

## EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 effective, except as otherwise provided, as if included in the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as a note under section 48 of this title.

## EFFECTIVE DATE

Section effective July 18, 1984, with respect to taxable years ending after such date, see section 91(g)(5) of Pub. L. 98-369, as amended, set out as an Effective Date of 1984 Amendment note under section 461 of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL  
JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [§§ 1101-1147 and 1171-1177] or title XVIII [§§ 1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

## TRANSITIONAL RULE

Pub. L. 99-514, title XVIII, § 1807(a)(4)(A)(ii), Oct. 22, 1986, 100 Stat. 2812, provided that: "To the extent provided in regulations prescribed by the Secretary of the Treasury or his delegate, subsection (g) of section 468A of the Internal Revenue Code of 1954 [now 1986] (as added by clause (i)) shall be applied with respect to any payment on account of a taxable year beginning before January 1, 1987, as if it did not contain the requirement that the payment be made within 2½ months after the close of the taxable year. Such regulations may provide that, to the extent such payment to the Fund is made more than 2½ months after the close of the taxable year, any adjustment to the tax attributable to such payment shall not affect the amount of interest payable with respect to periods before the payment is made. Such regulations may provide appropriate adjustments to the deduction allowed under such section 468A for any such taxable year to take into account the fact that the payment to the Fund is made more than 2½ months after the close of the taxable year."

**§ 468B. Special rules for designated settlement funds****(a) In general**

For purposes of section 461(h), economic performance shall be deemed to occur as qualified payments are made by the taxpayer to a designated settlement fund.

**(b) Taxation of designated settlement fund****(1) In general**

There is imposed on the gross income of any designated settlement fund for any taxable year a tax at a rate equal to the maximum rate in effect for such taxable year under section 1(e).

**(2) Certain expenses allowed**

For purposes of paragraph (1), gross income for any taxable year shall be reduced by the amount of any administrative costs (including State and local taxes) and other incidental expenses of the designated settlement fund (including legal, accounting, and actuarial expenses)—

(A) which are incurred in connection with the operation of the fund, and

(B) which would be deductible under this chapter for purposes of determining the taxable income of a corporation.

No other deduction shall be allowed to the fund.

**(3) Transfers to the fund**

In the case of any qualified payment made to the fund—

(A) the amount of such payment shall not be treated as income of the designated settlement fund,

(B) the basis of the fund in any property which constitutes a qualified payment shall be equal to the fair market value of such property at the time of payment, and

(C) the fund shall be treated as the owner of the property in the fund (and any earnings thereon).

**(4) Tax in lieu of other taxation**

The tax imposed by paragraph (1) shall be in lieu of any other taxation under this subtitle of income from assets in the designated settlement fund.

**(5) Coordination with subtitle F**

For purposes of subtitle F—

(A) a designated settlement fund shall be treated as a corporation, and

(B) any tax imposed by this subsection shall be treated as a tax imposed by section 11.

**(c) Deductions not allowed for transfer of insurance amounts**

No deduction shall be allowable for any qualified payment by the taxpayer of any amounts received from the settlement of any insurance claim to the extent such amounts are excluded from the gross income of the taxpayer.

**(d) Definitions**

For purposes of this section—

**(1) Qualified payment**

The term "qualified payment" means any money or property which is transferred to any designated settlement fund pursuant to a court order, other than—

(A) any amount which may be transferred from the fund to the taxpayer (or any related person), or

(B) the transfer of any stock or indebtedness of the taxpayer (or any related person).

**(2) Designated settlement fund**

The term "designated settlement fund" means any fund—

(A) which is established pursuant to a court order and which extinguishes completely the taxpayer's tort liability with respect to claims described in subparagraph (D),

(B) with respect to which no amounts may be transferred other than in the form of qualified payments,

(C) which is administered by persons a majority of whom are independent of the taxpayer,

(D) which is established for the principal purpose of resolving and satisfying present and future claims against the taxpayer (or any related person or formerly related person) arising out of personal injury, death, or property damage,

(E) under the terms of which the taxpayer (or any related person) may not hold any beneficial interest in the income or corpus of the fund, and

(F) with respect to which an election is made under this section by the taxpayer.

An election under this section shall be made at such time and in such manner as the Secretary shall by regulation prescribe. Such an election, once made, may be revoked only with the consent of the Secretary.

### (3) Related person

The term “related person” means a person related to the taxpayer within the meaning of section 267(b).

### (e) Nonapplicability of section

This section (other than subsection (g)) shall not apply with respect to any liability of the taxpayer arising under any workers’ compensation Act or any contested liability of the taxpayer within the meaning of section 461(f).

