ing taxable income amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends or interest on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw.

(b) Mutual savings bank to include certain banks with capital stock

For purposes of this part, the term ''mutual savings bank'' includes any bank—

(1) which has capital stock represented by shares, and

(2) which is subject to, and operates under, Federal or State laws relating to mutual savings bank.

(Aug. 16, 1954, ch. 736, 68A Stat. 204; Pub. L. 87–834, § 6(f), Oct. 16, 1962, 76 Stat. 984; Pub. L. 97–34, title II, § 245(a), Aug. 13, 1981, 95 Stat. 255.)

AMENDMENTS

1981—Pub. L. 97–34 designated existing provisions as subsec. (a), inserted heading ''In general'', and added subsec. (b).

1962—Pub. L. 87–834 included other savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, and authorized amounts paid as interest as a deduction.

EFFECTIVE DATE OF 1981 AMENDMENT

Section 246(d) of Pub. L. 97–34 provided that: ''The amendments made by section 245 [amending this section and section 593 of this title] shall apply with respect to taxable years ending after the date of the enactment of this Act [Aug. 13, 1981].''

[§ 592. Repealed. Pub. L. 94–455, title XIX, § 1901(a)(83), Oct. 4, 1976, 90 Stat. 1778]

Section, act Aug. 16, 1954, ch. 736, 68A Stat. 205, authorized a deduction by mutual savings banks for repayment of loans made before Sept. 1, 1951, by the United States or any agency or instrumentality thereof, or any mutual fund established under the authority of the laws of any State.

EFFECTIVE DATE OF REPEAL

Repeal effective with respect to taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94–455, set out as an Effective Date of 1976 Amendment note under section 2 of this title.

§ 593. Reserves for losses on loans

(a) Reserve for bad debts

(1) In general

Except as provided in paragraph (2), in the case of—

(A) any domestic building and loan association,

(B) any mutual savings bank, or

(C) any cooperative bank without capital stock organized and operated for mutual purposes and without profit,

there shall be allowed a deduction for a reasonable addition to a reserve for bad debts. Such deduction shall be in lieu of any deduction under section 166(a).

(2) Organization must meet 60-percent asset test of section 7701(a)(19)

This section shall apply to an association or bank referred to in paragraph (1) only if it meets the requirements of section 7701(a)(19)(C).

(b) Addition to reserves for bad debts

(1) In general

For purposes of subsection (a), the reasonable addition for the taxable year to the reserve for bad debts of any taxpayer described in subsection (a) shall be an amount equal to the sum of—

(A) the amount determined to be a reasonable addition to the reserve for losses on nonqualifying loans, computed in the same manner as is provided with respect to additions to the reserves for losses on loans of banks under section 585(b)(2), plus

(B) the amount determined by the taxpayer to be a reasonable addition to the reserve for losses on qualifying real property loans, but such amount shall not exceed the amount determined under paragraph (2) or (3), whichever is the larger, but the amount determined under this subparagraph shall in no case be greater than the larger of—

(i) the amount determined under paragraph (3), or

(ii) the amount which, when added to the amount determined under subparagraph (A), equals the amount by which 12 percent of the total deposits or withdrawable accounts of depositors of the taxpayer at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of such year (taking into account any portion thereof attributable to the period before the first taxable year beginning after December 31, 1951).

(2) Percentage of taxable income method

(A) In general

Subject to subparagraphs (B) and (C), the amount determined under this paragraph for the taxable year shall be an amount equal to 8 percent of the taxable income for such year.

(B) Reduction for amounts referred to in paragraph (1)(A)

The amount determined under subparagraph (A) shall be reduced (but not below 0) by the amount determined under paragraph (1)(A).

(C) Overall limitation on paragraph

The amount determined under this paragraph shall not exceed the amount necessary to increase the balance at the close of the taxable year of the reserve for losses on qualifying real property loans to 6 percent of such loans outstanding at such time.

(D) Computation of taxable income

For purposes of this paragraph, taxable income shall be computed—

(i) by excluding from gross income any amount included therein by reason of subsection (e),

(ii) without regard to any deduction allowable for any addition to the reserve for bad debts,

(iii) by excluding from gross income an amount equal to the net gain for the tax-

able year arising from the sale or exchange of stock of a corporation or of obligations the interest on which is excludable from gross income under section 103,

(iv) by excluding from gross income dividends with respect to which a deduction is allowable by part VIII of subchapter B, reduced by an amount equal to 8 percent of the dividends received deduction (determined without regard to section 596)[1] for the taxable year, and

(v) if there is a capital gain rate differential (as defined in section 904(b)(3)(D)) for the taxable year, by excluding from gross income the rate differential portion (within the meaning of section 904(b)(3)(E)) of the lesser of—

(I) the net long-term capital gain for the taxable year, or

(II) the net long-term capital gain for the taxable year from the sale or exchange of property other than property described in clause (iii).

