

111TH CONGRESS  
1ST SESSION

# H. R. 3516

To amend the Internal Revenue Code of 1986 to provide for rollover of gain from divesting certain qualified securities of business entities engaged in Iran or Sudan discouraged activities.

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## IN THE HOUSE OF REPRESENTATIVES

JULY 31, 2009

Mr. SHERMAN (for himself, Ms. ROS-LEHTINEN, Mr. KIRK, Mr. AL GREEN of Texas, Mr. HOLT, Mr. KLEIN of Florida, Mr. ADLER of New Jersey, Mr. ENGEL, Mr. BURTON of Indiana, Mr. LOBIONDO, Mr. NADLER of New York, Mr. GRAYSON, Ms. BERKLEY, Mr. THOMPSON of California, Mr. HASTINGS of Florida, Mr. WEINER, Mr. COHEN, Ms. KILROY, and Mr. HALL of New York) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide for rollover of gain from divesting certain qualified securities of business entities engaged in Iran or Sudan discouraged activities.

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. SHORT TITLE.**

4 This Act may be cited as the “Enable Divestment  
5 from Sudan and Iran Act of 2009”.

1 **SEC. 2. ROLLOVER OF GAIN FROM DIVESTING CERTAIN**  
2 **QUALIFIED SECURITIES OF BUSINESS ENTI-**  
3 **TIES ENGAGED IN DISCOURAGED ACTIVITIES**  
4 **IN IRAN OR SUDAN.**

5 (a) IN GENERAL.—Part III of subchapter O of chap-  
6 ter 1 of the Internal Revenue Code of 1986 (relating to  
7 common nontaxable exchanges) is amended by adding at  
8 the end the following new section:

9 **“SEC. 1046. ROLLOVER OF GAIN FROM DIVESTING CERTAIN**  
10 **QUALIFIED SECURITIES OF BUSINESS ENTI-**  
11 **TIES ENGAGED IN DISCOURAGED ACTIVITIES**  
12 **IN IRAN OR SUDAN.**

13 “(a) NONRECOGNITION OF GAIN.—

14 “(1) IN GENERAL.—In the case of any sale of  
15 any qualified security held by a taxpayer with re-  
16 spect to which such taxpayer elects the application  
17 of this section, in any business entity that is en-  
18 gaged in an Iran discouraged activity or a Sudan  
19 discouraged activity, gain from such sale shall be  
20 recognized only to the extent that the amount real-  
21 ized on such sale exceeds—

22 “(A) the cost of any qualified replacement  
23 property purchased by the taxpayer during the  
24 30-day period beginning on the date of such  
25 sale, reduced by

1           “(B) any portion of such cost previously  
2 taken into account under this section.

3           “(2) EXCEPTION FOR ORDINARY INCOME  
4 GAIN.—This section shall not apply to any gain  
5 which is treated as ordinary income for purposes of  
6 this title.

7           “(3) EXCEPTION WHERE TAXPAYER OWNS CON-  
8 TROLLING INTEREST IN THE BUSINESS ENTITY.—

9           “(A) IN GENERAL.—Paragraph (1) shall  
10 not apply to any sale if, immediately before  
11 such sale, the taxpayer owns a controlling inter-  
12 est in the business entity that is engaged in an  
13 Iran discouraged activity or a Sudan discour-  
14 aged activity.

15           “(B) CONTROLLING INTEREST.—For pur-  
16 poses of subparagraph (A), the term ‘control-  
17 ling interest’ means direct or indirect ownership  
18 of at least 50 percent of the total voting power  
19 and value of all classes of stock of a corpora-  
20 tion. For purposes of the preceding sentence,  
21 the rules of paragraphs (1) and (5) of section  
22 267(c) shall apply.

23           “(C) AGGREGATION RULE.—For purposes  
24 of this paragraph, all members of the same con-  
25 trolled group of corporations (within the mean-

1           ing of section 267(f)) and all persons under  
2           common control (within the meaning of section  
3           52(b) but determined by treating an interest of  
4           more than 50 percent as a controlling interest)  
5           shall be treated as 1 person.

