

April 1, 1976

Office of the White House Press Secretary

NOTICE TO THE PRESS

The President has signed H.R. 12490 - Tax Treatment of ConRail Transfer.

The purpose of this bill clarifies the tax treatment of transfers of certain railroad properties into the Consolidated Railroad Corporation under the Regional Rail Reorganization Act of 1973.

The Regional Rail Reorganization Act of 1973 (P. L. 93-236), as amended by the Railroad Revitalization and Regulatory Reform Act of 1976 (P. L. 94-210), provided for the reorganization of bankrupt railroads in the Northeast and Midwest. It established the U. S. Railway Association (USRA), a nonprofit government corporation, to design a new rail system for the region. It also provided for the establishment of a new for-profit private corporation called the Consolidated Rail Corporation (ConRail) to acquire and operate the new system. The transfer of properties from the bankrupt railroads to ConRail is scheduled to take place on April 1. H.R. 12490 will clarify the tax treatment of any such property transfers.

H.R. 12490 will provide that, for tax purposes, the transfer of properties to Con Rail is not to result in the recognition of gain or loss to the transferor companies, or generally to their shareholders and security holders, as long as the property is exchanged solely for stocks and securities of ConRail and USRA certificates of value. This provision will apply whether the transferors are railroad corporations or engaged in other businesses, and whether they are solvent or insolvent.

The bill will also provide that the basis to ConRail of property received would be the same as the transferors' basis in the same assets (generally referred to as a "carryover basis"). This provision is important to ConRail because, in most cases, the properties being transferred to ConRail have a higher basis than their current fair market values, thus resulting in an advantage for depreciation purposes.

H.R. 12490 will specifically prohibit any net operating losses of a transferor from being carried over to ConRail. Existing law would be used to determine whether those net operating losses would be retained as carryovers to the transferor for future tax years. If it is determined that these losses are retained by the transferor, the bill will provide special treatment for them.

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