(3) Experience method

The amount determined under this paragraph for the taxable year shall be computed in the same manner as is provided with respect to additions to the reserves for losses on loans of banks under section 585(b)(2).

(c) Treatment of reserve for bad debts

(1) Establishment of reserves

Each taxpayer described in subsection (a) which uses the reserve method of accounting for bad debts shall establish and maintain a reserve for losses on qualifying real property loans, a reserve for losses on nonqualifying loans, and a supplemental reserve for losses on loans. For purposes of this title, such reserves shall be treated as reserves for bad debts, but no deduction shall be allowed for any addition to the supplemental reserve for losses on loans.

(2) Certain pre-1963 reserves

Notwithstanding the second sentence of paragraph (1), any amount allocated pursuant to paragraph (5) (as in effect immediately before the enactment of the Tax Reform Act of 1976) during a taxable year beginning before January 1, 1977, to the reserve for losses on qualifying real property loans out of the surplus, undivided profits, and bad debt reserves (determined as of December 31, 1962) attributable to the period before the first taxable year beginning after December 31, 1951, shall not be treated as a reserve for bad debts for any purpose other than determining the amount referred to in subsection (b)(1)(B), and for such purpose such amount shall be treated as remaining in such reserve.

(3) Charging of bad debts to reserves

Any debt becoming worthless or partially worthless in respect of a qualifying real property loan shall be charged to the reserve for losses on such loans, and any debt becoming worthless or partially worthless in respect of a nonqualifying loan shall be charged to the reserve for losses on nonqualifying loans; except that any such debt may, at the election of the taxpayer, be charged in whole or in part to the supplemental reserve for losses on loans.

(d) Loans defined

For purposes of this section—

(1) Qualifying real property loans

The term ''qualifying real property loan'' means any loan secured by an interest in improved real property or secured by an interest in real property which is to be improved out of the proceeds of the loan, but such term does not include—

(A) any loan evidenced by a security (as defined in section 165(g)(2)(C));

(B) any loan, whether or not evidenced by a security (as defined in section 165(g)(2)(C)), the primary obligor on which is—

(i) a government or political subdivision or instrumentality thereof;

(ii) a bank (as defined in section 581); or

(iii) another member of the same affiliated group;

(C) any loan, to the extent secured by a deposit in or share of the taxpayer; or

(D) any loan which, within a 60-day period beginning in one taxable year of the creditor and ending in its next taxable year, is made or acquired and then repaid or disposed of, unless the transactions by which such loan was made or acquired and then repaid or disposed of are established to be for bona fide business purposes. For purposes of subparagraph (B)(iii), the term ''affiliated group'' has the meaning assigned to such term by section 1504(a); except that (i) the phrase ''more than 50 percent'' shall be substituted for the phrase ''at least 80 percent'' each place it appears in section 1504(a), and (ii) all corporations shall be treated as includible corporations (without any exclusion under section 1504(b)).

(2) Nonqualifying loans

The term ''nonqualifying loan'' means any loan which is not a qualifying real property loan.

(3) Loan

The term ''loan'' means debt, as the term ''debt'' is used in section 166.

(4) Treatment of interests in REMIC's

A regular or residual interest in a REMIC shall be treated as a qualifying real property loan; except that, if less than 95 percent of the assets of such REMIC are qualifying real property loans (determined as if the taxpayer held the assets of the REMIC), such interest shall be so treated only in the proportion which the assets of such REMIC consist of such loans. For purposes of determining whether any interest in a REMIC qualifies under the preceding sentence, any interest in another REMIC held by such REMIC shall be treated as a qualifying real property loan under principles similar to the principles of the preceding sentence, except that if such REMIC's are part of a tiered structure, they shall be treated as 1 REMIC for purposes of this paragraph.

[1] See References in Text note below.

(e) Distributions to shareholders

(1) In general

For purposes of this chapter, any distribution of property (as defined in section 317(a)) by a taxpayer having a balance described in subsection (g)(2)(A)(ii) to a shareholder with respect to its stock, if such distribution is not allowable as a deduction under section 591, shall be treated as made—

(A) first out of its earnings and profits accumulated in taxable years beginning after December 31, 1951, (and, in the case of an S corporation, the accumulated adjustments account, as defined in section 1368(e)(1)) to the extent thereof,

(B) then out of the balance taken into account under subsection (g)(2)(A)(ii) (properly adjusted for amounts charged against such reserves for taxable years beginning after December 31, 1987),

(C) then out of the supplemental reserve for losses on loans, to the extent thereof,

(D) then out of such other accounts as may be proper.

