

By: Representative Upshaw

To: Ways and Means

## HOUSE BILL NO. 471

1 AN ACT TO AMEND SECTION 27-7-9, MISSISSIPPI CODE OF 1972, TO  
2 CONFORM THE STATE INCOME TAX LAW WITH FEDERAL LAW REGARDING THE  
3 PERIOD FOR NONRECOGNITION OF GAIN ON THE REPLACEMENT OF DAMAGED  
4 PROPERTY IN THE HURRICANE KATRINA DISASTER AREA AS PROVIDED FOR IN  
5 THE KATRINA EMERGENCY TAX RELIEF ACT OF 2005; AND FOR RELATED  
6 PURPOSES.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

8 **SECTION 1.** Section 27-7-9, Mississippi Code of 1972, is  
9 amended as follows:

10 27-7-9. (a) **Except as provided in Sections 27-7-95 through**  
11 **27-7-103, determination of amount of gain or loss.**

12 (1) **Computation of gain or loss.** The gain from the  
13 sale or other disposition of property shall be the excess of the  
14 amount realized therefrom over the adjusted basis provided in  
15 subsection (c) for determining gain, and the loss shall be the  
16 excess of the adjusted basis provided in subsection (c) for  
17 determining loss over the amount realized.

18 (2) **Amount realized.** The amount realized from the sale  
19 or other disposition of property shall be the sum of any money  
20 received plus the fair market value of the property (other than  
21 money) received.

22 (3) **Installment sales.** Nothing in this section shall  
23 be construed to prevent (in the case of property sold under  
24 contract providing for payment in installments) the taxation of  
25 that portion of any installment payment representing gain or  
26 profit in the year in which such payment is received.

27 (b) **Recognition of gain or loss.** Except as otherwise  
28 provided in this section, on the sale or exchange of property the

29 entire amount of the gain or loss, determined under subsection  
30 (a), shall be recognized.

31 (c) **Adjusted basis for determining gain or loss.**

32 (1) **In general.** The adjusted basis for determining the  
33 gain or loss from the sale or other disposition of property,  
34 whenever acquired, shall be the basis determined under subsection  
35 (d) adjusted as provided in subsection (e).

36 (2) **Bargain sale to a charitable organization.** If a  
37 deduction is allowed under Section 27-7-17 (relating to charitable  
38 contributions) by reason of a sale, then the adjusted basis for  
39 determining the gain from such sale shall be that portion of the  
40 adjusted basis which bears the same ratio to the adjusted basis as  
41 the amount realized bears to the fair market value of the  
42 property.

43 (d) **Basis of property.**

44 (1) **Property acquired after March 16, 1912.** The basis  
45 for ascertaining the gain derived or the loss sustained from the  
46 sale or other disposition of property, real, personal or mixed,  
47 shall be, in the case of property acquired after March 16, 1912,  
48 the cost of such property, except as otherwise provided in this  
49 subsection.

50 (2) **Inventory property.** If the property should have  
51 been included in the last inventory, the basis shall be the last  
52 inventory value thereof.

53 (3) **Property acquired by gift.** In the case of property  
54 acquired by gift after January 1, 1936, the basis shall be the  
55 same as that which it would have in the hands of the donor or the  
56 last preceding owner by whom it was not acquired by gift. If the  
57 facts necessary to determine such basis are unknown to the donee,  
58 the commissioner shall, if possible, obtain such facts from such  
59 donor, or last preceding owner, or any other person cognizant  
60 thereof. If the commissioner finds it impossible to obtain such  
61 facts, the commissioner shall establish a basis for the property

62 from the best information available. In the case of property  
63 acquired by gift on or before January 1, 1936, the basis for  
64 ascertaining gain or loss from the sale or other disposition  
65 thereof shall be the fair market price or value of such property  
66 at the time of acquisition.

67           (4) **Property acquired by bequests, devises and**  
68 **inheritance.** If personal property was acquired by specific  
69 bequest, or if real property was acquired by general or specific  
70 devise or by intestacy, the basis shall be the fair market value  
71 of the property at the time of the death of the decedent. If the  
72 property was acquired by the decedent's estate from the decedent,  
73 the basis in the hands of the estate shall be the fair market  
74 value of the property at the time of the death of the decedent.  
75 In all other cases, if the property was acquired either by will or  
76 by intestacy, the basis shall be the fair market value of the  
77 property at the time of the distribution to the taxpayer. In the  
78 case of property transferred in trust to pay the income for life  
79 to or upon the order or direction of the grantor, with the right  
80 reserved to the grantor at all times prior to his death to revoke  
81 the trust, the basis of such property in the hands of the persons  
82 entitled under the terms of the trust instrument to the property  
83 after the grantor's death shall, after such death, be the same as  
84 if the trust instrument had been a will executed on the day of the  
85 grantor's death.

