

**Statutory Notes and Related Subsidiaries**

## EFFECTIVE DATE

Section applicable with respect to taxable years beginning after Dec. 31, 1959, see section 8(d) of Pub. L. 86-779, set out as an Effective Date of 1960 Amendment note under section 162 of this title.

**§ 1055. Redeemable ground rents****(a) Character**

For purposes of this subtitle—

- (1) a redeemable ground rent shall be treated as being in the nature of a mortgage, and
- (2) real property held subject to liabilities under a redeemable ground rent shall be treated as held subject to liabilities under a mortgage.

**(b) Application of subsection (a)****(1) In general**

Subsection (a) shall take effect on the day after the date of the enactment of this section and shall apply with respect to taxable years ending after such date of enactment.

**(2) Basis of holder**

In determining the basis of real property held subject to liabilities under a redeemable ground rent, subsection (a) shall apply whether such real property was acquired before or after the enactment of this section.

**(3) Basis of reserved redeemable ground rent**

In the case of a redeemable ground rent reserved or created on or before the date of the enactment of this section in connection with a transfer of the right to hold real property subject to liabilities under such ground rent, the basis of such ground rent after such date in the hands of the person who reserved or created the ground rent shall be the amount taken into account in respect of such ground rent for Federal income tax purposes as consideration for the disposition of such real property. If no such amount was taken into account, such basis shall be determined as if this section had not been enacted.

**(c) Redeemable ground rent defined**

For purposes of this subtitle, the term “redeemable ground rent” means only a ground rent with respect to which—

- (1) there is a lease of land which is assignable by the lessee without the consent of the lessor and which (together with periods for which the lease may be renewed at the option of the lessee) is for a term in excess of 15 years,
- (2) the leaseholder has a present or future right to terminate, and to acquire the entire interest of the lessor in the land, by payment of a determined or determinable amount, which right exists by virtue of State or local law and not because of any private agreement or privately created condition, and
- (3) the lessor’s interest in the land is primarily a security interest to protect the rental payments to which the lessor is entitled under the lease.

**(d) Cross reference**

**For treatment of rentals under redeemable ground rents as interest, see section 163(c).**

(Added Pub. L. 88-9, §1(b), Apr. 10, 1963, 77 Stat. 7.)

**Editorial Notes**

## REFERENCES IN TEXT

Date of the enactment of this section, referred to in subsec. (b)(1), (3), means Apr. 10, 1963, the date of approval of Pub. L. 88-9.

## PRIOR PROVISIONS

A prior section 1055 was renumbered section 1062 of this title.

**Statutory Notes and Related Subsidiaries**

## EFFECTIVE DATE

Pub. L. 88-9, §2, Apr. 10, 1963, 77 Stat. 8, provided that: “The amendments made by subsection (a) of the first section of this Act [amending section 163 of this title] shall take effect as of January 1, 1962, and shall apply with respect to taxable years ending on or after such date. The amendments made by subsection (b) of the first section of this Act [enacting this section] shall take effect on the day after the date of the enactment of this Act [Apr. 10, 1963] and shall apply with respect to taxable years ending after such date of enactment.”

**[§ 1056. Repealed. Pub. L. 108-357, title VIII, § 886(b)(1)(A), Oct. 22, 2004, 118 Stat. 1641]**

Section, added Pub. L. 94-455, title II, §212(a)(1), Oct. 4, 1976, 90 Stat. 1545; amended Pub. L. 99-514, title VI, §631(e)(13), Oct. 22, 1986, 100 Stat. 2275, related to basis limitation for player contracts transferred in connection with the sale of a franchise.

A prior section 1056 was renumbered section 1062 of this title.

**Statutory Notes and Related Subsidiaries**

## EFFECTIVE DATE OF REPEAL

Repeal applicable to property acquired after Oct. 22, 2004, see section 886(c)(1) of Pub. L. 108-357, set out as an Effective Date of 2004 Amendment note under section 197 of this title.

**[§ 1057. Repealed. Pub. L. 105-34, title XI, § 1131(c)(2), Aug. 5, 1997, 111 Stat. 980]**

Section, added Pub. L. 94-455, title X, §1015(c), Oct. 4, 1976, 90 Stat. 1618, related to election to treat transfer to foreign trust, etc., as taxable exchange.

A prior section 1057 was renumbered section 1062 of this title.

**§ 1058. Transfers of securities under certain agreements****(a) General rule**

In the case of a taxpayer who transfers securities (as defined in section 1236(c)) pursuant to an agreement which meets the requirements of subsection (b), no gain or loss shall be recognized on the exchange of such securities by the taxpayer for an obligation under such agreement, or on the exchange of rights under such agreement by that taxpayer for securities identical to the securities transferred by that taxpayer.

