

1 **TITLE IV—PARTICIPATION EX-**  
2 **EMPTION SYSTEM FOR THE**  
3 **TAXATION OF FOREIGN IN-**  
4 **COME**

5 **Subtitle A—Establishment of**  
6 **Exemption System**

7 **SEC. 4001. DEDUCTION FOR DIVIDENDS RECEIVED BY DO-**  
8 **MESTIC CORPORATIONS FROM CERTAIN FOR-**  
9 **EIGN CORPORATIONS.**

10 (a) IN GENERAL.—Part VIII of subchapter B of  
11 chapter 1 is amended by inserting after section 245 the  
12 following new section:

13 **“SEC. 245A. DIVIDENDS RECEIVED BY DOMESTIC CORPORA-**  
14 **TIONS FROM CERTAIN FOREIGN CORPORA-**  
15 **TIONS.**

16 “(a) IN GENERAL.—In the case of any dividend re-  
17 ceived from a specified 10-percent owned foreign corpora-  
18 tion by a domestic corporation which is a United States  
19 shareholder with respect to such foreign corporation, there  
20 shall be allowed as a deduction an amount equal to 95  
21 percent of the foreign-source portion of such dividend.

22 “(b) SPECIFIED 10-PERCENT OWNED FOREIGN COR-  
23 PORATION.—For purposes of this section, the term ‘speci-  
24 fied 10-percent owned foreign corporation’ means any for-  
25 eign corporation if any domestic corporation owns directly,

1 or indirectly through a chain of ownership described under  
2 section 958(a), 10 percent or more of the voting stock of  
3 such foreign corporation.

4 “(c) FOREIGN-SOURCE PORTION.—For purposes of  
5 this section—

6 “(1) IN GENERAL.—The foreign-source portion  
7 of any dividend is an amount which bears the same  
8 ratio to such dividends as—

9 “(A) the post-1986 undistributed foreign  
10 earnings, bears to

11 “(B) the total post-1986 undistributed  
12 earnings.

13 “(2) POST-1986 UNDISTRIBUTED EARNINGS.—  
14 The term ‘post-1986 undistributed earnings’ means  
15 the amount of the earnings and profits of the speci-  
16 fied 10-percent owned foreign corporation (computed  
17 in accordance with sections 964(a) and 986) accu-  
18 mulated in taxable years beginning after December  
19 31, 1986—

20 “(A) as of the close of the taxable year of  
21 the specified 10-percent owned foreign corpora-  
22 tion in which the dividend is distributed, and

23 “(B) without diminution by reason of divi-  
24 dends distributed during such taxable year.

1           “(3) POST-1986 UNDISTRIBUTED FOREIGN  
2 EARNINGS.—The term ‘post-1986 undistributed for-  
3 eign earnings’ means the portion of the post-1986  
4 undistributed earnings which is attributable to nei-  
5 ther—

6           “(A) income described in subparagraph (A)  
7 of section 245(a)(5), nor

8           “(B) dividends described in subparagraph  
9 (B) of such section (determined without regard  
10 to section 245(a)(12)).

11           “(4) TREATMENT OF DISTRIBUTIONS FROM  
12 EARNINGS BEFORE 1987.—

13           “(A) IN GENERAL.—In the case of any div-  
14 idend paid out of earnings and profits of the  
15 specified 10-percent owned foreign corporation  
16 (computed in accordance with sections 964(a)  
17 and 986) accumulated in taxable years begin-  
18 ning before January 1, 1987—

19           “(i) paragraphs (1), (2), and (3) shall  
20 be applied without regard to the phrase  
21 ‘post-1986’ each place it appears, and

22           “(ii) paragraph (2) shall be applied  
23 without regard to the phrase ‘in taxable  
24 years beginning after December 31, 1986’.

1           “(B) DIVIDENDS PAID FIRST OUT OF  
2           POST-1986 EARNINGS.—Dividends shall be treat-  
3           ed as paid out of post-1986 undistributed earn-  
4           ings to the extent thereof.

5           “(d) DISALLOWANCE OF FOREIGN TAX CREDIT,  
6 ETC.—

7           “(1) IN GENERAL.—No credit shall be allowed  
8           under section 901 for any taxes paid or accrued (or  
9           treated as paid or accrued) with respect to any divi-  
10          dend for which a deduction is allowed under this sec-  
11          tion.

12          “(2) DENIAL OF DEDUCTION.—No deduction  
13          shall be allowed under this chapter for any tax for  
14          which credit is not allowable under section 901 by  
15          reason of paragraph (1) (determined by treating the  
16          taxpayer as having elected the benefits of subpart A  
17          of part III of subchapter N).

18          “(e) REGULATIONS.—The Secretary may prescribe  
19          such regulations or other guidance as may be necessary  
20          or appropriate to carry out the provisions of this section.”.

21          (b) APPLICATION OF HOLDING PERIOD REQUIRE-  
22          MENT.—Subsection (c) of section 246 is amended—

23                 (1) by striking “or 245” in paragraph (1) and  
24                 inserting “245, or 245A”, and

1           (2) by adding at the end the following new  
2 paragraph:

3           “(5) SPECIAL RULES FOR FOREIGN SOURCE  
4 PORTION OF DIVIDENDS RECEIVED FROM SPECIFIED  
5 10-PERCENT OWNED FOREIGN CORPORATIONS.—

6           “(A) 6-MONTH HOLDING PERIOD REQUIRE-  
7 MENT.—For purposes of section 245A—

8           “(i) paragraph (1)(A) shall be ap-  
9 plied—

10                   “(I) by substituting ‘180 days’  
11 for ‘45 days’ each place it appears, and

12                   “(II) by substituting ‘361-day pe-  
13 riod’ for ‘91-day period’, and

14           “(ii) paragraph (2) shall not apply.

15           “(B) STATUS MUST BE MAINTAINED DUR-  
16 ING HOLDING PERIOD.—For purposes of section  
17 245A, the holding period requirement of this  
18 subsection shall be treated as met only if—

19           “(i) the specified 10-percent owned  
20 corporation referred to in section 245A(a)  
21 is a specified 10-percent owned corporation  
22 at all times during such period, and

23           “(ii) the taxpayer is a United States  
24 shareholder with respect to such specified

1                   10-percent owned corporation at all times  
2                   during such period.”.

3           (c) APPLICATION OF RULES GENERALLY APPLICA-  
4 BLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

5                   (1) TREATMENT OF DIVIDENDS FROM CERTAIN  
6 CORPORATIONS.—Paragraph (1) of section 246(a) is  
7 amended by striking “and 245” and inserting “245,  
8 and 245A”.

9                   (2) ASSETS GENERATING TAX-EXEMPT PORTION  
10 OF DIVIDEND NOT TAKEN INTO ACCOUNT IN ALLO-  
11 CATING AND APPORTIONING DEDUCTIBLE EX-  
12 PENSES.—Paragraph (3) of section 864(e) is amend-  
13 ed by striking “or 245(a)” and inserting “, 245(a),  
14 or 245A”.

15                   (3) COORDINATION WITH SECTION 1059.—Sub-  
16 paragraph (B) of section 1059(b)(2) is amended by  
17 striking “or 245” and inserting “245, or 245A”.

18           (d) COORDINATION WITH FOREIGN TAX CREDIT  
19 LIMITATION.—Subsection (b) of section 904, as amended  
20 by the preceding provisions of this Act, is amended by re-  
21 designating paragraph (2) as paragraph (1) and by adding  
22 at the end the following new paragraph:

23                   “(2) TREATMENT OF DIVIDENDS FOR WHICH  
24 DEDUCTION IS ALLOWED UNDER SECTION 245A.—  
25 For purposes of subsection (a), in the case of a do-

1       mestic corporation which is a United States share-  
2       holder with respect to a specified 10-percent owned  
3       foreign corporation, such domestic corporation's tax-  
4       able income from sources without the United States  
5       shall be determined without regard to—

6               “(A) the foreign-source portion of any divi-  
7       dend received from such foreign corporation,  
8       and

9               “(B) any deductions properly allocable to  
10       such portion.

11       Any term which is used in section 245A and in this  
12       paragraph shall have the same meaning for purposes  
13       of this paragraph as when used in such section.”.

14       (e) CONFORMING AMENDMENTS.—

15               (1) Paragraph (4) of section 245(a) is amended  
16       by striking “section 902(c)(1)” and inserting “sec-  
17       tion 245A(c)(2)”.

18               (2) Subsection (b) of section 951 is amended by  
19       striking “subpart” and inserting “title”.

20               (3) Subsection (a) of section 957 is amended by  
21       striking “subpart” in the matter preceding para-  
22       graph (1) and inserting “title”.

23               (4) The table of sections for part VIII of sub-  
24       chapter B of chapter 1 is amended by inserting after

1 the item relating to section 245 the following new  
2 item:

“Sec. 245A. Dividends received by domestic corporations from certain foreign corporations.”.

3 (f) **EFFECTIVE DATE.**—The amendments made by  
4 this section shall apply to taxable years of foreign corpora-  
5 tions beginning after December 31, 2014, and to taxable  
6 years of United States shareholders in which or with which  
7 such taxable years of foreign corporations end.

8 **SEC. 4002. LIMITATION ON LOSSES WITH RESPECT TO**  
9 **SPECIFIED 10-PERCENT OWNED FOREIGN**  
10 **CORPORATIONS.**

11 (a) **BASIS IN SPECIFIED 10-PERCENT OWNED FOR-**  
12 **EIGN CORPORATION REDUCED BY NONTAXED PORTION**  
13 **OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.**—

14 (1) **IN GENERAL.**—Section 961 is amended by  
15 adding at the end the following new subsection:

16 “(d) **BASIS IN SPECIFIED 10-PERCENT OWNED FOR-**  
17 **EIGN CORPORATION REDUCED BY NONTAXED PORTION**  
18 **OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.**—

19 If a domestic corporation received a dividend from a speci-  
20 fied 10-percent owned foreign corporation (as defined in  
21 section 245A) in any taxable year, solely for purposes of  
22 determining loss on any disposition in such taxable year  
23 or any subsequent taxable year, the basis of such domestic  
24 corporation in the stock of such foreign corporation shall

1 be reduced by the amount of any deduction allowable to  
2 such domestic corporation under section 245A with re-  
3 spect to such stock.”.

4 (2) EFFECTIVE DATE.—The amendments made  
5 by this subsection shall apply to dividends received  
6 in taxable years beginning after December 31, 2014.

