

## Public Law 91-686

## AN ACT

Relating to the income tax treatment of certain sales of real property by a corporation.

January 12, 1971  
[H. R. 19790]

Taxes.  
Real property  
sales by corpora-  
tion.  
68A Stat. 3.  
26 USC 1 et seq.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That (a) for purposes of the Internal Revenue Code of 1954 any lot or parcel of real property sold or exchanged by a corporation which would, but for this Act, be treated as property held primarily for sale to customers in the ordinary course of trade or business shall not, except to the extent provided in (b), be so treated if—

(1) no shareholder of the corporation directly or indirectly holds real property primarily for sale to customers in the ordinary course of trade or business; and

(2)(A) such lot or parcel is a part of real property (i) held for more than twenty-five years at the time of sale or exchange, and (ii) acquired before January 1, 1934, by the corporation as a result of the foreclosure of a lien (or liens) thereon which secured the payment of indebtedness held by one or more creditors who transferred one or more foreclosure bids to the corporation in exchange for all its stock (with or without other consideration), or

(B) (i) such lot or parcel is a part of additional real property acquired before January 1, 1957, by the corporation in the near vicinity of any real property to which subparagraph (A) applies, or

(ii) such lot or parcel is wholly or to some extent a part of any minor acquisition made after December 31, 1956, by the corporation to adjust boundaries, to fill gaps in previously acquired property, to facilitate the installation of streets, utilities, and other public facilities, or to facilitate the sale of adjacent property, or

(iii) such lot or parcel is wholly or to some extent a part of a reacquisition by the corporation after December 31, 1956, of property previously owned by the corporation; but only if at least 80 percent (as measured by area) of the real property sold or exchanged by the corporation within the taxable year is property described in subparagraph (A); and

(3) there were no acquisitions of real property by the corporation after December 31, 1956, other than—

(A) acquisitions described in paragraph (2)(B)(ii) and reacquisitions described in paragraph (2)(B)(iii), or

(B) acquisitions of real property used in a trade or business of the corporation or held for investment by the corporation; and

(4) the corporation did not after December 31, 1957, sell or exchange (except in condemnation or under threat of condemnation) any residential lot or parcel on which, at the time of the sale or exchange, there existed any substantial improvements (other than improvements in existence at the time the land was acquired by the corporation) except subdivision, clearing, grubbing, and grading, building or installation of water, sewer, and drainage facilities, construction of roads, streets, and sidewalks, and installation of utilities.

In any case in which a corporation referred to in paragraphs (1), (2), (3), and (4) is a member of an affiliated group as defined in section 1504(a) of the Internal Revenue Code of 1954, such affiliated group

shall, for purposes of such paragraphs, be treated as a single corporation.

(b)(1) Gain from any sale or exchange described in subsection (a) shall be deemed, for purposes of such Code, to be gain from the sale of property held primarily for sale to customers in the ordinary course of trade or business to the extent of 5 percent of the selling price.

(2) For the purpose of computing gain under paragraph (1), expenditures incurred in connection with the sale or exchange of any lot or parcel shall neither be allowed as a deduction in computing taxable income, nor treated as reducing the amount realized on such sale or exchange; but so much of such expenditures as does not exceed the portion of gain deemed under paragraph (1) to be gain from the sale of property held primarily for sale to customers in the ordinary course of trade or business shall be so allowed as a deduction, and the remainder, if any, shall be treated as reducing the amount realized on such sale or exchange.

(c) The provisions of subsections (a) and (b) shall apply to taxable years beginning after December 31, 1957, and before January 1, 1984.

SEC. 2. (a) Section 1237 of the Internal Revenue Code of 1954 is amended by:

(1) in subsection (a), striking out the parenthetical expression: "(including corporations only if no shareholder directly or indirectly holds real property for sale to customers in the ordinary course of trade or business and only in the case of property described in the last sentence of subsection (b)(3))" and inserting in lieu thereof the words "other than a corporation";

(2) in subsection (b), striking out the last sentence.

(b) The amendments made by subsection (a) shall be effective for taxable years beginning after the date of enactment of this Act.

Approved January 12, 1971.

Effective date.

68A Stat. 330;  
70 Stat. 118.  
26 USC 1237.

Effective date.

## Public Law 91-687

### AN ACT

To amend section 165(g) of the Internal Revenue Code of 1954 which provides for treatment of losses on worthless securities.

January 12, 1971  
[H. R. 19369]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 165 of the Internal Revenue Code of 1954 (relating to losses) is amended—

(a) by striking out in subsection (g)(3)(A) "at least 95 percent of each class of its stock" and inserting in lieu thereof "stock possessing at least 80 percent of the voting power of all classes of its stock and at least 80 percent of each class of its nonvoting stock", and

(b) by adding at the end of subsection (g)(3) the following: "As used in subparagraph (A), the term 'stock' does not include nonvoting stock which is limited and preferred as to dividends."

SEC. 2. The amendments made by this Act shall apply with respect to taxable years beginning on or after January 1, 1970.

Approved January 12, 1971.

Taxes.  
Worthless  
securities, losses.  
68A Stat. 49.  
26 USC 165.