86           (5) **Property acquired by a transfer in trust.** If the  
87 property was acquired by a transfer in trust (other than by a  
88 transfer in trust by a bequest or devise), the basis shall be the  
89 same as it would be in the hands of the grantor, increased in the  
90 amount of gain, or decreased in the amount of loss, recognized to  
91 the grantor upon such transfer under this section.

92           (6) **Property acquired in tax-free exchanges.** If the  
93 property was acquired upon an exchange described in subsection  
94 (f), the basis shall be the same as in the case of the property

95 exchanged, decreased in the amount of any money received by the  
96 taxpayer and increased in the amount of gain or decreased in the  
97 amount of loss to the taxpayer that was recognized upon such  
98 exchange by the terms of this act. If the property so acquired  
99 consisted in part of the type of property permitted by subsection  
100 (f) to be received without recognition of gain or loss, and in  
101 part of other property, the basis provided in this subsection  
102 shall be allocated between the properties (other than money)  
103 received, and for the purpose of the allocation there shall be  
104 assigned to such other property an amount equivalent to its fair  
105 market value at the date of the exchange.

106           (7) **Property acquired in tax-free distribution.** If the  
107 property consists of stock or securities distributed to a taxpayer  
108 in connection with a transaction described in subsection (f), the  
109 basis in the case of the stock in respect of which the  
110 distribution was made shall be apportioned, under rules and  
111 regulations prescribed by the commissioner, between such stock and  
112 the stock or securities distributed.

113           (8) **Property acquired in involuntary conversions.** If  
114 the property was acquired as the result of a compulsory or  
115 involuntary conversion described in subsection (f), the basis  
116 shall be the same as in the case of property so converted,  
117 decreased in the amount of any money received by the taxpayer  
118 which was not expended in accordance with the provisions of said  
119 subsection determining the taxable status of the gain or loss upon  
120 such conversion, and increased in the amount of gain or decreased  
121 in the amount of loss to the taxpayer recognized upon such  
122 conversion.

123           (9) **Property acquired in wash sales.** If substantially  
124 identical property was acquired in place of stock or securities  
125 which were sold or disposed of and in respect of which loss was  
126 not allowed as a deduction under Section 27-7-17(d), the basis in  
127 the case of property so acquired shall be the basis in the case of

128 the stock or securities so sold or disposed of, except that, if  
129 the repurchase price was in excess of the sales price, such basis  
130 shall be increased in the amount of the difference, or if the  
131 repurchase price was less than the sales price, such basis shall  
132 be decreased in the amount of the difference.

133           (10) **Property acquired before March 16, 1912.** The  
134 basis for determining the gain or loss from the sale or other  
135 disposition of property acquired before March 16, 1912, shall be:

136                   (A) The cost of such property (or in the case of  
137 such property as is described in subsection (d)(2) or (4) of this  
138 section the basis as therein provided, or in the case of property  
139 acquired by gift or transfer in trust, the fair market value of  
140 such property at the time of such acquisition); or

141                   (B) The fair market value of such property as of  
142 March 16, 1912, whichever is greater.

143           In determining the fair market value of stock in a  
144 corporation as of March 16, 1912, due regard shall be given to the  
145 fair market value of the assets of the corporation as of that  
146 date.

147           (e) **Adjustments to basis.**

148                   (1) **In general.** In computing the amount of gain or  
149 loss from the sale or other disposition of property, proper  
150 adjustment shall be made for any expenditure, receipt, loss or  
151 other item, properly chargeable to capital account since the basis  
152 date. The cost or other basis of the property shall also be  
153 diminished by the amount of the deductions for exhaustion, wear  
154 and tear, obsolescence, amortization and depletion, which have  
155 since the acquisition of the property been allowable in respect of  
156 such property whether or not such deductions were claimed by the  
157 taxpayer or formerly allowed. In the case of stock, the basis  
158 shall be diminished by the amount of distributions previously made  
159 in respect to such stock, to the extent provided under this  
160 section.

