

Public Law 88-484

August 22, 1964
[H. R. 7301]

AN ACT

To amend section 341 of the Internal Revenue Code of 1954, relating to collapsible corporations, and to amend section 543(a)(2) of such Code, relating to the inclusion of rents in personal holding company income.

Taxes.
Collapsible cor-
porations.
68A Stat. 107;
72 Stat. 1615.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 341 of the Internal Revenue Code of 1954 (relating to collapsible corporations) is amended by striking out "except as provided in subsection (d)," in subsection (a) and inserting in lieu thereof "except as otherwise provided in this section," and by adding after subsection (e) the following new subsection:

"(f) CERTAIN SALES OF STOCK OF CONSENTING CORPORATIONS.—

"(1) IN GENERAL.—Subsection (a)(1) shall not apply to a sale of stock of a corporation (other than a sale to the issuing corporation) if such corporation (hereinafter in this subsection referred to as 'consenting corporation') consents (at such time and in such manner as the Secretary or his delegate may by regulations prescribe) to have the provisions of paragraph (2) apply. Such consent shall apply with respect to each sale of stock of such corporation made within the 6-month period beginning with the date on which such consent is filed.

"(2) RECOGNITION OF GAIN.—Except as provided in paragraph (3), if a subsection (f) asset (as defined in paragraph (4)) is disposed of at any time by a consenting corporation (or, if paragraph (3) applies, by a transferee corporation), then the amount by which—

"(A) in the case of a sale, exchange, or involuntary conversion, the amount realized, or

"(B) in the case of any other disposition, the fair market value of such asset,

exceeds the adjusted basis of such asset shall be treated as gain from the sale or exchange of such asset. Such gain shall be recognized notwithstanding any other provision of this subtitle, but only to the extent such gain is not recognized under any other provision of this subtitle.

"(3) EXCEPTION FOR CERTAIN TAX-FREE TRANSACTIONS.—If the basis of a subsection (f) asset in the hands of a transferee is determined by reference to its basis in the hands of the transferor by reason of the application of section 332, 351, 361, 371(a), or 374(a), then the amount of gain taken into account by the transferor under paragraph (2) shall not exceed the amount of gain recognized to the transferor on the transfer of such asset (determined without regard to this subsection). This paragraph shall apply only if the transferee—

"(A) is not an organization which is exempt from tax imposed by this chapter, and

"(B) agrees (at such time and in such manner as the Secretary or his delegate may by regulations prescribe) to have the provisions of paragraph (2) apply to any disposition by it of such subsection (f) asset.

"(4) SUBSECTION (f) ASSET DEFINED.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'subsection (f) asset' means any property which, as of the date of any sale of stock referred to in paragraph (1), is not a capital asset and is property owned by, or subject to an option to acquire held by, the consenting corporation. For purposes of this subparagraph, land or any interest in real property (other than

68A Stat. 102;
70 Stat. 402.
26 USC 332,
351, 361, 371, 374.

a security interest), and unrealized receivables or fees (as defined in subsection (b)(4)), shall be treated as property which is not a capital asset.

“(B) PROPERTY UNDER CONSTRUCTION.—If manufacture, construction, or production with respect to any property described in subparagraph (A) has commenced before any date of sale described therein, the term ‘subsection (f) asset’ includes the property resulting from such manufacture, construction, or production.

“(C) SPECIAL RULE FOR LAND.—In the case of land or any interest in real property (other than a security interest) described in subparagraph (A), the term ‘subsection (f) asset’ includes any improvements resulting from construction with respect to such property if such construction is commenced (by the consenting corporation or by a transferee corporation which has agreed to the application of paragraph (2)) within 2 years after the date of any sale described in subparagraph (A).

“(5) 5-YEAR LIMITATION AS TO SHAREHOLDER.—Paragraph (1) shall not apply to the sale of stock of a corporation by a shareholder if, during the 5-year period ending on the date of such sale, such shareholder (or any related person within the meaning of subsection (e)(8)(A)) sold any stock of another consenting corporation within any 6-month period beginning on a date on which a consent was filed under paragraph (1) by such other corporation.