6           “(b) DEFINITIONS AND SPECIAL RULES RELATING  
7 TO SECURITIES AND REPLACEMENT PROPERTY.—For  
8 purposes of this section—

9           “(1) QUALIFIED SECURITY.—

10                   “(A) IN GENERAL.—The term ‘qualified  
11 security’ means any security held by a taxpayer  
12 in any business entity that is engaged in an  
13 Iran discouraged activity or a Sudan discour-  
14 aged activity.

15                   “(B) EXCEPTION.—Such term shall not in-  
16 clude any security purchased or otherwise ac-  
17 quired after the date of the enactment of this  
18 section which, at the time of such purchase or  
19 acquisition, was issued by a business entity  
20 then engaged in an Iran discouraged activity or  
21 a Sudan discouraged activity.

22                   “(C) SECURITY DEFINED.—The term ‘se-  
23 curity’ has the meaning given such term by sec-  
24 tion 165(g)(2).

25           “(2) QUALIFIED REPLACEMENT PROPERTY.—

1           “(A) IN GENERAL.—The term ‘qualified  
2 replacement property’ means any security of a  
3 business entity that, on the date of purchase by  
4 the taxpayer—

5                   “(i) is not engaged in an Iran discour-  
6 aged activity or a Sudan discouraged activ-  
7 ity on such date,

8                   “(ii) is not a member of an expanded  
9 affiliated group, any member of which is  
10 engaged in an Iran discouraged activity or  
11 a Sudan discouraged activity on such date,  
12 and

13                   “(iii) meets the requirements of sub-  
14 paragraph (B).

15           “(B) REPLACEMENT PROPERTY.—Property  
16 meets the requirements of this paragraph if,  
17 with respect to the sale of any security—

18                   “(i) except as provided in clause (ii),  
19 in the case that the security is a share of  
20 stock in a corporation, the replacement  
21 property is a share of stock in a corpora-  
22 tion,

23                   “(ii) in the case that the security is a  
24 share of stock of a regulated investment  
25 company, real estate investment trust,

1 hedge fund, investment partnership, or  
2 similar business entity, the replacement  
3 property is a share of stock in a regulated  
4 investment company, real estate invest-  
5 ment trust, hedge fund, investment part-  
6 nership, or similar business entity,

7 “(iii) in the case that the security is  
8 a right to subscribe for, or to receive, a  
9 share of stock in a corporation, the re-  
10 placement property is a right to subscribe  
11 for, or to receive, a share of stock in a cor-  
12 poration, and

13 “(iv) in the case that the security is  
14 a bond, debenture, note, or certificate, or  
15 other evidence of indebtedness issued by a  
16 corporation, with interest coupons or in  
17 registered form, the replacement property  
18 is a bond, debenture, note, or certificate,  
19 or other evidence of indebtedness issued by  
20 a corporation, with interest coupons or in  
21 registered form.

22 “(C) DEEMED INVESTMENT IF INVESTING  
23 IN ENTITIES ENGAGED IN DISCOURAGED AC-  
24 TIVITIES.—Any regulated investment company,  
25 real estate investment trust, hedge fund, invest-

1           ment partnership, or similar business entity,  
2           which invests in the securities—

3                   “(i) issued by a business entity deter-  
4                   mined to be engaging in Iran discouraged  
5                   activities or Sudan discouraged activities,  
6                   or

7                   “(ii) issued by the government of  
8                   Sudan or Iran or any agency thereof,  
9           shall be deemed to be a business entity engag-  
10          ing in Iran discouraged activities or Sudan dis-  
11          couraged activities.

12               “(D) BUSINESS DECLARATION OF POL-  
13          ICY.—

14                   “(i) IN GENERAL.—Notwithstanding  
15                   any other provision of this section, in the  
16                   case of a business entity described in  
17                   clause (iii), a security in such business en-  
18                   tity shall not be treated as qualified re-  
19                   placement property unless the business en-  
20                   tity has made the following declaration: ‘It  
21                   is our policy not to make investments in  
22                   business entities which engage in Iran dis-  
23                   couraged activities or Sudan discouraged  
24                   activities as defined in section 1046 of the  
25                   Internal Revenue Code of 1986, and to use

1 due diligence to avoid making such invest-  
2 ments. It is our policy to divest on or be-  
3 fore December 31, 2010, from business en-  
4 tities engaged in Iran discouraged activi-  
5 ties and Sudan discouraged activities.’.