161           (2) **Substituted basis.** Whenever it appears that the  
162 basis of the property in the hands of a taxpayer is a substituted  
163 basis, then the adjustments provided in subsection (e)(1) shall be  
164 made after first making in respect of such substituted basis  
165 proper adjustments of a similar nature in respect of the period  
166 during which the property was held by the transferor, donor or  
167 grantor, or during which the other property was held by the person  
168 for whom the basis is to be determined. The term "substituted  
169 basis" as used in this subsection means a basis determined under  
170 any provision of this section or under any corresponding provision  
171 of a prior Income Tax Law, providing that the basis shall be  
172 determined by reference to the basis in the hands of a transferor,  
173 donor or grantor, or, by reference to other property held at any  
174 time by the person for whom the basis is to be determined.

175           (f) **Recognition of gain or loss -- exceptions.**

176                 (1) **Exchange solely in kind.**

177                     (A) **Property held for productive use or**  
178 **investment.** No gain or loss shall be recognized if property held  
179 for productive use in trade or business or for investment (not  
180 including stock in trade or other property held primarily for  
181 sale, nor stocks, bonds, notes, choses in action, certificates of  
182 trust or beneficial interest, or other securities or evidence of  
183 indebtedness or interest) is exchanged solely for property of a  
184 like kind to be held either for productive use in trade or  
185 business or for investment.

186                     (B) **Stock for stock in same corporation.** No gain  
187 or loss shall be recognized if common stock in a corporation is  
188 exchanged solely for common stock in the same corporation, or if  
189 preferred stock in a corporation is exchanged solely for preferred  
190 stock in the same corporation.

191                     (C) **Transfers to corporation controlled by**  
192 **transferor.** No gain or loss shall be recognized if property is  
193 transferred to a corporation by one or more persons solely in

194 exchange for stock or securities in such corporation, and if  
195 immediately after the exchange such person or persons are in  
196 control of the corporation; but in the case of an exchange by two  
197 (2) or more persons, this subsection shall apply only if the  
198 amount of the stock and securities received by each is  
199 substantially in proportion to his interest in the property prior  
200 to the exchange.

201           (D) **Stock for stock on reorganization.** No gain or  
202 loss shall be recognized if stock or securities in a corporation,  
203 a party to a reorganization, are, in pursuance of the plan of  
204 reorganization, exchanged solely for stock or securities in such  
205 corporation or in another corporation, a party to a  
206 reorganization.

207           (2) **Gain from exchanges not solely in kind.** If an  
208 exchange would be within the provisions of subsection (f)(1) of  
209 this section, if it were not for the fact that the property  
210 received in exchange consists not only of property permitted by  
211 subsection (f)(1) to be received without the recognition of gain,  
212 but also of other property or money, then the gain, if any, to the  
213 recipient shall be recognized, but in an amount not in excess of  
214 the sum of such money and the fair market value of such other  
215 property so received.

216           (3) **Loss from exchanges not solely in kind.** If an  
217 exchange would be within the provisions of subsection (f)(1) of  
218 this section, if it were not for the fact that the property  
219 received in exchange consists not only of property permitted by  
220 subsection (f)(1) to be received without the recognition of gain  
221 or loss but also of other property or money, then no loss from the  
222 exchange shall be recognized.

223           (4) **Distribution of stock on reorganization.** If in  
224 pursuance of a plan of reorganization, there is distributed to a  
225 shareholder in a corporation, a party to the reorganization, stock  
226 or securities in such corporation or in another corporation, a

227 party to the reorganization, without the surrender by such  
228 shareholder of stock or securities in such corporation, no gain to  
229 the distributee from the receipt of such stock or securities shall  
230 be recognized.

231           (5) **Distribution with effect of taxable dividend.** If a  
232 distribution made in pursuance of a plan of reorganization is  
233 within the provisions of subsection (f)(4) of this section, but  
234 has the effect of the distribution of a taxable dividend, then  
235 there shall be taxed as a dividend to each distributee such an  
236 amount of the gain recognized under subsection (f)(2) as is not in  
237 excess of his ratable share of the undistributed earnings and  
238 profits of the corporation. The remainder, if any, of the gain  
239 recognized under subsection (f)(2) shall be taxed as a gain from  
240 the exchange of property.