7 (b) TREATMENT OF FOREIGN BRANCH LOSSES  
8 TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOR-  
9 EIGN CORPORATIONS.—

10 (1) IN GENERAL.—Part II of subchapter B of  
11 chapter 1, as amended by the preceding provisions  
12 of this Act, is amended by adding at the end the fol-  
13 lowing new section:

14 **“SEC. 92. CERTAIN FOREIGN BRANCH LOSSES TRANS-**  
15 **FERRED TO SPECIFIED 10-PERCENT OWNED**  
16 **FOREIGN CORPORATIONS.**

17 “(a) IN GENERAL.—If a domestic corporation trans-  
18 fers substantially all of the assets of a foreign branch  
19 (within the meaning of section 367(a)(3)(C)) to a specified  
20 10-percent owned foreign corporation (as defined in sec-  
21 tion 245A) with respect to which it is a United States  
22 shareholder after such transfer, such domestic corporation  
23 shall include in gross income for the taxable year which  
24 includes such transfer an amount equal to the transferred  
25 loss amount with respect to such transfer.

1       “(b) LIMITATION AND CARRYFORWARD BASED ON  
2 FOREIGN-SOURCE DIVIDENDS RECEIVED.—

3           “(1) IN GENERAL.—The amount included in  
4 the gross income of the taxpayer under subsection  
5 (a) for any taxable year shall not exceed the amount  
6 allowed as a deduction under section 245A for such  
7 taxable year (taking into account dividends received  
8 from all specified 10-percent owned foreign corpora-  
9 tions with respect to which the taxpayer is a United  
10 States shareholder).

11           “(2) AMOUNTS NOT INCLUDED CARRIED FOR-  
12 WARD.—Any amount not included in gross income  
13 for any taxable year by reason of paragraph (1)  
14 shall, subject to the application of paragraph (1) to  
15 the succeeding taxable year, be included in gross in-  
16 come for the succeeding taxable year.

17       “(c) TRANSFERRED LOSS AMOUNT.—For purposes  
18 of this section, the term ‘transferred loss amount’ means,  
19 with respect to any transfer of substantially all of the as-  
20 sets of a foreign branch, the excess (if any) of—

21           “(1) the sum of losses—

22                   “(A) which were incurred by the foreign  
23 branch after December 31, 2014, and before  
24 the transfer, and

1           “(B) with respect to which a deduction was  
2 allowed to the taxpayer, over

3           “(2) the sum of—

4           “(A) any taxable income of such branch  
5 for a taxable year after the taxable year in  
6 which the loss was incurred and through the  
7 close of the taxable year of the transfer, and

8           “(B) any amount which is recognized  
9 under section 904(f)(3) on account of the trans-  
10 fer.

11       “(d) REDUCTION FOR RECOGNIZED GAINS.—

12           “(1) IN GENERAL.—In the case of a transfer  
13 not described in section 367(a)(3)(C), the trans-  
14 ferred loss amount shall be reduced (but not below  
15 zero) by the amount of gain recognized by the tax-  
16 payer on account of the transfer (other than  
17 amounts taken into account under subsection  
18 (c)(2)(B)).

19           “(2) COORDINATION WITH RECOGNITION  
20 UNDER SECTION 367.—In the case of a transfer de-  
21 scribed in section 367(a)(3)(C), the transferred loss  
22 amount shall not exceed the excess (if any) of—

23           “(A) the excess of the amount described in  
24 section 367(a)(3)(C)(i) over the amount de-

1 scribed in section 367(a)(3)(C)(ii) with respect  
2 to such transfer, over

3 “(B) the amount of gain recognized under  
4 section 367(a)(3)(C) with respect to such trans-  
5 fer.

6 “(e) SOURCE OF INCOME.—Amounts included in  
7 gross income under this section shall be treated as derived  
8 from sources within the United States.

9 “(f) BASIS ADJUSTMENTS.—Consistent with such  
10 regulations or other guidance as the Secretary may pre-  
11 scribe, proper adjustments shall be made in the adjusted  
12 basis of the taxpayer’s stock in the specified 10-percent  
13 owned foreign corporation to which the transfer is made,  
14 and in the transferee’s adjusted basis in the property  
15 transferred, to reflect amounts included in gross income  
16 under this section.”.

17 (2) AMOUNTS RECOGNIZED UNDER SECTION 367  
18 ON TRANSFER OF FOREIGN BRANCH WITH PRE-  
19 VIOUSLY DEDUCTED LOSSES TREATED AS UNITED  
20 STATES SOURCE.—Subparagraph (C) of section  
21 367(a)(3) is amended by striking “outside” in the  
22 last sentence and inserting “within”.

23 (3) CLERICAL AMENDMENT.—The table of sub-  
24 parts for such part, as amended by the preceding

1 provisions of this Act, is amended by adding at the  
2 end the following new item:

“Sec. 92. Certain foreign branch losses transferred to specified 10-percent  
owned foreign corporations.”.

3 (4) EFFECTIVE DATE.—The amendments made  
4 by this subsection shall apply to transfers after De-  
5 cember 31, 2014.

6 **SEC. 4003. TREATMENT OF DEFERRED FOREIGN INCOME**  
7 **UPON TRANSITION TO PARTICIPATION EX-**  
8 **EMPTION SYSTEM OF TAXATION.**

9 (a) IN GENERAL.—Section 965 is amended to read  
10 as follows:

11 **“SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME**  
12 **UPON TRANSITION TO PARTICIPATION EX-**  
13 **EMPTION SYSTEM OF TAXATION.**

14 “(a) TREATMENT OF DEFERRED FOREIGN INCOME  
15 AS SUBPART F INCOME.—In the case of the last taxable  
16 year of a deferred foreign income corporation which begins  
17 before January 1, 2015, the subpart F income of such  
18 foreign corporation (as otherwise determined for such tax-  
19 able year under section 952) shall be increased by the ac-  
20 cumulated post-1986 deferred foreign income of such cor-  
21 poration determined as of the close of such taxable year.

22 “(b) REDUCTION IN AMOUNTS INCLUDED IN GROSS  
23 INCOME OF UNITED STATES SHAREHOLDERS OF SPECI-

1 FIED FOREIGN CORPORATIONS WITH DEFICITS IN EARN-  
2 INGS AND PROFITS.—

3           “(1) IN GENERAL.—In the case of a taxpayer  
4 which is a United States shareholder with respect to  
5 at least one deferred foreign income corporation and  
6 at least one E&P deficit foreign corporation, the  
7 amount which would (but for this subsection) be  
8 taken into account under section 951(a)(1) by rea-  
9 son of subsection (a) as such United States share-  
10 holder’s pro rata share of the subpart F income of  
11 each deferred foreign income corporation shall be re-  
12 duced (but not below zero) by the amount of such  
13 United States shareholder’s aggregate foreign E&P  
14 deficit which is allocated under paragraph (2) to  
15 such deferred foreign income corporation.

16           “(2) ALLOCATION OF AGGREGATE FOREIGN E&P  
17 DEFICIT.—The aggregate foreign E&P deficit of any  
18 United States shareholder shall be allocated among  
19 the deferred foreign income corporations of such  
20 United States shareholder in an amount which bears  
21 the same proportion to such aggregate as—

22           “(A) such United States shareholder’s pro  
23 rata share of the accumulated post-1986 de-  
24 ferred foreign income of each such deferred for-  
25 eign income corporation, bears to

1           “(B) the aggregate of such United States  
2           shareholder’s pro rata share of the accumulated  
3           post-1986 deferred foreign income of all de-  
4           ferred foreign income corporations of such  
5           United States shareholder.

6           “(3) DEFINITIONS RELATED TO E&P DEFICI-  
7           CITS.—For purposes of this subsection—

8           “(A) AGGREGATE FOREIGN E&P DEF-  
9           ICIT.—The term ‘aggregate foreign E&P deficit’  
10          means, with respect to any United States share-  
11          holder, the aggregate of such shareholder’s pro  
12          rata shares of the specified E&P deficits of the  
13          E&P deficit foreign corporations of such share-  
14          holder.

15          “(B) E&P DEFICIT FOREIGN CORPORA-  
16          TION.—The term ‘E&P deficit foreign corpora-  
17          tion’ means, with respect to any taxpayer, any  
18          specified foreign corporation with respect to  
19          which such taxpayer is a United States share-  
20          holder, if—

21                  “(i) such specified foreign corporation  
22                  has a deficit in post-1986 earnings and  
23                  profits, and

24                  “(ii) as of February 26, 2014—

1                   “(I) such corporation was a spec-  
2                   ified foreign corporation, and

3                   “(II) such taxpayer was a United  
4                   States shareholder of such corpora-  
5                   tion.

6                   “(C) SPECIFIED E&P DEFICIT.—The term  
7                   ‘specified E&P deficit’ means, with respect to  
8                   any E&P deficit foreign corporation, the  
9                   amount of the deficit referred to in subpara-  
10                  graph (B).

11                  “(c) APPLICATION OF PARTICIPATION EXEMPTION  
12 TO INCLUDED INCOME.—

13                  “(1) IN GENERAL.—In the case of a United  
14                  States shareholder of a deferred foreign income cor-  
15                  poration, there shall be allowed as a deduction for  
16                  the taxable year in which an amount is included in  
17                  the gross income of such United States shareholder  
18                  under section 951(a)(1) by reason of this section an  
19                  amount equal to the sum of—

20                         “(A) 90 percent of the excess (if any) of—

21                                 “(i) the amount so included as gross  
22                                 income, over

23   “(ii) the amount of such United  
24   States shareholder’s aggregate foreign cash  
25   position, plus

1           “(B) 75 percent of so much of the amount  
2 described in subparagraph (A)(ii) as does not  
3 exceed the amount described in subparagraph  
4 (A)(i).

5           “(2) AGGREGATE FOREIGN CASH POSITION.—  
6 For purposes of this subsection—

7           “(A) IN GENERAL.—The term ‘aggregate  
8 foreign cash position’ means, with respect to  
9 any United States shareholder, the greater of—

10           “(i) the aggregate of such United  
11 States shareholder’s pro rata share of the  
12 cash position of each specified foreign cor-  
13 poration of such United States shareholder  
14 determined as of the close of the last tax-  
15 able year of such specified foreign corpora-  
16 tion which begins before January 1, 2015,  
17 or

18           “(ii) one half of the sum of—

19           “(I) the aggregate described in  
20 clause (i) determined as of the close of  
21 the last taxable year of each such  
22 specified foreign corporation which  
23 ends before February 26, 2014, plus

24           “(II) the aggregate described in  
25 clause (i) determined as of the close of

1 the taxable year of each such specified  
2 foreign corporation which precedes the  
3 taxable year referred to in subclause  
4 (I).

5 “(B) CASH POSITION.—For purposes of  
6 this paragraph, the cash position of any speci-  
7 fied foreign corporation is the sum of—

8 “(i) cash and foreign currency held by  
9 such foreign corporation,

10 “(ii) the net accounts receivable of  
11 such foreign corporation, plus

12 “(iii) the fair market value of the fol-  
13 lowing assets held by such corporation:

14 “(I) Actively traded personal  
15 property for which there is an estab-  
16 lished financial market.

17 “(II) Commercial paper, certifi-  
18 cates of deposit, the securities of the  
19 Federal government and of any State  
20 or foreign government

21 “(III) Any obligation with a term  
22 of less than one year.

