

104TH CONGRESS
1ST SESSION

H. R. 2494

To amend the Internal Revenue Code of 1986 to provide for the treatment of bad debt reserves of savings associations which are required to convert into banks, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 18, 1995

Mr. ARCHER (for himself, Mr. LEACH, and Mrs. ROUKEMA) 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 provide for the treatment of bad debt reserves of savings associations which are required to convert into banks, and for other purposes.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Thrift Charter Conver-
5 sion Tax Act of 1995”.

1 **SEC. 2. TREATMENT OF RESERVES FOR BAD DEBTS OF SAV-**
2 **INGS ASSOCIATIONS WHICH ARE REQUIRED**
3 **TO CONVERT INTO BANKS.**

4 (a) IN GENERAL.—Section 593 of the Internal Reve-
5 nue Code of 1986 (relating to reserves for losses on loans)
6 is hereby repealed.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Subsection (e) of section 52 of such Code
9 is amended by striking paragraph (1) and by redesi-
10 gnating paragraphs (2) and (3) as paragraphs (1)
11 and (2), respectively.

12 (2) Subsection (a) of section 57 of such Code
13 is amended by striking paragraph (4).

14 (3) Section 246 of such Code is amended by
15 striking subsection (f).

16 (4) Clause (i) of section 291(e)(1)(B) of such
17 Code is amended by striking “or to which section
18 593 applies”.

19 (5) Subparagraph (A) of section 585(a)(2) of
20 such Code is amended by striking “other than an or-
21 ganization to which section 593 applies”.

22 (6) Section 596 of such Code is hereby re-
23 pealed.

24 (7) Subsection (a) of section 860E of such Code
25 is amended—

1 (A) by striking “Except as provided in
2 paragraph (2), the” in paragraph (1) and in-
3 serting “The”,

4 (B) by striking paragraphs (2) and (4) and
5 redesignating paragraphs (3) and (5) as para-
6 graphs (2) and (3), respectively, and

7 (C) by striking in paragraph (2) (as so re-
8 designated) all that follows “subsection” and
9 inserting a period.

10 (8) Paragraph (3) of section 992(d) of such
11 Code is amended by striking “or 593”.

12 (9) Section 1038 of such Code is amended by
13 striking subsection (f).

14 (10) Clause (ii) of section 1042(c)(4)(B) of
15 such Code is amended by striking “or 593”.

16 (11) Subsection (c) of section 1277 of such
17 Code is amended by striking “or to which section
18 593 applies”.

19 (12) Subparagraph (B) of section 1361(b)(2) of
20 such Code is amended by striking “or to which sec-
21 tion 593 applies”.

22 (13) The table of sections for part II of sub-
23 chapter H of chapter 1 of such Code is amended by
24 striking the items relating to sections 593 and 596.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1995.

4 (d) 6-YEAR SPREAD OF ADJUSTMENTS.—

5 (1) IN GENERAL.—In the case of any taxpayer
6 who is required by reason of the amendments made
7 by this section to change its method of computing
8 reserves for bad debts—

9 (A) such change shall be treated as a
10 change in a method of accounting,

11 (B) such change shall be treated as initi-
12 ated by the taxpayer and as having been made
13 with the consent of the Secretary, and

14 (C) the net amount of the adjustments re-
15 quired to be taken into account by the taxpayer
16 under section 481(a) of the Internal Revenue
17 Code of 1986 (as modified by paragraph (2))
18 shall be taken into account ratably over the 6-
19 taxable year period beginning with the first tax-
20 able year beginning after December 31, 1995.

21 (2) NO INCLUSION OF PORTION OF RESERVE.—

22 In the case of a taxpayer to which paragraph (1) ap-
23 plies and which is a large bank (as defined in section
24 585(c)(2) of such Code) for its first taxable year be-
25 ginning after December 31, 1995—

1 (A) no amount shall be includible in gross
2 income by reason of the reduction of its reserve
3 for bad debts to the extent that the amount of
4 such reserve as of the close of its last taxable
5 year beginning before January 1, 1996, does
6 not exceed the amount applicable to such tax-
7 payer under section 585(b)(2)(B) of such Code
8 for such last taxable year, and

9 (B) the net amount of adjustments taken
10 into account under paragraph (1)(C) shall be
11 reduced by the amount not includible in gross
12 income by reason of subparagraph (A) of this
13 paragraph.

