

elected 341(f) treatment to avoid danger of being treated as a collapsible corporation, or unless the sections dealing with the recapture of depreciation apply).

If the property received on a liquidation of the type described above (to which sec. 334(b)(2) applies) consists of installment notes, then the gain which would normally be taxed on the sale or collection of such notes may, in part or in whole, permanently escape income taxation. This would result if the basis of such notes were raised to the amount paid for them by the acquiring corporation even though no gain were recognized to the distributing corporation.

Although existing law may be adequate to deal with certain types of situations, your committee believes that gain should generally be recognized by the distributing corporation in all cases in which the acquiring corporation receives a new basis in the installment notes. The amendment provides that installment notes transferred in a liquidation of the type described above are to be treated as "disposed of" for purposes of the installment sale provision (sec. 453(d)). As a result, gain is to be recognized to the distributing corporation, in the same manner as if it had sold the notes.

This amendment is effective with respect to distributions made after the date of enactment.

4. *"Swap funds" (sec. 204 of the bill and sec. 351 of the code)*

Under section 351 of the Internal Revenue Code, the transfer of property to a corporation by one or more persons in exchange for stock in the corporation is not to result in gain or loss if immediately after the exchange, the person or persons in question are in control of the corporation.

In 1960 the Internal Revenue Service issued a limited number of rulings to the effect that no tax resulted from the exchange of appreciated stock for shares in an investment fund where immediately after the exchange, the persons who transferred the stock to the corporation are in control of the corporation. Investments funds organized in this way have become known as "swap funds." It stopped issuing these rulings in 1961, however, and subsequently (in Rev. Proc. 62-32) the Service announced that this was an area in which it would not rule. Notwithstanding this change in position, new swap funds continued to be formed, relying on the advice of private tax counsel that the exchange of stock for stock in these cases was nontaxable.

On July 14, 1966, the Treasury issued a proposed regulation to the effect that this type of exchange would be taxable. At the same time it offered to enter into closing agreements with existing swap funds which would provide that section 351 would be applied to past transfers for all purposes under the code, including the determination of basis.

The effect of the amendment added to the bill by the committee is to provide that section 351 applies to corporate investment funds. This amendment is effective to transfers whenever made.

5. *Minimum amount treated as earned income for retirement plans of self-employed persons (sec. 205 of the bill and sec. 401(c)(2)(B) of the code)*

At present, a self-employed individual may contribute to a qualified pension or profit-sharing plan up to 10 percent of his "earned income" but not more than \$2,500 in a given year. He receives an income tax