

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 November 13, 1966.

3. *"Swap funds" (sec. 203 of the act and sec. 351 of the code)*

*Prior law.*—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 were in control of the corporation. Investment funds organized in this way have become known as "swap funds." In 1961, the Service stopped issuing these rulings and subsequently (in Rev. Proc. 62-32) announced that it would not issue rulings in this area. 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.

*Explanation of provision.*—The act provides that no gain or loss is to be recognized with respect to property that is transferred to an investment company on or before June 30, 1967, if the transfer is solely in exchange for stock or securities in the investment company and immediately after the exchange the transferor or transferors are in control of the corporation. Gain or loss will be recognized, however, with respect to such transfers made after June 30, 1967.

For the purposes of this provision a transfer of property will only be considered as made on or before June 30, 1967, if—

(i) The registration statement of the investment company is filed with the Securities and Exchange Commission before January 1, 1967, and the aggregate issue price of the stock and securities of the company which are issued in the transaction does not exceed the amount specified in the registration statement as of the close of December 31, 1966,

(ii) The transfer of property to the investment company includes only property deposited before May 1, 1967, and

(iii) The transfer itself is made on or before June 30, 1967.

*Effective date.*—This provision applies with respect to transfers of property to investment companies made before, on, or after the date of enactment.

4. *Removal of certain limitations to deductibility of contributions to self-employed individuals' pension plans (sec. 204 of the act and secs. 401 and 404 of the code)*

*Prior law.*—Self-employed individuals may establish retirement plans and may deduct from their gross incomes contributions made to