### (f) Other funds

Except as provided in regulations, any payment in respect of a liability described in subsection (d)(2)(D) (and not described in subsection (e)) to a trust fund or escrow fund which is not a designated settlement fund shall not be treated as constituting economic performance.

### (g) Clarification of taxation of certain funds

#### (1) In general

Except as provided in paragraph (2), nothing in any provision of law shall be construed as providing that an escrow account, settlement fund, or similar fund is not subject to current income tax. The Secretary shall prescribe regulations providing for the taxation of any such account or fund whether as a grantor trust or otherwise.

#### (2) Exemption from tax for certain settlement funds

An escrow account, settlement fund, or similar fund shall be treated as beneficially owned by the United States and shall be exempt from taxation under this subtitle if—

(A) it is established pursuant to a consent decree entered by a judge of a United States District Court,

(B) it is created for the receipt of settlement payments as directed by a government entity for the sole purpose of resolving or satisfying one or more claims asserting liability under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980,

(C) the authority and control over the expenditure of funds therein (including the expenditure of contributions thereto and any net earnings thereon) is with such government entity, and

(D) upon termination, any remaining funds will be disbursed to such government entity for use in accordance with applicable law.

For purposes of this paragraph, the term “government entity” means the United States, any State or political subdivision thereof, the District of Columbia, any possession of the

United States, and any agency or instrumentality of any of the foregoing.

(Added Pub. L. 99-514, title XVIII, §1807(a)(7)(A), Oct. 22, 1986, 100 Stat. 2814; amended Pub. L. 100-647, title I, §1018(f)(1), (2), (4), (5)(A), Nov. 10, 1988, 102 Stat. 3582; Pub. L. 101-508, title XI, §11702(e)(1), Nov. 5, 1990, 104 Stat. 1388-515; Pub. L. 109-222, title II, §201(a), May 17, 2006, 120 Stat. 347; Pub. L. 109-432, div. A, title IV, §409(a), Dec. 20, 2006, 120 Stat. 2963.)

#### REFERENCES IN TEXT

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, referred to in subsec. (g)(2)(B), is Pub. L. 96-510, Dec. 11, 1980, 94 Stat. 2767, as amended, which is classified principally to chapter 103 (§9601 et seq.) of Title 42, The Public Health and Welfare. For complete classification of this Act to the Code, see Short Title note set out under section 9601 of Title 42 and Tables.

#### AMENDMENTS

2006—Subsec. (g). Pub. L. 109-222 reenacted heading without change and amended text of subsec. (g) generally. Prior to amendment, text read as follows: “Nothing in any provision of law shall be construed as providing that an escrow account, settlement fund, or similar fund is not subject to current income tax. The Secretary shall prescribe regulations providing for the taxation of any such account or fund whether as a grantor trust or otherwise.”

Subsec. (g)(3). Pub. L. 109-432 struck out heading and text of par. (3). Text read as follows: “Paragraph (2) shall not apply to accounts and funds established after December 31, 2010.”

1990—Subsec. (e). Pub. L. 101-508 substituted “This section (other than subsection (g))” for “This section”.

1988—Subsec. (b)(2). Pub. L. 100-647, §1018(f)(4)(B), substituted “No other” for “no other” in concluding provisions.

Subsec. (b)(2)(B). Pub. L. 100-647, §1018(f)(4)(A), substituted “a corporation.” for “the corporation.”

Subsec. (d)(1)(A). Pub. L. 100-647, §1018(f)(1), inserted “(or any related person)” after “taxpayer”.

Subsec. (d)(2)(A). Pub. L. 100-647, §1018(f)(2), amended subpar. (A) generally. Prior to amendment, subpar. (A) read as follows: “which is established pursuant to a court order.”

Subsec. (d)(2)(E). Pub. L. 100-647, §1018(f)(1), inserted “(or any related person)” after “taxpayer”.

Subsec. (g). Pub. L. 100-647, §1018(f)(5)(A), added subsec. (g).

#### EFFECTIVE DATE OF 2006 AMENDMENT

Pub. L. 109-432, div. A, title IV, §409(b), Dec. 20, 2006, 120 Stat. 2963, provided that: “The amendment made by this section [amending this section] shall take effect as if included in section 201 of the Tax Increase Prevention and Reconciliation Act of 2005 [Pub. L. 109-222].”

Pub. L. 109-222, title II, §201(b), May 17, 2006, 120 Stat. 348, provided that: “The amendment made by subsection (a) [amending this section] shall apply to accounts and funds established after the date of the enactment of this Act [May 17, 2006].”

#### EFFECTIVE DATE OF 1990 AMENDMENT

Amendment by Pub. L. 101-508 effective as if included in the provision of the Technical and Miscellaneous Revenue Act of 1988, Pub. L. 100-647, to which such amendment relates, see section 11702(j) of Pub. L. 101-508, set out as a note under section 59 of this title.

#### EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

## EFFECTIVE DATE

Section effective, except as otherwise provided, as if included in the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as an Effective Date of 1986 Amendment note under section 48 of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL  
JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [ §§ 1101-1147 and 1171-1177 ] or title XVIII [ §§ 1800-1899A ] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

SPECIAL RULE FOR TAXPAYER IN BANKRUPTCY  
REORGANIZATION

Pub. L. 99-514, title XVIII, § 1807(a)(7)(C), Oct. 22, 1986, 100 Stat. 2816, as amended by Pub. L. 100-647, title I, § 1018(f)(3), Nov. 10, 1988, 102 Stat. 3582, provided that: "In the case of any settlement fund which is established for claimants against a corporation which filed a petition for reorganization under chapter 11 of title 11, United States Code, on August 26, 1982, and which filed with a United States district court a first amended and restated plan of reorganization before March 1, 1986—

"(i) any portion of such fund which is established pursuant to a court order and with qualified payments, which meets the requirements of subparagraphs (C) and (D) of section 468B(d)(2) of the Internal Revenue Code of 1954 [ now 1986 ] (as added by this paragraph), and with respect to which an election is made under subparagraph (F) thereof, shall be treated as a designated settlement fund for purposes of section 468B of such Code,

"(ii) such corporation (or any successor thereof) shall be liable for the tax imposed by section 468B of such Code on such portion of the fund (and the fund shall not be liable for such tax), such tax shall be deductible by the corporation, and the rate of tax under section 468B of such Code for any taxable year shall be equal to 15 percent, and

"(iii) any transaction by any portion of the fund not described in clause (i) shall be treated as a transaction made by the corporation."

CLARIFICATION OF LAW WITH RESPECT TO CERTAIN  
FUNDS

Pub. L. 99-514, title XVIII, § 1807(a)(7)(D), Oct. 22, 1986, 100 Stat. 2816, provided that nothing in any provision of law be construed as providing that an escrow account, settlement fund, or similar fund established after Aug. 16, 1986, not be subject to current income tax and that if contributions to such account or fund are not deductible then the account or fund be taxed as a grantor trust, prior to repeal by Pub. L. 100-647, title I, § 1018(f)(5)(B), Nov. 10, 1988, 102 Stat. 3582.

**§ 469. Passive activity losses and credits limited**

**(a) Disallowance**

**(1) In general**

If for any taxable year the taxpayer is described in paragraph (2), neither—

- (A) the passive activity loss, nor
- (B) the passive activity credit,

for the taxable year shall be allowed.

**(2) Persons described**

The following are described in this paragraph:

- (A) any individual, estate, or trust,

- (B) any closely held C corporation, and
- (C) any personal service corporation.

**(b) Disallowed loss or credit carried to next year**

Except as otherwise provided in this section, any loss or credit from an activity which is disallowed under subsection (a) shall be treated as a deduction or credit allocable to such activity in the next taxable year.

**(c) Passive activity defined**

For purposes of this section—

**(1) In general**

The term "passive activity" means any activity—

- (A) which involves the conduct of any trade or business, and
- (B) in which the taxpayer does not materially participate.

**(2) Passive activity includes any rental activity**

Except as provided in paragraph (7), the term "passive activity" includes any rental activity.

**(3) Working interests in oil and gas property**

**(A) In general**

The term "passive activity" shall not include any working interest in any oil or gas property which the taxpayer holds directly or through an entity which does not limit the liability of the taxpayer with respect to such interest.

**(B) Income in subsequent years**

If any taxpayer has any loss for any taxable year from a working interest in any oil or gas property which is treated as a loss which is not from a passive activity, then any net income from such property (or any property the basis of which is determined in whole or in part by reference to the basis of such property) for any succeeding taxable year shall be treated as income of the taxpayer which is not from a passive activity. If the preceding sentence applies to the net income from any property for any taxable year, any credits allowable under subpart B (other than section 27(a)) or D of part IV of subchapter A for such taxable year which are attributable to such property shall be treated as credits not from a passive activity to the extent the amount of such credits does not exceed the regular tax liability of the taxpayer for the taxable year which is allocable to such net income.

**(4) Material participation not required for paragraphs (2) and (3)**

Paragraphs (2) and (3) shall be applied without regard to whether or not the taxpayer materially participates in the activity.

**(5) Trade or business includes research and experimentation activity**

For purposes of paragraph (1)(A), the term "trade or business" includes any activity involving research or experimentation (within the meaning of section 174).

**(6) Activity in connection with trade or business or production of income**

To the extent provided in regulations, for purposes of paragraph (1)(A), the term "trade or business" includes—