241           (6) **Involuntary conversions.** If property, as a result  
242 of its destruction in whole or in part, theft, seizure or  
243 requisition or condemnation, or threat or imminence thereof, is  
244 compulsorily or involuntarily converted:

245                   (A) Into property similar or related in service or  
246 use to the property so converted, no gain shall be recognized, but  
247 loss shall be recognized;

248                   (B) Into money, no gain shall be recognized if  
249 such money is expended, within a period ending two (2) years after  
250 the close of the first taxable year in which any part of the gain  
251 upon the conversion is realized, in the acquisition of other  
252 property similar or related in service or use to the property so  
253 converted, or in the acquisition of control of a corporation  
254 owning such other property, or in the establishment of a  
255 replacement fund, but loss shall be recognized. Such two-year  
256 period shall be extended to five (5) years with respect to  
257 property in the Hurricane Katrina disaster area, as defined in the  
258 Katrina Emergency Tax Relief Act of 2005, which is compulsorily or  
259 involuntarily converted on or after August 29, 2005, by reason of



260 Hurricane Katrina, but only if substantially all of the use of the  
261 replacement property is in such area. If any part of the money is  
262 not so expended, the gain shall be recognized to the extent of the  
263 money which is not so expended, regardless of whether such money  
264 is received in one or more taxable years and regardless of whether  
265 or not the money which is not so expended constitutes gain.  
266 Provided, gain realized on property which is compulsorily or  
267 involuntarily converted for public use under Title II, Chapter 27,  
268 Mississippi Code of 1972, or any federal law relating to the  
269 involuntary conversion of property for public use shall not be  
270 recognized. Provided further, that gain realized on property  
271 which is voluntarily converted for public use shall not be  
272 recognized after it becomes evident that eminent domain  
273 proceedings are probable.

274 The provisions of this subsection relating to the  
275 nonrecognition of gain, including the exception provided in  
276 subparagraph (B), shall apply only to an owner of the converted  
277 property who has held title to such property for a period at least  
278 three (3) years prior to the date of the disposition of the  
279 converted property, provided that an owner who acquired such  
280 property by bequest, devise, gift or inheritance shall be excluded  
281 from this limitation, if the preceding owner acquired title to  
282 such property at least three (3) years prior to the date of  
283 disposition.

284 (7) **Property exchanged treated as equivalent of cash.**  
285 When property other than property specified in subsection  
286 (f)(1)(A) of this section is exchanged for other property, the  
287 property received in exchange shall, for the purpose of  
288 determining gain or loss, be treated as the equivalent of cash to  
289 the amount of its fair market value.

290 (8) **Distribution of assets of corporation.** The  
291 distribution to the taxpayer of the assets of a corporation shall

292 be treated as a sale of the stock or securities of the corporation  
293 owned by him, and the gain or loss shall be computed accordingly.

294           (9) **Organization of a corporation.** In the case of the  
295 organization of a corporation, the stock and securities received  
296 shall be considered to take the place of property transferred  
297 therefor, and no gain or loss shall be deemed to arise therefrom.

298           (10) **Sales of certain interests in financial**  
299 **institutions domiciled in Mississippi, domestic corporations,**  
300 **domestic limited partnerships or domestic limited liability**  
301 **companies.** No gain shall be recognized from the sale of  
302 authorized shares in financial institutions domiciled in  
303 Mississippi and domestic corporations, or partnership interests in  
304 domestic limited partnerships and domestic limited liability  
305 companies, that have been held for more than one (1) year;  
306 however, any gain that would otherwise be excluded by this  
307 provision shall first be applied against, and reduced by, any  
308 losses determined from sales or transactions described by this  
309 provision if the losses were incurred in the year of the gain or  
310 within the two (2) years preceding or subsequent to the gain.

311           (g) **Reorganization defined.** The term "reorganization"  
312 means:

313           (1) A statutory merger or consolidation;

314           (2) The acquisition by one (1) corporation, in exchange  
315 solely for all or a part of its voting stock (or in exchange  
316 solely for all or a part of the voting stock of a corporation  
317 which is in control of the acquiring corporation), of stock of  
318 another corporation if, immediately after the acquisition, the  
319 acquiring corporation has control of such other corporation, or of  
320 substantially all the properties of another corporation;

321           (3) A transfer by a corporation of all or a part of its  
322 assets to another corporation if immediately after the transfer  
323 the transferor, or one or more of its shareholders (including  
324 persons who were shareholders immediately before the transfer), or

325 any combination thereof, is in control of the corporation to which  
326 the assets are transferred;

327 (4) A recapitalization; or

328 (5) A mere change in identity, form or place of  
329 organization, however effected.

330 (h) **Party to a reorganization defined.** The term "a party to  
331 a reorganization" includes a corporation resulting from a  
332 reorganization and includes both corporations in the case of an  
333 acquisition by one (1) corporation of at least a majority of the  
334 voting stock and at least a majority of the total number of shares  
335 of all other classes of stock of another corporation.

