

109TH CONGRESS
2D SESSION

H. R. 6288

To amend the Internal Revenue Code of 1986 to improve the rules relating to income earned abroad.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 29, 2006

Mr. SAM JOHNSON of Texas introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to improve the rules relating to income earned abroad.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**

4 **TABLE OF CONTENTS.**

5 (a) SHORT TITLE.—This Act may be cited as the
6 “International Tax Simplification Act of 2006”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-
8 wise expressly provided, whenever in this Act an amend-
9 ment or repeal is expressed in terms of an amendment
10 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 (c) TABLE OF CONTENTS.—The table of contents for
 4 this Act is as follows:

- Sec. 1. Short title; amendment of 1986 Code; table of contents.
- Sec. 2. Permanent Subpart F exemption for active financing income.
- Sec. 3. Permanent look-thru rule for related controlled foreign corporations.
- Sec. 4. Repeal of foreign base company sales and services income rules.
- Sec. 5. Repeal of foreign base company oil related income rules.
- Sec. 6. Repeal of special rules for applying foreign tax credit in case of foreign oil and gas income.
- Sec. 7. Extension of carryforward period for excess foreign taxes.
- Sec. 8. Subpart F earnings and profits determined under generally accepted accounting principles.
- Sec. 9. Acceleration of election to allocate interest on a worldwide basis.
- Sec. 10. Expansion of de minimis rule under subpart F.

5 **SEC. 2. PERMANENT SUBPART F EXEMPTION FOR ACTIVE**
 6 **FINANCING INCOME.**

7 (a) EXEMPT INSURANCE INCOME.—Paragraph (10)
 8 of section 953(e) is amended—

9 (1) by striking “and before January 1, 2009,”,

10 and

11 (2) by striking the second sentence.

12 (b) FOREIGN PERSONAL HOLDING COMPANY IN-
 13 COME.—Paragraph (9) of section 954(h) is amended by
 14 striking “and before January 1, 2009,”.

15 **SEC. 3. PERMANENT LOOK-THRU RULE FOR RELATED CON-**
 16 **TROLLED FOREIGN CORPORATIONS.**

17 Subparagraph (B) of section 954(c)(6) (relating to
 18 application) is amended by striking “and before January
 19 1, 2009,”.

1 **SEC. 4. REPEAL OF FOREIGN BASE COMPANY SALES AND**
2 **SERVICES INCOME RULES.**

3 (a) **IN GENERAL.**—Subsection (a) of section 954 (re-
4 lating to foreign base company income) is amended by
5 striking paragraphs (2) and (3).

6 (b) **CERTAIN SALES.**—Paragraph (1) of section
7 954(c) is amended by adding at the end the following new
8 subparagraph:

9 “(I) **CERTAIN SALES.**—Income (whether in
10 the form of profits, commissions, fees, or other-
11 wise) derived in connection with the purchase of
12 personal property from a related person and its
13 sale to any person, the sale of personal property
14 to any person on behalf of a related person, the
15 purchase of personal property from any person
16 and its sale to a related person, or the purchase
17 of personal property from any person on behalf
18 of a related person where—

19 “(i) the property which is purchased
20 (or in the case of property sold on behalf
21 of a related person, the property which is
22 sold) is manufactured, produced, grown, or
23 extracted in the United States, and

24 “(ii) the property is sold for use, con-
25 sumption, or disposition in the United
26 States, or, in the case of property pur-

1 chased on behalf of a related person, is
2 purchased for use, consumption, or dispo-
3 sition in the United States.”.

4 (c) CONFORMING AMENDMENTS.—

5 (1) Clause (iii) of section 952(c)(1)(B) is
6 amended by striking subclauses (II) and (III) and
7 by redesignating subclauses (IV) and (V) as sub-
8 clauses (II) and (III), respectively.

9 (2) Paragraph (5) of section 954(b) is amended
10 by striking “, the foreign base company sales in-
11 come, the foreign base company services income,”.

12 (3) Section 954 is amended by striking sub-
13 sections (d) and (e).

14 (4)(A) Subsection (b) of section 954 is amended
15 by adding at the end the following new paragraph:

16 “(7) RELATED PERSON DEFINED.—For pur-
17 poses of this section, a person is a related person
18 with respect to a controlled foreign corporation if—

19 “(A) such person is an individual, corpora-
20 tion, partnership, trust, or estate which con-
21 trols, or is controlled by, the controlled foreign
22 corporation, or—

23 “(B) such person is a corporation, partner-
24 ship, trust, or estate which is controlled by the

1 same person or persons which control the con-
2 trolled foreign corporation.