6 “(ii) NOT QUALIFIED SECURITY.—If a  
7 business entity described in clause (iii) has  
8 made the declaration specified in clause (i),  
9 then from the time of such declaration an  
10 interest in such business entity shall not be  
11 treated as a qualified security.

12 “(iii) BUSINESS ENTITY DE-  
13 SCRIBED.—A business entity described in  
14 this clause is a regulated investment com-  
15 pany, real estate investment trust, hedge  
16 fund, investment partnership, or similar  
17 business entity.

18 “(E) EXPANDED AFFILIATED GROUP.—  
19 The term ‘expanded affiliated group’ means an  
20 affiliated group as defined in section 1504(a),  
21 determined—

22 “(i) by substituting ‘more than 50  
23 percent’ for ‘at least 80 percent’ each place  
24 it appears, and

1                   “(ii) without regard to paragraphs (2)  
2                   and (4) of section 1504(b).

3                   “(F) BASIS ADJUSTMENTS.—If gain from  
4                   any sale is not recognized by reason of sub-  
5                   section (a), such gain shall be applied to reduce  
6                   (in the order acquired) the basis for deter-  
7                   mining gain or loss of any qualified replacement  
8                   property which is purchased by the taxpayer  
9                   during the 30-day period described in sub-  
10                  section (a).

11                  “(G) HOLDING PERIOD.—For purposes of  
12                  determining the period for which the taxpayer  
13                  has held qualified replacement property the ac-  
14                  quisition of which resulted in the nonrecognition  
15                  under subsection (a) of any part of the gain re-  
16                  alized on the sale of a qualified security, there  
17                  shall be included the period for which such  
18                  qualified security had been held by the tax-  
19                  payer.

20                  “(3) SPECIAL RULE FOR SECURITIES OF CER-  
21                  TAIN ENTITIES.—

22                  “(A) IN GENERAL.—For any business enti-  
23                  ty described in subparagraph (C), a security in  
24                  such business entity shall be treated as quali-  
25                  fied replacement property if the business entity

1 has made the following declaration: ‘It is our  
2 policy not to make investments in any person  
3 having an investment in, or carrying on a trade  
4 or business (within the meaning of section 162)  
5 in or with, Iran and Sudan. This policy may or  
6 may not include investments concerning the  
7 provision of food, medicine, humanitarian serv-  
8 ices in or to Iran or Sudan or investments con-  
9 cerning marginalized areas of Sudan (as de-  
10 fined in section 2 of the Sudan Accountability  
11 and Divestment Act of 2007 (121 Stat.  
12 2518)).’.

13 “(B) NOT QUALIFIED SECURITY.—If a  
14 business entity described in subparagraph (C)  
15 has made the declaration specified in subpara-  
16 graph (A), then from the time of such declara-  
17 tion an interest in such business entity shall not  
18 be treated as a qualified security.

19 “(C) BUSINESS ENTITY DESCRIBED.—A  
20 business entity described in this subparagraph  
21 is a regulated investment company, real estate  
22 investment trust, hedge fund, investment part-  
23 nership, or similar business entity.

24 “(D) CERTAIN BUSINESS ENTITIES AS RE-  
25 PLACEMENT PROPERTY.—A business entity de-

1           scribed in subparagraph (C) making the dec-  
2           laration described in subparagraph (A) may  
3           qualify as replacement property if it has adopt-  
4           ed restrictions on investment in persons that in-  
5           vest in or carrying on a trade or business (with-  
6           in the meaning of section 162) in or with coun-  
7           tries other than Iran and Sudan that are des-  
8           ignated as state sponsors of terrorism under  
9           section 6(j) of the Export Administration Act of  
10          1979, section 40 of the Arms Export Control  
11          Act, or section 620A of the Foreign Assistance  
12          Act of 1961.

13           “(4) BUSINESS ENTITY.—The term ‘business  
14          entity’ means any corporation, limited liability part-  
15          nership, limited liability company, or any other busi-  
16          ness entity conducting business activities in which  
17          the taxpayer has purchased or can purchase securi-  
18          ties.