336 (i) **Control defined.** As used in this section, the term  
337 "control" means the ownership of at least eighty percent (80%) of  
338 the voting stock and at least eighty percent (80%) of the total  
339 number of shares of all other classes of stock of the corporation.

340 (j) **Special rules.**

341 (1) **Liquidation of subsidiaries.** A transfer to a  
342 parent corporation from its subsidiary of property distributed in  
343 complete liquidation of the subsidiary shall result in no  
344 recognized gain or loss if the basis of the property in the hands  
345 of the parent corporation is the same as it was in the hands of  
346 the subsidiary.

347 (2) **Gain or loss on sales or exchanges in connection**  
348 **with certain liquidations.** Corporations adopting a plan of  
349 complete liquidation under the provisions of the Internal Revenue  
350 Code shall recognize the gain or loss from the sale or exchange of  
351 property by the corporation under said plan. The total gain or  
352 loss from the liquidating distributions shall be recognized by the  
353 shareholders; however, a credit for the tax paid by the  
354 liquidating corporation on the gain from the sale or exchange of  
355 property under the plan of liquidation will be allowed to the  
356 extent of any tax liability to the shareholders. The corporation  
357 shall provide to the State Tax Commission a list of all

358 shareholders with their percentage of ownership, distribution, tax  
359 credit allowed and any other information requested.

360           (3) **Distribution of stock and securities of a**  
361 **controlled corporation.** No gain shall be recognized on a  
362 distribution to a stockholder of a corporation if such gain would  
363 not be recognized to such stockholder for federal income tax  
364 purposes under the provisions of Section 355 of the federal  
365 Internal Revenue Code.

366           (4) Notwithstanding the other provisions of this  
367 section, a corporation or other entity that is involved in  
368 restructuring, reorganizing, distributing assets or profits, or  
369 changing ownership that results in an adjustment to its asset  
370 basis is required to report a gain in the year such transaction  
371 occurs on any such transaction when the transaction involves  
372 assets owned or used in this state, or otherwise represents assets  
373 owned or used in this state. If a transfer of income or a change  
374 in asset valuation occurs on the tax records of the taxpayer, such  
375 transaction shall result in taxation to this state to the extent  
376 of the transfer of income or change in asset valuation.

377           (5) If a corporation or other entity makes an Internal  
378 Revenue Code Section 338 election, or other similar election under  
379 which the aggregate basis in assets are increased on the tax  
380 records of the taxpayer, then a similar election must also be made  
381 for Mississippi purposes, but the gain must be recognized by the  
382 corporation in which the increase in basis of the assets occurs.  
383 The corporation or other entity is allowed to increase its basis  
384 by the amount of gain recognized. An aggregate write-down of  
385 assets is not allowed. The parent corporation shall recognize the  
386 gain on the disposition of its stock.

387           (6) For state tax purposes, a corporation or other  
388 legal entity is considered separate from its shareholders,  
389 affiliated corporations or other entities. If a corporation or  
390 other legal entity enters into any transaction that is for the

391 benefit of its shareholders or for the benefit of an affiliated  
392 corporation without an equal mutual business benefit of the  
393 corporation, then, the transaction will be adjusted or eliminated  
394 to arrive at taxable income to this state. All transactions  
395 entered into by a corporation must be at "arms-length." If  
396 requested by the commissioner, the taxpayer must be able to  
397 substantiate that the transaction occurred at "arms-length." If  
398 not, the transaction may be adjusted to the satisfaction of the  
399 commissioner. In determining whether the transaction occurred at  
400 arms-length, the commissioner shall consider the following:

401           (A) Whether the transaction is in compliance with  
402 the federal regulations promulgated under Internal Revenue Code  
403 Section 482;

404           (B) Whether the transaction was done for a valid  
405 business purpose;

406           (C) Whether the income being shifted by the  
407 transaction is subject to a tax in another state;

408           (D) Whether the transaction is consistent with the  
409 results that would have been realized if uncontrolled taxpayers  
410 had engaged in the same transaction under the same circumstances;  
411 and

412           (E) Other factors which support the conclusion  
413 that income is being shifted to avoid the tax imposed by this  
414 chapter.

415       (k) **Sale or exchange of residence.**

416           (1) **Loss on sale or exchange of residence.** Loss from  
417 the sale or exchange of property used by the taxpayer as his  
418 principal residence is not recognized and cannot be deducted.