This paragraph shall apply in the case of any distribution in redemption of stock or in partial or complete liquidation of a taxpayer having a balance described in subsection (g)(2)(A)(ii), except that any such distribution shall be treated as made first out of the amount referred to in subparagraph (B), second out of the amount referred to in subparagraph (C), third out of the amount referred to in subparagraph (A), and then out of such other accounts as may be proper. This paragraph shall not apply to any transaction to which section 381 applies, or to any distribution to the Federal Savings and Loan Insurance Corporation (or any successor thereof) or the Federal Deposit Insurance Corporation in redemption of an interest in a taxpayer having a balance described in subsection (g)(2)(A)(ii), if such interest was originally received by any such entity in exchange for assistance provided under a provision of law referred to in section 597(c). This paragraph shall not apply to any distribution of all of the stock of a bank (as defined in section 581) to another corporation if, immediately after the distribution, such bank and such other corporation are members of the same affiliated group (as defined in section 1504) and the provisions of section 5(e) of the Federal Deposit Insurance Act (as in effect on December 31, 1995) or similar provisions are in effect.

(2) Amounts charged to reserve accounts and included in gross income

If any distribution is treated under paragraph (1) as having been made out of the reserves described in subparagraphs (B) and (C) of such paragraph, the amount charged against such reserve shall be the amount which, when reduced by the amount of tax imposed under this chapter and attributable to the inclusion of such amount in gross income, is equal to the amount of such distribution; and the amount so charged against such reserve shall be included in gross income of the taxpayer.

(3) Special rules

(A) For purposes of paragraph (1)(B), additions to the reserve for losses on qualifying real property loans for the taxable year in which the distribution occurs shall be taken into account.

(B) For purposes of computing under this section the amount of a reasonable addition to the reserve for losses on qualifying real property loans for any taxable year, any amount charged during any year to such reserve pursuant to the provisions of paragraph (2) shall not be taken into account.

(f) Termination of reserve method

Subsections (a), (b), (c), and (d) shall not apply to any taxable year beginning after December 31, 1995.

(g) 6-year spread of adjustments

(1) In general

In the case of any taxpayer who is required by reason of subsection (f) to change its method of computing reserves for bad debts—

(A) such change shall be treated as a change in a method of accounting,

(B) such change shall be treated as initiated by the taxpayer and as having been made with the consent of the Secretary, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481(a)—

(i) shall be determined by taking into account only applicable excess reserves, and

(ii) as so determined, shall be taken into account ratably over the 6-taxable year period beginning with the first taxable year beginning after December 31, 1995.

(2) Applicable excess reserves

(A) In general

For purposes of paragraph (1), the term ''applicable excess reserves'' means the excess (if any) of—

(i) the balance of the reserves described in subsection (c)(1) (other than the supplemental reserve) as of the close of the taxpayer's last taxable year beginning before January 1, 1996, over

(ii) the lesser of—

(I) the balance of such reserves as of the close of the taxpayer's last taxable year beginning before January 1, 1988, or

(II) the balance of the reserves described in subclause (I), reduced in the same manner as under section 585(b)(2)(B)(ii) on the basis of the taxable years described in clause (i) and this clause.

(B) Special rule for thrifts which become small banks

In the case of a bank (as defined in section 581) which was not a large bank (as defined in section 585(c)(2)) for its first taxable year beginning after December 31, 1995—

(i) the balance taken into account under subparagraph (A)(ii) shall not be less than the amount which would be the balance of such reserves as of the close of its last taxable year beginning before such date if the

additions to such reserves for all taxable years had been determined under section 585(b)(2)(A), and

(ii) the opening balance of the reserve for bad debts as of the beginning of such first taxable year shall be the balance taken into account under subparagraph (A)(ii) (determined after the application of clause (i) of this subparagraph).

The preceding sentence shall not apply for purposes of paragraphs (5) and (6) or subsection (e)(1).

(3) Recapture of pre-1988 reserves where taxpayer ceases to be bank

If, during any taxable year beginning after December 31, 1995, a taxpayer to which paragraph (1) applied is not a bank (as defined in section 581), paragraph (1) shall apply to the reserves described in paragraph (2)(A)(ii) and the supplemental reserve; except that such reserves shall be taken into account ratably over the 6-taxable year period beginning with such taxable year.

(4) Suspension of recapture if residential loan requirement met

(A) In general

In the case of a bank which meets the residential loan requirement of subparagraph (B) for the first taxable year beginning after December 31, 1995, or for the following taxable year—

(i) no adjustment shall be taken into account under paragraph (1) for such taxable year, and

(ii) such taxable year shall be disregarded in determining—

(I) whether any other taxable year is a taxable year for which an adjustment is required to be taken into account under paragraph (1), and

(II) the amount of such adjustment.

