHICH*
5 *BECOME SMALL BANKS.*—In the case of a bank
6 (as defined in section 581 of such Code) which
7 was not a large bank (as defined in section
8 585(c)(2) of such Code) for its first taxable year
9 beginning after December 31, 1995—

10 (i) the balance taken into account
11 under subparagraph (A)(ii) shall not be less
12 than the amount which would be the bal-
13 ance of such reserve as of the close of its last
14 taxable year beginning before January 1,
15 1996, if the additions to such reserve for all
16 taxable years had been determined under
17 section 585(b)(2)(A) of such Code, and

18 (ii) the opening balance of the reserve
19 for bad debts as of the beginning of such
20 first taxable year shall be the balance taken
21 into account under subparagraph (A)(ii)
22 (determined after the application of clause
23 (i) of this subparagraph).

24 The preceding sentence shall not apply for pur-
25 poses of paragraphs (4), (5), and (6).

1 (3) *SUSPENSION OF RECAPTURE IF RESIDENTIAL*
2 *LOAN REQUIREMENT MET.*—

3 (A) *IN GENERAL.*—*In the case of a taxpayer*
4 *which meets the residential loan requirement of*
5 *subparagraph (B) for any taxable year—*

6 (i) *no adjustment shall be taken into*
7 *account under paragraph (1) for such tax-*
8 *able year, and*

9 (ii) *such taxable year shall be dis-*
10 *regarded in determining—*

11 (I) *whether any other taxable year*
12 *is a taxable year for which an adjust-*
13 *ment is required to be taken into ac-*
14 *count under paragraph (1), and*

15 (II) *the amount of such adjust-*
16 *ment.*

17 (B) *RESIDENTIAL LOAN REQUIREMENT.*—*A*
18 *taxpayer meets the residential loan requirement*
19 *of this subparagraph for any taxable year if—*

20 (i) *the principal amount of the resi-*
21 *dential loans made by the taxpayer during*
22 *such year is not less than the base amount*
23 *for such year, or*

24 (ii) *the principal amount of the resi-*
25 *dential loans made by the taxpayer during*

1 each of the 2 preceding taxable years is not
2 less than the base amount for such preced-
3 ing years.

4 Clause (ii) shall not apply for purposes of deter-
5 mining whether a taxpayer meets the residential
6 loan requirement of this subparagraph for any
7 taxable year beginning before January 1, 1998.

8 (C) *RESIDENTIAL LOAN.*—For purposes of
9 this paragraph, the term “residential loan”
10 means any loan described in clause (v) of section
11 7701(a)(19)(C) of such Code but only if such
12 loan is incurred in acquiring, constructing, or
13 improving the property described in such clause.

14 (D) *BASE AMOUNT.*—For purposes of sub-
15 paragraph (B), the base amount is the average
16 of the principal amounts of the residential loans
17 made by the taxpayer during the 6 most recent
18 taxable years beginning before January 1, 1996.
19 At the election of the taxpayer who made such
20 loans during each of such 6 taxable years, the
21 preceding sentence shall be applied without re-
22 gard to the taxable year in which such principal
23 amount was the highest and the taxable year in
24 such principal amount was the lowest. Such an
25 election may be made only for the first taxable

1 *year beginning after December 31, 1995, and, if*
2 *made for such taxable year, shall apply to all*
3 *succeeding taxable years unless revoked with the*
4 *consent of the Secretary of the Treasury or his*
5 *delegate.*

6 (E) *INFLATION ADJUSTMENT OF BASE*
7 *AMOUNT.—In the case of a taxable year begin-*
8 *ning in a calendar year after 1996, the amount*
9 *determined under subparagraph (D) shall be in-*
10 *creased by an amount equal to—*

11 (i) *the amount so determined, multi-*
12 *plied by*

13 (ii) *the cost-of-living adjustment deter-*
14 *mined under section 1(f)(3) of such Code for*
15 *such calendar year, by substituting “cal-*
16 *endar year 1995” for “calendar year 1992”*
17 *in subparagraph (B) thereof.*

18 (F) *CONTROLLED GROUPS.—In the case of a*
19 *taxpayer which is a member of any controlled*
20 *group of corporations described in section*
21 *1563(a)(1) of such Code, subparagraph (B) shall*
22 *be applied with respect to such group.*

23 (4) *CONTINUED APPLICATION OF FRESH START*
24 *UNDER SECTION 585 TRANSITIONAL RULES.—In the*
25 *case of a taxpayer to which paragraph (1) applied*

1 *and which was not a large bank (as defined in section*
2 *585(c)(2) of such Code) for its first taxable year be-*
3 *ginning after December 31, 1995:*

4 (A) *IN GENERAL.*—*For purposes of deter-*
5 *mining the net amount of adjustments referred to*
6 *in section 585(c)(3)(A)(iii) of such Code, there*
7 *shall be taken into account only the excess of the*
8 *reserve for bad debts as of the close of the last*
9 *taxable year before the disqualification year over*
10 *the balance taken into account by such taxpayer*
11 *under paragraph (2)(A)(ii) of this subsection.*

12 (B) *TREATMENT UNDER ELECTIVE CUT-OFF*
13 *METHOD.*—*For purposes of applying section*
14 *585(c)(4) of such Code—*

15 (i) *the balance of the reserve taken into*
16 *account under subparagraph (B) thereof*
17 *shall be reduced by the balance taken into*
18 *account by such taxpayer under paragraph*
19 *(2)(A)(ii) of this subsection, and*

20 (ii) *no amount shall be includible in*
21 *gross income by reason of such reduction.*

22 (5) *CONTINUED APPLICATION OF SECTION*
23 *593(e).*—*Notwithstanding the amendments made by*
24 *this section, in the case of a taxpayer to which para-*
25 *graph (1) of this subsection applies, section 593(e) of*

1 *such Code (as in effect on the day before the date of*
2 *the enactment of this Act) shall continue to apply to*
3 *such taxpayer as if such taxpayer were a domestic*
4 *building and loan association but the amount of the*
5 *reserve taken into account under such section 593(e)*
6 *shall be only the balance taken into account by such*
7 *taxpayer under paragraph (2)(A)(ii) of this sub-*
8 *section.*

9 (6) *CERTAIN ITEMS INCLUDED AS SECTION 381(c)*
10 *ITEMS.—The balance of the applicable excess reserves,*
11 *and the balance taken into account by a taxpayer*
12 *under paragraph (2)(A)(ii) of this subsection, shall be*
13 *treated as items described in section 381(c) of such*
14 *Code.*

15 (7) *REGULATIONS.—The Secretary of the Treas-*
16 *ury or his delegate shall prescribe such regulations as*
17 *may be necessary to carry out this subsection, includ-*
18 *ing regulations providing for the application of para-*
19 *graph (3) in the case of mergers, spin-offs, and other*
20 *reorganizations.*

21 **SEC. 3. DEDUCTION FOR SPECIAL ASSESSMENTS.**

22 *For purposes of subtitle A of the Internal Revenue Code*
23 *of 1986, the amount allowed as a deduction under section*
24 *162 of such Code for a taxable year shall include the amount*
25 *paid during such year as a special assessment under section*

1 *7(b)(6)(B) of the Federal Deposit Insurance Act, as amend-*
2 *ed by the Thrift Charter Conversion Act of 1995, as con-*
3 *tained in subtitle B of title II of H.R. 2491 of the 104th*
4 *Congress, as passed by the House of Representatives.*