“(6) SPECIAL RULE FOR STOCK OWNERSHIP IN OTHER CORPORATIONS.—If a corporation (hereinafter in this paragraph referred to as ‘owning corporation’) owns 5 percent or more in value of the outstanding stock of another corporation on the date of any sale of stock of the owning corporation during a 6-month period with respect to which a consent under paragraph (1) was filed by the owning corporation, such consent shall not be valid with respect to such sale unless such other corporation has (within the 6-month period ending on the date of such sale) filed a valid consent under paragraph (1) with respect to sales of its stock. For purposes of applying paragraph (4) to such other corporation, a sale of stock of the owning corporation to which paragraph (1) applies shall be treated as a sale of stock of such other corporation. In the case of a chain of corporations connected by the 5-percent ownership requirements of this paragraph, rules similar to the rules of the two preceding sentences shall be applied.

“(7) ADJUSTMENTS TO BASIS.—The Secretary or his delegate shall prescribe such regulations as he may deem necessary to provide for adjustments to the basis of property to reflect gain recognized under paragraph (2).”

(b) (1) Subsections (b) and (d) of section 301 (relating to amount distributed), and paragraph (3) of section 312(c) (relating to adjustments of earnings and profits), of the Internal Revenue Code of 1954 are each amended by striking out “section 311” and inserting in lieu thereof “section 311, under section 341(f)”,

(2) Subparagraphs (A) and (B) of section 453(d)(4) of such Code (relating to distribution of installment obligations in certain corporate liquidations) are each amended by inserting “section 341(f) or” before “section 1245(a)”.

SEC. 2. The amendments made by the first section of this Act shall apply with respect to transactions after the date of the enactment of this Act in taxable years ending after such date.

68A Stat. 84.
26 USC 301, 312.

Ante, p. 596.
76 Stat. 1035.
26 USC 453.

Effective date.

Personal holding company income.

Rents.
Ante, p. 81.
26 USC 543.

SEC. 3. (a) Section 543(a)(2) of the Internal Revenue Code of 1954 (relating to rents) is amended by adding at the end thereof the following new sentence: "For purposes of applying this paragraph, royalties received for the use of, or for the privilege of using, a patent, invention, model, or design (whether or not patented), secret formula or process, or any other similar property right shall be treated as rent, if such property right is also used by the corporation receiving such royalties in the manufacture or production of tangible personal property held for lease to customers, and if the amount (computed without regard to this sentence) constituting rent from such leases to customers meets the requirements of subparagraph (A)."

(b) The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

Approved August 22, 1964.

Public Law 88-485

AN ACT

August 22, 1964
[H. R. 1988]

To provide for the settlement of claims of certain residents of the Trust Territory of the Pacific Islands.

Rongelap Atoll.
Radiation victims, compensation.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress hereby assumes compassionate responsibility to compensate inhabitants in the Rongelap Atoll, in the Trust Territory of the Pacific Islands, for radiation exposures sustained by them as a result of a thermonuclear detonation at Bikini Atoll in the Marshall Islands on March 1, 1954.

Appropriation; conditions for payment.

SEC. 2. There is authorized to be appropriated for such purpose out of the Treasury of the United States the sum of \$950,000 to be expended by the Secretary of the Interior (hereinafter referred to as the "Secretary") in the manner hereinafter provided. After deducting the amount provided for in section 5 hereof, the Secretary shall pay the remainder in equal amounts to each of the affected inhabitants of Rongelap, except that (a) with respect to each such inhabitant who has died before receipt of such payment, the Secretary shall pay such sum to the heirs or legatees of such inhabitant, and (b) with respect to any such inhabitant who is less than twenty-one years of age or who has been adjudged incompetent or insane, payment shall be made, in the discretion of the Secretary, to a parent, relative, other person, or institution for his benefit.

SEC. 3. The Secretary shall give advice concerning prudent financial management to each person receiving a payment pursuant to this Act, to the end that each such person will have information as to methods of conserving his funds and as to suitable objects for which such funds may be expended.

SEC. 4. A payment made under the provisions of this Act shall be in full settlement and discharge of all claims against the United States arising out of the thermonuclear detonation on March 1, 1954.

Attorney fees.

SEC. 5. The Secretary is authorized to pay reasonable attorney fees for legal services rendered on behalf of the people of Rongelap prior to the date of enactment of this Act. Such fees shall be paid out of the funds authorized to be appropriated in section 2 of this Act, but the total of such fees paid shall not exceed 5 per centum of the appropriated funds.

SEC. 6. The decisions of the Secretary in carrying out the provisions of this Act shall be final and not subject to review.

Approved August 22, 1964.