(B) Residential loan requirement

A taxpayer meets the residential loan requirement of this subparagraph for any taxable year if the principal amount of the residential loans made by the taxpayer during such year is not less than the base amount for such year.

(C) Residential loan

For purposes of this paragraph, the term ''residential loan'' means any loan described in clause (v) of section 7701(a)(19)(C) but only if such loan is incurred in acquiring, constructing, or improving the property described in such clause.

(D) Base amount

For purposes of subparagraph (B), the base amount is the average of the principal amounts of the residential loans made by the taxpayer during the 6 most recent taxable years beginning on or before December 31, 1995. At the election of the taxpayer who made such loans during each of such 6 taxable years, the preceding sentence shall be applied without regard to the taxable year in which such principal amount was the highest and the taxable year in such principal amount was the lowest. Such an election may be made only for the first taxable year beginning after such date, and, if made for such taxable year, shall apply to the succeeding taxable year unless revoked with the consent of the Secretary.

(E) Controlled groups

In the case of a taxpayer which is a member of any controlled group of corporations described in section 1563(a)(1), subparagraph (B) shall be applied with respect to such group.

(5) Continued application of fresh start under section 585 transitional rules

In the case of a taxpayer to which paragraph (1) applied and which was not a large bank (as defined in section 585(c)(2)) for its first taxable year beginning after December 31, 1995:

(A) In general

For purposes of determining the net amount of adjustments referred to in section 585(c)(3)(A)(iii), there shall be taken into account only the excess (if any) of the reserve for bad debts as of the close of the last taxable year before the disqualification year over the balance taken into account by such taxpayer under paragraph (2)(A)(ii) of this subsection.

(B) Treatment under elective cut-off method

For purposes of applying section 585(c)(4)—

(i) the balance of the reserve taken into account under subparagraph (B) thereof shall be reduced by the balance taken into account by such taxpayer under paragraph (2)(A)(ii) of this subsection, and

(ii) no amount shall be includible in gross income by reason of such reduction.

(6) Suspended reserve included as section 381(c) items

The balance taken into account by a taxpayer under paragraph (2)(A)(ii) of this subsection and the supplemental reserve shall be treated as items described in section 381(c).

(7) Conversions to credit unions

In the case of a taxpayer to which paragraph (1) applied which becomes a credit union described in section 501(c) and exempt from taxation under section 501(a)—

(A) any amount required to be included in the gross income of the credit union by reason of this subsection shall be treated as derived from an unrelated trade or business (as defined in section 513), and

(B) for purposes of paragraph (3), the credit union shall not be treated as if it were a bank.

(8) Regulations

The Secretary shall prescribe such regulations as may be necessary to carry out this subsection and subsection (e), including regulations providing for the application of such subsections in the case of acquisitions, mergers, spin-offs, and other reorganizations.

(Aug. 16, 1954, ch. 736, 68A Stat. 205; Pub. L. 87–834, § 6(a), Oct. 16, 1962, 76 Stat. 977; Pub. L. 91–172, title IV, § 432(a), (b), Dec. 30, 1969, 83 Stat.

620, 622; Pub. L. 94–455, title XIX, § 1901(a)(84), Oct. 4, 1976, 90 Stat. 1778; Pub. L. 96–222, title I, § 104(a)(3)(C), Apr. 1, 1980, 94 Stat. 215; Pub. L. 97–34, title II, §§ 243, 245(b), (c), Aug. 13, 1981, 95 Stat. 255, 256; Pub. L. 99–514, title III, § 311(b)(2), title VI, § 671(b)(2), title IX, § 901(b)(1)–(3), (d)(2), Oct. 22, 1986, 100 Stat. 2219, 2317, 2378; Pub. L. 100–647, title I, §§ 1003(c)(3), 1006(t)(25)(B), Nov. 10, 1988, 102 Stat. 3384, 3426; Pub. L. 101–73, title XIV, § 1401(b)(3), Aug. 9, 1989, 103 Stat. 550; Pub. L. 101–508, title XI, § 11801(c)(12)(F), Nov. 5, 1990, 104 Stat. 1388–527; Pub. L. 104–188, title I, §§ 1616(a), (b)(7), 1704(t)(51), Aug. 20, 1996, 110 Stat. 1854, 1857, 1890; Pub. L. 105–34, title XVI, § 1601(f)(5)(A), Aug. 5, 1997, 111 Stat. 1091.)

REFERENCES IN TEXT

Section 596, referred to in subsec. (b)(2)(D)(iv), was repealed by Pub. L. 104–188, title I, § 1616(b)(9), Aug. 20, 1996, 110 Stat. 1857.

The Tax Reform Act of 1976, referred to in subsec. (c)(2), is Pub. L. 94–455, Oct. 4, 1976, 90 Stat. 1520, as amended, which was enacted Oct. 4, 1976. For complete classification of this Act to the Code, see Tables.

