

is owned (within the meaning of section 958(a)), or is considered as owned by applying the rules of ownership of section 958(b), by United States shareholders on any day during the taxable year of such foreign corporation."

(2) **SPECIAL RULE FOR INSURANCE.**—Subsection (b) of section 957 is amended by striking out "all classes of stock" and inserting in lieu thereof "all classes of stock (or more than 25 percent of the total value of stock)".

(b) **DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY.**—Paragraph (2) of section 552(a) (defining foreign personal holding company) is amended to read as follows:

"(2) **STOCK OWNERSHIP REQUIREMENT.**—At any time during the taxable year more than 50 percent of—

"(A) the total combined voting power of all classes of stock of such corporation entitled to vote, or

"(B) the total value of the stock of such corporation, is owned (directly or indirectly) by or for not more than 5 individuals who are citizens or residents of the United States (hereinafter in this part referred to as the 'United States group')."

(c) **EFFECTIVE DATE.**—

(1) **IN GENERAL.**—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 1986; except that for purposes of applying sections 951(a)(1)(B) and 956 of the Internal Revenue Code of 1986, such amendments shall take effect on August 16, 1986.

(2) **TRANSITIONAL RULE.**—In the case of any corporation treated as a controlled foreign corporation by reason of the amendments made by this section, property acquired before August 16, 1986, shall not be taken into account under section 956(b) of the Internal Revenue Code of 1986.

(3) **SPECIAL RULE FOR BENEFICIARY OF TRUST.**—In the case of an individual—

(A) who is a beneficiary of a trust which was established on December 7, 1979, under the laws of a foreign jurisdiction, and

(B) who was not a citizen or resident of the United States on the date the trust was established,

amounts which are included in the gross income of such beneficiary under section 951(a) of the Internal Revenue Code of 1986 with respect to stock held by the trust (and treated as distributed to the trust) shall be treated as the first amounts which are distributed by the trust to such beneficiary and as amounts to which section 959(a) of such Code applies.

#### SEC. 1223. SUBPART F DE MINIMIS RULE.

(a) **GENERAL RULE.**—Paragraph (3) of section 954(b) (relating to special rule where foreign base company income is less than 10 percent or more than 70 percent of gross income) is amended to read as follows:

"(3) **DE MINIMIS, ETC., RULES.**—For purposes of subsection (a) and section 953—

"(A) **DE MINIMIS RULE.**—If the sum of foreign base company income (determined without regard to paragraph (5)) and the gross insurance income for the taxable year is less than the lesser of—

"(i) 5 percent of gross income, or

"(ii) \$1,000,000,