23 “(IV) Any asset which the Sec-  
24 retary identifies as being economically

1 equivalent to any asset described in  
2 this subparagraph.

3 “(C) NET ACCOUNTS RECEIVABLE.—For  
4 purposes of this paragraph, the term ‘net ac-  
5 counts receivable’ means, with respect to any  
6 specified foreign corporation, the excess (if any)  
7 of—

8 “(i) such corporation’s accounts re-  
9 ceivable, over

10 “(ii) such corporation’s accounts pay-  
11 able (determined consistent with the rules  
12 of section 461).

13 “(D) PREVENTION OF DOUBLE COUNT-  
14 ING.—Cash positions of a specified foreign cor-  
15 poration described in clause (ii) or (iii)(III) of  
16 subparagraph (B) shall not be taken into ac-  
17 count by a United States shareholder under  
18 subparagraph (A) to the extent that such  
19 United States shareholder demonstrates to the  
20 satisfaction of the Secretary that such amount  
21 is so taken into account by such United States  
22 shareholder with respect to another specified  
23 foreign corporation.

24 “(E) CASH POSITIONS OF FOREIGN PASS-  
25 THRU ENTITIES TAKEN INTO ACCOUNT.—Any

1 foreign entity which would be a specified for-  
2 eign corporation of a United States shareholder  
3 if such entity were a corporation shall be treat-  
4 ed as a specified foreign corporation of such  
5 United States shareholder for purposes of de-  
6 termining such United States shareholder's ag-  
7 gregate foreign cash position.

8 “(F) ANTI-ABUSE.—If the Secretary deter-  
9 mines that the principal purpose of any trans-  
10 action was to reduce the aggregate foreign cash  
11 position taken into account under this sub-  
12 section, such transaction shall be disregarded  
13 for purposes of this subsection.

14 “(d) DEFERRED FOREIGN INCOME CORPORATION;  
15 ACCUMULATED POST-1986 DEFERRED FOREIGN IN-  
16 COME.—For purposes of this section—

17 “(1) DEFERRED FOREIGN INCOME CORPORA-  
18 TION.—The term ‘deferred foreign income corpora-  
19 tion’ means, with respect to any United States  
20 shareholder, any specified foreign corporation of  
21 such United States shareholder which has accumu-  
22 lated post-1986 deferred foreign income (as of the  
23 close of the taxable year referred to in subsection  
24 (a)) greater than zero.

1           “(2) ACCUMULATED POST-1986 DEFERRED FOR-  
2           EIGN INCOME.—The term ‘accumulated post-1986  
3           deferred foreign income’ means the post-1986 earn-  
4           ings and profits except to the extent such earnings—

5                   “(A) are attributable to income of the  
6                   specified foreign corporation which is effectively  
7                   connected with the conduct of a trade or busi-  
8                   ness within the United States and subject to  
9                   tax under this chapter,

10                   “(B) if distributed, would—

11                           “(i) in the case of a controlled foreign  
12                           corporation, be excluded from the gross in-  
13                           come of a United States shareholder under  
14                           section 959, or

15                           “(ii) in the case of any passive foreign  
16                           investment company (as defined in section  
17                           1297) other than a controlled foreign cor-  
18                           poration, be treated as a distribution which  
19                           is not a dividend, or

20                           “(C) in the case of any passive foreign in-  
21                           vestment company (as so defined), is properly  
22                           attributable to an unreversed inclusion of a  
23                           United States person under section 1296.

24           To the extent provided in regulations or other guid-  
25           ance prescribed by the Secretary, in the case of any

1 controlled foreign corporation which has share-  
2 holders which are not United States shareholders,  
3 accumulated post-1986 deferred foreign income shall  
4 be appropriately reduced by amounts which would be  
5 described in subparagraph (B)(i) if such share-  
6 holders were United States shareholders. Such regu-  
7 lations or other guidance may provide a similar rule  
8 for purposes of subparagraph (B)(ii) and (C).

9 “(3) POST-1986 EARNINGS AND PROFITS.—The  
10 term ‘post-1986 earnings and profits’ means the  
11 earnings and profits of the foreign corporation (com-  
12 puted in accordance with sections 964(a) and 986)  
13 accumulated in taxable years beginning after Decem-  
14 ber 31, 1986, and determined—

15 “(A) as of the close of the taxable year re-  
16 ferred to in subsection (a), and

17 “(B) without diminution by reason of divi-  
18 dends distributed during such taxable year.

19 “(e) SPECIFIED FOREIGN CORPORATION.—

20 “(1) IN GENERAL.—For purposes of this sec-  
21 tion, the term ‘specified foreign corporation’  
22 means—

23 “(A) any controlled foreign corporation,  
24 and

1           “(B) any section 902 corporation (as de-  
2           fined in section 909(d)(5) as in effect before the  
3           date of the enactment of the Tax Reform Act  
4           of 2014).

5           “(2) APPLICATION TO SECTION 902 CORPORA-  
6           TIONS.—For purposes of section 951, a section 902  
7           corporation (as so defined) shall be treated as a con-  
8           trolled foreign corporation solely for purposes of tak-  
9           ing into account the subpart F income of such cor-  
10          poration under subsection (a) (and for purposes of  
11          applying subsection (f)).

12          “(f) DETERMINATIONS OF PRO RATA SHARE.—For  
13          purposes of this section, the determination of any United  
14          States shareholder’s pro rata share of any amount with  
15          respect to any specified foreign corporation shall be deter-  
16          mined under rules similar to the rules of section 951(a)(2)  
17          by treating such amount in the same manner as subpart  
18          F income (and by treating such specified foreign corpora-  
19          tion as a controlled foreign corporation).

20          “(g) DISALLOWANCE OF FOREIGN TAX CREDIT,  
21          ETC.—

22          “(1) IN GENERAL.—No credit shall be allowed  
23          under section 901 for the applicable percentage of  
24          any taxes paid or accrued (or treated as paid or ac-

1        crued) with respect to any amount for which a de-  
2        duction is allowed under this section.

3               “(2) APPLICABLE PERCENTAGE.—For purposes  
4        of this subsection, the term ‘applicable percentage’  
5        means the amount (expressed as a percentage) equal  
6        to the sum of—

7                       “(A) 0.9 multiplied by the ratio of—

8                               “(i) the excess to which subsection  
9                               (c)(1)(A) applies, divided by

10                              “(ii) the sum of such excess plus the  
11                              amount to which subsection (c)(1)(B) ap-  
12                              plies, plus

13                       “(B) 0.75 multiplied by the ratio of—

14                               “(i) the amount to which subsection  
15                               (c)(1)(B) applies, divided by

16                              “(ii) the sum described in subpara-  
17                              graph (A)(ii).

18               “(3) DENIAL OF DEDUCTION.—No deduction  
19        shall be allowed under this chapter for any tax for  
20        which credit is not allowable under section 901 by  
21        reason of paragraph (1) (determined by treating the  
22        taxpayer as having elected the benefits of subpart A  
23        of part III of subchapter N).

24               “(4) COORDINATION WITH SECTION 78.—Sec-  
25        tion 78 shall not apply to any tax for which credit

1 is not allowable under section 901 by reason of para-  
2 graph (1).

3 “(h) ELECTION TO PAY LIABILITY IN INSTALL-  
4 MENTS.—

5 “(1) IN GENERAL.—In the case of a United  
6 States shareholder of a deferred foreign income cor-  
7 poration, such United States shareholder may elect  
8 to pay the net tax liability under this section in 8  
9 installments of the following amounts:

10 “(A) 8 percent of the net tax liability in  
11 the case of each of the first 5 of such install-  
12 ments,

13 “(B) 15 percent of the net tax liability in  
14 the case of the 6th such installment,

15 “(C) 20 percent of the net tax liability in  
16 the case of the 7th such installment, and

17 “(D) 25 percent of the net tax liability in  
18 the case of the 8th such installment.

19 “(2) DATE FOR PAYMENT OF INSTALLMENTS.—

20 If an election is made under paragraph (1), the first  
21 installment shall be paid on the due date (deter-  
22 mined without regard to any extension of time for  
23 filing the return) for the return of tax for the tax-  
24 able year described in subsection (b) and each suc-  
25 ceeding installment shall be paid on the due date (as

1 so determined) for the return of tax for the taxable  
2 year following the taxable year with respect to which  
3 the preceding installment was made.

4 “(3) ACCELERATION OF PAYMENT.—If there is  
5 an addition to tax for failure to pay timely assessed  
6 with respect to any installment required under this  
7 subsection, a liquidation or sale of substantially all  
8 the assets of the taxpayer (including in a title 11 or  
9 similar case), a cessation of business by the tax-  
10 payer, or any similar circumstance, then the unpaid  
11 portion of all remaining installments shall be due on  
12 the date of such event (or in the case of a title 11  
13 or similar case, the day before the petition is filed).  
14 The preceding sentence shall not apply to the sale  
15 of substantially all the assets of a taxpayer to a  
16 buyer if such buyer enters into an agreement with  
17 the Secretary under which such buyer is liable for  
18 the remaining installments due under this subsection  
19 in the same manner as if such buyer were the tax-  
20 payer.

21 “(4) PRORATION OF DEFICIENCY TO INSTALL-  
22 MENTS.—If an election is made under paragraph (1)  
23 to pay the net tax liability under this section in in-  
24 stallments and a deficiency has been assessed with  
25 respect to such net tax liability, the deficiency shall

1 be prorated to the installments payable under para-  
2 graph (1). The part of the deficiency so prorated to  
3 any installment the date for payment of which has  
4 not arrived shall be collected at the same time as,  
5 and as a part of, such installment. The part of the  
6 deficiency so prorated to any installment the date  
7 for payment of which has arrived shall be paid upon  
8 notice and demand from the Secretary. This sub-  
9 section shall not apply if the deficiency is due to  
10 negligence, to intentional disregard of rules and reg-  
11 ulations, or to fraud with intent to evade tax.

12 “(5) ELECTION.—Any election under paragraph  
13 (1) shall be made not later than the due date for the  
14 return of tax for the taxable year described in sub-  
15 section (a) and shall be made in such manner as the  
16 Secretary may provide.

17 “(6) NET TAX LIABILITY UNDER THIS SEC-  
18 TION.—For purposes of this subsection—

19 “(A) IN GENERAL.—The net tax liability  
20 under this section with respect to any United  
21 States shareholder is the excess (if any) of—

22 “(i) such taxpayer’s net income tax  
23 for the taxable year described in subsection  
24 (a), over

1                   “(ii) such taxpayer’s net income tax  
2                   for such taxable year determined without  
3                   regard to this section.

4                   “(B) NET INCOME TAX.—The term ‘net  
5                   income tax’ means the regular tax liability re-  
6                   duced by the credits allowed under subparts A,  
7                   B, and D of part IV of subchapter A.