Section 5(e) of the Federal Deposit Insurance Act, referred to in subsec. (e)(1), is classified to section 1815(e) of Title 12, Banks and Banking.

AMENDMENTS

1997—Subsec. (e)(1)(A). Pub. L. 105–34 inserted ''(and, in the case of an S corporation, the accumulated adjustments account, as defined in section 1368(e)(1))'' after ''1951,''.

1996—Subsec. (b)(1)(A), (3). Pub. L. 104–188, § 1704(t)(51), provided that the amendment made by section 11801(c)(12)(F) of Pub. L. 101–508 shall be applied as if ''and (3)'' appeared instead of ''and (E)''. See 1990 Amendment note below.

Subsec. (e)(1). Pub. L. 104–188, § 1616(b)(7)(A), substituted ''by a taxpayer having a balance described in subsection (g)(2)(A)(ii)'' for ''by a domestic building and loan association or an institution that is treated as a mutual savings bank under section 591(b)'' in introductory provisions.

Pub. L. 104–188, § 1616(b)(7)(C)–(E), in closing provisions, substituted ''a taxpayer having a balance described in subsection (g)(2)(A)(ii)'' for ''the association or an institution that is treated as a mutual savings bank under section 591(b)'' after ''complete liquidation of'' and for ''an association'' after ''an interest in'' and inserted at end ''This paragraph shall not apply to any distribution of all of the stock of a bank (as defined in section 581) to another corporation if, immediately after the distribution, such bank and such other corporation are members of the same affiliated group (as defined in section 1504) and the provisions of section 5(e) of the Federal Deposit Insurance Act (as in effect on December 31, 1995) or similar provisions are in effect.''

Subsec. (e)(1)(B). Pub. L. 104–188, § 1616(b)(7)(B), amended subpar. (B) generally. Prior to amendment, subpar. (B) read as follows: ''then out of the reserve for losses on qualifying real property loans, to the extent additions to such reserve exceed the additions which would have been allowed under subsection (b)(3),''.

Subsecs. (f), (g). Pub. L. 104–188, § 1616(a), added subsecs. (f) and (g).

1990—Subsec. (b). Pub. L. 101–508, § 11801(c)(12)(F), which directed the amendment of pars. (1)(A) and (E) by substituting ''section 585(b)(2)'' for ''section 585(b)(3)'', was executed to pars. (1)(A) and (3). See 1996 Amendment note above.

1989—Subsec. (e)(1). Pub. L. 101–73 amended last sentence generally. Prior to amendment, last sentence read as follows: ''This paragraph shall not apply to any transaction to which section 381 (relating to carryovers in certain corporate acquisitions) applies, or to any distribution to the Federal Savings and Loan Insurance Corporation in redemption of an interest in an association, if such interest was originally received by the Federal Savings and Loan Insurance Corporation in exchange for financial assistance pursuant to section 406(f) of the National Housing Act (12 U.S.C. sec. 1729(f)).''

1988—Subsec. (b)(2)(D)(v). Pub. L. 100–647, § 1003(c)(3), added cl. (v).

Subsec. (d)(4). Pub. L. 100–647, § 1006(t)(25)(B), inserted at end ''For purposes of determining whether any interest in a REMIC qualifies under the preceding sentence, any interest in another REMIC held by such REMIC shall be treated as a qualifying real property loan under principles similar to the principles of the preceding sentence, except that if such REMIC's are part of a tiered structure, they shall be treated as 1 REMIC for purposes of this paragraph.''

1986—Subsec. (a). Pub. L. 99–514, § 901(b)(1), amended subsec. (a) generally. Prior to amendment, subsec. (a) read as follows: ''This section shall apply to any mutual savings bank, domestic building and loan association, or cooperative bank without capital stock organized and operated for mutual purposes and without profit.''

Subsec. (b)(1). Pub. L. 99–514, § 901(d)(2)(A), (B), in introductory provisions, substituted ''subsection (a)'' for ''section 166(c)'' and in subpar. (B), substituted ''paragraph (2) or (3), whichever is the larger'' for ''paragraph (2), (3), or (4), whichever amount is the largest'' in introductory provisions and ''paragraph (3)'' for ''paragraph (4)'' in cl. (i).

Subsec. (b)(2)(A). Pub. L. 99–514, § 901(b)(2)(A), added subpar. (A) and struck out former subpar. (A) which provided that subject to subpars. (B), (C), and (D), the amount determined under par. (2) was to be an amount equal to applicable percentage of taxable income for such year determined under a table which fixed specific percentages for taxable years 1976, 1977, 1978, and 1979 or thereafter.

Subpar. (b)(2)(B). Pub. L. 99–514, § 901(b)(2)(A), added subpar. (B), which incorporated provisions of former subpar. (C), relating to reducing amounts referred to in par. (1)(A), and struck out former subpar. (B) which provided for reduction of applicable percentage in certain cases.

