**STOP CORPORATE INVERSIONS ACT OF 2014**

Congress enacted Section 7874 of the Internal Revenue Code in 2004 as a way to discourage U.S. companies from acquiring smaller foreign companies and moving their tax home to a foreign jurisdiction as part of the overall transaction.

Under current law, a corporate inversion will not be respected for U.S. tax purposes if 80 percent or more of the new combined corporation (incorporated offshore) is owned by historic shareholders of the U.S. corporation (or, in the case of a partnership, interest owners of the partnership). Alternatively, if at least 60 percent (but less than 80 percent) of the combined foreign corporation is owned by historic shareholders of the U.S. corporation, the inversion itself will be respected but the expatriated entity will be subject to an “inversion gain,” including restrictions on the use of certain corporate attributes such as net operating losses. However, these unfavorable rules do not apply if the expanded affiliated group (“affiliated group”) that includes the combined corporation has “substantial business activities” (25% of employees by number, employees by compensation, assets, and income) in the foreign country where it is incorporated.

Since the provision was enacted in 2004, there have been more than 40 corporate inversions. In an effort to curb such tax motivated corporate inversions, the Administration has proposed amending Section 7874 to provide for stricter requirements. The Stop Corporate Inversions Act of 2014 broadly follows the Administration’s proposal:

* The bill would treat a combined foreign corporation as a domestic corporation under two circumstances -- if the historic shareholders of the U.S. corporation own more than 50 percent of the combined foreign corporation, or if the affiliated group that includes the combined foreign corporation is managed and controlled in the United States and engages in “significant domestic business activities” (25% of employees by number, employees by compensation, assets, or income) in the United States.
* The bill would repeal the 60-80 percent ownership test as well as the inversion gain applicable under such circumstances.
* As under current law, the bill would continue to provide a broad exception from Section 7874 rules if the affiliated group has substantial business activities in the foreign country where the combined corporation is incorporated.

The bill would apply to inversions completed after May 8, 2014. Senator Levin is introducing companion legislation in the Senate.