**(b) Agreement requirements**

In order to meet the requirements of this subsection, an agreement shall—

- (1) provide for the return to the transferor of securities identical to the securities transferred;

(2) require that payments shall be made to the transferor of amounts equivalent to all interest, dividends, and other distributions which the owner of the securities is entitled to receive during the period beginning with the transfer of the securities by the transferor and ending with the transfer of identical securities back to the transferor;

(3) not reduce the risk of loss or opportunity for gain of the transferor of the securities in the securities transferred; and

(4) meet such other requirements as the Secretary may by regulation prescribe.

**(c) Basis**

Property acquired by a taxpayer described in subsection (a), in a transaction described in that subsection, shall have the same basis as the property transferred by that taxpayer.

(Added Pub. L. 95-345, §2(d)(1), Aug. 15, 1978, 92 Stat. 482.)

**Editorial Notes**

**PRIOR PROVISIONS**

A prior section 1058 was renumbered section 1062 of this title.

**Statutory Notes and Related Subsidiaries**

**EFFECTIVE DATE**

Section applicable with respect to amounts received after Dec. 31, 1976, as payments with respect to securities loans (as defined in section 512(a)(5) of this title), and transfers of securities, under agreements described in this section, occurring after such date, see section 2(e) of Pub. L. 95-345, set out as an Effective Date of 1978 Amendment note under section 509 of this title.

**§ 1059. Corporate shareholder's basis in stock reduced by nontaxed portion of extraordinary dividends**

**(a) General rule**

If any corporation receives any extraordinary dividend with respect to any share of stock and such corporation has not held such stock for more than 2 years before the dividend announcement date—

**(1) Reduction in basis**

The basis of such corporation in such stock shall be reduced (but not below zero) by the nontaxed portion of such dividends.

**(2) Amounts in excess of basis**

If the nontaxed portion of such dividends exceeds such basis, such excess shall be treated as gain from the sale or exchange of such stock for the taxable year in which the extraordinary dividend is received.

**(b) Nontaxed portion**

For purposes of this section—

**(1) In general**

The nontaxed portion of any dividend is the excess (if any) of—

- (A) the amount of such dividend, over
- (B) the taxable portion of such dividend.

**(2) Taxable portion**

The taxable portion of any dividend is—

- (A) the portion of such dividend includible in gross income, reduced by

(B) the amount of any deduction allowable with respect to such dividend under section 243<sup>1</sup> 245, or 245A.

**(c) Extraordinary dividend defined**

For purposes of this section—

**(1) In general**

The term “extraordinary dividend” means any dividend with respect to a share of stock if the amount of such dividend equals or exceeds the threshold percentage of the taxpayer's adjusted basis in such share of stock.

**(2) Threshold percentage**

The term “threshold percentage” means—

- (A) 5 percent in the case of stock which is preferred as to dividends, and
- (B) 10 percent in the case of any other stock.

**(3) Aggregation of dividends**

**(A) Aggregation within 85-day period**

All dividends—

- (i) which are received by the taxpayer (or a person described in subparagraph (C)) with respect to any share of stock, and
- (ii) which have ex-dividend dates within the same period of 85 consecutive days,

shall be treated as 1 dividend.

**(B) Aggregation within 1 year where dividends exceed 20 percent of adjusted basis**

All dividends—

- (i) which are received by the taxpayer (or a person described in subparagraph (C)) with respect to any share of stock, and
- (ii) which have ex-dividend dates during the same period of 365 consecutive days,

shall be treated as extraordinary dividends if the aggregate of such dividends exceeds 20 percent of the taxpayer's adjusted basis in such stock (determined without regard to this section).

**(C) Substituted basis transactions**

In the case of any stock, a person is described in this subparagraph if—

- (i) the basis of such stock in the hands of such person is determined in whole or in part by reference to the basis of such stock in the hands of the taxpayer, or
- (ii) the basis of such stock in the hands of the taxpayer is determined in whole or in part by reference to the basis of such stock in the hands of such person.

**(4) Fair market value determination**

If the taxpayer establishes to the satisfaction of the Secretary the fair market value of any share of stock as of the day before the ex-dividend date, the taxpayer may elect to apply paragraphs (1) and (3) by substituting such value for the taxpayer's adjusted basis.

**(d) Special rules**

For purposes of this section—

**(1) Time for reduction**

Any reduction in basis under subsection (a)(1) shall be treated as occurring at the be-

<sup>1</sup> So in original. Probably should be followed by a comma.