Subsec. (b)(2)(C). Pub. L. 99–514, § 901(b)(2)(A), (B), redesignated former subpar. (D) as (C) and struck out former subpar. (C) which related to reduction for amounts referred to in par. (1)(A). See par. (1)(B).

Subsec. (b)(2)(D). Pub. L. 99–514, § 901(b)(2)(B), (d)(2)(B), redesignated subpar. (E) as (D) and substituted in cl. (iv) ''8 percent'' for ''the applicable percentage (determined under subparagraphs (A) and (B))''. Former subpar. (D) redesignated (C).

Subsec. (b)(2)(E). Pub. L. 99–514, § 901(b)(2)(B), redesignated subpar. (E) as (D).

Pub. L. 99–514, § 311(b)(2), redesignated former cl. (v) as (iv), and struck out former cl. (iv) which read as follows: ''by excluding from gross income an amount equal to the lesser of 18/46 of the net long-term capital gain for the taxable year or 18/46 of the net long-term capital gain for the taxable year from the sale or exchange of property other than property described in clause (iii), and''.

Subsec. (b)(3), (4). Pub. L. 99–514, § 901(b)(3), redesignated par. (4) as (3) and struck out former par. (3) which read as follows: ''The amount determined under this paragraph to be a reasonable addition to the reserve for losses on qualifying real property loans shall be computed in the same manner as is provided with respect to additions to the reserves for losses on loans of banks under section 585(b)(2), reduced by the amount referred to in paragraph (1)(A) for the taxable year.''

Subsec. (b)(5). Pub. L. 99–514, § 901(b)(3), struck out par. (5) which read as follows: ''For purposes of paragraph (3), the amount deemed to be the balance of the reserve for losses on loans at the beginning of the taxable year shall be the total of the balances at such time of the reserve for losses on nonqualifying loans, the re-

serve for losses on qualifying real property loans, and the supplemental reserve for losses on loans.''

Subsec. (d)(4). Pub. L. 99–514, §671(b)(2), added par. (4).

Subsec. (e)(1)(B). Pub. L. 99–514, §901(d)(2)(C), substituted ''subsection (b)(3)'' for ''subsection (B)(4)''.

1981—Subsec. (a). Pub. L. 97–34, §245(c)(1), struck out ''not having capital stock represented by shares'' after ''mutual savings bank''.

Subsec. (b)(2)(B). Pub. L. 97–34, §245(b)(1), inserted ''which is not described in section 591(b)'' after ''mutual savings bank'' in cls. (i) and (ii) and in last sentence.

Subsec. (b)(2)(C). Pub. L. 97–34, §245(b)(2), inserted ''which are not described in section 591(b)'' after ''mutual savings banks'' in cl. (i).

Subsec. (e)(1). Pub. L. 97–34, §245(c)(2), inserted ''or an institution that is treated as a mutual savings bank under section 591(b)'' after ''domestic building and loan association'' and ''liquidation of the association''.

Pub. L. 97–34, §243, inserted provisions making par. (1) inapplicable to any distribution to the Federal Savings and Loan Insurance Corporation in redemption of an interest in an association, if such interest was originally received by the Corporation in exchange for financial assistance pursuant to section 1729(f) of title 12.

1980—Subsec. (b)(2)(E)(iv). Pub. L. 96–222 substituted ''18/46'' for ''3/8'' in two places.

1976—Subsec. (b)(2)(A). Pub. L. 94–455, §1901(a)(84)(A), struck from the percentage table the years 1969 to 1975, inclusive.

Subsec. (b)(2)(E)(i). Pub. L. 94–455, §1901(a)(84)(D), substituted ''subsection (e)'' for ''subsection (f)'' after ''by reason of''.

Subsec. (c)(2). Pub. L. 94–455, §1901(a)(84)(B), added par. (2). Former par. (2), relating to allocation of pre-1963 reserves for bad debts, was struck out.

Subsec. (c)(3). Pub. L. 94–455, §1901(a)(84)(B), redesignated par. (6) as par. (3). Former par. (3), relating to the method of allocation to reserves for bad debts, was struck out.

Subsec. (c)(4), (5). Pub. L. 94–455, §1901(a)(84)(B), struck out par. (4) which defined ''pre-1963 reserves'', and struck out par. (5) which related to certain pre-1952 surplus.

Subsec. (c)(6). Pub. L. 94–455, §1901(a)(84)(B), redesignated par. (6) as (3).

Subsecs. (d) to (f). Pub. L. 94–455, §1901(a)(84)(C), struck out subsec. (d) relating to the determination of taxable income for taxpayer which uses the reserve method of accounting for bad debts for taxable years beginning in 1962 and ending in 1963, and redesignated subsecs. (e) and (f) as (d) and (e), respectively.