8                   “(i) SPECIAL RULES FOR S CORPORATION SHARE-  
9                   HOLDERS.—

10                   “(1) IN GENERAL.—In the case of any S cor-  
11                   poration which is a United States shareholder of a  
12                   deferred foreign income corporation, each share-  
13                   holder of such S corporation may elect to defer pay-  
14                   ment of such shareholder’s net tax liability under  
15                   this section with respect to such S corporation until  
16                   the shareholder’s taxable year which includes the  
17                   triggering event with respect to such liability.

18                   “(2) TRIGGERING EVENT.—

19                   “(A) IN GENERAL.—In the case of any  
20                   shareholder’s net tax liability under this section  
21                   with respect to any S corporation, the trig-  
22                   gering event with respect to such liability is  
23                   whichever of the following occurs first:

24                   “(i) Such corporation ceases to be an  
25                   S corporation (determined as of the first

1 day of the first taxable year that such cor-  
2 poration is not an S corporation).

3 “(ii) A liquidation or sale of substan-  
4 tially all the assets of such S corporation  
5 (including in a title 11 or similar case), a  
6 cessation of business by such S corpora-  
7 tion, such S corporation ceases to exist, or  
8 any similar circumstance.

9 “(iii) A transfer of any share of stock  
10 in such S corporation by the taxpayer (in-  
11 cluding by reason of death, or otherwise).

12 “(B) PARTIAL TRANSFERS OF STOCK.—In  
13 the case of a transfer of less than all of the tax-  
14 payer’s shares of stock in the S corporation,  
15 such transfer shall only be a triggering event  
16 with respect to so much of the taxpayer’s net  
17 tax liability under this section with respect to  
18 such S corporation as is properly allocable to  
19 such stock.

20 “(C) TRANSFER OF LIABILITY.—A trans-  
21 fer described in clause (iii) shall not be treated  
22 as a triggering event if the transferee enters  
23 into an agreement with the Secretary under  
24 which such transferee is liable for net tax liabil-

1           ity with respect to such stock in the same man-  
2           ner as if such transferee were the taxpayer.

3           “(3) NET TAX LIABILITY.—A shareholder’s net  
4           tax liability under this section with respect to any S  
5           corporation is the net tax liability under this section  
6           which would be determined under subsection (h)(6)  
7           if the only subpart F income taken into account by  
8           such shareholder by reason of this section were allo-  
9           cations from such S corporation.

10           “(4) ELECTION TO PAY DEFERRED LIABILITY  
11           IN INSTALLMENTS.—In the case of a taxpayer which  
12           elects to defer payment under paragraph (1), sub-  
13           section (h) shall be applied—

14                   “(A) separately with respect to the liability  
15                   to which such election applies,

16                   “(B) an election under subsection (h) with  
17                   respect to such liability shall be treated as time-  
18                   ly made if made not later than the due date for  
19                   the return of tax for the taxable year in which  
20                   the triggering event with respect to such liabil-  
21                   ity occurs,

22                   “(C) the first installment under subsection  
23                   (h) with respect to such liability shall be paid  
24                   not later than such due date (but determined

1 without regard to any extension of time for fil-  
2 ing the return), and

3 “(D) if the triggering event with respect to  
4 any net tax liability is described in paragraph  
5 (2)(A)(ii), an election under subsection (h) with  
6 respect to such liability may be made only with  
7 the consent of the Secretary.

8 “(5) JOINT AND SEVERAL LIABILITY OF S COR-  
9 PORATION.—If any shareholder of an S corporation  
10 elects to defer payment under paragraph (1), such  
11 S corporation shall be jointly and severally liable for  
12 such payment and any penalty, addition to tax, or  
13 additional amount attributable thereto.

14 “(6) EXTENSION OF LIMITATION ON COLLEC-  
15 TION.—Notwithstanding any other provision of law,  
16 any limitation on the time period for the collection  
17 of a liability deferred under this subsection shall not  
18 be treated as beginning before the date of the trig-  
19 gering event with respect to such liability.

20 “(7) ELECTION.—Any election under paragraph  
21 (1) shall be made not later than the due date for the  
22 return of tax for the taxable year described in sub-  
23 section (a) and shall be made in such manner as the  
24 Secretary may provide.

1       “(j) INCLUSION OF DEFERRED FOREIGN INCOME  
2 UNDER THIS SECTION NOT TO TRIGGER RECAPTURE OF  
3 OVERALL FOREIGN LOSS.—For purposes of section  
4 904(f)(1), in the case of a United States shareholder of  
5 a deferred foreign income corporation, such United States  
6 shareholder’s taxable income from sources without the  
7 United States shall be determined without regard to this  
8 section.

9       “(k) REGULATIONS.—The Secretary may prescribe  
10 such regulations or other guidance as may be necessary  
11 or appropriate to carry out the provisions of this section.”.

12       (b) DEDICATION OF REVENUES TO HIGHWAY TRUST  
13 FUND.—

14             (1) IN GENERAL.—Section 9503(f) is amended  
15 by redesignating paragraph (5) as paragraph (6)  
16 and by inserting after paragraph (4) the following  
17 new paragraph:

18             “(5) APPROPRIATION TO TRUST FUND OF NET  
19 TAX LIABILITIES RECEIVED UNDER SECTION 965.—

20             “(A) IN GENERAL.—Out of money in the  
21 Treasury not otherwise appropriated, there are  
22 hereby appropriated to the Highway Trust  
23 Fund amounts equivalent to the aggregate net  
24 tax liabilities under section 965 (as defined in  
25 such section) received in the Treasury.

1           “(B) MONTHLY TRANSFERS BASED ON ES-  
2           TIMATES.—For rule providing for the monthly  
3           transfer of amounts appropriated under sub-  
4           paragraph (A) based on estimates of the Sec-  
5           retary, see section 9601.”.

6           (2) TRANSFERS TO MASS TRANSIT ACCOUNT.—  
7           Section 9503(e)(2) is amended by striking “the  
8           mass transit portion” and inserting “, 20 percent of  
9           the amounts appropriated to the Highway Trust  
10          Fund under subsection (f)(5), and the mass transit  
11          portion”.

12          (c) CLERICAL AMENDMENT.—The table of section for  
13          subpart F of part III of subchapter N of chapter 1 is  
14          amended by striking the item relating to section 965 and  
15          inserting the following:

          “Sec. 965. Treatment of deferred foreign income upon transition to participa-  
          tion exemption system of taxation.”.

16   **SEC. 4004. LOOK-THRU RULE FOR RELATED CONTROLLED**  
17                   **FOREIGN CORPORATIONS MADE PERMA-**  
18                   **NENT.**

19          (a) IN GENERAL.—Paragraph (6) of section 954(c)  
20          is amended by striking subparagraph (C).

21          (b) EFFECTIVE DATE.—The amendments made by  
22          this section shall apply to taxable years of foreign corpora-  
23          tions beginning after December 31, 2013, and to taxable

1 years of United States shareholders in which or with which  
2 such taxable years of foreign corporations end.

3 **Subtitle B—Modifications Related**  
4 **to Foreign Tax Credit System**

5 **SEC. 4101. REPEAL OF SECTION 902 INDIRECT FOREIGN**  
6 **TAX CREDITS; DETERMINATION OF SECTION**  
7 **960 CREDIT ON CURRENT YEAR BASIS.**

8 (a) REPEAL OF SECTION 902 INDIRECT FOREIGN  
9 TAX CREDITS.—Subpart A of part III of subchapter N  
10 of chapter 1 is amended by striking section 902.

11 (b) DETERMINATION OF SECTION 960 CREDIT ON  
12 CURRENT YEAR BASIS.—Section 960 is amended—

13 (1) by striking subsection (c), by redesignating  
14 subsection (b) as subsection (c), by striking all that  
15 precedes subsection (c) (as so redesignated) and in-  
16 serting the following:

17 **“SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLU-**  
18 **SIONS.**

19 “(a) IN GENERAL.—For purposes of this subpart, if  
20 there is included in the gross income of a domestic cor-  
21 poration any item of income under section 951(a)(1) with  
22 respect to any controlled foreign corporation with respect  
23 to which such domestic corporation is a United States  
24 shareholder, such domestic corporation shall be deemed to  
25 have paid so much of such foreign corporation’s foreign

1 income taxes as are properly attributable to the item of  
2 income so included.

3 “(b) SPECIAL RULES FOR DISTRIBUTIONS FROM  
4 PREVIOUSLY TAXED EARNINGS AND PROFITS.—For pur-  
5 poses of this subpart—

6 “(1) IN GENERAL.—If any portion of a dis-  
7 tribution from a controlled foreign corporation to a  
8 domestic corporation which is a United States share-  
9 holder with respect to such controlled foreign cor-  
10 poration is excluded from gross income under section  
11 959(a), such domestic corporation shall be deemed  
12 to have paid so much of such foreign corporation’s  
13 foreign income taxes as—

14 “(A) are properly attributable to such por-  
15 tion, and

16 “(B) have not been deemed to have to been  
17 paid by such domestic corporation under this  
18 section for any prior taxable year.

19 “(2) TIERED CONTROLLED FOREIGN CORPORA-  
20 TIONS.—If section 959(b) applies to any portion of  
21 a distribution from a controlled foreign corporation  
22 to another controlled foreign corporation, such con-  
23 trolled foreign corporation shall be deemed to have  
24 paid so much of such other controlled foreign cor-  
25 poration’s foreign income taxes as—

1           “(A) are properly attributable to such por-  
2           tion, and

3           “(B) have not been deemed to have been  
4           paid by a domestic corporation under this sec-  
5           tion for any prior taxable year.”,

6           (2) and by adding after subsection (c) (as so re-  
7           designated) the following new subsections:

8           “(d) FOREIGN INCOME TAXES.—The term ‘foreign  
9           income taxes’ means any income, war profits, or excess  
10          profits taxes paid or accrued to any foreign country or  
11          possession of the United States.

12          “(e) REGULATIONS.—The Secretary shall provide  
13          such regulations as may be necessary or appropriate to  
14          carry out the provisions of this section.”.

15          (c) CONFORMING AMENDMENTS.—

16                 (1) Section 78 is amended to read as follows:

17         **“SEC. 78. GROSS UP FOR DEEMED PAID FOREIGN TAX**  
18                 **CREDIT.**

19                 “If a domestic corporation chooses to have the bene-  
20                 fits of subpart A of part III of subchapter N (relating  
21                 to foreign tax credit) for any taxable year, an amount  
22                 equal to the taxes deemed to be paid by such corporation  
23                 under section 960 (relating to deemed paid credit for sub-  
24                 part F inclusions) for such taxable year shall be treated  
25                 for purposes of this title (other than section 960) as an

1 item of income required to be included in the gross income  
2 of such domestic corporation under section 951(a).”.

3 (2) Section 245(a)(10) is amended by striking  
4 “902,”.

5 (3) Sections 535(b)(1) and 545(b)(1) are each  
6 amended by striking “section 902(a) or 960(a)(1)”  
7 and inserting “section 960”.

