

108TH CONGRESS  
2D SESSION

# S. 2604

To amend the Internal Revenue Code of 1986 to reduce the recognition period for built-in gains for subchapter S corporations.

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IN THE SENATE OF THE UNITED STATES

JUNE 24, 2004

Mr. SMITH (for himself and Mr. BREAU) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to reduce the recognition period for built-in gains for subchapter S 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. REDUCED RECOGNITION PERIOD FOR BUILT-IN**  
4 **GAINS.**

5 (a) IN GENERAL.—Paragraph (7) of section 1374(d)  
6 (relating to definitions and special rules) is amended to  
7 read as follows:

8 “(7) RECOGNITION PERIOD.—The term ‘rec-

9 ognition period’ means the 7-year period beginning

10 with the 1st day of the 1st taxable year for which

1 the corporation was an S corporation. For purposes  
2 of applying this section to any amount includible in  
3 income by reason of distributions to shareholders  
4 pursuant to section 593(e), the preceding sentence  
5 shall be applied without regard to the duration of  
6 the recognition period in effect on the date such dis-  
7 tribution.”.

8 (b) EFFECTIVE DATE.—

9 (1) GENERAL RULE.—The amendment made by  
10 this section shall apply to any recognition period in  
11 effect on or after the date of the enactment of this  
12 Act.

13 (2) SPECIAL APPLICATION TO EXISTING PERI-  
14 ODS EXCEEDING 7 YEARS.— Any recognition period  
15 in effect on the date of the enactment of this Act,  
16 the length of which is greater than 7 years, shall end  
17 on such date.

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