Subsecs. (e), (f). Pub. L. 94–455, §1901(a)(84)(C), redesignated subsec. (f) as (e). Former subsec. (e) redesignated (d).

1969—Subsec. (b)(1)(A). Pub. L. 91–172, §432(a)(1), inserted provisions for the method of computing the amount of the reasonable addition to the reserve for losses on nonqualifying loans.

Subsec. (b)(2). Pub. L. 91–172, §432(a)(2), substituted a table of applicable percentages of the taxable income for each year up to 1979 and thereafter for the amount in excess of 60 percent over the amount referred to in former subsec. (b)(1)(A), transferred the remaining provisions of former subsec. (b)(2) to subpart (D), and added subpars. (B) to (E).

Subsec. (b)(3). Pub. L. 91–172, §432(a)(2), substantially changed method of computation of the amount by conforming it to the method of determining the additions to the reserves for losses on loans of banks under section 585(b)(2).

Subsec. (b)(4). Pub. L. 91–172, §432(a)(2), changed method of computation of the amount by conforming it to the method of determining the additions to the reserves for losses on loans of banks under section 585(b)(3).

Subsec. (b)(5). Pub. L. 91–172, §432(a)(2), substituted provisions relating to determination of reserve for percentage method for provisions relating to limitation in case of certain domestic building and loan associations.

Subsec. (f). Pub. L. 91–172, §432(b), excepted the application of par. (1) to any transaction to which section 381 of this title applied.

1962—Pub. L. 87–834 amended section generally. Prior to such amendment, section read as follows:

''§593. Additions to reserve for bad debts

''In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts under section 166(c) shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951. In the case of a taxpayer described in the preceding sentence, the reasonable addition to a reserve for bad debts for any taxable year shall in no case be less than the amount determined by the taxpayer as the reasonable addition for such year; except that the amount determined by the taxpayer under this sentence shall not be greater than the lesser of—

''(1) the amount of its taxable income for the taxable year, computed without regard to this section, or

''(2) the amount by which 12 percent of the total deposits or withdrawable accounts of its depositors at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year.''

EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105–34 effective as if included in the provisions of the Small Business Job Protection Act of 1996, Pub. L. 104–188, to which it relates, see section 1601(j) of Pub. L. 105–34, set out as a note under section 23 of this title.

EFFECTIVE DATE OF 1996 AMENDMENT

Section 1616(c) of Pub. L. 104–188 provided that:

''(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section [amending this section and sections 50, 52, 57, 246, 291, 585, 860E, 992, 1038, 1042, 1277, and 1361 of this title and repealing sections 595 and 596 of this title] shall apply to taxable years beginning after December 31, 1995.

''(2) SUBSECTION (b)(7)(B).—The amendments made by subsection (b)(7)(B) [amending this section] shall not apply to any distribution with respect to preferred stock if—

''(A) such stock is outstanding at all times after October 31, 1995, and before the distribution, and

''(B) such distribution is made before the date which is 1 year after the date of the enactment of this Act [Aug. 20, 1996] (or, in the case of stock which may be redeemed, if later, the date which is 30 days after the earliest date that such stock may be redeemed).

''(3) SUBSECTION (b)(8).—The amendment made by subsection (b)(8) [repealing section 595 of this title] shall apply to property acquired in taxable years beginning after December 31, 1995.

''(4) SUBSECTION (b)(10).—The amendments made by subsection (b)(10) [amending section 860E of this title] shall not apply to any residual interest held by a taxpayer if such interest has been held by such taxpayer at all times after October 31, 1995.''

EFFECTIVE DATE OF 1989 AMENDMENT

Section 1401(c)(6) of Pub. L. 101–73 provided that: ''The amendment made by subsection (b)(3) [amending this section] shall take effect on the date of the enactment of this Act [Aug. 9, 1989].''

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 OF 1986 AMENDMENT

Amendment by section 311(b)(2) of Pub. L. 99–514 applicable to taxable years beginning after Dec. 31, 1986,

see section 311(c) of Pub. L. 99–514, set out as a note under section 1201 of this title.

Amendment by section 671(b)(2) of Pub. L. 99–514 effective Jan. 1, 1987, see section 675(a) of Pub. L. 99–514, as amended, set out as an Effective Date note under section 860A of this title.

Amendment by section 901(b)(1)–(3), (d)(2) of Pub. L. 99–514 applicable to taxable years beginning after Dec. 31, 1986, see section 901(e) of Pub. L. 99–514, set out as a note under section 166 of this title.

EFFECTIVE DATE OF 1981 AMENDMENT

Section 246(b) of Pub. L. 97–34 provided that: ''The amendment made by section 243 [amending this section] shall apply to any distribution made on or after January 1, 1981.''

