

107TH CONGRESS
2D SESSION

H. R. 3857

To amend the Internal Revenue Code of 1986 to treat nominally foreign corporations created through inversion transactions as domestic corporations.

IN THE HOUSE OF REPRESENTATIVES

MARCH 6, 2002

Mr. MCINNIS 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 treat nominally foreign corporations created through inversion transactions as domestic corporations.

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. FOREIGN CORPORATIONS CREATED THROUGH**
4 **INVERSION TRANSACTIONS TAXED AS DO-**
5 **MESTIC CORPORATIONS.**

6 (a) IN GENERAL.—Paragraph (4) of section 7701(a)
7 of the Internal Revenue Code of 1986 (defining domestic)
8 is amended to read as follows:

9 “(4) DOMESTIC.—

1 “(A) IN GENERAL.—Except as provided in
2 subparagraph (B), the term ‘domestic’ when ap-
3 plied to a corporation or partnership means cre-
4 ated or organized in the United States or under
5 the law of the United States or of any State
6 unless, in the case of a partnership, the Sec-
7 retary provides otherwise by regulations.

8 “(B) INVERSION TRANSACTIONS DIS-
9 REGARDED.—

10 “(i) IN GENERAL.—A corporation
11 which would (but for this subparagraph)
12 be treated as a foreign corporation shall be
13 treated as a domestic corporation if such
14 corporation is an inverted domestic cor-
15 poration.

16 “(ii) INVERTED DOMESTIC CORPORA-
17 TION.—For purposes of clause (i), a for-
18 eign corporation is an inverted domestic
19 corporation if, immediately after a trans-
20 action in which property is directly or indi-
21 rectly transferred by a domestic corpora-
22 tion to such foreign corporation, more than
23 80 percent of the stock (by vote or value)
24 of such foreign corporation is held by
25 former shareholders of the domestic cor-

1 poration by reason of holding stock in such
2 domestic corporation.

3 “(iii) LOWER STOCK OWNERSHIP TEST
4 FOR CERTAIN CORPORATIONS.—Clause (ii)
5 shall be applied by substituting ‘50 per-
6 cent’ for ‘80 percent’ if—

7 “(I) stock in such foreign cor-
8 poration is publicly traded on an ex-
9 change in the United States,

10 “(II) less than 10 percent of the
11 gross income of such foreign corpora-
12 tion is derived from activities in the
13 foreign country in which such foreign
14 corporation is created or organized,
15 and

16 “(III) less than 10 percent of the
17 employees of such foreign corporation
18 are permanently located in such for-
19 eign country.”

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to transactions after December 31,
22 2001.

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