19           “(c) DEFINITIONS AND RULES RELATING TO SUDAN  
20          DISCOURAGED ACTIVITY.—For purposes of this section,  
21          the term ‘Sudan discouraged activity’ means an invest-  
22          ment in any business operation described in section 3(d)  
23          of the Sudan Accountability and Divestment Act of 2007  
24          (121 Stat. 2518).

1       “(d) DEFINITIONS AND RULES RELATING TO IRAN  
2 DISCOURAGED ACTIVITIES.—For purposes of this sec-  
3 tion—

4               “(1) IRAN DISCOURAGED ACTIVITY.—The term  
5 ‘Iran discouraged activity’ means—

6                       “(A) an investment of \$20,000,000 or  
7 more—

8                               “(i) in the energy sector of Iran; or

9                               “(ii) in a person that provides oil or  
10 liquefied natural gas tankers, or products  
11 used to construct or maintain pipelines  
12 used to transport oil or liquefied natural  
13 gas, for the energy sector in Iran;

14                       “(B) an extension of \$20,000,000 or more  
15 in credit to another person, for 45 days or  
16 more, if that person will use the credit to invest  
17 in the energy sector in Iran;

18                       “(C) except as provided in section 5(f) of  
19 the Iran Sanctions Act of 1996 (50 U.S.C.  
20 1701 note), an investment of \$20,000,000 or  
21 more (or any combination of investments of at  
22 least \$5,000,000 each, which in the aggregate  
23 equals or exceeds \$20,000,000 in any 12-month  
24 period), that directly and significantly contrib-

1           uted to the enhancement of Iran’s ability to de-  
2           velop petroleum resources of Iran;

3           “(D) except as provided in section 5(f) of  
4           the Iran Sanctions Act of 1996 (50 U.S.C.  
5           1701 note), the sale, lease, or provision to Iran  
6           of any goods, services, technology, information,  
7           or support that would allow Iran to maintain or  
8           expand its domestic production of refined petro-  
9           leum resources, including any assistance in re-  
10          finery construction, modernization, or repair; or

11          “(E) except as provided in section 5(f) of  
12          the Iran Sanctions Act of 1996 (50 U.S.C.  
13          1701 note), providing Iran with refined petro-  
14          leum resources or engaging in any activity that  
15          could contribute to the enhancement of Iran’s  
16          ability to import refined petroleum resources,  
17          including—

18                 “(i) providing ships or shipping serv-  
19                 ices to deliver refined petroleum resources  
20                 to Iran;

21                 “(ii) underwriting or otherwise pro-  
22                 viding insurance or reinsurance for such  
23                 activity; or

24                 “(iii) financing or brokering such ac-  
25                 tivity.

1           “(2) INVESTMENT.—The ‘investment’ of assets,  
2 with respect to a State or local government, in-  
3 cludes—

4           “(A) a commitment or contribution of as-  
5 sets;

6           “(B) a loan or other extension of credit; or

7           “(C) the entry into or renewal of a con-  
8 tract for goods or services.

9           “(3) ENERGY SECTOR.—The term ‘energy sec-  
10 tor’ refers to activities to develop petroleum or nat-  
11 ural gas resources or nuclear power.

12           “(4) IRAN.—The term ‘Iran’ includes any agen-  
13 cy or instrumentality of Iran.

14           “(e) DOING BUSINESS WITH TERRORISTS.—

15           “(1) IN GENERAL.—For purposes of this sec-  
16 tion—

17           “(A) A business entity has engaged in Iran  
18 discouraged activities if it conducts business  
19 with or makes any charitable donation to any  
20 Iranian person designated as a terrorist or to  
21 any foreign terrorist organization.

22           “(B) A business entity has engaged in  
23 Sudan discouraged activities if it conducts busi-  
24 ness with or makes any charitable donation to

1           any Sudanese person designated as a terrorist  
2           or to any foreign terrorist organization.

3           “(2) TERRORIST.—A person is designated as a  
4           terrorist for purposes of paragraph (1) if such per-  
5           son is designated or otherwise individually identified  
6           in or pursuant to an Executive Order which is re-  
7           lated to terrorism and issued under the authority of  
8           the International Emergency Economic Powers Act  
9           or section 5 of the United Nations Participation Act  
10          of 1945 for the purpose of imposing on such organi-  
11          zation an economic or other sanction.