8 (4) Paragraph (1) of section 814(f) is amend-  
9 ed—

10 (A) by striking subparagraph (B), and

11 (B) by striking all that precedes “No in-  
12 come” and inserting the following:

13 “(1) TREATMENT OF FOREIGN TAXES.—”.

14 (5) Subparagraph (B) of section 864(h)(1) is  
15 amended by striking “902,”.

16 (6) Subsection (a) of section 901 is amended by  
17 striking “sections 902 and 960” and inserting “sec-  
18 tion 960”.

19 (7) Paragraph (2) of section 901(e) is amended  
20 by striking “but is not limited to—” and all that fol-  
21 lows through “that portion” and inserting “but is  
22 not limited to that portion”.

23 (8) Subsection (f) of section 901 is amended by  
24 striking “sections 902 and 960” and inserting “sec-  
25 tion 960”.

1           (9) Subparagraph (A) of section 901(j)(1) is  
2 amended by striking “902 or”.

3           (10) Subparagraph (B) of section 901(j)(1) is  
4 amended by striking “sections 902 and 960” and in-  
5 serting “section 960”.

6           (11) Paragraph (2) of section 901(k) is amend-  
7 ed by striking “902,”.

8           (12) Paragraph (6) of section 901(k) is amend-  
9 ed by striking “902 or”.

10          (13) Subparagraph (A) of section 904(h)(10) is  
11 amended by striking “sections 902, 907, and 960”  
12 and inserting “sections 907 and 960”.

13          (14) Section 904 is amended by striking sub-  
14 section (k).

15          (15) Paragraph (1) of section 905(c) is amend-  
16 ed by striking the last sentence.

17          (16) Subclause (I) of section 905(c)(2)(B)(i) is  
18 amended by striking “section 902 or”.

19          (17) Subsection (a) of section 906 is amended  
20 by striking “(or deemed, under section 902, paid or  
21 accrued during the taxable year)”.

22          (18) Subsection (b) of section 906 is amended  
23 by striking paragraphs (4) and (5).

24          (19) Subparagraph (B) of section 907(b)(2) is  
25 amended by striking “902 or”.

1           (20) Paragraph (3) of section 907(c) is amend-  
2 ed—

3           (A) by striking subparagraph (A) and re-  
4 designating subparagraphs (B) and (C) as sub-  
5 paragraphs (A) and (B), respectively, and

6           (B) by striking “section 960(a)” in sub-  
7 paragraph (A) (as so redesignated) and insert-  
8 ing “section 960”.

9           (21) Paragraph (5) of section 907(c) is amend-  
10 ed by striking “902 or”.

11          (22) Clause (i) of section 907(f)(2)(B) is  
12 amended by striking “902 or”.

13          (23) Subsection (a) of section 908 is amended  
14 by striking “902 or”.

15          (24) Subsection (b) of section 909 is amend-  
16 ed—

17           (A) by striking “section 902 corporation”  
18 in the matter preceding paragraph (1) and in-  
19 serting “specified 10-percent owned foreign cor-  
20 poration”,

21           (B) by striking “902 or” in paragraph (1),

22           (C) by striking “by such section 902 cor-  
23 poration” and all that follows in the matter fol-  
24 lowing paragraph (2) and inserting “by such  
25 specified 10-percent owned foreign corporation

1 or a domestic corporation which is a United  
2 States shareholder with respect to such speci-  
3 fied 10-percent owned foreign corporation.”,  
4 and

5 (D) by striking “SECTION 902 CORPORA-  
6 TIONS” in the heading thereof and inserting  
7 “SPECIFIED 10-PERCENT OWNED FOREIGN  
8 CORPORATIONS”.

9 (25) Subsection (d) of section 909 is amended  
10 by striking paragraph (5).

11 (26) Paragraph (1) of section 958(a) is amend-  
12 ed by striking “960(a)(1)” and inserting “960”.

13 (27) Subsection (d) of section 959 is amended  
14 by striking “Except as provided in section 960(a)(3),  
15 any” and inserting “Any”.

16 (28) Subsection (e) of section 959 is amended  
17 by striking “and section 960(b)”.

18 (29) Subparagraph (A) of section 1291(g)(2) is  
19 amended by striking “any distribution—” and all  
20 that follows through “but only if” and inserting  
21 “any distribution, any withholding tax imposed with  
22 respect to such distribution, but only if”.

23 (30) Section 1293 is amended by striking sub-  
24 section (f).



1           “(3) DEDUCTIONS ALLOCABLE TO FOREIGN  
2 SOURCE INCOME ONLY IF DIRECTLY ALLOCABLE.—  
3 For purposes of subsection (a), the taxpayer’s tax-  
4 able income from sources without the United States  
5 shall be determined by allocating deductions to such  
6 income only if such deductions are directly allocable  
7 to such income.”.

8           (b) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years of foreign corpora-  
10 tions beginning after December 31, 2014, and to taxable  
11 years of United States shareholders in which or with which  
12 such taxable years of foreign corporations end.

13 **SEC. 4103. PASSIVE CATEGORY INCOME EXPANDED TO IN-**  
14 **CLUDE OTHER MOBILE INCOME.**

15           (a) TREATMENT OF FOREIGN BASE COMPANY IN-  
16 TANGIBLE INCOME AND FOREIGN BASE COMPANY SALES  
17 INCOME AS MOBILE CATEGORY INCOME.—Clause (i) of  
18 section 904(d)(2)(A) is amended by striking “and speci-  
19 fied passive category income” and inserting “specified pas-  
20 sive category income, foreign base company sales income  
21 (as defined in section 954(d)), and foreign base company  
22 intangible income (as defined in section 954(f))”.

23           (b) REPEAL OF SPECIAL RULES TREATING FINAN-  
24 CIAL SERVICES INCOME AS GENERAL CATEGORY IN-  
25 COME.—Paragraph (2) of section 904(d) is amended by

1 striking subparagraphs (C) and (D) and by redesignating  
2 subparagraphs (E) through (K) as subparagraphs (C)  
3 through (I), respectively.

4 (c) CONFORMING AMENDMENTS.—

5 (1) RELATING TO REFERENCES TO PASSIVE IN-  
6 COME.—

7 (A) Section 904(d)(1)(A) is amended by  
8 striking “passive category income” and insert-  
9 ing “mobile category income”.

10 (B) Section 904(d)(2)(A)(i), as amended  
11 by subsection (a), is amended—

12 (i) by striking “PASSIVE CATEGORY  
13 INCOME” in the heading thereof and insert-  
14 ing “MOBILE CATEGORY INCOME”,

15 (ii) by striking “passive category in-  
16 come” and inserting “mobile category in-  
17 come”,

18 (iii) by striking “passive income” and  
19 inserting “mobile income”, and

20 (iv) by striking “specified passive cat-  
21 egory income” and inserting “specified mo-  
22 bile category income”.

23 (C) Section 904(d)(2)(A)(ii) is amended by  
24 striking “passive category income” and insert-  
25 ing “mobile category income”.

1 (D) Section 904(d)(2)(B) is amended—

2 (i) by striking “PASSIVE INCOME” in  
3 the heading thereof and inserting “MOBILE  
4 INCOME”,

5 (ii) by striking “passive income” in  
6 clauses (i), (ii), and (iii) and inserting  
7 “mobile income”,

8 (iii) by striking “SPECIFIED PASSIVE  
9 CATEGORY INCOME” in the heading of  
10 clause (iv) and inserting “SPECIFIED MO-  
11 BILE CATEGORY INCOME”, and

12 (iv) by striking “specified passive cat-  
13 egory income” in clause (iv) and inserting  
14 “specified mobile category income”.

15 (E) Section 904(d)(2)(D), as redesignated  
16 by subsection (b), is amended by striking “pas-  
17 sive income” and inserting “mobile income”.

18 (F) Section 904(d)(3)(A) is amended by  
19 striking “passive category income” and insert-  
20 ing “mobile category income”.

21 (G) Section 904(d)(3)(B) is amended by  
22 striking “passive category income” both places  
23 it appears and inserting “mobile category in-  
24 come”.

1 (H) Section 904(d)(3)(C) is amended by  
2 striking “passive category income” both places  
3 it appears and inserting “mobile category in-  
4 come”.

5 (I) Section 904(d)(3)(D) is amended by  
6 striking “passive category income” both places  
7 it appears and inserting “mobile category in-  
8 come”.

9 (J) Section 904(d)(3)(E) is amended—

10 (i) by striking “passive category in-  
11 come” both places it appears and inserting  
12 “mobile category income”, and

13 (ii) by striking “passive income” and  
14 inserting “mobile income”.

15 (K) Section 904(d)(3)(F) is amended by  
16 striking “passive category income” both places  
17 it appears and inserting “mobile category in-  
18 come”.

19 (2) OTHER CONFORMING AMENDMENTS.—

20 (A) Subparagraph (B) of section 864(f)(5)  
21 is amended by inserting “(as in effect before its  
22 repeal)” after “section 904(d)(2)(D)(ii)”.

23 (B) Subparagraph (B) of section 954(e)(2)  
24 is amended by striking “section 904(d)(2)(G)”  
25 and inserting “section 904(d)(2)(E)”.

1 (d) EFFECTIVE DATE.—

2 (1) IN GENERAL.—The amendments made by  
3 this section shall apply to taxable years of foreign  
4 corporations beginning after December 31, 2014,  
5 and to taxable years of United States shareholders  
6 in which or with which such taxable years of foreign  
7 corporations end.

8 (2) TREATMENT OF CARRYFORWARDS AND  
9 CARRYBACKS.—For purposes of section 904 of the  
10 Internal Revenue Code of 1986—

11 (A) the amendments made by this section  
12 shall apply to any taxes carried from any tax-  
13 able year beginning before January 1, 2015, to  
14 any taxable year beginning on or after such  
15 date, and

16 (B) the Secretary of the Treasury, or his  
17 designee, may by regulations provide for the al-  
18 location of any carryback of taxes with respect  
19 to income from a taxable year beginning on or  
20 after January 1, 2015, to a taxable year begin-  
21 ning before such date for purposes of allocating  
22 such income among the separate categories in  
23 effect under section 904(d) for the taxable year  
24 to which carried.

1 **SEC. 4104. SOURCE OF INCOME FROM SALES OF INVEN-**  
2 **TORY DETERMINED SOLELY ON BASIS OF**  
3 **PRODUCTION ACTIVITIES.**

4 (a) IN GENERAL.—Subsection (b) of section 863 is  
5 amended by adding at the end the following: “Gains, prof-  
6 its, and income from the sale or exchange of inventory  
7 property described in paragraph (2) shall be allocated and  
8 apportioned between sources within and without the  
9 United States solely on the basis of the production activi-  
10 ties with respect to the property.”.

11 (b) EFFECTIVE DATE.—The amendment made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2014.