14 (3) SUSPENSION OF RECAPTURE IF RESIDEN-
15 TIAL LOAN REQUIREMENT MET.—

16 (A) IN GENERAL.—In the case of a tax-
17 payer which meets the residential loan require-
18 ment of subparagraph (B) for any taxable
19 year—

20 (i) no adjustment shall be taken into
21 account under paragraph (1) for such tax-
22 able year, and

23 (ii) such taxable year shall be dis-
24 regarded in determining—

1 (I) whether any other taxable
2 year is a taxable year for which an
3 adjustment is required to be taken
4 into account under paragraph (1), and
5 (II) the amount of such adjust-
6 ment.

7 (B) RESIDENTIAL LOAN REQUIREMENT.—
8 A taxpayer meets the residential loan require-
9 ment of this subparagraph for any taxable year
10 if the principal amount of the residential loans
11 made by the taxpayer during such year is not
12 less than the average of the principal amounts
13 of such loans made by the taxpayer during the
14 6 most recent testing years ending before such
15 taxable year.

16 (C) TESTING YEARS.—For purposes of
17 subparagraph (B), the term “testing year”
18 means—

19 (i) each taxable year ending on or
20 after December 31, 1990, and before Jan-
21 uary 1, 1996, and

22 (ii) each taxable year ending after De-
23 cember 31, 1995, for which the taxpayer
24 meets the residential loan requirement of
25 subparagraph (B).

1 (D) RESIDENTIAL LOAN.—For purposes of
2 this paragraph, the term “residential loan”
3 means any loan described in section
4 7701(a)(19)(C)(v) of such Code.

5 (E) CONTROLLED GROUPS.—In the case of
6 a taxpayer which is a member of any controlled
7 group of corporations described in section
8 1563(a)(1) of such Code, subparagraph (B)
9 shall be applied with respect to such group.

10 (F) COORDINATION WITH ESTIMATED TAX
11 PAYMENTS.—For purposes of applying section
12 6655(e)(2)(A)(i) of such Code with respect to
13 any installment, the determination under sub-
14 paragraph (A) of whether an adjustment is re-
15 quired to be taken into account under para-
16 graph (1) shall be made as of the last day pre-
17 scribed for payment of such installment.

18 (4) CONTINUED APPLICATION OF PARAGRAPH
19 (2) UNDER SECTION 585 TRANSITIONAL RULES.—In
20 the case of a taxpayer to which paragraph (1) ap-
21 plied and which was not a large bank (as defined in
22 section 585(c)(2) of such Code) for its first taxable
23 year beginning after December 31, 1995—

24 (A) IN GENERAL.—Rules similar to the
25 rules of paragraph (2) shall apply for purposes

1 of applying section 585(c)(3) of such Code with
2 respect to the amount of such taxpayer's re-
3 serve for bad debts as of the close of the last
4 taxable year before the disqualification year.

5 (B) TREATMENT UNDER ELECTIVE CUT-
6 OFF METHOD.—No amount shall be includible
7 in gross income under section 585(c)(4) of such
8 Code by reason of the reduction of such tax-
9 payer's reserve for bad debts below the amount
10 applicable to such taxpayer under section
11 585(b)(2)(B) of such Code for the last taxable
12 year before the disqualification year.

13 (5) CONTINUED APPLICATION OF SECTION
14 593(e).—Notwithstanding the amendments made by
15 this section, in the case of a taxpayer to which para-
16 graph (1) of this subsection applies, section 593(e)
17 of such Code (as in effect on the day before the date
18 of the enactment of this Act) shall continue to apply
19 to such taxpayer as if such taxpayer were a domestic
20 building and loan association but the amount of the
21 reserve taken into account under such section 593(e)
22 shall be only the amount of such taxpayer's reserve
23 for bad debts which is not includible in gross income
24 by reason of paragraph (2) or (4) of this subsection.

1 (6) REGULATIONS.—The Secretary of the
2 Treasury or his delegate shall prescribe such regula-
3 tions as may be necessary to carry out this sub-
4 section, including regulations providing for the appli-
5 cation of paragraph (3) in the case of mergers, spin-
6 offs, and other reorganizations.

7 **SEC. 3. DEDUCTION FOR SPECIAL ASSESSMENTS.**

8 For purposes of subtitle A of the Internal Revenue
9 Code of 1986, the amount allowed as a deduction under
10 section 162 of such Code for the taxable year shall include
11 the amount paid during 1996 as a special assessment
12 under section 7(b)(6)(B) of the Federal Deposit Insurance
13 Act, as amended by the Thrift Charter Conversion Act of
14 1995, as proposed by H.R. 2491, as introduced in the
15 104th Congress.

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