3 For purposes of the preceding sentence, control
4 means, with respect to a corporation, the ownership,
5 directly or indirectly, of stock possessing more than
6 50 percent of the total voting power of all classes of
7 stock entitled to vote or of the total value of stock
8 of such corporation. In the case of a partnership,
9 trust, or estate, control means the ownership, di-
10 rectly or indirectly, of more than 50 percent (by
11 value) of the beneficial interests in such partnership,
12 trust, or estate. For purposes of this paragraph,
13 rules similar to the rules of section 958 shall
14 apply.”.

15 (B) Sections 552(c)(2), 861(c)(2)(B),
16 904(d)(2)(H), 953(d)(3), 953(e), 955(b), 958(b),
17 971(f), 988(e)(3)(C), 1297(b)(2), 1298(d)(3), and
18 1298(e)(2)(B) are each amended by striking
19 “954(d)(3)” each place it appears and inserting
20 “954(b)(7)”.

21 (d) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years of a foreign cor-
23 poration beginning after December 31, 2006, and to tax-
24 able years of United States shareholders with or within

1 which any such taxable year of such foreign corporation
2 ends.

3 **SEC. 5. REPEAL OF FOREIGN BASE COMPANY OIL RELATED**
4 **INCOME RULES.**

5 (a) IN GENERAL.—Subsection (a) of section 954 (re-
6 lating to foreign base company income) is amended by
7 striking paragraph (5).

8 (b) CONFORMING AMENDMENTS.—

9 (1) Clause (iii) of section 952(c)(1)(B), as
10 amended by this Act, is amended by striking sub-
11 clause (I) and by redesignating subclauses (II) and
12 (III) as subclauses (I) and (II), respectively.

13 (2) Paragraph (5) of section 954(b), as amend-
14 ed by this Act, is amended by striking “and the for-
15 eign base company oil related income”.

16 (3) Section 954 is amended by striking sub-
17 section (g).

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years of foreign corpora-
20 tions beginning after December 31, 2006, and to taxable
21 years of United States shareholders with or within which
22 such taxable years of foreign corporations end.

1 **SEC. 6. REPEAL OF SPECIAL RULES FOR APPLYING FOR-**
2 **EIGN TAX CREDIT IN CASE OF FOREIGN OIL**
3 **AND GAS INCOME.**

4 (a) IN GENERAL.—Section 907 (relating to special
5 rules in case of foreign oil and gas income), as amended
6 by this Act, is repealed.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Each of the following provisions are amend-
9 ed by striking “907,”:

10 (A) Section 245(a)(10).

11 (B) Section 865(h)(1)(B).

12 (C) Section 904(d)(1).

13 (D) Section 904(g)(10)(A).

14 (2) Section 904(f)(5)(E)(iii) is amended by in-
15 sserting “, as in effect before its repeal by the Inter-
16 national Tax Simplification Act of 2006” after “sec-
17 tion 907(c)(4)(B)”.

18 (3) Section 954(g)(1) is amended by inserting
19 “, as in effect before its repeal by the International
20 Tax Simplification Act of 2006” after “907(c)”.

21 (4) Section 6501(i) is amended—

22 (A) by striking “, or under section 907(f)
23 (relating to carryback and carryover of dis-
24 allowed oil and gas extraction taxes)”, and

25 (B) by striking “or 907(f)”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to distributions during, and the
3 determination of the inclusion under section 951 of the
4 Internal Revenue Code of 1986 with respect to, taxable
5 years of foreign corporations beginning after December
6 31, 2006.

7 **SEC. 9. ACCELERATION OF ELECTION TO ALLOCATE INTER-**
8 **EST ON A WORLDWIDE BASIS.**

9 (a) IN GENERAL.—Section 864(f)(6) is amended by
10 striking “December 31, 2008” and inserting “December
11 31, 2006”.

12 (b) CONFORMING AMENDMENT.—Section 401(c) of
13 the American Jobs Creation Act of 2004 is amended by
14 striking “December 31, 2008” and inserting “December
15 31, 2006”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall take effect as if included in section 401
18 of the American Jobs Creation Act of 2004.

19 **SEC. 10. EXPANSION OF DE MINIMIS RULE UNDER SUB-**
20 **PART F.**

21 (a) IN GENERAL.—Sections 954(b)(3)(A)(ii),
22 864(d)(5)(A)(ii), and 881(c)(5)(A)(i) are each amended
23 by striking “\$1,000,000” and inserting “\$5,000,000”.

24 (b) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to taxable years of foreign corpora-

1 tions beginning after December 31, 2006, and to taxable
2 years of United States shareholders with or within which
3 such taxable years of foreign corporations end.

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