Amendment by section 245(b), (c) of Pub. L. 97–34 applicable with respect to taxable years ending after Aug. 13, 1981, see section 246(d) of Pub. L. 97–34, set out as a note under section 591 of this title.

EFFECTIVE DATE OF 1980 AMENDMENT

Amendment by Pub. L. 96–222 effective, except as otherwise provided, as if it had been included in the provisions of the Revenue Act of 1978, Pub. L. 95–600, to which such amendment relates, see section 201 of Pub. L. 96–222, set out as a note under section 32 of this title.

EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by Pub. L. 94–455 applicable with respect to taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94–455, set out as a note under section 2 of this title.

EFFECTIVE DATE OF 1969 AMENDMENT

Section 432(e) of Pub. L. 91–172 provided that: ''The amendments made by this section [amending this section and section 7701 of this title] shall be effective for taxable years beginning after July 11, 1969.''

EFFECTIVE DATE OF 1962 AMENDMENT

Section 6(g)(1) of Pub. L. 87–834, as amended by Pub. L. 99–514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that: ''The amendment made by subsection (a) [amending this section] shall apply to taxable years ending after December 31, 1962, except that section 593(f) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] shall apply to distributions after December 31, 1962, in taxable years ending after such date.''

SAVINGS PROVISION

For provisions that nothing in amendment by Pub. L. 101–508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101–508, set out as a note under section 45K of this title.

TRANSFER OF FUNCTIONS

Federal Savings and Loan Insurance Corporation abolished and its functions transferred, see sections 401 to 406 of Pub. L. 101–73, set out as a note under section 1437 of Title 12, Banks and Banking.

§ 594. Alternative tax for mutual savings banks conducting life insurance business

(a) Alternative tax

In the case of a mutual savings bank not having capital stock represented by shares, authorized under State law to engage in the business of issuing life insurance contracts, and which conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be imposed in lieu of the taxes imposed by section 11 or section 1201(a), a tax consisting of the sum of the partial taxes determined under paragraphs (1) and (2):

(1) A partial tax computed on the taxable income determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department, at the rates and in the manner as if this section had not been enacted; and

(2) a partial tax computed on the income of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in subchapter L (sec. 801 and following) with respect to life insurance companies.

(b) Limitations of section

Subsection (a) shall apply only if the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 816.

(Aug. 16, 1954, ch. 736, 68A Stat. 205; Mar. 13, 1956, ch. 83, § 5(3), 70 Stat. 49; Pub. L. 98–369, div. A, title II, § 211(b)(8), July 18, 1984, 98 Stat. 755.)

AMENDMENTS

1984—Subsec. (b). Pub. L. 98–369 substituted ''section 816'' for ''section 801''.

1956—Subsec. (a)(2). Act Mar. 13, 1956, substituted ''the income'' for ''the taxable income (as defined in section 803)''.

EFFECTIVE DATE OF 1984 AMENDMENT

Amendment by Pub. L. 98–369 applicable to taxable years beginning after Dec. 31, 1983, see section 215 of Pub. L. 98–369, set out as an Effective Date note under section 801 of this title.

EFFECTIVE DATE OF 1956 AMENDMENT

Amendment by act Mar. 13, 1956, applicable only to taxable years beginning after Dec. 31, 1954, see section 6 of act Mar. 13, 1956, set out as a note under section 821 of this title.

[§§ 595, 596. Repealed. Pub. L. 104–188, title I, § 1616(b)(8), (9), Aug. 20, 1996, 110 Stat. 1857]

Section 595, added Pub. L. 87–834, § 6(b), Oct. 16, 1962, 76 Stat. 982; amended Pub. L. 94–455, title XIX, § 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834, related to foreclosure on property securing loans, including provisions relating to nonrecognition of gain or loss as result of foreclosure, character of property, basis, and regulatory authority.

Section 596, added Pub. L. 91–172, title IV, § 434(a), Dec. 30, 1969, 83 Stat. 624; amended Pub. L. 99–514, title IX, § 901(d)(4)(D), Oct. 22, 1986, 100 Stat. 2380, provided that in case of organization to which section 593 of this title applied and which computed additions to reserve for losses on loans for taxable year under section 593(b)(2) of this title, total amount allowed under sections 243, 244, and 245 of this title for taxable year as deduction with respect to dividends received was to be reduced by amount equal to 8 percent of such total amount.

EFFECTIVE DATE OF REPEAL

Repeal of section 595 applicable to property acquired in taxable years beginning after Dec. 31, 1995, and repeal of section 596 applicable to taxable years beginning after Dec. 31, 1995, see section 1616(c)(1), (3) of Pub. L. 104–188, set out as an Effective Date of 1996 Amendment note under section 593 of this title.