419           (2) **Nonrecognition of gain.** Gain shall be computed in  
420 accordance with the provisions of the Internal Revenue Code,  
421 rules, regulations and revenue procedures relating to the sale or  
422 exchange of a personal residence not in direct conflict with the  
423 provisions of the Mississippi Income Tax Law.

424           (3) **Gain on the sale or exchange of residence.** A  
425 recognizable gain on the sale or exchange of a personal residence  
426 shall be included in gross income and treated as ordinary income.

427           (1) **Distributions by corporations.**

428           (1) Distributions of the property of a corporation,  
429 including partial and complete liquidations, shall be recognized  
430 by the distributing corporation and the gain or loss shall be  
431 computed on the difference of the fair market value of the assets  
432 distributed and their basis. The total gain or loss from the  
433 distributions to the shareholders shall be recognized by the  
434 shareholders subject to subsections (f)(8) and (j)(1); however, a  
435 credit for the tax paid by the distributing corporation on the  
436 gain from the sale or exchange of property under the plan of  
437 distribution will be allowed to the extent of any liability to the  
438 shareholders. The corporation shall provide to the State Tax  
439 Commission a list of all shareholders with their percentage of  
440 ownership, distribution, tax credit allowed and any other  
441 information requested.

442           (2) **Source of distributions.** For the purposes of this  
443 act, every distribution is made out of earnings or profits to the  
444 extent thereof, and from the most recently accumulated earnings  
445 and profits. Any earnings or profit accumulated, or increase in  
446 value of property acquired, before March 16, 1912, may be  
447 distributed exempt from tax (after the earnings and profits  
448 accumulated after March 16, 1912, have been distributed), but any  
449 such tax-free distribution shall be applied against and reduce the  
450 basis of the stock provided in subsection (d).

451           (3) **Distributions in liquidation.** Amounts distributed  
452 in complete liquidation of a corporation shall be treated as in  
453 full payment in exchange for the stock, and amounts distributed in  
454 partial liquidation of a corporation shall be treated as in part  
455 or full payment in exchange for the stock. The gain or loss to  
456 the distributee resulting from such exchange shall be determined

457 under subsection (a), but shall be recognized only to the extent  
458 provided in subsection (f). In the case of amounts distributed in  
459 partial liquidation, the part of such distribution which is  
460 property chargeable to capital account shall not be considered a  
461 distribution of earnings or profits within the meaning of  
462 paragraph (2) of this subsection for the purpose of determining  
463 the taxability of subsequent distributions by the corporations.

464 (4) **Other distributions.** If any distribution (not in  
465 partial or complete liquidation) made by a corporation to its  
466 shareholders, is not out of increase in value of property accrued  
467 before March 16, 1912, and is not out of earnings or profits, then  
468 the amount of such distribution shall be applied against and  
469 reduce the basis of the stock provided in subsection (d), and if  
470 in excess of such basis, such excess shall be taxable in the same  
471 manner as a gain from the sale or exchange of property.

472 (5) **Stock dividends.** A stock dividend shall not be  
473 subject to tax.

474 (6) **Cancellation or redemption of stock.** If a  
475 corporation cancels or redeems its stock (whether or not such  
476 stock was issued as a stock dividend) at such time and in such  
477 manner as to make the distribution and cancellation or redemption  
478 in whole or in part essentially equivalent to the distribution of  
479 a taxable dividend, the amount so distributed in redemption or  
480 cancellation of the stock, to the extent that it represents a  
481 distribution of earnings or profits accumulated after March 16,  
482 1912, shall be treated as a taxable dividend.

483 (7) **"Amounts distributed in partial liquidation"**  
484 **defined.** As used in this subsection, the term "amounts  
485 distributed in partial liquidation" means distribution by a  
486 corporation in complete cancellation or redemption of a part of  
487 its stock, or one of a series of distributions in complete  
488 cancellation or redemption of all or a portion of its stock.

489                   (8) **Distributions of stock pursuant to order enforcing**  
490 **the Antitrust Laws.** Any distribution of stock which is made  
491 pursuant to the order of any court enforcing the Antitrust Laws of  
492 the United States, or of any state, shall be a distribution which  
493 is not out of earnings and profits of the distributing  
494 corporation, but the value of the stock so distributed shall be  
495 applied against and reduce the basis of the stock of the  
496 distributing corporation provided in subsection (d), and if in  
497 excess of such basis, such excess shall be taxable in the same  
498 manner as a gain from the sale or exchange of property.

499                   **SECTION 2.** This act shall take effect and be in force from  
500 and after its passage.