

104TH CONGRESS
1ST SESSION

S. 1032

To amend the Internal Revenue Code of 1986 to provide nonrecognition treatment for certain transfers by common trust funds to regulated investment companies.

IN THE SENATE OF THE UNITED STATES

JULY 13 (legislative day, JULY 10), 1995

Mr. ROTH (for himself and Mr. BAUCUS) 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 provide nonrecognition treatment for certain transfers by common trust funds to regulated investment companies.

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 “Common Trust Fund
5 Improvement Act of 1995”.

1 **SEC. 2. NONRECOGNITION TREATMENT FOR CERTAIN**
2 **TRANSFERS BY COMMON TRUST FUNDS TO**
3 **REGULATED INVESTMENT COMPANIES.**

4 (a) GENERAL RULE.—Section 584 of the Internal
5 Revenue Code of 1986 (relating to common trust funds)
6 is amended by redesignating subsection (h) as subsection
7 (i) and by inserting after subsection (g) the following new
8 subsection:

9 “(h) NONRECOGNITION TREATMENT FOR CERTAIN
10 TRANSFERS TO REGULATED INVESTMENT COMPANIES.—

11 “(1) IN GENERAL.—If—

12 “(A) pursuant to a single plan, a common
13 trust fund transfers substantially all of its as-
14 sets to one or more regulated investment com-
15 panies in exchange solely for stock in the com-
16 pany or companies to which such assets are so
17 transferred, and

18 “(B) such stock is distributed by such
19 common trust fund to participants in such com-
20 mon trust fund in exchange solely for their in-
21 terests in such common trust fund,

22 no gain or loss shall be recognized by such common
23 trust fund by reason of such transfer or distribution,
24 and no gain or loss shall be recognized by any par-
25 ticipant in such common trust fund by reason of
26 such exchange.

1 “(2) BASIS RULES.—

2 “(A) REGULATED INVESTMENT COM-
3 PANY.—The basis of any asset received by a
4 regulated investment company in a transfer re-
5 ferred to in paragraph (1)(A) shall be the same
6 as it would be in the hands of the common
7 trust fund.

8 “(B) PARTICIPANTS.—The basis of the
9 stock which is received in an exchange referred
10 to in paragraph (1)(B) shall be the same as
11 that of the property exchanged. If stock in more
12 than one regulated investment company is re-
13 ceived in such exchange, the basis determined
14 under the preceding sentence shall be allocated
15 among the stock in each such company on the
16 basis of respective fair market values.

17 “(3) TREATMENT OF ASSUMPTIONS OF LIABIL-
18 ITY.—

19 “(A) IN GENERAL.—In determining wheth-
20 er the transfer referred to in paragraph (1)(A)
21 is in exchange solely for stock in one or more
22 regulated investment companies, the assump-
23 tion by any such company of a liability of the
24 common trust fund, and the fact that any prop-

1 erty transferred by the common trust fund is
2 subject to a liability, shall be disregarded.

3 “(B) SPECIAL RULE WHERE ASSUMED LI-
4 ABILITIES EXCEED BASIS.—

5 “(i) IN GENERAL.—If, in any transfer
6 referred to in paragraph (1)(A), the as-
7 sumed liabilities exceed the aggregate ad-
8 justed bases (in the hands of the common
9 trust fund) of the assets transferred to the
10 regulated investment company or compa-
11 nies—

12 “(I) notwithstanding paragraph
13 (1), gain shall be recognized to the
14 common trust fund on such transfer
15 in an amount equal to such excess,

16 “(II) the basis of the assets re-
17 ceived by the regulated investment
18 company or companies in such trans-
19 fer shall be increased by the amount
20 so recognized, and

21 “(III) any adjustment to the
22 basis of a participant’s interest in the
23 common trust fund as a result of the
24 gain so recognized shall be treated as
25 occurring immediately before the ex-

1 change referred to in paragraph
2 (1)(B).

3 If the transfer referred to in paragraph
4 (1)(A) is to two or more regulated invest-
5 ment companies, the basis increase under
6 subclause (II) shall be allocated among
7 such companies on the basis of the respec-
8 tive fair market values of the assets re-
9 ceived by each of such companies.

10 “(ii) ASSUMED LIABILITIES.—For
11 purposes of clause (i), the term ‘assumed
12 liabilities’ means the aggregate of—

13 “(I) any liability of the common
14 trust fund assumed by any regulated
15 investment company in connection
16 with the transfer referred to in para-
17 graph (1)(A), and

18 “(II) any liability to which prop-
19 erty so transferred is subject.

20 “(4) COMMON TRUST FUND MUST MEET DIVER-
21 SIFICATION RULES.—This subsection shall not apply
22 to any common trust fund which would not meet the
23 requirements of section 368(a)(2)(F)(ii) if it were a
24 corporation. For purposes of the preceding sentence,
25 Government securities shall not be treated as securi-

1 ties of an issuer in applying the 25-percent and 50-
2 percent test and such securities shall not be excluded
3 for purposes of determining total assets under clause
4 (iv) of section 368(a)(2)(F).”

5 (b) EFFECTIVE DATE.—The amendment made by
6 subsection (a) shall apply to transfers after the date of
7 the enactment of this Act.

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