

**SEC. 1906. MODIFICATION OF RULES RELATING TO FOREIGN TRUSTS WHICH ARE NOT GRANTOR TRUSTS.**

(a) **MODIFICATION OF INTEREST CHARGE ON ACCUMULATION DISTRIBUTIONS.**—Subsection (a) of section 668 (relating to interest charge on accumulation distributions from foreign trusts) is amended to read as follows:

“(a) **GENERAL RULE.**—For purposes of the tax determined under section 667(a)—

“(1) **INTEREST DETERMINED USING UNDERPAYMENT RATES.**—

The interest charge determined under this section with respect to any distribution is the amount of interest which would be determined on the partial tax computed under section 667(b) for the period described in paragraph (2) using the rates and the method under section 6621 applicable to underpayments of tax.

“(2) **PERIOD.**—For purposes of paragraph (1), the period described in this paragraph is the period which begins on the date which is the applicable number of years before the date of the distribution and which ends on the date of the distribution.

“(3) **APPLICABLE NUMBER OF YEARS.**—For purposes of paragraph (2)—

“(A) **IN GENERAL.**—The applicable number of years with respect to a distribution is the number determined by dividing—

“(i) the sum of the products described in subparagraph (B) with respect to each undistributed income year, by

“(ii) the aggregate undistributed net income.

The quotient determined under the preceding sentence shall be rounded under procedures prescribed by the Secretary.

“(B) **PRODUCT DESCRIBED.**—For purposes of subparagraph (A), the product described in this subparagraph with respect to any undistributed income year is the product of—

“(i) the undistributed net income for such year, and

“(ii) the sum of the number of taxable years between such year and the taxable year of the distribution (counting in each case the undistributed income year but not counting the taxable year of the distribution).

“(4) **UNDISTRIBUTED INCOME YEAR.**—For purposes of this subsection, the term ‘undistributed income year’ means any prior taxable year of the trust for which there is undistributed net income, other than a taxable year during all of which the beneficiary receiving the distribution was not a citizen or resident of the United States.

“(5) **DETERMINATION OF UNDISTRIBUTED NET INCOME.**—Notwithstanding section 666, for purposes of this subsection, an accumulation distribution from the trust shall be treated as reducing proportionately the undistributed net income for undistributed income years.

“(6) **PERIODS BEFORE 1996.**—Interest for the portion of the period described in paragraph (2) which occurs before January 1, 1996, shall be determined—