14 **Subtitle C—Rules Related to**  
15 **Passive and Mobile Income**

16 **PART 1—MODIFICATION OF SUBPART F**

17 **PROVISIONS**

18 **SEC. 4201. SUBPART F INCOME TO ONLY INCLUDE LOW-**  
19 **TAXED FOREIGN INCOME.**

20 (a) IN GENERAL.—Subsection (a) of section 954 is  
21 amended—

22 (1) by redesignating paragraphs (1), (2), (3),  
23 and (5) as subparagraphs (A) through (D), respec-  
24 tively,

25 (2) by striking “For purposes of” and inserting  
26 the following:

1           “(1) IN GENERAL.—For purposes of”, and  
2           (3) by adding at the end the following new  
3 paragraph:

4           “(2) APPLICATION ONLY TO FOREIGN BASE  
5 COMPANY INCOME SUBJECT TO A LOW FOREIGN EF-  
6 FECTIVE RATE OF TAX.—

7           “(A) IN GENERAL.—Foreign base company  
8 income shall only include items of income re-  
9 ceived by a controlled foreign corporation which  
10 are subject to an effective rate of income tax  
11 imposed by a foreign country which is less than  
12 100 percent of the maximum rate of tax speci-  
13 fied in section 11.

14           “(B) APPLICATION TO FOREIGN BASE  
15 COMPANY INCOME SUBJECT TO REDUCED DO-  
16 MESTIC RATE OF TAX.—

17           “(i) FOREIGN BASE COMPANY SALES  
18 INCOME.—In the case of foreign base com-  
19 pany sales income, subparagraph (A) shall  
20 be applied by substituting ‘50 percent’ for  
21 ‘100 percent’.

22           “(ii) FOREIGN BASE COMPANY INTAN-  
23 GIBLE INCOME.—In the case of foreign  
24 base company intangible income, subpara-  
25 graph (A) shall be applied—

1                   “(I) by substituting ‘the applica-  
2                   ble percentage of the foreign percent-  
3                   age (determined under section 250(c)  
4                   with respect to the controlled foreign  
5                   corporation)’ for ‘100 percent’, and

6                   “(II) by treating the foreign base  
7                   company intangible income as a single  
8                   item of income.

9                   “(iii) APPLICABLE PERCENTAGE.—  
10                  For purposes of clause (ii)(I), the term  
11                  ‘applicable percentage’ means, with respect  
12                  to any taxable year of a controlled foreign  
13                  corporation, the percentage determined in  
14                  accordance with the following table:

“In the case of any taxable year beginning in:	The applicable percentage is:
2015 .....	45 percent
2016 .....	48 percent
2017 .....	52 percent
2018 .....	56 percent
2019 or thereafter .....	60 percent.”.

15                  (b) INSURANCE INCOME.—Subsection (a) of section  
16 953 is amended by redesignating paragraph (2) as para-  
17 graph (3) and by inserting after paragraph (1) the fol-  
18 lowing new paragraph:

19                  “(2) APPLICATION ONLY TO INSURANCE IN-  
20                  COME SUBJECT TO A LOW FOREIGN EFFECTIVE  
21                  RATE OF TAX.—Insurance income shall only include

1 items of income received by a controlled foreign cor-  
2 poration which are subject to an effective rate of in-  
3 come tax imposed by a foreign country which is less  
4 than the maximum rate of tax specified in section  
5 11.”.

6 (c) CONFORMING AMENDMENTS.—

7 (1) Section 954(b)(3)(B) is amended by strik-  
8 ing “paragraphs (4) and (5)” and inserting “sub-  
9 section (a)(2), section 953(a)(2), and paragraph  
10 (5)”

11 (2) Section 954(b) is amended by striking para-  
12 graph (4).

13 (3) Section 954(c)(1) is amended by striking  
14 “subsection (a)(1)” and inserting “this section”.

15 (4) Section 954(d)(1) is amended by striking  
16 “subsection (a)(2)” and inserting “this section”.

17 (5) Section 954(e)(1) is amended by striking  
18 “subsection (a)(3)” and inserting “this section”.

19 (d) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years of foreign corpora-  
21 tions beginning after December 31, 2014, and to taxable  
22 years of United States shareholders in which or with which  
23 such taxable years of foreign corporations end.

1 **SEC. 4202. FOREIGN BASE COMPANY SALES INCOME.**

2 (a) 50 PERCENT EXCLUSION FOR LOW-TAXED FOR-  
3 EIGN BASE COMPANY SALES INCOME.—

4 (1) IN GENERAL.—Subparagraph (B) of section  
5 954(a)(1), as amended by the preceding provisions  
6 of this Act, is amended by inserting “50 percent of”  
7 before “the foreign base company sales income”.

8 (2) PRESERVATION OF DEEMED PAID FOREIGN  
9 TAX CREDIT ON LOW-TAXED FOREIGN BASE COM-  
10 PANY INCOME.—Section 960, as amended by this  
11 Act, is amended by redesignating subsection (c) as  
12 subsection (d) and by inserting after subsection (b)  
13 the following new subsection:

14 “(c) DEEMED PAID CREDIT DETERMINED WITHOUT  
15 REGARD TO CERTAIN EXCLUSIONS FROM SUBPART F IN-  
16 COME.—Solely for purposes of subsection (a), section  
17 954(a)(1)(B) shall be applied by substituting ‘100 per-  
18 cent’ for ‘50 percent’ in determining amounts included  
19 under section 951(a)(1).”.

20 (b) EXCEPTION FROM FOREIGN BASE COMPANY  
21 SALES INCOME FOR FOREIGN CORPORATIONS ELIGIBLE  
22 FOR BENEFITS UNDER COMPREHENSIVE INCOME TAX  
23 TREATIES.—Section 954(d) is amended by adding at the  
24 end the following new paragraph:

25 “(5) EXCEPTION FOR FOREIGN CORPORATIONS  
26 ELIGIBLE FOR BENEFITS UNDER COMPREHENSIVE

1 INCOME TAX TREATIES.—No portion of the gross in-  
2 come of a controlled foreign corporation shall be  
3 treated as foreign base company sales income if such  
4 controlled foreign corporation is eligible as a quali-  
5 fied resident for all of the benefits provided under a  
6 comprehensive income tax treaty with the United  
7 States.”.

8 (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years of foreign corpora-  
10 tions beginning after December 31, 2014, and to taxable  
11 years of United States shareholders in which or with which  
12 such taxable years of foreign corporations end.

13 **SEC. 4203. INFLATION ADJUSTMENT OF DE MINIMIS EXCEP-**  
14 **TION FOR FOREIGN BASE COMPANY INCOME.**

15 (a) IN GENERAL.—Paragraph (3) of section 954(b)  
16 is amended by adding at the end the following new sub-  
17 paragraph:

18 “(D) INFLATION ADJUSTMENT.—In the  
19 case of any taxable year beginning after 2015,  
20 the dollar amount in subparagraph (A)(ii) shall  
21 be increased by an amount equal to—

22 “(i) such dollar amount, multiplied by

23 “(ii) the cost-of-living adjustment de-  
24 termined under section 1(c)(2)(A) for the  
25 calendar year in which the taxable year be-

1                   gins, determined by substituting ‘calendar  
2                   year 2014’ for ‘calendar year 2012’ in  
3                   clause (ii) thereof.

4                   Any increase determined under the preceding  
5                   sentence shall be rounded to the nearest mul-  
6                   tiple of \$50,000.”.

7                   (b) **EFFECTIVE DATE.**—The amendments made by  
8 this section shall apply to taxable years of foreign corpora-  
9 tions beginning after December 31, 2014, and to taxable  
10 years of United States shareholders in which or with which  
11 such taxable years of foreign corporations end.

12 **SEC. 4204. ACTIVE FINANCING EXCEPTION EXTENDED WITH**  
13 **LIMITATION FOR LOW-TAXED FOREIGN IN-**  
14 **COME.**

15                   (a) **EXTENSION OF ACTIVE FINANCING EXCEP-**  
16 **TION.**—

17                   (1) **IN GENERAL.**—Paragraph (9) of section  
18 954(h) is amended by striking “January 1, 2014”  
19 and inserting “January 1, 2019”.

20                   (2) **EXEMPT INSURANCE INCOME.**—Paragraph  
21 (10) of section 953(e) is amended—

22                   (A) by striking “January 1, 2014” and in-  
23 serting “January 1, 2019”, and

24                   (B) by striking “December 31, 2013” and  
25 inserting “December 31, 2018”.

1 (b) LIMITATION FOR LOW-TAXED FOREIGN IN-  
2 COME.—

3 (1) IN GENERAL.—Paragraph (1) of section  
4 954(h) is amended to read as follows:

5 “(1) IN GENERAL.—For purposes of subsection  
6 (c)(1), in the case of an eligible controlled foreign  
7 corporation, foreign personal holding company in-  
8 come shall not include—

9 “(A) qualified banking or financing income  
10 which is subject to an effective rate of income  
11 tax imposed by a foreign country which is at  
12 least 50 percent of the maximum rate of tax  
13 specified in section 11, and

14 “(B) 50 percent of any other qualified  
15 banking or financing income of such eligible  
16 controlled foreign corporation.”.

17 (2) INSURANCE BUSINESS INCOME.—Paragraph  
18 (1) of section 954(i) is amended to read as follows:

19 “(1) IN GENERAL.—For purposes of subsection  
20 (c)(1), in the case of a qualifying insurance com-  
21 pany, foreign personal holding company income shall  
22 not include—

23 “(A) any qualified insurance income which  
24 is subject to an effective rate of income tax im-  
25 posed by a foreign country which is at least 50

1           percent of the maximum rate of tax specified in  
2           section 11, and

3                   “(B) 50 percent of any other qualified in-  
4           surance income of such qualifying insurance  
5           company.”.

6           (3) PRESERVATION OF DEEMED PAID FOREIGN  
7           TAX CREDIT ON HIGH-TAXED FOREIGN INCOME.—  
8           Subsection (c) of section 960, as amended by the  
9           preceding provisions of this Act, is amended by  
10          striking “Solely for purposes of subsection (a)” and  
11          all that following and inserting the following: “Solely  
12          for purposes of subsection (a)—

13                   “(1) section 954(a)(1)(B) shall be applied by  
14          substituting ‘100 percent’ for ‘50 percent’, and

15                   “(2) the exclusions under subsections (h)(1)(B)  
16          and (i)(1)(B) of section 954 shall not apply,  
17          in determining amounts included under section  
18          951(a)(1).”.

19          (c) EFFECTIVE DATE.—The amendments made by  
20          this section shall apply to taxable years of foreign corpora-  
21          tions beginning after December 31, 2013, and to taxable  
22          years of United States shareholders in which or with which  
23          such taxable years of foreign corporations end.