12          “(3) FOREIGN TERRORIST ORGANIZATION.—  
13          For purposes of paragraph (1), the term ‘foreign  
14          terrorist organization’ means an organization des-  
15          ignated under section 219 of the Immigration and  
16          Nationality Act (8 U.S.C. 1189) as a foreign ter-  
17          rorist organization.

18          “(f) IDENTIFICATION OF BUSINESS ENTITIES EN-  
19          GAGING IN IRAN DISCOURAGED ACTIVITIES OR SUDAN  
20          DISCOURAGED ACTIVITIES.—

21          “(1) PUBLICATION OF LIST.—For purposes of  
22          this section, the Secretary shall publish and update  
23          at least every six months a list of business entities  
24          engaging in any Sudan discouraged activities or Iran  
25          discouraged activities, or both.

1           “(2) REGULATIONS.—The Secretary shall issue  
2 regulations defining how a business entity shall not  
3 be deemed to be engaged in an Iran discouraged ac-  
4 tivity or Sudan discouraged activity, if—

5           “(A) with regard to activities on the date  
6 this section becomes effective, the business enti-  
7 ty limits its activity to continuing existing con-  
8 tracts, without extension or expansion (except  
9 that an investment (as defined in section 14 of  
10 the Iran Sanctions Act of 1996) that would  
11 subject a business entity to sanctions under sec-  
12 tion 5 of the Iran Sanctions Act of 1996 shall  
13 be considered an Iran discouraged activity, not-  
14 withstanding contracts entered into prior to the  
15 effective date of this section), and

16           “(B) with regard to any Iran discouraged  
17 activity or Sudan discouraged activity carried  
18 on under contracts entered into or expanded  
19 after the effective date of this section, the con-  
20 tract was entered into at a time when the busi-  
21 ness entity did not own or control the sub-  
22 sidiary business entity, and after acquiring such  
23 ownership or control the business entity has not  
24 extended or expanded or renewed such contract.

1           “(3) TAXPAYER SELF-HELP.—Until such time  
2           as the Secretary publishes a list of those engaging  
3           in Iran discouraged activities or Sudan discouraged  
4           activities or if the Secretary fails to update that list  
5           as required in paragraph (1), the taxpayer may de-  
6           termine, using credible, publicly available informa-  
7           tion, which business entities engage in an Iran dis-  
8           couraged activity or a Sudan discouraged activity.

9           “(g) IMPROVEMENT IN THE ACTIONS OF THE GOV-  
10          ERNMENT OF THE SUDAN.—Effective on the date when  
11          the President certifies under a section 12 of the Sudan  
12          Accountability and Divestment Act of 2007 (121 Stat.  
13          2523), subsection (a) shall not apply to any Sudan dis-  
14          couraged activity after such date.

15          “(h) IMPROVEMENT IN THE ACTIONS OF THE GOV-  
16          ERNMENT OF IRAN.—

17                 “(1) TERMINATION OF NONRECOGNITION  
18                 TREATMENT.—Effective on the date when the re-  
19                 quirements described in paragraph (2) are met, sub-  
20                 section (a) shall not apply to any Iran discouraged  
21                 activity after such date.

22                 “(2) REQUIREMENTS.—The requirements de-  
23                 scribed in this paragraph are—

24                         “(A) a declaration by the President which  
25                         states that, in the opinion of the President,

1 Iran is no longer engaging in efforts to develop  
2 or retain weapons of mass destruction, and has  
3 not developed and is not developing the capacity  
4 to enrich or reprocess uranium or plutonium,  
5 and

6 “(B) a determination by the Secretary of  
7 State that Iran should no longer be listed as a  
8 state sponsor of acts of international terrorism  
9 pursuant to section 6(j) of the Export Adminis-  
10 tration Act of 1979, section 620A of the For-  
11 eign Assistance Act of 1961, section 40 of the  
12 Arms Export Control Act, or any other provi-  
13 sion of law.”.

14 (b) CLERICAL AMENDMENT.—The table of sections  
15 for part III of subchapter O of chapter 1 of such Code  
16 is amended by adding at the end the following new item:

“Sec. 1046. Rollover of gain from divesting certain qualified securities of busi-  
ness entities engaged in discouraged activities in Iran or  
Sudan.”.

17 (c) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to with respect to sales of securities  
19 after the date of the enactment of this Act.

○