

“(3) **QUALIFIED SUBCHAPTER S TRUST.**—For purposes of this subsection, the term ‘qualified subchapter S trust’ means a trust—

“(A) the terms of which require that—

“(i) during the life of the current income beneficiary, there shall be only 1 income beneficiary of the trust,

“(ii) any corpus distributed during the life of the current income beneficiary may be distributed only to such beneficiary,

“(iii) the income interest of the current income beneficiary in the trust shall terminate on the earlier of such beneficiary’s death or the termination of the trust, and

“(iv) upon the termination of the trust during the life of the current income beneficiary, the trust shall distribute all of its assets to such beneficiary, and

“(B) all of the income (within the meaning of section 643(b)) of which is distributed (or required to be distributed) currently to 1 individual who is a citizen or resident of the United States.

“(4) **TRUST CEASING TO BE QUALIFIED.**—

“(A) **FAILURE TO MEET REQUIREMENTS OF PARAGRAPH**

(3) (A).—If a qualified subchapter S trust ceases to meet any requirement of paragraph (3)(A), the provisions of this subsection shall not apply to such trust as of the date it ceases to meet such requirement.

“(B) **FAILURE TO MEET REQUIREMENTS OF PARAGRAPH**

(3) (B).—If any qualified subchapter S trust ceases to meet any requirement of paragraph (3)(B) but continues to meet the requirements of paragraph (3)(A), the provisions of this subsection shall not apply to such trust as of the first day of the first taxable year beginning after the first taxable year for which it failed to meet the requirements of paragraph (3)(B).”

26 USC 1361.

(3) **TECHNICAL AMENDMENT.**—Clause (i) of section 1361(d)(2)(B) (relating to separate election with respect to each S corporation) is amended by striking out “S corporation” each place it appears and inserting in lieu thereof “corporation”.

(g) **COORDINATION WITH SECTION 338.**—

26 USC 1362.

(1) Paragraph (6) of section 1362(e) (relating to treatment of S termination year) is amended by adding at the end thereof the following new subparagraph:

“(C) **PARAGRAPH (2) NOT TO APPLY TO ITEMS RESULTING FROM SECTION 338.**—Paragraph (2) shall not apply with respect to any item resulting from the application of section 338.”

(2) Paragraph (2) of section 1362(e) is amended by striking out “as provided in paragraph (3)” and inserting in lieu thereof “as provided in paragraph (3) and subparagraphs (C) and (D) of paragraph (6).”

(h) **ELECTION TO HAVE ITEMS ASSIGNED TO SHORT TAXABLE YEAR UNDER NORMAL ACCOUNTING RULES.**—Subparagraph (B) of section 1362(e)(3) (relating to election to have items assigned to each short taxable year under normal accounting rules) is amended to read as follows:

“(B) **SHAREHOLDERS MUST CONSENT TO ELECTION.**—An election under this subsection shall be valid only if all persons