1 **SEC. 4205. REPEAL OF INCLUSION BASED ON WITHDRAWAL**  
2 **OF PREVIOUSLY EXCLUDED SUBPART F IN-**  
3 **COME FROM QUALIFIED INVESTMENT.**

4 (a) IN GENERAL.—Subpart F of part III of sub-  
5 chapter N of chapter 1 is amended by striking section 955.

6 (b) CONFORMING AMENDMENTS.—

7 (1)(A) Subparagraph (A) of section 951(a)(1),  
8 as amended by this Act, is amended to read as fol-  
9 lows:

10 “(A) his pro rata share (determined under  
11 paragraph (2)) of the corporation’s subpart F  
12 income for such year, and”.

13 (B) Paragraph (3) of section 851(b) is amended  
14 by striking “section 951(a)(1)(A)(i)” in the flush  
15 language at the end and inserting “section  
16 951(a)(1)(A)”.

17 (C) Clause (i) of section 952(c)(1)(B) is amend-  
18 ed by striking “section 951(a)(1)(A)(i)” and insert-  
19 ing “section 951(a)(1)(A)”.

20 (D) Subparagraph (C) of section 953(c)(1) is  
21 amended by striking “section 951(a)(1)(A)(i)” and  
22 inserting “section 951(a)(1)(A)”.

23 (2) Subsection (a) of section 951 is amended by  
24 striking paragraph (3).

1           (3) Subclause (II) of section 953(d)(4)(B)(iv) is  
2 amended by striking “or amounts referred to in  
3 clause (ii) or (iii) of section 951(a)(1)(A)”.

4           (4) Subsection (b) of section 964 is amended by  
5 striking “, 955,”.

6           (5) Section 970 is amended by striking sub-  
7 section (b).

8           (6) The table of sections for subpart F of part  
9 III of subchapter N of chapter 1 is amended by  
10 striking the item relating to section 955.

11       (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years of foreign corpora-  
13 tions beginning after December 31, 2014, and to taxable  
14 years of United States shareholders in which or with which  
15 such taxable years of foreign corporations end.

16           **PART 2—PREVENTION OF BASE EROSION**

17       **SEC. 4211. FOREIGN INTANGIBLE INCOME SUBJECT TO**  
18                           **TAXATION AT REDUCED RATE; INTANGIBLE**  
19                           **INCOME TREATED AS SUBPART F INCOME.**

20       (a) FOREIGN BASE COMPANY INTANGIBLE INCOME  
21 TREATED AS SUBPART F INCOME.—

22           (1) TREATMENT AS SUBPART F INCOME.—  
23 Paragraph (1) of section 954(a), as amended by the  
24 preceding provisions of this Act, is amended by re-  
25 designating subparagraph (D) as subparagraph (E)

1 and by inserting after subparagraph (C) the fol-  
2 lowing new subparagraph:

3 “(D) the foreign base company intangible  
4 income for the taxable year (determined under  
5 subsection (f) and reduced as provided in sub-  
6 section (b)(5)), and”.

7 (2) FOREIGN BASE COMPANY INTANGIBLE IN-  
8 COME DEFINED.—Section 954 of such Code is  
9 amended by inserting after subsection (e) the fol-  
10 lowing new subsection:

11 “(f) FOREIGN BASE COMPANY INTANGIBLE IN-  
12 COME.—For purposes of this section—

13 “(1) IN GENERAL.—The term ‘foreign base  
14 company intangible income’ means, with respect to  
15 any corporation for any taxable year, the excess of—

16 “(A) so much of the adjusted gross income  
17 of the corporation as exceeds 10 percent of the  
18 corporation’s qualified business asset invest-  
19 ment, over

20 “(B) the applicable percentage of such cor-  
21 poration’s foreign personal holding company in-  
22 come, foreign base company sales income, for-  
23 eign base company services income, and foreign  
24 base company oil related income.

1           “(2) APPLICABLE PERCENTAGE.—For purposes  
2 of paragraph (1), the term ‘applicable percentage’  
3 means, with respect to any corporation for any tax-  
4 able year, the ratio (expressed as a percentage) of—

5           “(A) the excess described in paragraph  
6 (1)(A), divided by

7           “(B) the adjusted gross income of the cor-  
8 poration.

9           “(3) QUALIFIED BUSINESS ASSET INVEST-  
10 MENT.—

11           “(A) IN GENERAL.—The term ‘qualified  
12 business asset investment’ means, with respect  
13 to any corporation for any taxable year, the ag-  
14 gregate of the corporation’s adjusted bases (de-  
15 termined as of the close of such taxable year  
16 and after any adjustments with respect to such  
17 taxable year) in specified tangible property—

18           “(i) used in a trade or business of the  
19 corporation, and

20           “(ii) of a type with respect to which  
21 a deduction is allowable under section 168.

22           “(B) DETERMINATION OF ADJUSTED  
23 BASIS.—For purposes of subparagraph (A), the  
24 adjusted basis in any property shall be deter-  
25 mined without regard to any provision of this

1 title (or any other provision of law) which is en-  
2 acted after the date of the enactment of this  
3 section.

4 “(C) REGULATIONS.—The Secretary shall  
5 issue such regulations or other guidance as the  
6 Secretary determines appropriate to prevent the  
7 avoidance of the purposes of this paragraph, in-  
8 cluding regulations or other guidance which  
9 provide for the treatment of property if—

10 “(i) such property is transferred, or  
11 held, temporarily, or

12 “(ii) the avoidance of the purposes of  
13 this paragraph is a factor in the transfer  
14 or holding of such property.

15 “(4) ADJUSTED GROSS INCOME; SPECIFIED  
16 TANGIBLE PROPERTY.—For purposes of this sub-  
17 section—

18 “(A) ADJUSTED GROSS INCOME.—

19 “(i) IN GENERAL.—The term ‘ad-  
20 justed gross income’ means, with respect  
21 to any corporation, the gross income of  
22 such corporation reduced by such corpora-  
23 tion’s commodities gross income.

24 “(ii) COMMODITIES GROSS INCOME.—  
25 The term ‘commodities gross income’

1 means, with respect to any corporation, the  
2 gross income of such corporation which is  
3 derived from commodities which are pro-  
4 duced or extracted by such corporation.

5 “(B) SPECIFIED TANGIBLE PROPERTY.—

6 The term ‘specified tangible property’ means  
7 any tangible property unless such property is  
8 used in the production of commodities gross in-  
9 come. In the case of property which is used in  
10 the production of commodities gross income and  
11 other gross income, such property shall be  
12 treated as specified tangible property in the  
13 same proportion that the adjusted gross income  
14 produced with respect to such property bears to  
15 the total gross income produced with respect to  
16 such property.

17 “(C) COMMODITY.—The term ‘commodity’  
18 means any commodity described in section  
19 475(e)(2).”.

20 (3) APPLICATION ONLY TO FOREIGN BASE COM-  
21 PANY INTANGIBLE INCOME SUBJECT TO A LOW FOR-  
22 EIGN EFFECTIVE RATE OF TAX.—Paragraph (2) of  
23 section 954(a), as amended by preceding provisions  
24 of this Act, is amended by inserting “or foreign base

1       company intangible income” after “foreign base  
2       company sales income”.

3           (4) CONFORMING AMENDMENT.—Paragraph (5)  
4       of section 954(b) is amended by inserting “the for-  
5       eign base company intangible income,” before “and  
6       the foreign base company oil related income”.

7       (b) DEDUCTION FOR FOREIGN INTANGIBLE IN-  
8       COME.—

9           (1) IN GENERAL.—Part VIII of subchapter B  
10       of chapter 1 is amended by adding at the end the  
11       following new section:

12       **“SEC. 250. FOREIGN INTANGIBLE INCOME.**

13       “(a) IN GENERAL.—In the case of a domestic cor-  
14       poration for any taxable year, there shall be allowed as  
15       a deduction an amount equal to the applicable percentage  
16       of the lesser of—

17           “(1) the sum of—

18               “(A) the foreign percentage multiplied by  
19               the net imputed intangible income of such do-  
20               mestic corporation for such taxable year, plus

21               “(B) in the case of a domestic corporation  
22               which is a United States shareholder with re-  
23               spect to any controlled foreign corporation, the  
24               foreign percentage (determined with respect to  
25               such controlled foreign corporation) multiplied

1 by any foreign base company intangible income  
2 (as defined in section 954(f)) of such controlled  
3 foreign corporation which is included in the  
4 gross income of such domestic corporation  
5 under section 951 for such taxable year, or

6 “(2) taxable income of such domestic corpora-  
7 tion (determined without regard to this section) for  
8 the taxable year.

9 “(b) NET IMPUTED INTANGIBLE INCOME.—For pur-  
10 poses of this subsection, the term ‘net imputed intangible  
11 income’ means the excess of—

12 “(1) the excess described in section  
13 954(f)(1)(A), over

14 “(2) the deductions properly allocable to the  
15 amount described in paragraph (1).

16 “(c) FOREIGN PERCENTAGE.—For purposes of this  
17 section—

18 “(1) IN GENERAL.—The term ‘foreign percent-  
19 age’ means, with respect to any corporation for any  
20 taxable year, the ratio (expressed as a percentage)  
21 of—

22 “(A) the foreign-derived adjusted gross in-  
23 come of such corporation for such taxable year,  
24 over

1           “(B) the adjusted gross income of such  
2           corporation for such taxable year.

3           “(2) FOREIGN-DERIVED ADJUSTED GROSS IN-  
4           COME.—

5           “(A) IN GENERAL.—The term ‘foreign-de-  
6           rived adjusted gross income’ means, with re-  
7           spect to any corporation for any taxable year,  
8           any adjusted gross income of such corporation  
9           which is derived in connection with—

10           “(i) property which is sold for use,  
11           consumption, or disposition outside the  
12           United States, or

13           “(ii) services provided with respect to  
14           persons or property located outside the  
15           United States.

16           “(B) SPECIAL RULES.—

17           “(i) ULTIMATE DISPOSITION.—Prop-  
18           erty shall not be treated as sold for use,  
19           consumption, or disposition outside the  
20           United States if the taxpayer knew, or had  
21           reason to know, that such property would  
22           be ultimately sold for use, consumption, or  
23           disposition in the United States.

24           “(ii) SALES TO RELATED PARTIES.—

25           If property is sold to a related party, such

1 sale shall not be treated as for use, con-  
2 sumption or disposition outside the United  
3 States unless—

4 “(I) such property is ultimately  
5 sold for use, consumption or disposi-  
6 tion outside the United States, or

7 “(II) such property is resold to  
8 an unrelated party outside the United  
9 States and no related party knew or  
10 had reason to know that such prop-  
11 erty would be ultimately sold for use,  
12 consumption, or disposition in the  
13 United States.

14 “(iii) APPLICATION TO SERVICES.—  
15 Rules similar to the rules of clauses (i) and  
16 (ii) shall apply with respect to services de-  
17 scribed in subparagraph (A)(ii).

18 “(C) RELATED PARTY.—For purposes of  
19 this paragraph, the term ‘related party’ means  
20 any member of an affiliated group as defined in  
21 section 1504(a), determined—

22 “(i) by substituting ‘more than 50  
23 percent’ for ‘at least 80 percent’ each place  
24 it appears, and

1 “(ii) without regard to paragraphs (2)  
2 and (3) of section 1504(b).

3 Any person (other than a corporation) shall be  
4 treated as a member of such group if such per-  
5 son is controlled by members of such group (in-  
6 cluding any entity treated as a member of such  
7 group by reason of this sentence) or controls  
8 any such member. For purposes of the pre-  
9 ceding sentence, control shall be determined  
10 under the rules of section 954(d)(3).

11 “(3) ADJUSTED GROSS INCOME.—The term ‘ad-  
12 justed gross income’ has the meaning given such  
13 term by section 954(f)(4).

14 “(d) APPLICABLE PERCENTAGE.—For purposes of  
15 this section, the term ‘applicable percentage’ means, with  
16 respect to any taxable year of the domestic corporation  
17 referred to in subsection (a), the percentage determined  
18 in accordance with the following table:

“In the case of any taxable year beginning in:	The applicable percentage is:
2015 .....	55 percent
2016 .....	52 percent
2017 .....	48 percent
2018 .....	44 percent
2019 or thereafter .....	40 percent.

19 “(e) REGULATIONS.—The Secretary may prescribe  
20 such regulations or other guidance as may be necessary  
21 or appropriate to carry out the provisions of this section.”.

1 (2) CONFORMING AMENDMENTS.—

2 (A) Clause (i) of section 163(j)(6)(A), as  
3 amended by the preceding provisions of this  
4 Act, is amended by striking “and” at the end  
5 of subclause (II) and by adding at the end the  
6 following new subclause:

7 “(IV) any deduction allowable  
8 under section 250, and”.

9 (B) Subparagraph (C) of section 170(b)(2)  
10 is amended by striking “and” at the end of  
11 clause (iv), by redesignating clause (v) as clause  
12 (vi), and by inserting after clause (iv) the fol-  
13 lowing new clause:

14 “(v) section 250, and”.

15 (C) Subsection (d) of section 172, as  
16 amended by the preceding provisions of this  
17 Act, is amended by adding at the end the fol-  
18 lowing new paragraph:

19 “(7) DEDUCTION FOR FOREIGN INTANGIBLE  
20 INCOME.—The deduction under section 250 shall not  
21 be allowed.”.

22 (D) Paragraph (1) of section 246(b) is  
23 amended by striking “and 247” and inserting  
24 “247, and 250”.

1 (E) Clause (iii) of section 469(i)(3)(D), as  
2 amended by the preceding provisions of this  
3 Act, is amended by striking “and 222” and in-  
4 serting “222, and 250”.

5 (c) EFFECTIVE DATE.—

6 (1) TREATMENT AS SUBPART F INCOME.—The  
7 amendments made by subsection (a) shall apply to  
8 taxable years of foreign corporations beginning after  
9 December 31, 2014, and to taxable years of United  
10 States shareholders in which or with which such tax-  
11 able years of foreign corporations end.

12 (2) DEDUCTION FOR FOREIGN INTANGIBLE IN-  
13 COME.—The amendments made by subsection (b)  
14 shall apply to taxable years beginning after Decem-  
15 ber 31, 2014.

16 **SEC. 4212. DENIAL OF DEDUCTION FOR INTEREST EXPENSE**  
17 **OF UNITED STATES SHAREHOLDERS WHICH**  
18 **ARE MEMBERS OF WORLDWIDE AFFILIATED**  
19 **GROUPS WITH EXCESS DOMESTIC INDEBTED-**  
20 **NESS.**

21 (a) IN GENERAL.—Section 163 is amended by redес-  
22 ignating subsection (n) as subsection (o) and by inserting  
23 after subsection (m) the following new subsection:

24 “(n) DISALLOWANCE OF DEDUCTION FOR INTEREST  
25 EXPENSE OF UNITED STATES SHAREHOLDERS WHICH

1 ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS  
2 WITH EXCESS DOMESTIC INDEBTEDNESS.—

3 “(1) IN GENERAL.—In the case of any domestic  
4 corporation which is a United States shareholder (as  
5 defined in section 951(b)) with respect to any for-  
6 eign corporation both of which are members of the  
7 same worldwide affiliated group, the deduction al-  
8 lowed under this chapter for interest paid or accrued  
9 by such domestic corporation during the taxable year  
10 shall be reduced by the lesser of—

11 “(A) the product of—

12 “(i) the net interest expense of such  
13 domestic corporation, multiplied by

14 “(ii) the debt-to-equity differential  
15 percentage of such worldwide affiliated  
16 group, or

17 “(B) the excess (if any) of—

18 “(i) such net interest expense, over

19 “(ii) 40 percent of the adjusted tax-  
20 able income (as defined in subsection  
21 (j)(6)(A)) of such domestic corporation.

22 “(2) CARRYFORWARD.—Any amount disallowed  
23 under paragraph (1) for any taxable year shall be  
24 treated as interest paid or accrued in the succeeding

1 taxable year (and shall not be treated as disqualified  
2 interest for purposes of applying subsection (j)).

3 “(3) DEBT-TO-EQUITY DIFFERENTIAL PER-  
4 CENTAGE.—

5 “(A) IN GENERAL.—For purposes of this  
6 subsection, the term ‘debt-to-equity differential  
7 percentage’ means, with respect to any world-  
8 wide affiliated group, the percentage which the  
9 excess domestic indebtedness of such group  
10 bears to the total indebtedness of the domestic  
11 corporations which are members of such group.

12 “(B) EXCESS DOMESTIC INDEBTED-  
13 NESS.—For purposes of subparagraph (A), the  
14 term ‘excess domestic indebtedness’ means, with  
15 respect to any worldwide affiliated group, the  
16 excess (if any) of—

17 “(i) the total indebtedness of the do-  
18 mestic corporations which are members of  
19 such group, over

20 “(ii) 110 percent of the amount which  
21 the total indebtedness of such domestic  
22 corporations would be if the ratio of such  
23 indebtedness to the total equity of such do-  
24 mestic corporations equaled the ratio  
25 which—

1                   “(I) the total indebtedness of  
2                   such group, bears to

3                   “(II) the total equity of such  
4                   group.

5                   “(C) TOTAL EQUITY.—For purposes of  
6                   subparagraph (B), the term ‘total equity’  
7                   means, with respect to one or more corpora-  
8                   tions, the excess (if any) of—

9                   “(i) the money and all other assets of  
10                  such corporations, over

11                  “(ii) the total indebtedness of such  
12                  corporations.

13                  “(D) SPECIAL RULES FOR DETERMINING  
14                  DEBT AND EQUITY.—For purposes of this para-  
15                  graph—

16                  “(i) APPLICATION OF CERTAIN GEN-  
17                  ERAL RULES.—Rules similar to the rules  
18                  of clauses (i), (ii), and (iii) of subsection  
19                  (j)(2)(C) shall apply.

20                  “(ii) INTRAGROUP DEBT AND EQUITY  
21                  INTERESTS DISREGARDED.—The total in-  
22                  debtedness, and the assets, of any group of  
23                  corporations shall be determined by treat-  
24                  ing all members of such group as one cor-  
25                  poration.

1                   “(iii) DETERMINATION OF ASSETS OF  
2                   DOMESTIC GROUP.—The assets of the do-  
3                   mestic corporations which are members of  
4                   any worldwide affiliated group shall be de-  
5                   termined by disregarding any interest held  
6                   by any such domestic corporation in any  
7                   foreign corporation which is a member of  
8                   such group.

9                   “(4) OTHER DEFINITIONS.—For purposes of  
10                  this subsection—

11                  “(A) WORLDWIDE AFFILIATED GROUP.—  
12                  The term ‘worldwide affiliated group’ has the  
13                  meaning which would be given such term by  
14                  section 864(f)(1)(C) if section 1504(a) were ap-  
15                  plied by substituting ‘more than 50 percent’ for  
16                  ‘at least 80 percent’ each place it appears.

17                  “(B) NET INTEREST EXPENSE.—The term  
18                  ‘net interest expense’ has the meaning given  
19                  such term by subsection (j)(6)(B).

20                  “(5) TREATMENT OF AFFILIATED GROUP.—For  
21                  purposes of this subsection, all members of the same  
22                  affiliated group (within the meaning of section  
23                  1504(a) applied by substituting ‘more than 50 per-  
24                  cent’ for ‘at least 80 percent’ each place it appears)  
25                  shall be treated as 1 taxpayer.

1           “(6) REGULATIONS.—The Secretary shall pre-  
2       scribe such regulations or other guidance as may be  
3       appropriate to carry out the purposes of this sub-  
4       section, including regulations or other guidance—

5           “(A) to prevent the avoidance of the pur-  
6       poses of this subsection,

7           “(B) providing such adjustments in the  
8       case of corporations which are members of an  
9       affiliated group as may be appropriate to carry  
10      out the purposes of this subsection,

11          “(C) providing for the coordination of this  
12      subsection with section 884, and

13          “(D) providing for the reallocation of  
14      shares of partnership indebtedness, or distribu-  
15      tive shares of the partnership’s interest income  
16      or interest expense.”.

17      (b) COORDINATION WITH LIMITATION ON RELATED  
18      PARTY INDEBTEDNESS.—Paragraph (1) of section 163(j)  
19      is amended by adding at the end the following new sub-  
20      paragraph:

21          “(C) COORDINATION WITH LIMITATION ON  
22      EXCESS DOMESTIC INDEBTEDNESS.—The  
23      amount disallowed under subparagraph (A)  
24      with respect to any corporation for any taxable  
25      year shall be reduced by any amount disallowed

1 under subsection (n)(1) with respect to such  
2 corporation for such taxable year.”.

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2014.

## 6 **TITLE V—TAX EXEMPT ENTITIES**

### 7 **Subtitle A—Unrelated Business**

#### 8 **Income Tax**

9 **SEC. 5001. CLARIFICATION OF UNRELATED BUSINESS IN-**  
10 **COME TAX TREATMENT OF ENTITIES TREAT-**  
11 **ED AS EXEMPT FROM TAXATION UNDER SEC-**  
12 **TION 501(a).**

13 (a) IN GENERAL.—Subparagraph (A) of section  
14 511(a)(2) is amended by adding at the end the following:  
15 “For purposes of the preceding sentence, an organization  
16 shall not fail to be treated as exempt from taxation under  
17 this subtitle by reason of section 501(a) solely because  
18 such organization is also so exempt, or excludes amounts  
19 from gross income, by reason of any other provision of  
20 this title.”.

21 (b) CLERICAL AMENDMENT.—The heading for sub-  
22 paragraph (A) of section 511(a)(2) is amended to read  
23 as follows: “ORGANIZATIONS EXEMPT FROM TAXATION BY  
24 REASON OF SECTION 501(a).”